CSB BANCORP INC /OH
Form 10-K
March 26, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 0-21714

CSB BANCORP, INC.

(Exact name of registrant as specified in its charter)

Ohio	**34-1687530**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
91 North Clay Street, Millersburg, Ohio	**44654**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code (330) 674-9015

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:

Common Shares, $6.25 par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

At June 30, 2011, the aggregate market value of the voting stock held by non-affiliates of the registrant, based on a share price of $15.50 per share (such price being the last trade price on such date) was $39.1 million.

At March 26, 2012, there were outstanding 2,734,799 of the registrant s common shares, $6.25 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of CSB Bancorp Inc. s 2011 Annual Report to Shareholders.

Portions of CSB Bancorp Inc. s Proxy Statement dated March 22, 2012.

PART I

ITEM 1. BUSINESS.

General

CSB Bancorp, Inc. (CSB), is a registered financial holding company under the Bank Holding Company Act of 1956, as amended, and was incorporated under the laws of the State of Ohio in 1991. The Commercial and Savings Bank of Millersburg, Ohio (the Bank), an Ohio banking corporation chartered in 1879, is a wholly-owned subsidiary of the Company. The Bank is a member of the Federal Reserve system, and its deposits are insured up to the maximum provided by law by the Federal Deposit Insurance Corporation. The primary regulators of the Bank are the Federal Reserve Board and the Ohio Division of Financial Institutions.

Business Overview and Lending Activities

CSB operates primarily through the Bank and its other subsidiaries, providing a wide range of banking, trust, financial and brokerage services to corporate, institutional and individual customers throughout northeast Ohio. The Bank provides retail and commercial banking services to its customers, including checking and savings accounts, time deposits, IRAs, safe deposit facilities, personal loans, commercial loans, real estate mortgage loans, installment loans, night depository facilities, brokerage and trust services.

The Bank provides residential real estate, commercial real estate, commercial and consumer loans to customers located primarily in Holmes, Tuscarawas, Wayne, Stark and portions of surrounding counties in Ohio. The Bank s market area has historically exhibited relatively stable economic conditions; however, a pronounced slowdown in economic activity has been evident since the latter half of 2008. Unemployment levels in Holmes County have generally been among the lowest in the State of Ohio, while the balance of the Bank s market area typically experiences unemployment levels similar to the state average. Unemployment in the Bank s market area peaked during 2010 and has improved steadily thereafter, with average unemployment at December 2011 approximately 20-25% lower than December 2010. Real estate values have experienced moderate declines as a result of the slow recessionary conditions.

Certain risks are involved in providing loans, including, but not limited to, the borrowers ability and willingness to repay the debt. Before the Bank extends a new loan or renews an existing loan to a customer, these risks are assessed through a review of the borrower s past and current credit history, the collateral being used to secure the transaction, the borrower s character, and other factors. For all commercial loan relationships greater than $275,000, the Bank s internal credit department performs an annual risk rating review. In addition to this review, an independent outside loan review firm is engaged to review all watch list and adversely classified credits, all commercial loan relationships greater than $750,000, a sample of commercial loan relationships less than $750,000, loans within an industry concentration and a sample of consumer/mortgage loans. In addition, any loan identified as a problem credit by management and/or the external loan review consultants is assigned to the Bank s loan watch list, and is subject to ongoing review by the Bank s credit department and the assigned loan officer to ensure appropriate action is taken when deterioration has occurred.

Commercial loan rates are variable as well as fixed, and include operating lines of credit and term loans made to small businesses, primarily based on their ability to repay the loan from the cash flow of the business. Business assets such as equipment, accounts receivable and inventory typically secure such loans. When the borrower is not an individual, the Bank generally obtains the personal guarantee of the business owner. As compared to consumer lending, which includes single-family residences, personal installment loans and automobile loans, commercial lending entails significant additional risks. These loans typically involve larger loan balances, are generally dependent on the cash flow of the business and thus, may be subject to a greater extent, to adverse conditions in the general economy or in a specific industry. Management reviews the borrower s cash flows when deciding whether to grant the credit, in order to evaluate whether estimated future cash flows will be adequate to service principal and interest of the new obligation in addition to existing obligations.

