

CSB BANCORP INC /OH
Form 10-Q
August 13, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 0-21714

CSB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

Ohio
(State or other jurisdiction of
incorporation or organization)
34-1687530
(I.R.S. Employer
Identification Number)
91 North Clay, P.O. Box 232, Millersburg, Ohio 44654
(Address of principal executive offices)
(330) 674-9015
(Registrant's telephone number)

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. 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Indicate the number of shares outstanding of the registrant's common stock, as of the latest practicable date.

Common stock, \$6.25 par value

Outstanding at August 13, 2012: 2,734,799 common shares

Table of Contents

CSB BANCORP, INC.

FORM 10-Q

QUARTER ENDED June 30, 2012

Table of Contents

| | Page |
|---|------|
| <u>Part I - Financial Information</u> | |
| ITEM 1 - <u>FINANCIAL STATEMENTS (Unaudited)</u> | |
| <u>Consolidated Balance Sheets</u> | 3 |
| <u>Consolidated Statements of Income</u> | 4 |
| <u>Consolidated Statements of Comprehensive Income</u> | 5 |
| <u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u> | 6 |
| <u>Condensed Consolidated Statements of Cash Flows</u> | 7 |
| <u>Notes to the Consolidated Financial Statements</u> | 8 |
| ITEM 2 - <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 24 |
| ITEM 3 - <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 30 |
| ITEM 4 - <u>CONTROLS AND PROCEDURES</u> | 31 |
| <u>Part II - Other Information</u> | |
| ITEM 1 - <u>Legal Proceedings</u> | 32 |
| ITEM 1A - <u>Risk Factors</u> | 32 |
| ITEM 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 32 |
| ITEM 3 - <u>Defaults upon Senior Securities</u> | 32 |
| ITEM 4 - <u>Mine Safety Disclosures</u> | 32 |
| ITEM 5 - <u>Other Information</u> | 32 |
| ITEM 6 - <u>Exhibits</u> | 33 |
| <u>Signatures</u> | 34 |

Table of Contents

CSB BANCORP, INC.

PART I - FINANCIAL INFORMATION

ITEM 1. - FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Unaudited)

| <i>(Dollars in thousands)</i> | June 30, 2012 | December 31, 2011 |
|--|--------------------------|------------------------------|
| ASSETS | | |
| Cash and cash equivalents | | |
| Cash and due from banks | \$ 14,007 | \$ 12,519 |
| Interest-earning deposits in other banks | 53,825 | 69,739 |
| Total cash and cash equivalents | 67,832 | 82,258 |
| Securities | | |
| Available-for-sale, at fair value | 126,690 | 123,026 |
| Restricted stock, at cost | 5,463 | 5,463 |
| Total securities | 132,153 | 128,489 |
| Loans | 344,116 | 324,182 |
| Less allowance for loan losses | 4,471 | 4,082 |
| Net loans | 339,645 | 320,100 |
| Premises and equipment, net | 8,451 | 8,513 |
| Core deposit intangible | 967 | 1,034 |
| Goodwill | 4,728 | 4,728 |
| Bank-owned life insurance | 8,175 | 3,068 |
| Accrued interest receivable and other assets | 4,736 | 3,043 |
| TOTAL ASSETS | \$ 566,687 | \$ 551,233 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits | | |
| Noninterest-bearing | \$ 93,134 | \$ 85,890 |
| Interest-bearing | 361,585 | 357,663 |
| Total deposits | 454,719 | 443,553 |
| Short-term borrowings | 41,195 | 37,073 |
| Other borrowings | 16,870 | 19,161 |
| Accrued interest payable and other liabilities | 2,727 | 2,017 |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

| | | |
|---|-------------------|-------------------|
| Total liabilities | 515,511 | 501,804 |
| SHAREHOLDERS EQUITY | | |
| Common stock, \$6.25 par value. Authorized 9,000,000 shares; issued 2,980,602 shares; outstanding 2,734,799 shares in 2012 and 2011 | 18,629 | 18,629 |
| Additional paid-in capital | 9,994 | 9,994 |
| Retained earnings | 25,602 | 24,391 |
| Treasury stock at cost - 245,803 shares in 2012 and 2011 | (5,015) | (5,015) |
| Accumulated other comprehensive income | 1,966 | 1,430 |
| Total shareholders equity | 51,176 | 49,429 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 566,687 | \$ 551,233 |

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| <i>(Dollars in thousands, except per share data)</i> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| INTEREST AND DIVIDEND INCOME | | | | |
| Loans, including fees | \$ 4,272 | \$ 4,276 | \$ 8,524 | \$ 8,512 |
| Taxable securities | 707 | 613 | 1,436 | 1,208 |
| Nontaxable securities | 131 | 102 | 243 | 200 |
| Other | 41 | 11 | 80 | 28 |
| Total interest and dividend income | 5,151 | 5,002 | 10,283 | 9,948 |
| INTEREST EXPENSE | | | | |
| Deposits | 590 | 705 | 1,230 | 1,491 |
| Short-term borrowings | 25 | 37 | 49 | 78 |
| Other borrowings | 139 | 164 | 294 | 349 |
| Total interest expense | 754 | 906 | 1,573 | 1,918 |
| NET INTEREST INCOME | 4,397 | 4,096 | 8,710 | 8,030 |
| PROVISION FOR LOAN LOSSES | 205 | 190 | 411 | 470 |
| Net interest income, after provision for loan losses | 4,192 | 3,906 | 8,299 | 7,560 |
| NONINTEREST INCOME | | | | |
| Service charges on deposit accounts | 318 | 279 | 626 | 524 |
| Trust services | 167 | 190 | 328 | 350 |
| Debit card interchange fees | 201 | 152 | 395 | 290 |
| Gain on sale of loans, net | 137 | 29 | 193 | 99 |
| Other | 211 | 134 | 440 | 282 |
| Total noninterest income | 1,034 | 784 | 1,982 | 1,545 |
| NONINTEREST EXPENSES | | | | |
| Salaries and employee benefits | 1,961 | 1,793 | 3,924 | 3,556 |
| Occupancy expense | 241 | 204 | 487 | 423 |
| Equipment expense | 139 | 123 | 294 | 243 |
| Professional fees | 242 | 177 | 449 | 336 |
| Franchise tax expense | 138 | 135 | 277 | 270 |
| FDIC assessment expense | 68 | 108 | 155 | 218 |
| Software expense | 88 | 94 | 181 | 185 |
| Marketing and public relations | 79 | 73 | 152 | 132 |
| Amortization of intangible assets | 33 | 16 | 66 | 31 |
| Other | 571 | 560 | 1,119 | 1,009 |
| Total noninterest expenses | 3,560 | 3,283 | 7,104 | 6,403 |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

| | | | | |
|---|----------|---------|---------|---------|
| Income before income taxes | 1,666 | 1,407 | 3,177 | 2,702 |
| FEDERAL INCOME TAX PROVISION | 525 | 435 | 981 | 834 |
| NET INCOME | \$ 1,141 | 972 | 2,196 | 1,868 |
| Basic and diluted net income per share | \$ 0.41 | \$ 0.35 | \$ 0.80 | \$ 0.68 |

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| <i>(Dollars in thousands)</i> | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Net income | \$ 1,141 | \$ 972 | \$ 2,196 | \$ 1,868 |
| Available-for-sale securities: | | | | |
| Unrealized gains arising during the period | 924 | 911 | 812 | 758 |
| Income tax effect | 314 | 310 | 276 | 258 |
| Other comprehensive gain | 610 | 601 | 536 | 500 |
| Total comprehensive income | \$ 1,751 | \$ 1,573 | \$ 2,732 | \$ 2,368 |

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

| <i>(Dollars in thousands, except per share data)</i> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|------------------|--------------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance at beginning of period | \$ 49,918 | \$ 47,457 | \$ 49,429 | \$ 47,154 |
| Comprehensive income: | | | | |
| Net income | 1,141 | 972 | 2,196 | 1,868 |
| Other comprehensive income | 610 | 601 | 536 | 500 |
| Total comprehensive income | 1,751 | 1,573 | 2,732 | 2,368 |
| Common cash dividends declared | (493) | (492) | (985) | (984) |
| Balance at end of period | \$ 51,176 | \$ 48,538 | \$ 51,176 | \$ 48,538 |
| Common cash dividends per share | \$ 0.18 | \$ 0.18 | \$ 0.36 | \$ 0.36 |

