

CSB BANCORP INC /OH
Form 10-Q
May 14, 2015
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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: March 31, 2015

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)

Ohio
(State or other jurisdiction of
incorporation or organization)
91 North Clay, P.O. Box 232, Millersburg, Ohio 44654
(Address of principal executive offices)

34-1687530
(I.R.S. Employer
Identification Number)

(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 May 1, 2015:
2,739,405 common shares

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CSB BANCORP, INC.

FORM 10-Q

QUARTER ENDED March 31, 2015

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CSB BANCORP, INC.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(Dollars in thousands)</i>	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 14,253	\$ 15,310
Interest-earning deposits in other banks	21,260	28,613
Federal funds sold	119	
Total cash and cash equivalents	35,632	43,923
Securities		
Available-for-sale, at fair value	106,575	100,108
Held-to-maturity; fair value of \$35,558 in 2015 and \$38,950 in 2014	34,446	38,316
Restricted stock, at cost	4,614	4,614
Total securities	145,635	143,038
Loans held for sale	299	75
Loans	420,861	410,903
Less allowance for loan losses	4,494	4,381
Net loans	416,367	406,522
Premises and equipment, net	8,248	8,286
Core deposit intangible	598	629
Goodwill	4,728	4,728
Bank-owned life insurance	9,881	9,815
Accrued interest receivable and other assets	3,700	3,965
TOTAL ASSETS	\$ 625,088	\$ 620,981
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	\$ 137,941	\$ 139,251

Interest-bearing	359,392	360,824
Total deposits	497,333	500,075
Short-term borrowings	52,133	46,627
Other borrowings	14,788	14,953
Accrued interest payable and other liabilities	2,043	1,876
Total liabilities	566,297	563,531
SHAREHOLDERS EQUITY		
Common stock, \$6.25 par value. Authorized 9,000,000 shares; issued 2,980,602 shares; outstanding 2,739,405 shares in 2015 and 2014	18,629	18,629
Additional paid-in capital	9,884	9,884
Retained earnings	34,911	34,090
Treasury stock at cost - 241,197 shares in 2015 and 2014	(4,871)	(4,871)
Accumulated other comprehensive income (loss)	238	(282)
Total shareholders equity	58,791	57,450
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 625,088	\$ 620,981

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
<i>(Dollars in thousands, except per share data)</i>		
INTEREST AND DIVIDEND INCOME		
Loans, including fees	\$ 4,573	\$ 4,429
Taxable securities	688	786
Nontaxable securities	130	115
Other	16	6
Total interest and dividend income	5,407	5,336
INTEREST EXPENSE		
Deposits	271	304
Short-term borrowings	17	19
Other borrowings	105	115
Total interest expense	393	438
NET INTEREST INCOME	5,014	4,898
PROVISION FOR LOAN LOSSES	194	185
Net interest income, after provision for loan losses	4,820	4,713
NONINTEREST INCOME		
Service charges on deposit accounts	286	297
Trust services	202	216
Debit card interchange fees	227	198
Securities gains	35	
Gain on sale of loans, net	70	24
Other income	234	218
Total noninterest income	1,054	953
NONINTEREST EXPENSES		
Salaries and employee benefits	2,150	2,019
Occupancy expense	267	266
Equipment expense	166	181
Professional and director fees	290	182
Franchise tax expense	100	107

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Marketing and public relations	76	108
Software expense	189	162
Debit card expense	99	81
Amortization of intangible assets	32	32
FDIC insurance expense	92	86
Other expenses	487	453
Total noninterest expenses	3,948	3,677
Income before income taxes	1,926	1,989
FEDERAL INCOME TAX PROVISION	584	573
NET INCOME	\$ 1,342	\$ 1,416
Basic and diluted net earnings per share	\$ 0.49	\$ 0.52