Commercial real estate loans are primarily secured by borrower-occupied business real estate and are dependent on the ability of the related business to generate adequate cash flow to service the debt. Commercial real estate loans are generally originated with a loan-to-value ratio of 80% or less. Commercial construction loans are secured by commercial real estate and in most cases the Bank also provides the permanent financing. The Bank monitors advances and the maximum loan to value ratio is typically limited to the lesser of 90% of cost or 80% of appraisal. Management performs much of the same analysis when deciding whether to grant a commercial real estate loan as when deciding whether to grant a commercial loan.

Residential real estate loans carry both fixed and variable rates and are secured by the borrower s residence. Such loans are made based on the borrower s ability to make repayment from employment and other income. Management assesses the borrower s ability and willingness to repay the debt through review of credit history and ratings, verification of employment and other income, review of debt-to-income ratios and other measures of repayment ability. The Bank generally makes these loans in amounts of 85% or less of the value of the collateral or up to 100% of collateral value with PMI. An appraisal from a qualified real estate appraiser or an evaluation primarily based on tax value is obtained for substantially all loans secured by real estate. Residential construction loans are secured by residential real estate that generally will be occupied by the borrower upon completion. The Bank usually makes the permanent loan at the end of the construction phase. Generally, construction loans are made in amounts of 85% or less of the value of the collateral.

Home equity lines of credit are made to individuals and are secured by second or first mortgages on the borrower s residence. Loans are based on similar credit and appraisal criteria used for residential real estate loans; however, loans up to 100% of the value of the property may be approved for borrowers with excellent credit histories. These loans typically bear interest at variable rates and require certain minimum monthly payments.

Installment loans to individuals include loans secured by automobiles and other consumer assets, including second mortgages on personal residences. Consumer loans for the purchase of new automobiles generally do not exceed 100% of the purchase price of the automobile. Loans for used automobiles generally do not exceed average wholesale or trade-in values as stipulated in a recent auto-industry used-car price guide. Overdraft protection loans are unsecured personal lines of credit to individuals who have demonstrated good credit character with reasonably assured sources of income and satisfactory credit histories. Consumer loans generally involve more risk than residential mortgage loans because of the type and nature of collateral and, in certain types of consumer loans, absence of collateral. Since these loans are generally repaid from ordinary income of the individual or family unit, repayment may be adversely affected by job loss, divorce, ill health or by a general decline in economic conditions. The Bank assesses the borrower s ability and willingness to make repayment through a review of credit history, credit ratings, debt-to-income ratios and other measures of repayment ability.

While CSB s chief decision-makers monitor the revenue streams of the various financial products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company s banking operations are considered by management to be aggregated in one reportable operating segment. For a discussion of CSB s financial performance for the fiscal year ended December 31, 2011, see the Consolidated Financial Statements and Notes to the Consolidated Financial Statements found in Item 8 of this Annual Report on Form 10-K.

Employees

At December 31, 2011, CSB had 154 employees, 137 of which were employed on a full-time basis. CSB has no separate employees not also employed by the Bank. No employees are covered by collective bargaining agreements. Employees are provided a comprehensive benefit program, some of which are contributory. Management considers its employee relations to be good.

Competition

The Bank operates in a highly competitive industry due, in part, to Ohio law permitting statewide branching by banks, savings and loan associations and credit unions. Ohio and federal law also permits nationwide interstate banking. In its primary market area of Holmes, Tuscarawas, Wayne, Stark and surrounding Ohio counties, the Bank competes for new deposit dollars and loans with several other commercial banks, including both large regional banks and smaller community banks, as well as savings and loan associations, credit unions, finance companies, insurance companies, brokerage firms and investment companies. The Bank believes its presence in the Holmes, Tuscarawas, Wayne and Stark County areas provides the Bank with a competitive advantage due to its ability to make loans and provide services to the local community.

Competition within the financial service industry continues to increase as a result of mergers between, and expansion of, financial service providers within and outside of the Bank s primary market areas. In addition, the deregulation of the financial services industry (see the discussion of the Gramm-Leach-Bliley Act of 1999 (GLBA) in the section of this item captioned Financial Modernization) has allowed securities firms and insurance companies that have elected to become financial holding companies to acquire commercial banks and other financial institutions, which can create additional competitive pressure.

Investor Relations

The Company s website address is www.csb1.com. The Company makes available its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, free of charge on its website as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (the SEC). The Company also makes available through its website, other reports filed with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act), including its proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act, as well as the Company s Code of Ethics. The Company does not intend for information contained in its website to be incorporated by reference into this Annual Report on Form 10-K.