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| <i>(Dollars in thousands)</i> | Six Months Ended June 30, | |
|---|--------------------------------------|-------------|
| | 2012 | 2011 |
| NET CASH FROM OPERATING ACTIVITIES | \$ 1,273 | \$ 2,684 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Securities available-for-sale: | | |
| Proceeds from maturities and repayments | 31,456 | 13,264 |
| Purchases | (34,543) | (19,416) |
| Loan originations, net of repayments | (19,940) | (1,817) |
| Proceeds from sale of other real estate | 7 | 38 |
| Property, equipment, and software acquisitions | (256) | (158) |
| Purchase of bank-owned life insurance | (5,000) | 0 |
| Net cash used in investing activities | (28,276) | (8,089) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in deposits | 11,238 | (6,212) |
| Net change in short-term borrowings | 4,122 | 369 |
| Repayments of other borrowings | (2,291) | (3,382) |
| Cash dividends paid | (492) | (492) |
| Net cash provided by (used in) financing activities | 12,577 | (9,717) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (14,426) | (15,122) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 82,258 | 48,360 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 67,832 | \$ 33,238 |
| SUPPLEMENTAL DISCLOSURES | | |
| Cash paid during the year for: | | |
| Interest | \$ 1,678 | \$ 1,983 |
| Income taxes | 400 | 650 |
| Noncash investing activities: | | |
| Transfer of loans to other real estate owned | 5 | 415 |

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements include the accounts of CSB Bancorp, Inc. and its wholly-owned subsidiaries, The Commercial and Savings Bank (the Bank) and CSB Investment Services, LLC (together referred to as the Company or CSB). All significant intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated financial statements have been prepared without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the Company's financial position at June 30, 2012, and the results of operations and changes in cash flows for the periods presented have been made.

Certain information and footnote disclosures typically included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been omitted. The Annual Report for CSB for the year ended December 31, 2011, contains consolidated financial statements and related footnote disclosures, which should be read in conjunction with the accompanying consolidated financial statements. The results of operations for the period ended June 30, 2012 are not necessarily indicative of the operating results for the full year or any future interim period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. The Company has provided the necessary disclosure in Note 4 and Note 5.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. The amendments in this Update should be applied retrospectively. The Company has provided the necessary disclosure in the Statement of Comprehensive Income.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other Topics (Topic 350), Testing Goodwill for Impairment*. The objective of this update is to simplify how entities, both

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this Update apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements and are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The Company has provided the necessary disclosure in Statement of Comprehensive Income.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES

Securities consist of the following at June 30, 2012 and December 31, 2011:

| <i>(Dollars in thousands)</i> | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| June 30, 2011 | | | | |
| Available-for-sale: | | | | |
| U.S. Treasury security | \$ 100 | \$ 0 | \$ 0 | \$ 100 |
| Obligations of U.S. Government corporations and agencies | 32,576 | 88 | 0 | 32,664 |
| Mortgage-backed securities in government sponsored entities | 73,181 | 2,174 | 1 | 75,354 |
| Obligations of states and political subdivisions | 13,960 | 725 | 6 | 14,679 |
| Corporate bonds | 3,826 | 48 | 47 | 3,827 |
| Total debt securities | 123,643 | 3,035 | 54 | 126,624 |
| Equity securities in financial institutions | 69 | 6 | 9 | 66 |
| Total available-for-sale | 123,712 | 3,041 | 63 | 126,690 |
| Restricted stock | 5,463 | 0 | 0 | 5,463 |
| Total securities | \$ 129,175 | \$ 3,041 | \$ 63 | \$ 132,153 |
| December 31, 2011 | | | | |
| Available-for-sale: | | | | |
| U.S. Treasury security | \$ 100 | \$ 0 | \$ 0 | \$ 100 |
| Obligations of U.S. Government corporations and agencies | 28,263 | 83 | 23 | 28,323 |
| Mortgage-backed securities in government sponsored entities | 74,834 | 1,562 | 64 | 76,332 |
| Obligations of states and political subdivisions | 14,148 | 732 | 0 | 14,880 |
| Corporate bonds | 3,445 | 6 | 121 | 3,330 |
| Total debt securities | 120,790 | 2,383 | 208 | 122,965 |
| Equity securities in financial institutions | 69 | 3 | 11 | 61 |
| Total available-for-sale | 120,859 | 2,386 | 219 | 123,026 |
| Restricted stock | 5,463 | 0 | 0 | 5,463 |
| Total securities | \$ 126,322 | \$ 2,386 | \$ 219 | \$ 128,489 |

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES (CONTINUED)

The amortized cost and fair value of debt securities at June 30, 2012, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| <i>(Dollars in thousands)</i> | Amortized cost | Fair value |
|---|---------------------------|-------------------|
| Available-for-sale: | | |
| Due in one year or less | \$ 346 | \$ 346 |
| Due after one through five years | 12,306 | 12,636 |
| Due after five through ten years | 21,415 | 21,894 |
| Due after ten years | 89,576 | 91,748 |
| Total debt securities available-for-sale | \$ 123,643 | \$ 126,624 |

Realized Gains and Losses

There were no sales of available-for-sale securities for the three month or six month periods ending June 30, 2012 or 2011. Gains or losses on the sales of available-for-sale securities are recognized upon sale and are determined by the specific identification method.

The following table presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2012 and December 31, 2011:

| <i>(Dollars in thousands)</i> | Securities in a continuous unrealized loss position | | | | | |
|---|--|-----------------------|--|-----------------------|--|-----------------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value |
| <u>June 30, 2012</u> | | | | | | |
| Mortgage-backed securities in government sponsored entities | \$ 1 | \$ 394 | \$ 0 | \$ 0 | \$ 1 | \$ 394 |
| Obligations of state and political subdivisions | 6 | 322 | 0 | 0 | 6 | 322 |
| Corporate bonds | 4 | 463 | 43 | 957 | 47 | 1,420 |
| Total debt securities | 11 | 1,179 | 43 | 957 | 54 | 2,136 |
| Equity securities in financial institutions | 0 | 0 | 9 | 45 | 9 | 45 |
| Total temporarily impaired securities | \$ 11 | \$ 1,179 | \$ 52 | \$ 1,002 | \$ 63 | \$ 2,181 |
| <u>December 31, 2011</u> | | | | | | |
| Obligations of U.S. Corporations and agencies | \$ 23 | \$ 6,974 | \$ 0 | \$ 0 | \$ 23 | \$ 6,974 |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

| | | | | | | |
|---|--------|-----------|-------|--------|--------|-----------|
| Mortgage-backed securities in government sponsored entities | 63 | 16,794 | 1 | 192 | 64 | 16,986 |
| Corporate bonds | 49 | 2,397 | 72 | 428 | 121 | 2,825 |
| Total debt securities | 135 | 26,165 | 73 | 620 | 208 | 26,785 |
| Equity securities in financial institutions | 0 | 0 | 11 | 43 | 11 | 43 |
| Total temporarily impaired securities | \$ 135 | \$ 26,165 | \$ 84 | \$ 663 | \$ 219 | \$ 26,828 |

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES (CONTINUED)

There were seven (7) securities in an unrealized loss position at June 30, 2012, four (4) of which were in a continuous loss position for twelve months or more. There were seventeen (17) securities in an unrealized loss position at December 31, 2011, two (2) of which were in a continuous loss position for twelve months or more.

At least quarterly, the Company conducts a comprehensive security-level impairment assessment. The assessments are based on the nature of the securities, the extent and duration of the securities in an unrealized loss position, the extent and duration of the loss and management's intent to sell or if it is more likely than not that management will be required to sell a security before recovery of its amortized cost basis, which may be maturity. Management believes the Company will fully recover the cost of these securities and it does not intend to sell these securities and likely will not be required to sell them before the anticipated recovery of the remaining amortized cost basis, which may be maturity. As a result, management concluded that these securities were not other-than-temporarily impaired at June 30, 2012 and has recognized the total amount of the impairment in other comprehensive income, net of tax.

NOTE 3 LOANS

Loans consist of the following:

| <i>(Dollars in thousands)</i> | June 30, 2012 | December 31, 2011 |
|-----------------------------------|--------------------------|------------------------------|
| Commercial | \$ 94,914 | \$ 89,828 |
| Commercial real estate | 113,522 | 106,332 |
| Residential real estate | 108,589 | 103,518 |
| Construction & Land Development | 20,583 | 18,061 |
| Consumer | 6,249 | 6,216 |
| | | |
| Total loans before deferred costs | 343,857 | 323,955 |
| Deferred loan costs | 259 | 227 |
| | | |
| Total Loans | \$ 344,116 | \$ 324,182 |

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. The Company's management examines current and occasionally projected cash flows to determine the ability of the borrower to repay their obligations. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and usually incorporate the personal guarantees of business owners; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type which helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At June 30, 2012 approximately 83% of the outstanding principal balances of the Company's commercial real estate loans were secured by owner-occupied properties.