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

<i>(Dollars in thousands)</i>	Three Months Ended	
	2015	2014
Net income	\$ 1,342	\$ 1,416
Other comprehensive income		
Unrealized gains arising during the period	768	774
Income tax effect	(261)	(263)
Unrealized losses on held to maturity transfer		
Amounts reclassified from accumulated other comprehensive income, held-to-maturity	54	52
Income tax effect	(18)	(18)
Reclassification adjustment for gains on available-for- sale securities included in net income	(35)	
Income tax effect	12	
Other comprehensive income	520	545
Total comprehensive income	\$ 1,862	\$ 1,961

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

	Three Months Ended	
	March 31,	
<i>(Dollars in thousands, except per share data)</i>	2015	2014
Balance at beginning of period	\$ 57,450	\$ 52,411
Net income	1,342	1,416
Other comprehensive income	520	545
Cash dividends declared	(521)	(493)
Balance at end of period	\$ 58,791	\$ 53,879
Cash dividends declared per share	\$ 0.19	\$ 0.18

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
<i>(Dollars in thousands)</i>		
NET CASH FROM OPERATING ACTIVITIES	\$ 1,193	\$ 997
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities:		
Proceeds from repayments, held-to-maturity	3,908	700
Proceeds from maturities and repayments, available-for-sale	4,480	2,026
Purchases, available-for-sale	(10,358)	(2,535)
Proceeds from sale of available-for-sale securities	88	
Proceeds from redemption of restricted stock		850
Loan originations, net of repayments	(10,049)	(28,821)
Property, equipment, and software acquisitions	(152)	(236)
Net cash used in investing activities	(12,083)	(28,016)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(2,742)	(14,356)
Net change in short-term borrowings	5,506	13,121
Net change in other borrowings	(165)	4,947
Net cash provided by financing activities	2,599	3,712
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,291)	(23,307)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	43,923	42,599
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 35,632	\$ 19,292
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	\$ 395	\$ 446
Income taxes		300
Noncash financing activities:		
Dividends declared	521	493

See notes to unaudited consolidated financial statements.

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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 March 31, 2015, 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, 2014, 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 March 31, 2015 are not necessarily indicative of the operating results for the full year or any future interim period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. The Company has included the disclosures related to this Update in Note 3.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (a new revenue recognition standard). The Update s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is evaluating the effect of adopting this new accounting Update.

In June 2014, the FASB issued ASU 2014-10, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this Update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. This Update did not have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40)*. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This Update did not have a significant impact on the Company's financial statements.

In January 2015, the FASB issued ASU 2015-01, *Income Statement - Extraordinary and Unusual Items*, as part of its initiative to reduce complexity in accounting standards. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangible - Goodwill and Other Internal Use Software (Topic 350-40)*, as part of its initiative to reduce complexity in accounting standards. This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the Board decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be

effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. This Update is not expected to have a significant impact on the Company's financial statements.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES

Securities consist of the following at March 31, 2015 and December 31, 2014:

<i>(Dollars in thousands)</i>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
March 31, 2015				
Available-for-sale				
U.S. Treasury security	\$ 1,003	\$ 2	\$	\$ 1,005
U.S. Government agencies	28,411	54	40	28,425
Mortgage-backed securities of government agencies	47,543	1,221	12	48,752
Other mortgage-backed securities	131	2		133
Asset-backed securities of government agencies	2,568	12	6	2,574
State and political subdivisions	20,180	440	58	20,562
Corporate bonds	5,004	58	1	5,061
Equity securities	54	9		63
Total available-for-sale	104,894	1,798	117	106,575
Held-to-maturity securities				
U.S. Government agencies	13,360	592		13,952
Mortgage-backed securities of government agencies	21,086	532	12	21,606
Total held-to-maturity	34,446	1,124	12	35,558
Restricted stock	4,614			4,614
Total securities	\$ 143,954	\$ 2,922	\$ 129	\$ 146,747
December 31, 2014				
Available-for-sale				
U.S. Treasury security	\$ 1,004	\$	\$ 4	\$ 1,000
U.S. Government agencies	25,228	6	155	25,079
Mortgage-backed securities of government agencies	47,696	730	79	48,347
Other mortgage-backed securities	139	2		141
Asset-backed securities of government agencies	2,606	3	5	2,604
State and political subdivisions	17,878	433	44	18,267
Corporate bonds	4,503	40	1	4,542
Equity securities	106	22		128