In addition, the Company s filings with the SEC may be read and copied at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. These filings are also available on the SEC s website at www.sec.gov free of charge as soon as reasonably practicable after the Company has filed the above referenced reports.

Supervision and Regulation of CSB and Subsidiaries

CSB and the Bank are subject to extensive regulation by federal and state regulatory agencies. The regulation of financial holding companies and their subsidiaries by bank regulatory agencies is intended primarily for the protection of consumers, depositors, federal deposit insurance funds and the banking system as a whole and not for the protection of shareholders.

CSB is registered with the Federal Reserve Board (FRB) as a financial holding company under the Bank Holding Company Act, as amended (the BHC Act), and is subject to regulation, examination and supervision by the FRB under the BHC Act. CSB is also subject to the disclosure and regulatory requirements of the Securities Exchange Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder, as administered by the SEC.

The Bank, as an Ohio state-chartered bank and member of the Federal Reserve System, is subject to regulation, supervision, and examination by the Ohio Division of Financial Institutions and the FRB. Because the Federal Deposit Insurance Corporation (the FDIC) insures its deposits, the Bank is also subject to certain regulations of that federal agency. The FDIC is an independent federal agency which insures the deposits, up to prescribed statutory limits, of federally-insured banks and savings associations and safeguards the safety and soundness of the financial institution industry. The Bank s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC and the Bank is subject to deposit insurance assessments to maintain the Deposit Insurance Fund.

The earnings, dividends and other aspects of the operations and activities of CSB and the Bank are affected by state and federal laws and regulations, and by policies of various regulatory authorities. These policies include, for example, statutory maximum lending rates, requirements on maintenance of reserves against deposits, domestic monetary policies of the FRB, United States fiscal and economic policies, international currency regulations and monetary policies, certain restrictions on relationships with many phases of the securities business and capital adequacy and liquidity restraints.

The following information describes selected federal and state statutory and regulatory provisions, that have, or could have, a material impact on the Company s business. This discussion is qualified in its entirety by reference to the full text of the particular statutory or regulatory provisions. These statutes and regulations are continually under review by the United States Congress and state legislatures and state and federal regulatory agencies. A change in statutes, regulations, or regulatory policies applicable to CSB and its subsidiaries could have a material effect on their respective businesses.

Dodd-Frank Wall Street Reform and Consumer Protection Act

Federal regulators continue to implement many provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law by President Obama on July 21, 2010. The Dodd-Frank Act created many new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. Currently, federal regulators are still in the process of drafting the implementing regulations for many portions of the Dodd-Frank Act. The Company is closely monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with these regulatory requirements. The following discussion summarizes significant aspects of the Dodd-Frank Act that may affect the Company and the Bank:

the Consumer Financial Protection Bureau has been established and empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws;

the deposit insurance assessment base for federal deposit insurance has been expanded from domestic deposits to average assets minus average tangible equity;

the Dodd-Frank Act instructs appropriate federal banking agencies to make the capital requirements for banks and savings and loan holding companies and insured depository institutions countercyclical so that the amount of capital required to be maintained increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness;

the prohibition on the payment of interest on business demand deposits has been repealed, effective July 21, 2011, thereby permitting depository institutions to pay interest on business transaction and other accounts;

the standard maximum amount of deposit insurance per customer has been permanently increased to $250,000 and noninterest-bearing transaction accounts have unlimited deposit insurance through December 31, 2012;

financial holding companies, such as the Company, are required to be well-capitalized and well-managed and must continue to be both well-capitalized and well-managed in order to acquire banks located outside their home state;

the Dodd-Frank Act extended the application to most bank holding companies of the same leverage and risk-based capital requirements that apply to insured depository institutions, which, among other things, will disallow treatment of trust preferred securities as Tier 1 capital under certain circumstances;

new corporate governance requirements, which are generally applicable to most larger public companies, now require new compensation practices, including, but not limited to, providing shareholders the opportunity to cast a non-binding vote on executive compensation, to consider the independence of compensation advisors and new executive compensation disclosure requirements;

the Dodd-Frank Act amended the Electronic Fund Transfer Act to, among other things, give the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer; and

the authority of the FRB to examine financial holding companies and their non-bank subsidiaries was expanded.

Many aspects of the Dodd-Frank Act are still subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its subsidiaries, their respective customers or the financial services industry more generally.