With respect to loans to developers and builders that are secured by non-owner occupied properties, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven financial record. Construction and land development loans are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction and land development loans are generally based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction and land development loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from the Company or other approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

The Company originates consumer loans utilizing a judgmental underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by lenders and loan support personnel. This activity, coupled with relatively small loan amounts spread across many individual borrowers, minimizes risk.

The Company utilizes an independent loan review vendor that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the Audit Committee of the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Concentrations of Credit

Nearly all of the Company's lending activity occurs within the State of Ohio, including the four counties of Holmes, Stark, Tuscarawas and Wayne, as well as other markets. The majority of the Company's loan portfolio consists of owner occupied commercial real estate and commercial loans. As of June 30, 2012 and December 31, 2011 there were no concentrations of loans related to any single industry.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table details activity in the allowance for loan losses by portfolio segment for the three and six month periods ended June 30, 2012 and 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

| <i>(Dollars in thousands)</i> | Commercial | Commercial Real Estate | Residential Real Estate | Construction & Land Development | Consumer | Unallocated | Total |
|---|------------|------------------------------|-------------------------------|---------------------------------------|----------|-------------|----------|
| Three months ended June 30, 2012 | | | | | | | |
| Beginning balance, April 1, 2012 | \$ 976 | \$ 1,649 | \$ 939 | \$ 184 | \$ 74 | \$ 424 | \$ 4,246 |
| Provision for possible loan losses | (78) | 278 | 87 | 33 | (7) | (108) | 205 |
| Charge-offs | (11) | 0 | (59) | 0 | (15) | 0 | (85) |
| Recoveries | 9 | 0 | 84 | 0 | 12 | 0 | 105 |
| Net charge-offs | (2) | 0 | 25 | 0 | (3) | 0 | 20 |
| Ending balance | \$ 896 | \$ 1,927 | \$ 1,051 | \$ 217 | \$ 64 | \$ 316 | \$ 4,471 |

| <i>(Dollars in thousands)</i> | Commercial | Commercial Real Estate | Residential Real Estate | Construction & Land Development | Consumer | Unallocated | Total |
|---------------------------------------|------------|------------------------------|-------------------------------|---------------------------------------|----------|-------------|----------|
| Six months ended June 30, 2012 | | | | | | | |
| Beginning balance, January 1, 2012 | \$ 1,024 | \$ 1,673 | \$ 894 | \$ 180 | \$ 78 | \$ 233 | \$ 4,082 |
| Provision for possible loan losses | (127) | 268 | 172 | 37 | (22) | 83 | 411 |
| Charge-offs | (15) | (14) | (104) | 0 | (31) | 0 | (164) |
| Recoveries | 14 | 0 | 89 | 0 | 39 | 0 | 142 |
| Net charge-offs | (1) | (14) | (15) | 0 | 8 | 0 | (22) |
| Ending balance | \$ 896 | \$ 1,927 | \$ 1,051 | \$ 217 | \$ 64 | \$ 316 | \$ 4,471 |

| <i>(Dollars in thousands)</i> | Commercial | Commercial Real Estate | Residential Real Estate | Construction & Land Development | Consumer | Unallocated | Total |
|---|------------|------------------------------|-------------------------------|---------------------------------------|----------|-------------|----------|
| Three months ended June 30, 2011 | | | | | | | |
| Beginning balance, April 1, 2011 | \$ 996 | \$ 1,513 | \$ 1,067 | \$ 158 | \$ 83 | \$ 211 | \$ 4,028 |
| Provision for possible loan losses | 118 | 88 | (275) | 114 | 1 | 144 | 190 |
| Charge-offs | (103) | (43) | (16) | 0 | (16) | 0 | (178) |
| Recoveries | 1 | 0 | 0 | 0 | 13 | 0 | 14 |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

| | | | | | | | |
|-----------------|----------|----------|--------|--------|-------|--------|----------|
| Net charge-offs | (102) | (43) | (16) | 0 | (3) | 0 | (164) |
| Ending balance | \$ 1,012 | \$ 1,558 | \$ 776 | \$ 272 | \$ 81 | \$ 355 | \$ 4,054 |

| | Commercial | Commercial Real Estate | Residential Real Estate | Construction & Land Development | Consumer | Unallocated | Total |
|---------------------------------------|------------|------------------------------|----------------------------|---------------------------------------|----------|-------------|----------|
| <i>(Dollars in thousands)</i> | | | | | | | |
| Six months ended June 30, 2011 | | | | | | | |
| Beginning balance, January 1, 2011 | \$ 1,179 | \$ 1,183 | \$ 1,057 | \$ 80 | \$ 213 | \$ 319 | \$ 4,031 |
| Provision for possible loan losses | 129 | 418 | (206) | 34 | 59 | 36 | 470 |
| Charge-offs | (307) | (43) | (84) | (60) | 0 | 0 | (494) |
| Recoveries | 11 | 0 | 9 | 27 | 0 | 0 | 47 |
| Net charge-offs | (296) | (43) | (75) | (33) | 0 | 0 | (447) |
| Ending balance | \$ 1,012 | \$ 1,558 | \$ 776 | \$ 81 | \$ 272 | \$ 355 | \$ 4,054 |

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents the balance in the allowance for loan losses and the ending loan balances by portfolio segment and based on the impairment method as of June 30, 2012 and December 31, 2011:

| <i>(Dollars in thousands)</i> | Commercial | Commercial Real Estate | Residential Real Estate | Construction & Land Development | Consumer | Unallocated | Total |
|--|-------------------|-----------------------------------|------------------------------------|--|-----------------|--------------------|--------------|
| June 30, 2012 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Ending allowance balances attributable to loans: | | | | | | | |
| Individually evaluated for impairment | \$ 86 | \$ 658 | \$ 143 | \$ 0 | \$ 0 | \$ 0 | \$ 887 |
| Collectively evaluated for impairment | 810 | 1,269 | 908 | 217 | 64 | 316 | 3,584 |
| Total ending allowance balance | \$ 896 | \$ 1,927 | \$ 1,051 | \$ 217 | \$ 64 | \$ 316 | \$ 4,471 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | \$ 3,889 | \$ 4,680 | \$ 480 | \$ 166 | \$ 0 | | \$ 9,215 |
| Loans collectively evaluated for impairment | 91,025 | 108,842 | 108,109 | 20,417 | 6,249 | | 334,642 |
| Total ending loans balance | \$ 94,914 | \$ 113,522 | \$ 108,589 | \$ 20,583 | \$ 6,249 | | \$ 343,857 |
| December 31, 2011 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Ending allowance balances attributable to loans: | | | | | | | |
| Individually evaluated for impairment | \$ 165 | \$ 304 | \$ 53 | \$ 0 | \$ 0 | \$ 0 | \$ 522 |
| Collectively evaluated for impairment | 859 | 1,369 | 841 | 78 | 180 | 233 | 3,560 |
| Total ending allowance balance | 1,024 | 1,673 | 894 | 78 | 180 | 233 | 4,082 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | \$ 4,605 | \$ 2,476 | \$ 182 | \$ 0 | \$ 0 | | \$ 7,263 |
| Loans collectively evaluated for impairment | 85,223 | 103,856 | 103,336 | 6,216 | 18,061 | | 316,692 |
| Total ending loans balance | \$ 89,828 | \$ 106,332 | \$ 103,518 | \$ 6,216 | \$ 18,061 | | \$ 323,955 |

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2012 and December 31, 2011:

| <i>(Dollars in thousands)</i> | Unpaid Principal Balance | Recorded Investment with no Allowance | Recorded Investment with Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment |
|---------------------------------|---|--|---|--|------------------------------|--|
| June 30, 2012 | | | | | | |
| Commercial | \$ 3,895 | \$ 0 | \$ 3,889 | \$ 3,889 | \$ 86 | \$ 4,240 |
| Commercial real estate | 4,833 | 1,266 | 3,414 | 4,680 | 658 | 4,213 |
| Residential real estate | 613 | 91 | 389 | 480 | 143 | 526 |
| Construction & land development | 173 | 166 | 0 | 166 | 0 | 166 |
| Total impaired loans | \$ 9,514 | \$ 1,523 | \$ 7,692 | \$ 9,215 | \$ 887 | \$ 9,145 |
| December 31, 2011 | | | | | | |
| Commercial | \$ 4,605 | \$ 0 | \$ 4,605 | \$ 4,605 | \$ 165 | \$ 2,890 |
| Commercial real estate | 2,621 | 0 | 2,476 | 2,476 | 304 | 2,924 |
| Residential real estate | 182 | 0 | 182 | 182 | 53 | 103 |
| Total impaired loans | \$ 7,408 | \$ 0 | \$ 7,263 | \$ 7,263 | \$ 522 | \$ 5,917 |