Total available-for-sale	99,160	1,236	288	100,108
Held-to-maturity securities				
U.S. Government agencies	16,343	294	2	16,635
Mortgage-backed securities of government agencies	21,973	398	56	22,315
Total held-to-maturity	38,316	692	58	38,950
Restricted stock	4,614			4,614
Total securities	\$ 142,090	\$ 1,928	\$ 346	\$ 143,672

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES (CONTINUED)

The amortized cost and fair value of debt securities at March 31, 2015, 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	\$ 4,618	\$ 4,643
Due after one through five years	21,954	22,196
Due after five through ten years	26,055	26,290
Due after ten years	52,213	53,383
Total debt securities available-for-sale	\$ 104,840	\$ 106,512
Held-to-maturity:		
Due in one year or less	\$	\$
Due after one through five years		
Due after five through ten years	5,702	5,973
Due after ten years	28,744	29,585
Total debt securities held-to-maturity	\$ 34,446	\$ 35,558

Securities with a carrying value of approximately \$94.7 million and \$88.4 million were pledged at March 31, 2015 and December 31, 2014, respectively, to secure public deposits, as well as other deposits and borrowings as required or permitted by law.

Restricted stock primarily consists of investments in Federal Home Loan Bank of Cincinnati (FHLB) and Federal Reserve Bank stock. The Bank's investment in FHLB stock amounted to approximately \$4.1 million at March 31, 2015 and December 31, 2014. The FHLB mandatorily redeemed members' stock during the first quarter of 2014. Federal Reserve Bank stock was \$471 thousand at March 31, 2015 and December 31, 2014.

The following table shows the proceeds from sales of available-for-sale securities and the gross realized gains and losses on the sales of those securities that have been included in earnings as a result of the sales.

<i>(Dollars in thousands)</i>	Three months ended	
	March 31,	
	2015	2014
Proceeds	\$ 88	\$
Realized gains	35	
Realized losses		
Net securities gains	\$ 35	\$

The income tax provision applicable to realized gains amounted to \$12 thousand for the three month period ending March 31, 2015.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES (CONTINUED)

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 March 31, 2015 and December 31, 2014:

	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
<i>(Dollars in thousands)</i>						
March 31, 2015						
Available-for-sale						
U.S. Government agencies	\$ 2	\$ 3,193	\$ 38	\$ 5,962	\$ 40	\$ 9,155
Mortgage-backed securities of government agencies	12	1,322			12	1,322
Asset-backed securities of government agencies	6	993			6	993
State and political subdivisions	47	3,017	11	686	58	3,703
Corporate bonds	1	499			1	499
Held-to-maturity						
Mortgage-backed securities of government agencies	12	3,228			12	3,228
Total temporarily impaired securities	\$ 80	\$ 12,252	\$ 49	\$ 6,648	\$ 129	\$ 18,900
December 31, 2014						
Available-for-sale						
U.S. Treasury security	\$ 4	\$ 1,000	\$	\$	\$ 4	\$ 1,000
U.S. Government agencies	12	5,188	143	5,856	155	11,044
Mortgage-backed securities of government agencies	40	6,348	39	4,939	79	11,287
Asset-backed securities of government agencies	5	1,603			5	1,603
State and political subdivisions	13	1,300	31	1,416	44	2,716
Corporate bonds	1	499			1	499
Held-to-maturity						