Regulation of Financial Holding Companies

As a bank holding company, which is also designated as a financial holding company under GLBA, CSB s activities are subject to extensive regulation by the FRB. CSB is required to file reports with the FRB and provide such additional information as the FRB may require, and is subject to regular examination and inspection by the FRB.

The FRB has extensive enforcement authority over financial holding companies, including the ability to assess civil money penalties, issue cease and desist orders and require that a financial holding company divest subsidiaries (including subsidiary banks). The FRB may initiate enforcement actions for violations of laws and regulations, and for unsafe and unsound practices. Under FRB policies, a financial holding company is expected to act as a source of strength to its subsidiary banks and to commit resources to support those subsidiary banks. Under this policy, the FRB may require a financial holding company to contribute additional capital to an undercapitalized subsidiary bank.

The BHC Act requires the prior approval of the FRB in cases where a financial holding company proposes to acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that is not already majority-owned by it, acquire all or substantially all of the assets of another bank or another financial or bank holding company, or merge or consolidate with any other financial or bank holding company.

The FRB also regulates and provides limitations on transactions between affiliates of a bank holding company, loans to directors and officers of bank affiliates, securities transactions and liability for losses incurred by commonly controlled banks in certain circumstances.

Financial Modernization

Pursuant to GLBA, a bank holding company may become a financial holding company if each of its subsidiary banks is well-capitalized under regulatory prompt corrective action provisions, is well-managed, and has at least a satisfactory rating under the Community Reinvestment Act (CRA) by filing a declaration with the FRB that the bank holding company wishes to become a financial holding company. CSB has been a financial holding company since 2005. No prior regulatory approval is required for a financial holding company to acquire certain companies, other than banks and savings associations, that are financial in nature as determined by the FRB.

GLBA defines financial in nature to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency activities; merchant banking activities; and activities that the FRB has determined to be closely related to banking. Bank subsidiaries of a financial holding company must continue to be well-capitalized and well-managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the subsidiary or subsidiaries. In addition, a financial holding company or a bank subsidiary of a financial holding company may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or bank has a CRA rating of satisfactory or better.

Regulatory Capital

The FRB has adopted risk-based capital guidelines for bank holding companies and state member banks. These capital guidelines are based on the International Convergence of Capital Measurement and Capital Standards (Basel I), published by the Basel Committee on Banking Supervision (the Basel Committee). The guidelines provide a systematic analytical framework, which makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures expressly into account in evaluating capital adequacy and minimizes disincentives to holding liquid, low-risk assets. Capital levels as measured by these standards are also used to categorize financial institutions for purposes of certain prompt corrective action regulatory provisions.

Under the guidelines, the minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet items such as standby letters of credit) is 8%. At least half of the minimum total risk-based capital ratio (4%) must be composed of Tier 1 risk-based capital, which consists of common shareholders equity, minority interests in certain equity accounts of consolidated subsidiaries and a limited amount of qualifying preferred stock and qualified trust preferred securities (although the Tier 1 capital treatment of trust preferred securities will be phased out under the Dodd-Frank Act in certain circumstances), less goodwill and certain other intangible assets, including the unrealized net gains and losses, after applicable taxes, on available-for-sale securities carried at fair value. The remainder of total risk-based capital (commonly known as Tier 2 risk-based capital) may consist of certain amounts of hybrid capital instruments, mandatory convertible debt, subordinated debt, preferred stock not qualifying as Tier 1 capital, loan and lease loss allowance and net unrealized gains on certain available-for-sale equity securities, all subject to limitations established by the guidelines.

Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of four risk weights (0%, 20%, 50% and 100%) is applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The FRB has also established minimum leverage ratio guidelines for bank holding companies. The FRB guidelines provide for a minimum ratio of Tier 1 capital to average assets (excluding the loan and lease loss allowance, goodwill and certain other intangibles), or leverage ratio, of 3% for bank holding companies that meet certain criteria, including having the highest regulatory rating, and 4% for all other bank holding companies. The guidelines further provide that bank holding companies making acquisitions will be expected to maintain strong capital positions substantially above the minimum levels.

The FRB s review of certain bank holding company transactions is affected by whether the applying bank holding company is well-capitalized. To be deemed well-capitalized, the bank holding company must have a Tier 1 risk-based capital ratio of at least 6%, a leverage ratio of at least 5% and a total risk-based capital ratio of at least 10%, and must not be subject to any written agreement, order, capital directive or prompt corrective action directive issued by the FRB to meet and maintain a specific capital level for any capital measure.