The following table presents the aging of past due and nonaccrual loans as of June 30, 2012 and December 31, 2011 by class of loans:

| <i>(Dollars in thousands)</i> | Current | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90 Days + Past Due | Non- Accrual | Total Past Due and Non- Accrual | Total Loans |
|---------------------------------|----------------|--------------------------------------|--------------------------------------|-------------------------------|-------------------------|--|------------------------|
| June 30, 2012 | | | | | | | |
| Commercial | \$ 94,597 | \$ 209 | \$ 0 | \$ 108 | \$ 0 | \$ 317 | \$ 94,914 |
| Commercial real estate | 110,829 | 31 | 0 | 0 | 2,662 | 2,693 | 113,522 |
| Residential real estate | 106,268 | 1,175 | 85 | 157 | 904 | 2,321 | 108,589 |
| Construction & land development | 20,409 | 0 | 0 | 0 | 174 | 174 | 20,583 |
| Consumer | 6,007 | 234 | 8 | 0 | 0 | 242 | 6,249 |
| Total Loans | \$ 338,110 | \$ 1,649 | \$ 93 | \$ 265 | \$ 3,740 | \$ 5,747 | \$ 343,857 |
| December 31, 2011 | | | | | | | |
| Commercial | \$ 89,365 | \$ 272 | \$ 28 | \$ 150 | \$ 13 | 463 | \$ 89,828 |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

| | | | | | | | |
|---------------------------------|------------|----------|--------|--------|----------|-------|------------|
| Commercial real estate | 103,828 | 587 | 250 | 141 | 1,526 | 2,504 | 106,332 |
| Residential real estate | 100,297 | 1,443 | 303 | 282 | 1,193 | 3,221 | 103,518 |
| Construction & land development | 17,885 | 0 | 0 | 0 | 176 | 176 | 18,061 |
| Consumer | 5,985 | 194 | 29 | 8 | 0 | 231 | 6,216 |
| Total Loans | \$ 317,360 | \$ 2,496 | \$ 610 | \$ 581 | \$ 2,908 | 6,595 | \$ 323,955 |

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)**Troubled Debt Restructurings**

The Company has troubled debt restructurings of \$8.2 million as of June 30 2012, and \$8.5 million as of December 31, 2011, with \$706 thousand and \$516 thousand of specific reserves allocated as of June 30, 2012 and December 31, 2011 respectively to customers whose loan terms have been modified in troubled debt restructurings. At June 30, 2012, \$7.5 million of the loans classified as troubled debt restructurings were performing to modified terms. The remaining \$763 thousand were in nonaccrual status.

Loan modifications that are considered troubled debt restructurings completed during the three and six month periods ended June 30, 2012 and 2011 were as follows:

| | For the Three Months Ended June 30, 2012 | | |
|---------------------------------|--|--|---|
| | Number of loans restructured | Pre- Modification Recorded Investment | Post- Modification Recorded Investment |
| <i>(Dollars in thousands)</i> | | | |
| Commercial real estate | 1 | \$ 140 | \$ 140 |
| Residential real estate | 5 | 333 | 333 |
| Total Restructured Loans | 6 | \$ 473 | \$ 473 |
| Subsequently Defaulted | 0 | \$ 0 | |

| | For the Six Months Ended June 30, 2012 | | |
|---------------------------------|--|--|---|
| | Number of loans restructured | Pre- Modification Recorded Investment | Post- Modification Recorded Investment |
| <i>(Dollars in thousands)</i> | | | |
| Commercial real estate | 1 | \$ 140 | \$ 140 |
| Residential real estate | 7 | 488 | 488 |
| Total Restructured Loans | 8 | \$ 628 | \$ 628 |
| Subsequently Defaulted | 0 | \$ 0 | |

| | For the Three Months Ended June 30, 2011 | | |
|-------------------------------|--|----------------------------------|-----------------------------------|
| | Number of loans | Pre- Modification Recorded | Post- Modification Recorded |
| <i>(Dollars in thousands)</i> | | | |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

| | restructured | Investment | Investment |
|---------------------------------|--------------|-----------------|-----------------|
| Commercial real estate | 2 | \$ 4,420 | \$ 4,420 |
| Residential real estate | 1 | 102 | 102 |
| Total Restructured Loans | 3 | \$ 4,522 | \$ 4,522 |
| Subsequently Defaulted | 1 | \$ 90 | |

| | For the Six Months Ended June 30, 2011 | | |
|---------------------------------|--|--|---|
| | Number of loans restructured | Pre- Modification Recorded Investment | Post- Modification Recorded Investment |
| <i>(Dollars in thousands)</i> | | | |
| Commercial | 3 | \$ 4,445 | \$ 4,445 |
| Commercial real estate | 1 | 220 | 220 |
| Residential real estate | 4 | 179 | 179 |
| Total Restructured Loans | 8 | \$ 4,844 | \$ 4,844 |
| Subsequently Defaulted | 1 | \$ 90 | |

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The loans restructured during the three and six month periods ending June 30, 2012 and 2011 were modified by changing the monthly payment to interest only. No principal reductions were made. The loan that subsequently defaulted was a commercial real estate loan.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. This analysis includes commercial loans with an outstanding balance greater than \$275 thousand and is performed on an annual basis.

The Company uses the following definitions for risk ratings:

Pass. Loans classified as pass (Acceptable, Low Acceptable or Pass Watch) may exhibit a wide array of characteristics but at minimum represent an acceptable risk to the Bank. Borrowers in this rating may have leveraged but acceptable balance sheet positions, satisfactory asset quality, and stable to favorable sales and earnings trends, acceptable liquidity and adequate cash flow. Loans are considered fully collectible and require an average amount of administration. While generally adhering to credit policy, these loans may exhibit occasional exceptions that do not result in undue risk to the Bank. Borrowers are generally capable of absorbing setbacks, financial and otherwise, without the threat of failure.

Special Mention. Loans classified as special mention have material weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

Loans that do not meet the criteria for special mention, substandard or doubtful classification, when analyzed individually as part of the above described process are considered to be pass rated loans. As of June 30, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| <i>(Dollars in thousands)</i> | Pass | Special Mention | Substandard | Doubtful | Not Rated | Total |
|---------------------------------|-------------------|--------------------|------------------|-------------|-------------------|-------------------|
| June 30, 2012 | | | | | | |
| Commercial | \$ 84,370 | \$ 4,351 | \$ 6,185 | \$ 0 | \$ 8 | \$ 94,914 |
| Commercial real estate | 93,271 | 8,216 | 8,941 | 0 | 3,094 | 113,522 |
| Residential real estate | 208 | 0 | 96 | 0 | 108,285 | 108,589 |
| Construction & land development | 14,878 | 3,398 | 1,064 | 0 | 1,243 | 20,583 |
| Consumer | 0 | 0 | 0 | 0 | 6,249 | 6,249 |
| Total | \$ 192,727 | \$ 15,965 | \$ 16,286 | \$ 0 | \$ 118,879 | \$ 343,857 |
| December 31, 2011 | | | | | | |
| Commercial | \$ 76,216 | \$ 5,147 | \$ 7,710 | \$ 0 | \$ 755 | \$ 89,828 |
| Commercial real estate | 84,846 | 10,385 | 8,686 | 0 | 2,415 | 106,332 |
| Residential real estate | 1,151 | 0 | 61 | 0 | 102,306 | 103,518 |
| Construction & land development | 12,695 | 4,340 | 168 | 0 | 858 | 18,061 |
| Consumer | 0 | 0 | 0 | 0 | 6,216 | 6,216 |
| Total | \$ 174,908 | \$ 19,872 | \$ 16,625 | \$ 0 | \$ 112,550 | \$ 323,955 |

Loans listed as not rated are either less than \$275 thousand or are included in groups of homogeneous loans. The following table presents loans that are not rated by class of loans as of June 30, 2012 and December 31, 2011. Non-performing loans include loans past due 90 days and greater and loans on nonaccrual of interest.

| <i>(Dollars in thousands)</i> | Performing | Non-Performing | Total |
|---------------------------------|-------------------|-----------------|-------------------|
| June 30, 2012 | | | |
| Commercial | \$ 9 | \$ 0 | \$ 9 |
| Commercial real estate | 3,039 | 54 | 3,093 |
| Residential real estate | 107,274 | 1,011 | 108,285 |
| Construction & land development | 1,243 | 0 | 1,243 |
| Consumer | 6,249 | 0 | 6,249 |
| Total | \$ 117,814 | \$ 1,065 | \$ 118,879 |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

December 31, 2011

| | | | |
|---------------------------------|------------|----------|------------|
| Commercial | \$ 755 | \$ 0 | \$ 755 |
| Commercial real estate | 2,415 | 0 | 2,415 |
| Residential real estate | 100,892 | 1,414 | 102,306 |
| Construction & land development | 850 | 8 | 858 |
| Consumer | 6,208 | 8 | 6,216 |
| Total | \$ 111,120 | \$ 1,430 | \$ 112,550 |

Loans serviced for others approximated \$53.2 million and \$49.9 million at June 30, 2012 and December 31, 2011, respectively.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4 Fair Value Measurements

The Company provides disclosures about assets and liabilities carried at fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. The three broad levels of the fair value hierarchy are described below:

Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level II: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by corroborated or other means. If the asset or liability has a specified (contractual) term, the Level II input must be observable for substantially the full term of the asset or liability.