U.S. Government agencies	2	998			2	998
Mortgage-backed securities of government agencies			56	9,265	56	9,265
Total temporarily impaired securities	\$ 77	\$ 16,936	\$ 269	\$ 21,476	\$ 346	\$ 38,412

There were twenty-six (26) securities in an unrealized loss position at March 31, 2015, nine (9) 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. 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 March 31, 2015.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS

Loans consist of the following:

<i>(Dollars in thousands)</i>	March 31, 2015	December 31, 2014
Commercial	\$ 131,315	\$ 123,813
Commercial real estate	142,742	139,695
Residential real estate	122,451	121,684
Construction & land development	16,110	17,446
Consumer	7,875	7,913
Total loans before deferred costs	420,493	410,551
Deferred loan costs	368	352
Total Loans	\$ 420,861	\$ 410,903

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 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 as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying 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 loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; 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 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 involves higher loan principal amounts and the

repayment of these loans is 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 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. This diversity helps reduce the Company's exposure to adverse economic events that affect any single 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 March 31, 2015 and December 31, 2014, approximately 78% and 77%, respectively of the outstanding principal balance 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 record of success. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

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 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 risk 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 line and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk.

The Company maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. 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.

Loans serviced for others approximated \$73.4 million and \$70.6 million at March 31, 2015 and December 31, 2014, respectively.

Concentrations of Credit

Nearly all of the Company's lending activity occurs within the state of Ohio, including the four (4) counties of Holmes, Stark, Tuscarawas and Wayne, as well as other markets. The majority of the Company's loan portfolio consists of commercial and industrial and commercial real estate loans. As of March 31, 2015 and December 31, 2014, there were no concentrations of loans related to any single industry.

Allowance for Loan Losses

The following table details activity in the allowance for loan losses by portfolio segment for the three month periods ended March 31, 2015 and 2014. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories. The increase in the provision for loan losses related to commercial and industrial loans was primarily due to the increase in loan balances. The increase in the provision related to commercial real estate loans was affected by an increase in loan balances and charge-offs that occurred during the three months ended March 31, 2015. The increase in the provision related to consumer loans was due to charge-offs of

loans in that category.

The increase in the provision for possible loan losses during the three months ended March 31, 2014 related to commercial real estate loans was affected by an increase in the historical loss rate of this loan type, as well as a charge-off that occurred during the first quarter of 2014. The provision for possible loan losses related to residential real estate decreased during the first quarter of 2014 as a result of a decrease in the historical loss rate within this category.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

<i>(Dollars in thousands)</i>	Commercial		Construction		Consumer	Unallocated	Total
	Commercial	Real Estate	Residential Real Estate	& Land Development			
Three months ended March 31, 2015							
Beginning balance	\$ 1,289	\$ 1,524	\$ 1,039	\$ 142	\$ 60	\$ 327	\$ 4,381
Provision for possible loan losses	101	64	8	(9)	36	(6)	194
Charge-offs	(2)	(24)	(53)		(30)		(109)
Recoveries	6	10	9		3		28
Net charge-offs	4	(14)	(44)		(27)		(81)
Ending balance	\$ 1,394	\$ 1,574	\$ 1,003	\$ 133	\$ 69	\$ 321	\$ 4,494
Three months ended March 31, 2014							
Beginning balance	\$ 1,219	\$ 1,872	\$ 1,205	\$ 178	\$ 91	\$ 520	\$ 5,085
Provision for possible loan losses	(72)	517	(151)	(33)	(12)	(64)	185
Charge-offs	(8)	(197)	(4)		(8)		(217)
Recoveries	2		4		6		12
Net charge-offs	(6)	(197)			(2)		(205)
Ending balance	\$ 1,141	\$ 2,192	\$ 1,054	\$ 145	\$ 77	\$ 456	\$ 5,065

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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 March 31, 2015 and December 31, 2014:

<i>(Dollars in thousands)</i>	Commercial						Unallocated	Total
	Commercial	Real Estate	Residential Real Estate	Construction	Consumer			
March 31, 2015								
Allowance for loan losses:								
Individually evaluated for impairment	\$	\$ 105	\$ 38	\$	\$	\$	\$	\$ 143
Collectively evaluated for impairment	1,394	1,469	965	133	69	321		4,351
Total ending allowance balance	\$ 1,394	\$ 1,574	\$ 1,003	\$ 133	\$ 69	\$ 321		\$ 4,494
Loans:								
Loans individually evaluated for impairment	\$ 5,421	\$ 1,644	\$ 1,522	\$	\$			\$ 8,587
Loans collectively evaluated for impairment	125,894	141,098	120,929	16,110	7,875			411,906
Total ending loans balance	\$ 131,315	\$ 142,742	\$ 122,451	\$ 16,110	\$ 7,875			\$ 420,493
December 31, 2014								
Allowance for loan losses:								
Individually evaluated for impairment	\$	\$ 109	\$ 75	\$	\$	\$	\$	\$ 184
Collectively evaluated for impairment	1,289	1,415	964	142	60	327		4,197
Total ending allowance balance	\$ 1,289	\$ 1,524	\$ 1,039	\$ 142	\$ 60	\$ 327		\$ 4,381

Loans:						
Loans individually evaluated for impairment	\$ 5,922	\$ 1,679	\$ 1,612	\$	\$	\$ 9,213
Loans collectively evaluated for impairment	117,891	138,016	120,072	17,446	7,913	401,338
Total ending loans balance	\$ 123,813	\$ 139,695	\$ 121,684	\$ 17,446	\$ 7,913	\$ 410,551

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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 March 31, 2015 and December 31, 2014:

<i>(Dollars in thousands)</i>	Unpaid Principal Balance	Recorded Investment with no Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance
March 31, 2015					
Commercial	\$ 6,584	\$ 5,416	\$ 21	\$ 5,437	\$
Commercial real estate	1,829	1,011	632	1,643	105
Residential real estate	1,703	1,042	484	1,526	38
Total impaired loans	\$ 10,116	\$ 7,469	\$ 1,137	\$ 8,606	\$ 143
December 31, 2014					
Commercial	\$ 7,011	\$ 5,889	\$ 37	\$ 5,926	\$
Commercial real estate	1,836	950	728	1,678	109
Residential real estate	1,721	885	730	1,615	75
Total impaired loans	\$ 10,568	\$ 7,724	\$ 1,495	\$ 9,219	\$ 184

The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated.

<i>(Dollars in thousands)</i>	Three months ended March 31,	
	2015	2014
Average recorded investment:		
Commercial	\$ 5,857	\$ 6,156
Commercial real estate	1,704	3,697
Residential real estate	1,618	1,884

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Average recorded investment in impaired loans	\$ 9,179	\$ 11,737
Interest income recognized:		
Commercial	\$ 51	\$ 92
Commercial real estate	5	35
Residential real estate	16	15
Interest income recognized on a cash basis on impaired loans	\$ 72	\$ 142

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents the aging of past due loans and nonaccrual loans as of March 31, 2015 and December 31, 2015 by class of loans:

<i>(Dollars in thousands)</i>	Current	30 - 59	60 - 89	90 Days +	Non-Accrual	Total Past	Total Loans
		Days Past Due	Days Past Due	Past Due		Due and Non-Accrual	
March 31, 2015							
Commercial	\$ 130,192	\$ 97	\$	\$	\$ 1,026	\$ 1,123	\$ 131,315
Commercial real estate	140,886	62		132	1,662	1,856	142,742
Residential real estate	120,974	635	3	155	684	1,477	122,451
Construction & land development	16,110						16,110
Consumer	7,778	65	6		26	97	7,875
Total Loans	\$ 415,940	\$ 859	\$ 9	\$ 287	\$ 3,398	\$ 4,553	\$ 420,493
December 31, 2014							
Commercial	\$ 122,283	\$ 362	\$ 96	\$ 1	\$ 1,071	\$ 1,530	\$ 123,813
Commercial real estate	137,683	174	104		1,734	2,012	139,695
Residential real estate	120,025	424	92	280	863	1,659	121,684
Construction & land development	17,431		15			15	17,446
Consumer	7,798	73	42			115	7,913
Total Loans	\$ 405,220	\$ 1,033	\$ 349	\$ 281	\$ 3,668	\$ 5,331	\$ 410,551