In 2004, the Basel Committee published a new, more risk-sensitive capital adequacy framework (Basel II) for large, internationally active banking organizations. In December 2007, the federal banking agencies issued final rules making the implementation of certain parts of Basel II mandatory for any bank that has consolidated total assets of at least $250 billion (excluding certain assets) or has consolidated on-balance sheet foreign exposure of at least $10 billion and making it voluntary for other banks. The Dodd-Frank Act requires federal banking regulators to adopt regulations imposing minimum Basel II-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III (discussed below) otherwise would permit lower requirements. In June 2011, the federal banking agencies adopted a rule applicable to only large, internationally active banks requiring their risk-based capital to meet the higher of the minimum requirements under Basel III or under the risk-based capital rules generally applicable to United States banks.

In December 2010 and January 2011, the Basel Committee released a final framework for strengthening international capital and liquidity regulation (Basel III). Basel III, when implemented by the U.S. federal banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

The Basel III final capital framework, among other things: (i) introduces as a new capital measure of Common Equity Tier 1 (CET1); (ii) specifies that Tier 1 capital consist of CET1 and Additional Tier 1 capital instruments meeting specified requirements; (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the adjustments as compared to existing regulations.

When fully phased in on January 1, 2019, Basel III will require banks to maintain: (i) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in, which will effectively result in a minimum ratio of CET1 to risk-weighted assets of 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% on full implementation); (iii) a minimum ratio of total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (iv) as a newly adopted international standard, a minimum leverage ratio of 3.0%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

Basel III also provides for a countercyclical capital buffer, generally imposed when federal banking agencies determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be in addition to the capital conservation buffer in the range of 0.0% to 2.5% when fully implemented, potentially resulting in total buffers of 2.5% to 5.0%. The countercyclical capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum, but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when applicable) will have constraints imposed on their dividends, equity repurchases and compensation, based on the amount of the shortfall.

The implementation of the Basel III capital framework will commence on January 1, 2013. On that date, banking institutions will be required to maintain 3.5% CET1 to risk weighted assets, 4.5% Tier 1 capital to risk weighted assets and 8.0% total capital to risk-weighted assets.

Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, the Dodd-Frank Act requires or permits the federal banking agencies to adopt regulations affecting banking institutions capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to the Company may be substantially different from the Basel III final framework as published in December 2011.

Prompt Corrective Action

The federal banking agencies have established a system of prompt corrective action to resolve certain of the problems of undercapitalized institutions. This system is based on five capital level categories for insured depository institutions: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The federal banking agencies may (or in some cases must) take certain supervisory actions depending upon a bank s capital level. For example, the banking agencies must appoint a receiver or conservator for a bank within 90 days after it becomes critically undercapitalized unless the bank s primary regulator determines, with the concurrence of the FDIC, that other action would better achieve regulatory purposes. Banking operations otherwise may be significantly affected depending on a bank s capital category. For example, a bank that is not well capitalized generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, and the holding company of any undercapitalized depository institution must guarantee, in part, specific aspects of the bank s capital plan for the plan to be acceptable.

In order to be well-capitalized, a bank must have total risk-based capital of at least 10%, Tier 1 risk-based capital of at least 6% and a leverage ratio of at least 5%, and the bank must not be subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. As of December 31, 2011, the Bank meets the ratio requirements to be deemed well-capitalized according to the guidelines described above. See Note 12 of the Notes to Consolidated Financial Statements located on page 49 of CSB s 2011 Annual Report, which is incorporated herein by reference.

Federal Deposit Insurance Corporation

Substantially all of the deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC, and the Bank is assessed deposit insurance premiums to maintain the Deposit Insurance Fund. Insurance premiums for each insured institution are determined based upon the institution s capital level and supervisory rating provided to the FDIC by the institution s primary federal regulator and other information deemed by the FDIC to be relevant to the risk posed to the Deposit Insurance Fund by the institution. The assessment rate is then applied to the amount of the institution s deposits to determine the institution s insurance premium.