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents the assets reported on the Consolidated Balance Sheets at their fair value on a recurring basis as of June 30, 2012 and December 31, 2011, by level within the fair value hierarchy. No liabilities are carried at fair value. As required by the applicable accounting standards, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Equity securities and U.S. Treasury Notes are valued at the closing price reported on the active market on which the individual securities are traded. Obligations of U.S. government corporations and agencies, mortgage-backed securities, corporate bonds and obligations of states and political subdivisions are valued at observable market data for similar assets.

(Dollars in thousands)

| | Level I | Level II | Level III | Total |
|---|--------------------------|-------------------|-------------|-------------------|
| | June 30, 2012 | | | |
| Assets: | | | | |
| Securities available-for-sale | | | | |
| U.S. Treasury security | \$ 100 | \$ 0 | \$ 0 | \$ 100 |
| Obligations of U.S. government corporations and agencies | 0 | 32,664 | 0 | 32,664 |
| Mortgage-backed securities in government sponsored entities | 0 | 75,354 | 0 | 75,354 |
| Obligations of states and political subdivisions | 0 | 14,679 | 0 | 14,679 |
| Corporate bonds | 0 | 3,827 | 0 | 3,827 |
| Total debt securities | 100 | 126,524 | 0 | 126,624 |
| Equity securities in financial institutions | 66 | 0 | 0 | 66 |
| Total Assets | \$ 166 | \$ 126,524 | \$ 0 | \$ 126,690 |
| | December 31, 2011 | | | |
| Assets: | | | | |
| Securities available-for-sale | | | | |
| U.S. Treasury security | \$ 100 | \$ 0 | \$ 0 | \$ 100 |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

| | | | | |
|---|--------|------------|------|------------|
| Obligations of U.S. government corporations and agencies | 0 | 28,323 | 0 | 28,323 |
| Mortgage-backed securities in government sponsored entities | 0 | 76,332 | 0 | 76,332 |
| Obligations of states and political subdivisions | 0 | 14,880 | 0 | 14,880 |
| Corporate bonds | 0 | 3,330 | 0 | 3,330 |
| | | | | |
| Total debt securities | 100 | 122,865 | 0 | 122,965 |
| Equity securities in financial institutions | 61 | 0 | 0 | 61 |
| | | | | |
| Total Assets | \$ 161 | \$ 122,865 | \$ 0 | \$ 123,026 |

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the assets measured on a nonrecurring basis on the Consolidated Balance Sheets at their fair value as of June 30, 2012, and December 31, 2011, by level within the fair value hierarchy. Impaired loans and other real estate owned that are collateral dependent are written down to fair value through the establishment of specific reserves. The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions based on management's best judgment that are significant inputs to the discounting calculations. As a result, these rights are measured at fair value on a nonrecurring basis and are classified within level III of the fair value hierarchy. Techniques used to value the collateral that secure the impaired loans include: quoted market prices for identical assets classified as Level I inputs; and observable inputs employed by certified appraisers for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

(Dollars in thousands)

| | Level I | Level II | Level III | Total |
|---|--------------------------|----------|-----------|----------|
| | June 30, 2012 | | | |
| Assets measured on a nonrecurring basis: | | | | |
| Impaired loans | \$ 0 | \$ 0 | \$ 8,328 | \$ 8,328 |
| Other real estate owned | 0 | 0 | 5 | 5 |
| Mortgage servicing rights | 0 | 0 | 174 | 174 |
| | December 31, 2011 | | | |
| Impaired loans | \$ 0 | \$ 0 | \$ 6,741 | \$ 6,741 |
| Other real estate owned | 0 | 0 | 10 | 10 |
| Mortgage servicing rights | 0 | 0 | 167 | 167 |

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

| | Fair value estimate | Valuation techniques | Unobservable input | Range |
|-------------------------------|----------------------|---|--|----------------------------|
| | June 30, 2012 | | | |
| <i>(Dollars in thousands)</i> | | | | |
| Impaired loans | 8,328 | Appraisal of collateral ⁽¹⁾ | Appraisal adjustments ⁽²⁾ Liquidation expense ⁽²⁾ | 0% to - 50% 0% to - 10% |
| Other real estate owned | 5 | Appraisal of collateral ^{(1), (3)} | Management discount for property type | 0% to - 83% |
| Mortgage servicing rights | 174 | Discounted cash flow | Remaining term Discount rate | 8 mos to 30 yrs 2.1% |

(1)

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various inputs which are not identifiable.

- (2) Appraisals may be adjusted by management for qualitative factors such as estimated liquidation expenses. The range of liquidation expenses and other appraisals adjustments are presented as a percent of the appraisal.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of recognized financial instruments as of June 30, 2012 and December 31, 2011 are as follows:

| <i>(Dollars in thousands)</i> | Carrying Value | June 30, 2012 | | | Total Fair Value |
|---------------------------------|-------------------|-------------------------------|----------|------------|---------------------|
| | | Level I | Level II | Level III | |
| | | <i>(dollars in thousands)</i> | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | \$ 67,832 | \$ 67,832 | \$ 0 | \$ 0 | \$ 67,832 |
| Securities | 126,690 | 166 | 126,524 | 0 | 126,690 |
| Net loans | 339,645 | 0 | 0 | 345,517 | 345,517 |
| Bank-owned life insurance | 8,175 | 8,175 | 0 | 0 | 8,175 |
| Regulatory stock | 5,463 | 0 | 5,463 | 0 | 5,463 |
| Accrued interest receivable | 1,293 | 1,293 | 0 | 0 | 1,293 |
| Financial liabilities: | | | | | |
| Deposits | \$ 454,719 | \$ 291,014 | \$ 0 | \$ 165,326 | \$ 456,340 |
| Short-term borrowings | 41,195 | 41,195 | 0 | 0 | 41,195 |
| Federal Home Loan Bank advances | 16,870 | 0 | 0 | 17,965 | 17,965 |
| Accrued interest payable | 149 | 149 | 0 | 0 | 149 |

| <i>(Dollars in thousands)</i> | December 31, 2011 | |
|---------------------------------|-------------------|---------------|
| | Carrying value | Fair value |
| Financial assets: | | |
| Cash and cash equivalents | \$ 82,258 | \$ 82,258 |
| Securities available for sale | 123,026 | 123,026 |
| Net loans | 320,100 | 327,138 |
| Bank-owned life insurance | 3,068 | 3,068 |
| Regulatory stock | 5,463 | 5,463 |
| Accrued interest receivable | 1,349 | 1,349 |
| Financial liabilities: | | |
| Deposits | \$ 443,553 | \$ 445,587 |
| Short-term borrowings | 37,073 | 37,073 |
| Federal Home Loan Bank advances | 19,161 | 20,087 |
| Accrued interest payable | 182 | 182 |

For purposes of the above disclosures of estimated fair value, the following assumptions are used:

Cash and cash equivalents; Accrued interest receivable; Short-term borrowings, and Accrued interest payable

The fair value of the above instruments is considered to be carrying value. Classified as Level I in the fair value hierarchy.

Securities

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

The fair value of securities available-for-sale which are measured on a recurring basis are determined primarily by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on securities' relationship to other similar securities. Classified as Level I or Level II in the fair value hierarchy

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Net Loans

The fair value for loans is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value. Fair value of non-accrual loans is based on carrying value, classified as Level III.

Bank-owned Life Insurance

The carrying amount of bank-owned life insurance is based on the cash surrender value of the policies and is a reasonable estimate of fair value, classified as Level I.

Regulatory stock

Regulatory stock includes Federal Home Loan Bank Stock and Federal Reserve Bank Stock. It is not practicable to determine the fair value of regulatory equity securities due to restrictions placed on their transferability. Fair value is based on carrying value, classified as Level II.

Deposits

The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rates are estimated using market rates currently offered for similar instruments with similar remaining maturities, resulting in a Level III classification. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of quarter end, resulting in a Level I classification.

Federal Home Loan Bank advances

The fair value of Federal Home Loan Bank advances are estimated using a discounted cash flow analysis based on the current borrowing rates for similar types of borrowings, resulting in a Level III classification.