Troubled Debt Restructurings

All troubled debt restructurings (TDR s) are individually evaluated for impairment and a related allowance is recorded, as needed. Loans whose terms have been modified as TDR s totaled \$6.3 million as of March 31, 2015, and \$6.8 million as of December 31, 2014, with \$55 thousand and \$88 thousand of specific reserves allocated to those loans, respectively. At March 31, 2015, \$5.9 million of the loans classified as TDR s were performing in accordance with their modified terms. Of the remaining \$396 thousand, all were in nonaccrual of interest status.

The Company held no foreclosed real estate as of March 31, 2015 or March 31, 2014. Consumer mortgage loans in the process of foreclosure were \$199 thousand at March 31, 2015 and \$149 thousand at March 31, 2014.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents loans restructured during the three month period ended March 31, 2015 and the three month period ended March 31, 2014.

<i>(Dollars in thousands)</i>	Number of loans restructured	Pre- Modification Recorded Investment	Post- Modification Recorded Investment
For the Three Months Ended March 31, 2015			
Residential Real Estate	1	\$ 29	\$ 29
Total Restructured Loans	1	\$ 29	\$ 29
For the Three Months Ended March 31, 2014			
Residential Real Estate	1	\$ 84	\$ 84
Total Restructured Loans	1	\$ 84	\$ 84

The loans restructured were modified by changing the monthly payment to interest only. No principal reduction was made. None of the loans that were restructured in 2013 or 2014 have subsequently defaulted in the three month periods ended March 31, 2015 and 2014.

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 \$300 thousand. This analysis 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.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than \$300 thousand or are included in groups of homogeneous loans. Based on the most recent analysis performed, the risk category of loans by class is as follows as of March 31, 2015 and December 31, 2014:

<i>(Dollars in thousands)</i>	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
March 31, 2015						
Commercial	\$ 119,599	\$ 4,303	\$ 6,910	\$ 503	\$ 131,315	
Commercial real estate	133,505	4,841	3,489	907	142,742	
Residential real estate	207		38	122,206	122,451	
Construction & land development	11,940	1,279		2,891	16,110	
Consumer				7,875	7,875	
Total	\$ 265,251	\$ 10,423	\$ 10,437	\$ 134,382	\$ 420,493	
December 31, 2014						
Commercial	\$ 112,467	\$ 3,809	\$ 6,690	\$ 847	\$ 123,813	
Commercial real estate	129,792	4,898	3,634	1,371	139,695	
Residential real estate	209		39	121,436	121,684	
Construction & land development	13,889	1,579		1,978	17,446	
Consumer				7,913	7,913	
Total	\$ 256,357	\$ 10,286	\$ 10,363	\$ 133,545	\$ 410,551	

The following table presents loans that are not rated by class of loans as of March 31, 2015 and December 31, 2014. Nonperforming loans include loans past due 90 days or more and loans on nonaccrual of interest status.