On February 7, 2011, the FDIC approved a final rule that changed the deposit insurance assessment base, as required by the Dodd-Frank Act. As adopted, the final rule changed the deposit insurance assessment base from domestic deposits to average assets minus average tangible equity. In addition, the final rule also adopted a new large-bank pricing assessment scheme and established a target size for the Deposit Insurance Fund. Specifically, the final rule set a target size for the Deposit Insurance Fund at 2 percent of insured deposits and implements a lower assessment rate schedule when the fund reaches 1.15 percent and, in lieu of dividends, provides for a lower rate schedule when the reserve ratio reaches 2 percent and 2.5 percent. The final rule also created a scorecard-based assessment system for banks with more than $10 billion in assets. The final rule went into effect beginning with the second quarter of 2011. The change to the assessment base and assessment rates, as well as the Deposit Insurance Fund restoration time frame, has lowered the Company s deposit insurance assessment and future assessments should continue to be favorable.

As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, federally-insured institutions. It also may prohibit any federally-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the Deposit Insurance Fund. The FDIC also has the authority to take enforcement actions against insured institutions. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or written agreement entered into with the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Fiscal and Monetary Policies

The business and earnings of CSB are affected significantly by the fiscal and monetary policies of the United States Government and its agencies. CSB is particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States. These policies are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits.

The monetary policies of the FRB have had a significant effect on the operating results of financial institutions in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy, the money markets and the activities of monetary and fiscal authorities, the Company can make no definitive predictions as to future changes in interest rates, credit availability or deposit levels.

Limits on Dividends and Other Payments

There are various legal limitations on the extent to which subsidiary banks may finance or otherwise supply funds to their parent holding companies. Under applicable federal and state laws, subsidiary banks may not, subject to certain limited exceptions, make loans or extensions of credit to, or investments in the securities of, their bank holding companies. Subsidiary banks are also subject to collateral security requirements for any loan or extension of credit permitted by such exceptions.

Payments of dividends by the Bank are limited by applicable state and federal laws and regulations. The ability of CSB to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends, which may be declared by the Bank. However, the FRB expects CSB to serve as a source of strength for the Bank and may require CSB to retain capital for further investment in the Bank, rather than pay dividends to CSB shareholders. Payment of dividends by the Bank may be restricted at any time at the discretion of its applicable regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice. These provisions could have the effect of limiting CSB s ability to pay dividends on its common shares.

The FRB issued a policy statement that provides that insured banks and bank holding companies should generally only pay dividends out of current operating earnings. At December 31, 2011, approximately $5.0 million of the total shareholders equity of the Bank was available for payment to CSB without the prior approval of the applicable regulatory authorities. See Note 12 of the Notes to Consolidated Financial Statements located on page 50 of CSB s 2011 Annual Report.

Customer Privacy

Under the GLBA, federal banking agencies have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require distribution of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties.

USA Patriot Act

In response to the events of September 11, 2001, the United and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the Patriot Act) was signed into law in October, 2001. The Patriot Act gives the federal government powers to address terrorist threats through enhanced security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. Title III of the Patriot Act takes measures intended to encourage information sharing among federal banking agencies and law enforcement officials. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions to, among other things, establish a program specifying procedures for obtaining identifying information from customers seeking to open new accounts and establish enhanced due diligence policies, procedures and controls designed to detect and report suspicious activity. The Bank has established policies and procedures that are believed to be compliant with the requirements of the Patriot Act.

Corporate Governance

The Sarbanes-Oxley Act of 2002 (SOX) was signed into law on July 30, 2002. SOX contains important requirements for public companies with regard to financial disclosure and corporate governance. In accordance with section 302(a) of SOX, written certifications by CSB s Chief Executive Officer and Chief Financial Officer are required to certify that CSB s quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact or fail to state a material fact. CSB has also implemented a program designed to comply with Section 404 of SOX, which includes identification of significant processes and accounts, documentation of the design of control effectiveness over process and entity-level controls and testing of the operating effectiveness of key controls. Provisions of the Dodd-Frank Act provide a permanent exemption for smaller companies which have a public float of less than $75 million, from the SOX attestation requirement by the external accountants on internal controls. CSB is exempt from the requirement for external accountant attestation on internal controls. Management s assessment of internal controls over financial reporting, which is located on page 22 of the CSB 2011 Annual Report, is incorporated by reference. Other provisions of the Dodd-Frank Act may apply to CSB in the future as various affected Agencies issue new regulations.

Effect of Environmental Regulation

Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon the capital expenditures, earnings or competitive position of CSB or its subsidiaries. CSB believes the nature of the operations of its subsidiaries has little, if any, environmental impact. CSB, therefore, anticipates no material capital expenditures for environmental control facilities for its current fiscal year or for the foreseeable future.