The Company also has unrecognized financial instruments at June 30, 2012 and December 31, 2011. These financial instruments relate to commitments to extend credit and letters of credit. The aggregated contract amount of such financial instruments was approximately \$103 million at June 30, 2012 and \$92 million at December 31, 2011. Such amounts are also considered to be the estimated fair values.

The fair value estimates of financial instruments are made at a specific point in time based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument over the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Since no ready market exists for a significant portion of the financial instruments, fair value estimates are largely based on judgments after considering such factors as future expected credit losses, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Table of Contents

CSB BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis focuses on the consolidated financial condition of the Company at June 30, 2012 as compared to December 31, 2011, and the consolidated results of operations for the six month period ended June 30, 2012 compared to the same period in 2011. The purpose of this discussion is to provide the reader with a more thorough understanding of the Consolidated Financial Statements. This discussion should be read in conjunction with the interim Consolidated Financial Statements and related footnotes.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report are not historical facts but rather are forward-looking statements that are subject to certain risks and uncertainties. When used herein, the terms "anticipates", "plans", "expects", "believes", and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company's actual results, performance or achievements may materially differ from those expressed or implied in the forward-looking statements. Risks and uncertainties that could cause or contribute to such material differences include, but are not limited to, general economic conditions, interest rate environment, competitive conditions in the financial services industry, changes in law, governmental policies and regulations, and rapidly changing technology affecting financial services. Other factors not currently anticipated may also materially and adversely affect the Company's results of operations, cash flows and financial position. There can be no assurance that future results will meet expectations. While the Company believes that the forward-looking statements in this report are reasonable, the reader should not place undue reliance on any forward-looking statement.

The Company does not undertake, and specifically disclaims any obligation, to publicly revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as may be required by applicable law.

FINANCIAL CONDITION

Total assets were \$566.7 million at June 30, 2012, compared to \$551.2 million at December 31, 2011, representing an increase of \$15.5 million, or 2.8%. Cash and cash equivalents decreased \$14.4 million, or 17.5%, during the six month period ended June 30, 2012, primarily as a result of increases in loans. Securities increased \$3.7 million, or 2.9%, during the first six months of 2012 as bonds were purchased within the US government agency portfolio. Net loans increased \$19.5 million, or 6.1%, while deposits increased \$11.1 million, or 2.5%, during the six month period. Short-term borrowings of securities sold under repurchase agreement increased \$4.1 million and Federal Home Loan Bank (FHLB) advances decreased \$2.3 million, during the period as advances matured and required amortized payments were made on outstanding advances at the FHLB.

Net loans increased \$19.5 million, or 6%, during the six month period ended June 30, 2012. Commercial loans including commercial real estate loans increased \$12 million, or 6%, home equity lines increased \$587 thousand, or 2%, real estate mortgage loans increased \$4 million, or 7%, construction and land development loans increased \$3 million, or 14%, and consumer loans remained stable over December 31, 2011. Consumers continued to refinance their mortgage loans for lower long-term rates. During the fourth quarter 2011 and first six months of 2012 the bank originated and retained fifteen year fixed rate mortgage loans for its portfolio.

Table of Contents

CSB BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The allowance for loan losses as a percentage of total loans was 1.30% at June 30, 2012, an increase from 1.26% at December 31, 2011. Outstanding loan balances increased 6.1% to \$344 million at June 30, 2012 while net charge-offs of \$22 thousand were offset by a provision of \$411 thousand to the allowance for loan losses for the six months ended June 30, 2012. Non-performing loans increased \$516 thousand or 14.8% from December 31, 2011.

| <i>(Dollars in thousands)</i> | June 30, 2012 | December 31, 2011 | June 30, 2011 |
|---------------------------------|--------------------------|------------------------------|--------------------------|
| Non-performing loans | \$ 4,005 | \$ 3,489 | \$ 3,559 |
| Other real estate | 5 | 10 | 415 |
| Allowance for loan losses | 4,471 | 4,082 | 4,054 |
| Total loans | 344,116 | 324,182 | 316,581 |
| Allowance: loans | 1.30% | 1.26% | 1.28% |
| Allowance: non-performing loans | 1.1x | 1.2x | 1.1x |

The ratio of gross loans to deposits was 75.7% at June 30, 2012, compared to 73.1% at December 31, 2011. The increase in this ratio is the result of loan volume increases outpacing increases in deposits during the six months ended June 30, 2012.

The Company had net unrealized gains of \$3 million within its securities portfolio at June 30, 2012, compared to net unrealized gains of \$2 million at December 31, 2011. The Company has no exposure to government-sponsored enterprise preferred stocks, collateralized debt obligations or trust preferred securities. Management has considered industry analyst reports, sector credit reports and the volatility within the bond market in concluding that the gross unrealized losses of \$63 thousand within the total portfolio as of June 30, 2012, were primarily the result of customary and expected fluctuations in the bond market and not necessarily the expected cash flows of the individual securities. As a result, all security impairments detailed above on June 30, 2012, are considered temporary and no impairment loss relating to these securities has been recognized.

Short-term borrowings consisting of overnight repurchase agreements with retail customers increased \$4.1 million from December 31, 2011 and other borrowings decreased \$2.3 million as the Company used cash from interest-earning deposits in other banks to repay required maturities and monthly payments on advances from the FHLB.

Deposits increased \$11.2 million, or 2.5% from December 31, 2011 with non-interest bearing deposits increasing \$7.2 million and interest-bearing deposit accounts increasing \$4.0 million. By deposit type, increases were recognized in statement and passbook savings accounts and money market savings accounts for the period ended June 30, 2012.

Total shareholders' equity amounted to \$51.2 million, or 9.0% of total assets, at June 30, 2012, compared to \$49.4 million, or 9.0% of total assets, at December 31, 2011. The increase in shareholders' equity during the six months ended June 30, 2012 was due to net income of \$2.2 million, an increase of \$535 thousand in other comprehensive income and dividends declared of \$1 million partially offset the above increases. The Company and its subsidiary bank met all regulatory capital requirements at June 30, 2012.

Table of Contents

CSB BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**RESULTS OF OPERATIONS****Three months ended June 30, 2012 and 2011**

For the quarter ended June 30, 2012, the Company recorded net income of \$1.1 million or \$0.41 per share, as compared to net income of \$972 thousand, or \$0.35 per share for the quarter ended June 30, 2011. The \$169 thousand increase in net income for the quarter was a result of net interest income increasing \$301 thousand and other noninterest income increasing \$250 thousand. These gains were partially offset by an increase in noninterest expense of \$277 thousand and an increase in the federal income tax provision of \$90 thousand. Return on average assets and return on average equity were 0.82% and 8.98%, respectively, for the three month period of 2012, compared to 0.87% and 8.06%, respectively for 2011.

Average Balance Sheets and Net Interest Margin Analysis

| <i>(Dollars in thousands)</i> | For the three months ended June 30, | | | |
|---|-------------------------------------|-----------------|--------------------|-----------------|
| | Average balance | Average rate | Average balance | Average rate |
| ASSETS | | | | |
| Due from banks-interest bearing | \$ 57,108 | 0.29% | \$ 19,025 | 0.23% |
| Federal funds sold | 145 | 0.00 | 89 | 0.11 |
| Taxable securities | 118,045 | 2.41 | 73,771 | 3.33 |
| Tax-exempt securities | 13,690 | 5.85 | 12,134 | 5.07 |
| Loans | 339,829 | 5.07 | 319,906 | 5.37 |
| Total earning assets | 528,817 | 3.98% | 424,925 | 4.78% |
| Other assets | 33,474 | | 23,280 | |
| TOTAL ASSETS | \$ 562,291 | | \$ 448,205 | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Interest bearing demand deposits | \$ 62,751 | 0.08% | \$ 52,617 | 0.08% |
| Savings deposits | 133,442 | 0.18 | 84,867 | 0.25 |
| Time deposits | 165,693 | 1.25 | 145,874 | 1.76 |
| Other borrowed funds | 57,672 | 1.14 | 49,880 | 1.62 |
| Total interest bearing liabilities | 419,558 | 0.72% | 333,238 | 1.09% |
| Non-interest bearing demand deposits | 89,760 | | 65,243 | |
| Other liabilities | 1,848 | | 1,335 | |
| Shareholders' Equity | 51,125 | | 48,389 | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 562,291 | | \$ 448,205 | |
| Taxable equivalent net interest spread | | 3.26% | | 3.69% |
| Taxable equivalent net interest margin | | 3.40% | | 3.93% |

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

Interest income for the quarter ended June 30, 2012, was \$5.2 million representing a \$149 thousand increase, or a 3.0% improvement, compared to the same period in 2011. This increase was primarily due to average investment volume increasing \$45.8 million for the quarter ended June 30, 2012 as compared to the second quarter 2011. Interest expense for the quarter ended June 30, 2012 was \$754 thousand, a decrease of \$152 thousand or 16.8%, from the same period in 2011. The decrease in interest expense occurred primarily due to a decrease of 0.4% in interest rates paid on interest-bearing deposits which decreased from 1.0% in 2011 to 0.6% in 2012 and a rate decrease of 0.5% on all other borrowings which declined from 1.6% in 2011 to 1.1% for the quarter ended June 30, 2012.