CSB believes its primary exposure to environmental risk is through the lending activities of the Bank. In cases where management believes environmental risk potentially exists, the Bank mitigates environmental risk exposure by requiring environmental site assessments at the time of loan origination to confirm collateral quality as to commercial real estate parcels posing higher than normal potential for environmental impact, as determined by reference to present and past uses of the subject property and adjacent sites.

Executive and Incentive Compensation

In June 2010, the federal banking agencies issued joint interagency guidance on incentive compensation policies (the Joint Guidance) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This principles-based guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should: (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks; (ii) be compatible with effective internal controls and risk management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors.

Pursuant to the Joint Guidance, the FRB will review as part of a regular, risk-focused examination process, the incentive compensation arrangements of financial institutions such as the Company. Such review will be tailored to each organization based on the scope and complexity of the organization s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination and deficiencies will be incorporated into the institution s supervisory ratings, which can affect the institution s ability to make acquisitions and take other actions. Enforcement actions may be taken against an institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization s safety and soundness and prompt and effective measures are not being taken to correct the deficiencies.

Future Legislation

Various and significant legislation affecting financial institutions and the financial industry is from time to time introduced by the U.S. Congress, as evidenced by the sweeping reforms in the Dodd-Frank Act adopted in 2010. Such legislation may continue to change banking statutes and the operating environment of CSB and its subsidiaries in substantial and unpredictable ways, and could significantly increase or decrease costs of doing business, limit or expand permissible activities or affect the competitive balance among financial institutions. With the enactment of the Dodd-Frank Act and the continuing implementation of final rules and regulations thereunder, the nature and extent of future legislative and regulatory changes affecting financial institutions remains very unpredictable.

Statistical Disclosures

The following schedules present, for the periods indicated, certain financial and statistical information of the Company as required under the SEC s Industry Guide 3 Statistical Disclosures by Bank Holding Companies, or a specific reference as to the location of required disclosures in the Company s 2011 Annual Report.

Distribution of Assets, Liabilities and Stockholders Equity; Interest Rates and Interest Differential

The information set forth under the heading Average Balance Sheets and Net Interest Margin Analysis located on page 11 of the Company s 2011 Annual Report and is incorporated by reference herein.

The information set forth under the heading Rate/Volume Analysis of Changes in Income and Expense located on page 12 of the Company s 2011 Annual Report and is incorporated by reference herein.

Investment Portfolio

The following is a schedule of the carrying value of securities at December 31:

(Dollars in thousands)	2011	2010	2009
Securities available-for-sale, at fair value			
U.S. Treasury securities	$ 100	$ 100	$ 100
U.S. Government corporations and agencies	28,323	19,711	14,033
Mortgage-backed securities	76,332	42,351	51,358
Obligations of states and political subdivisions	14,880	11,994	9,614
Equity securities	61	56	53
Corporate bonds	3,330	992	
Total	$ 123,026	$ 75,204	$ 75,158

The following is a schedule of maturities for each category of debt securities and the related weighted average yield of such securities as of December 31, 2011:

	One Year or Less		After One Year Through Five Years		Maturing After Five Years Through Ten Years		After Ten Years		Total	
(Dollars in thousands)	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
Available for sale:										
U.S. Treasury	$ 100	0.28%	$	%	$	%	$	%	$ 100	0.28%
U.S. Government corporations and agencies			2,000	0.79	10,127	2.11	16,136	2.14	28,263	2.03
Mortgage-backed securities	57	1.76	642	4.63	3,593	4.11	70,542	2.86	74,834	2.93
Obligations of states and political subdivisions	500	2.64	4,890	5.22	6,773	4.94	1,985	5.55	14,148	5.04
Corporate bonds			3,445	2.84					3,445	2.84
Total	$ 657	2.21%	$ 10,977	3.63%	$ 20,493	3.40%	$ 88,663	2.79%	$ 120,790	2.97%

The weighted average yields are calculated using amortized cost of investments and are based on coupon rates for securities purchased at par value, and on effective interest rates considering amortization or accretion if securities were purchased at a premium or discount. The weighted average yield on tax-exempt obligations is presented on a tax-equivalent basis based on the Company s marginal federal income tax rate of 34%.

Loan Portfolio

Total loans on the balance sheet are comprised of the following classifications at December 31:

(Dollars in thousands)	2011	2010	2009	2008	2007
Commercial	$ 89,828	$ 78,540	$ 69,351	$ 61,859	$ 46,000
Commercial real estate	106,332	104,829	107,794		