Table of Contents

CSB BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The provision for loan losses for the quarter ended June 30, 2012 was \$205 thousand, compared to a \$190 thousand provision for the same quarter in 2011. The provision for loan losses is determined based on management's calculation of the adequacy of the allowance for loan losses, which includes provisions for classified loans as well as for the remainder of the portfolio based on historical data, including past charge-offs and current economic trends.

Non-interest income for the quarter ended June 30, 2012, was \$1.0 million, an increase of \$250 thousand, or 31.9%, compared to the same quarter in 2011. Service charges on deposit accounts increased \$39 thousand or 14.0% compared to the same quarter in 2011 reflecting the increase in fees generated from deposits acquired during October 2011. Debit card interchange income rose \$49 thousand, or 32.2%, due to volume increases from new accounts as consumers increased their usage of the product. Fees from trust and brokerage services decreased \$23 thousand to \$167 thousand for second quarter 2012 as compared to the same quarter in 2011. The gain on the sale of mortgage loans to the secondary market increased to \$137 thousand for the three month period ended June 30, 2012, from \$29 thousand in the three month period ended June 30, 2011. Mortgage origination increased during the quarter as secondary market mortgage interest rates reached new lows for the year.

Non-interest expenses for the quarter ended June 30, 2012 increased \$277 thousand, or 8%, compared to the second quarter of 2011. Salaries and employee benefits increased \$168 thousand, or 9%. Occupancy and equipment expenses increased \$53 thousand in 2012 over the second quarter of 2011. Other expenses decreased \$48 thousand, or 8%, compared to the second quarter 2011. Increases in non-interest expense in salaries and employee benefits, occupancy and equipment and some other expenses are the direct result of acquiring two branches in Wooster, Ohio during fourth quarter 2011. A reduction in FDIC deposit premium expense for the quarter of \$40 thousand reflected the change in the assessment calculation in bank assessments based on total assets less tangible capital.

Federal income tax expense increased \$90 thousand, or 20.7%, for the quarter ended June 30, 2012 as compared to the second quarter of 2011. The provision for income taxes was \$525 thousand (effective rate of 32%) for the quarter ended June 30, 2012, compared to \$435 thousand (effective rate of 31%) for the quarter ended June 30, 2011. The increase in the expense resulted from improved income.

RESULTS OF OPERATIONS

Six months ended June 30, 2012 and 2011

Net income for the six months ending June 30, 2012, was \$2.2 million or \$0.80 per share, as compared to \$1.9 million or \$0.68 per share during the same period in 2011. Return on average assets and return on average equity were 0.79% and 8.73%, respectively, for the six month period of 2012, compared to 0.84% and 7.86%, respectively for 2011.

Comparative net income increased as net interest income improved to \$8.7 million for the six months ended June 30, 2012, an increase of \$680 thousand or 9% from the same period last year. Total noninterest income rose \$437 thousand or 28% to \$2.0 million. The provision for loan losses decreased \$59 thousand or 13% during the same comparative period. These improvements were partially offset by higher noninterest expenses for the six month period ending in 2012 as compared to 2011.

Interest income on loans increased \$12 thousand, or less than 1%, for the six months ended June 30, 2012, as compared to the same period in 2011. This increase was primarily due to an average volume increase of \$14 million for the comparable six month periods. Interest income on securities increased \$271 thousand, or 19%, as the average volume of securities increased \$43 million for the comparable six month periods. Interest income on fed funds sold and interest bearing deposits increased \$52 thousand for the six months ended June 30, 2012 as the average fed funds sold and due from banks interest bearing balances increased \$41 million, compared to the same period in 2011.

Table of Contents

CSB BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Average Balance Sheet and Net Interest Margin Analysis**

| | For the six months ended June 30, | | | |
|---|-----------------------------------|-----------------|--------------------|-----------------|
| | 2012 | | 2011 | |
| | Average balance | Average rate | Average balance | Average rate |
| <i>(Dollars in thousands)</i> | | | | |
| ASSETS | | | | |
| Due from banks-interest bearing | \$ 61,926 | 0.26% | \$ 21,161 | 0.27% |
| Federal funds sold | 104 | 0.00 | 89 | 0.08 |
| Taxable securities | 115,649 | 2.50 | 73,855 | 3.30 |
| Tax-exempt securities | 13,615 | 5.44 | 11,913 | 5.13 |
| Loans | 333,516 | 5.15 | 319,777 | 5.38 |
| Total earning assets | 524,810 | 4.00% | 426,795 | 4.76% |
| Other assets | 32,524 | | 23,206 | |
| TOTAL ASSETS | \$ 557,334 | | \$ 450,001 | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Interest bearing demand deposits | \$ 61,442 | 0.09% | \$ 52,480 | 0.08% |
| Savings deposits | 131,143 | 0.18 | 83,562 | 0.26 |
| Time deposits | 167,609 | 1.30 | 147,848 | 1.86 |
| Other borrowed funds | 57,578 | 1.20 | 51,477 | 1.68 |
| Total interest bearing liabilities | 417,772 | 0.76% | 335,367 | 1.15% |
| Non-interest bearing demand deposits | 87,114 | | 65,199 | |
| Other liabilities | 1,864 | | 1,506 | |
| Shareholders' Equity | 50,584 | | 47,929 | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 557,334 | | \$ 450,001 | |
| Taxable equivalent net interest spread | | 3.24% | | 3.61% |
| Taxable equivalent net interest margin | | 3.39% | | 3.85% |

Interest expense decreased \$345 thousand to \$1.6 million for the six months ended June 30, 2012, compared to the six months ended June 30, 2011. Interest expense on deposits decreased \$261 thousand, or 18%, from the same period as last year, while interest expense on short-term and other borrowings decreased \$84 thousand or 20%. The decrease in interest expense has been caused by lower interest rates being paid across the board on interest-bearing deposit accounts and borrowings. Additionally, during the comparable six month periods, the Company grew non-interest bearing deposits in 2012. Time deposits continue to renew at lower interest rates, and some depositors have moved monies to savings instruments anticipating higher rates than time deposits. Competition for deposits appears to be decreasing from a year ago with larger money center banks reducing the premium paid for term deposits. The net interest margin decreased by 46 basis points for the six month period ended June 30, 2012, to 3.39%, from 3.85% for the same period in 2011. This margin decrease is primarily the result of \$74 million in deposit growth acquired with two branches in Wooster, Ohio combined with deposit growth in the core bank which has been temporarily invested in lower earning assets.

Edgar Filing: CSB BANCORP INC /OH - Form 10-Q

The provision for loan losses was \$411 thousand during the first six months of 2012, compared to \$470 thousand in the same six month period of 2011. The provision or credit for loan losses is determined based on management's calculation of the adequacy of the allowance for loan losses, which includes provisions for classified loans as well as for the remainder of the portfolio based on historical data including past charge-offs and current economic trends.

Table of Contents

CSB BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Non-interest income increased \$437 thousand, or 28%, during the six months ended June 30, 2012, as compared to the same period in 2011. Debit card interchange income increased \$105 thousand or 36% as a result of increased customers and card usage in 2012. Service charges on deposits increased \$102 thousand from the same period in 2011 reflecting the increase in accounts following the fourth quarter 2011 branch acquisition. Decreases in Trust services were due to decreases in brokerage fee commissions in 2012. Increases were recognized in gains on mortgage loans sold in the secondary market for the first half of 2012 as refinancing activity increased during a period of historically low mortgage rates. Other non-interest income increased \$158 thousand, or 56%, for the six months ended June 30, 2012 as compared to the same period in 2011. Bank-owned life insurance income increased \$54 thousand for the six month period with the addition of \$5 million in bank-owned life insurance during first quarter 2012. Fee income on credit cards increased \$39 thousand for the six month period with the repurchase of CSB business credit cards during 2011.

Non-interest expenses increased \$701 thousand, or 11%, for the six months ended June 30, 2012, compared to the same period in 2011. The bank's FDIC deposit premium decreased \$63 thousand from \$218 thousand for the six months ended 2011 reflecting a decrease in rate and accrual for the six months ended June 30, 2012 as compared to 2011. Salaries and employee benefits increased \$368 thousand, or 10%, primarily the result of additional branch personnel, benefit increases and increased personnel to run a larger institution. Professional fees increased of \$113 thousand, or 34%, reflecting search fees and core system review fees. Occupancy and equipment expense increased \$115 thousand, or 17% reflecting the increase in the number of branches as compared to 2011. Increases were recognized in other expenses, primarily the result of increased operating costs of a larger company.

The provision for income taxes was \$981 thousand (effective rate of 31%) for the six months ended June 30, 2012, compared to \$834 thousand (effective rate of 31%) for the six months ended June 30, 2011.

CAPITAL RESOURCES

The Board of Governors of the Federal Reserve System (the Federal Reserve) has established risk-based capital guidelines that must be observed by financial holding companies and banks. Failure to meet specified minimum capital requirements could result in regulatory actions by the Federal Reserve or Ohio Division of Financial Institutions that could have a material effect on the Company's financial condition or results of operations. Management believes there were no material changes to capital resources as presented in the Company's annual report on Form 10-K for the year ended December 31, 2011, and as of June 30, 2012 the Company and the Bank meet all capital adequacy requirements to which they are subject.

LIQUIDITY

Liquidity refers to the Company's ability to generate sufficient cash to fund current loan demand, meet deposit withdrawals, pay operating expenses and meet other obligations. The Company's primary sources of liquidity are cash and cash equivalents, which totaled \$68 million at June 30, 2012, a decrease of \$14 million from \$82 million at December 31, 2011. Net income, securities available-for-sale, and loan repayments also serve as sources of liquidity. Cash and cash equivalents and estimated principal cash flow and maturities on investments maturing within one year represent 18% of total assets as of June 30, 2012 compared to 13% of total assets at year-end 2011. Other sources of liquidity include, but are not limited to, purchase of federal funds, advances from the FHLB, adjustments of interest rates to attract deposits, and borrowing at the Federal Reserve discount window. Management believes that its sources of liquidity are adequate to meet cash flow obligations for the foreseeable future.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements (as such term is defined in applicable Securities and Exchange Commission (the Commission) rules) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Table of Contents

CSB BANCORP, INC.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the quantitative and qualitative disclosures about market risks as of June 30, 2012, from that presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Management performs a quarterly analysis over a twenty-four month horizon of the Company's interest rate risk. The analysis includes two balance sheet models, one based on a static balance sheet and one on a dynamic balance sheet with projected growth in assets and liabilities. All positions are currently within the Company's board-approved policy under a dynamic balance sheet. Board set limits are minimally exceeded under a static balance sheet due to the volume of liquidity held by the bank on June 30, 2012.

The following table presents an analysis of the estimated sensitivity of the Company's annual net interest income to sudden and sustained 100 through 400 basis point changes, in 100 basis point changes, in market interest rates at June 30, 2012 and December 31, 2011. Due to the current low interest rate environment, particularly for short-term rates, the decreasing change is not calculated.

(Dollars in thousands)

| June 30, 2012 | | | |
|---|---------------------|---------------|-------------------|
| Change in interest rates (basis points) | Net interest income | Dollar change | Percentage change |
| + 400 | \$ 17,607 | \$ 734 | 4.4% |
| + 300 | 17,399 | 526 | 3.1 |
| + 200 | 17,235 | 362 | 2.1 |
| + 100 | 17,081 | 208 | 1.2 |
| 0 | 16,873 | 0 | 0.0 |
| - 100 | N/A | N/A | N/A |
| - 200 | N/A | N/A | N/A |

| December 31, 2011 | | | |
|---|---------------------|---------------|-------------------|
| Change in interest rates (basis points) | Net interest income | Dollar change | Percentage change |
| + 400 | \$ 17,500 | \$ 818 | 4.9% |
| + 300 | 17,241 | 559 | 3.4 |
| + 200 | 17,028 | 346 | 2.1 |
| + 100 | 16,857 | 17 | 1.0 |
| 0 | 16,682 | 0 | 0.0 |
| - 100 | N/A | N/A | N/A |
| - 200 | N/A | N/A | N/A |

Table of Contents

CSB BANCORP, INC.

CONTROLS AND PROCEDURES

ITEM 4T - CONTROLS AND PROCEDURES

With the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that:

- (a) information required to be disclosed by the Company in this Quarterly Report on Form 10-Q would be accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure;
- (b) information required to be disclosed by the Company in this Quarterly Report on Form 10-Q would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and
- (c) the Company's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that material information relating to the Company and its consolidated subsidiary is made known to them, particularly during the period for which the Company's periodic reports, including this Quarterly Report on Form 10-Q, are being prepared.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes during the period covered by this Quarterly Report on Form 10-Q in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

CSB BANCORP, INC.

FORM 10-Q

Quarter ended June 30, 2012

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS.

In the opinion of management there are no outstanding legal actions that will have a material adverse effect on the company's financial condition or results of operations.

ITEM 1A - RISK FACTORS.

There have been no material changes to the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On July 7, 2005 CSB Bancorp, Inc. filed Form 8-k with the Securities and Exchange Commission announcing that its Board of Directors approved a Stock Repurchase Program authorizing the repurchase of up to 10% of the Company's common shares then outstanding. Repurchases will be made from time to time as market and business conditions warrant, in the open market, through block purchases and in negotiated private transactions.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4 - MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5 - OTHER INFORMATION.

Not applicable.

Table of Contents

CSB BANCORP, INC.

FORM 10-Q

Quarter ended June 30, 2012

PART II - OTHER INFORMATION

Item 6 - Exhibits:

Exhibit

| Number | Description of Document |
|---------------|---|
| 3.1 | Amended Articles of Incorporation of CSB Bancorp, Inc. (incorporated by reference to the Company's Form 10-KSB for the fiscal year ended December 31, 1994). |
| 3.1.1 | Amended form of Article Fourth of Amended Articles of Incorporation, as effective April 9, 1998 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 1998). |
| 3.2 | Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to the Company's Form 10-SB). |
| 3.2.1 | Amended Article VIII Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to Registrant's Form DEF 14a for the fiscal year ended December 31, 2008). |
| 4.0 | Specimen stock certificate (incorporated by reference to Registrant's Form 10-SB). |
| 11 | Statement Regarding Computation of Per Share Earnings (reference is hereby made to Consolidated Statements of Income on page 4 hereof). |
| 31.1 | Rule 13a-14(a)/15d-14(a) CEO's Certification (filed herewith). |
| 31.2 | Rule 13a-14(a)/15d-14(a) CFO's Certification (filed herewith). |
| 32.1 | Section 1350 CEO's Certification (filed herewith). |
| 32.2 | Section 1350 CFO's Certification (filed herewith). |
| 101 | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets: (ii) Consolidated Statements of Income: (iii) Consolidated Statements of Comprehensive Income: (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity: (v) Condensed Consolidated Statements of Cash Flows: and (vi) Notes to Consolidated Financial Statements. |

Table of Contents

CSB BANCORP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CSB BANCORP, INC.
(Registrant)

Date: August 13, 2012

/s/ Eddie L. Steiner
Eddie L. Steiner
President
Chief Executive Officer

Date: August 13, 2012

/s/ Paula J. Meiler
Paula J. Meiler
Senior Vice President
Chief Financial Officer

Table of Contents

CSB BANCORP, INC.

INDEX TO EXHIBITS

| Exhibit Number | Description of Document |
|---------------------------|---|
| 3.1 | Amended Articles of Incorporation of CSB Bancorp, Inc. (incorporated by reference to the Company's Form 10-KSB for the fiscal year ended December 31, 1994). |
| 3.1.1 | Amended form of Article Fourth of Amended Articles of Incorporation, as effective April 9, 1998 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 1998). |
| 3.2 | Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to the Company's Form 10-SB). |
| 3.2.1 | Amended Article VIII Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to the Company's Form DEF 14a for the fiscal year ended December 31, 2008). |
| 4.0 | Specimen stock certificate (incorporated by reference to the Company's Form 10-SB). |
| 11 | Statement Regarding Computation of Per Share Earnings (reference is hereby made to Consolidated Statements of Income on page 4 hereof). |
| 31.1 | Rule 13a-14(a)/15d-14(a) CEO's Certification (filed herewith). |
| 31.2 | Rule 13a-14(a)/15d-14(a) CFO's Certification (filed herewith). |
| 32.1 | Section 1350 CEO's Certification (filed herewith). |
| 32.2 | Section 1350 CFO's Certification (filed herewith). |
| 101 | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets: (ii) Consolidated Statements of Income: (iii) Consolidated Statements of Comprehensive Income: (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity: (v) Condensed Consolidated Statements of Cash Flows: and (vi) Notes to Consolidated Financial Statements. |