<i>(Dollars in thousands)</i>	Performing	Non-Performing	Total
March 31, 2015			
Commercial	\$ 503	\$ 503	\$ 503
Commercial real estate	907	907	907

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Residential real estate	121,405	801	122,206
Construction & land development	2,891		2,891
Consumer	7,849	26	7,875
Total	\$ 133,555	\$ 827	\$ 134,382

December 31, 2014

Commercial	\$ 847	\$	\$ 847
Commercial real estate	1,371		1,371
Residential real estate	120,332	1,104	121,436
Construction & land development	1,978		1,978
Consumer	7,913		7,913
Total	\$ 132,441	\$ 1,104	\$ 133,545

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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; and 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.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4- FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the assets reported on the Consolidated Balance Sheet at their fair value as of March 31, 2015 and December 31, 2014 by level within the fair value hierarchy. No liabilities are carried at fair value. 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 agencies, mortgage-backed securities, asset-backed securities, obligations of states and political subdivisions and corporate bonds are valued at observable market data for similar assets.

<i>(Dollars in thousands)</i>	Level I	Level II	Level III	Total
<u>March 31, 2015</u>				
Assets:				
Securities available-for-sale				
U.S. Treasury security	\$ 1,005	\$	\$	\$ 1,005
U.S. Government agencies		28,425		28,425
Mortgage-backed securities of government agencies		48,752		48,752
Other mortgage-backed securities		133		133
Asset-backed securities of government agencies		2,574		2,574
State and political subdivisions		20,562		20,562
Corporate bonds		5,061		5,061
Total debt securities	1,005	105,507		106,512
Equity securities	63			63
Total available-for-sale securities	\$ 1,068	\$ 105,507	\$	\$ 106,575
<u>December 31, 2014</u>				
Assets:				
Securities available-for-sale				
U.S. Treasury security	\$ 1,000	\$	\$	\$ 1,000
U.S. Government agencies		25,079		25,079
Mortgage-backed securities of government agencies		48,347		48,347
Other mortgage-backed securities		141		141
Asset-backed securities				

of government agencies		2,604		2,604
State and political subdivisions		18,267		18,267
Corporate bonds		4,542		4,542
Total debt securities	1,000	98,980		99,980
Equity securities		128		128
Total available-for-sale securities		\$ 1,128	\$ 98,980	\$ 100,108

The following table presents the assets measured on a nonrecurring basis on the Consolidated Balance Sheets at their fair value as of March 31, 2015 and December 31, 2014, by level within the fair value hierarchy. Impaired loans and other real estate are written down to fair value through the establishment of specific reserves. 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.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4- FAIR VALUE MEASUREMENTS (CONTINUED)

(Dollars in thousands)

	Level I	Level II	Level III	Total
March 31, 2015				
Assets measured on a nonrecurring basis:				
Impaired loans	\$	\$	\$ 8,444	\$ 8,444
December 31, 2014				
Assets measured on a nonrecurring basis:				
Impaired loans	\$	\$	\$ 9,029	\$ 9,029

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 III inputs to determine fair value:

	Fair Value Estimate	Valuation Techniques	Quantitative Information about Level III Fair Value Measurements	
			Unobservable Input	Range (Weighted Average)
<i>(Dollars in thousands)</i>				
March 31, 2015				
Impaired loans	\$ 6,047	Discounted cash flow	Remaining term Discount rate	2 mos to 27 yrs (63 months) 3.1% to 9.8% (4.6%)
	2,397	Appraisal of collateral ^{(1),(3)}	Appraisal adjustments ⁽²⁾ Liquidation expense ⁽²⁾	0% to -35% (-26%) -10% (-10%)
December 31, 2014				
Impaired loans	\$ 6,539	Discounted cash flow	Remaining term Discount rate	2 mos to 28 yrs / (62 mos) 3.1% to 8.3% / (4.6%)
	2,490	Appraisal of collateral ^{(1),(3)}	Appraisal adjustments ⁽²⁾ Liquidation expense ⁽²⁾	-20% to -25% (-24%) -10%

(1)

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 appraisal adjustments are presented as a percent of the appraisal.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

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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 March 31, 2015 and December 31, 2014 are as follows:

<i>(Dollars in thousands)</i>	Carrying Value	Level 1	Level II	Level III	Total Fair Value
<u>March 31, 2015</u>					
Financial assets:					
Cash and cash equivalents	\$ 35,632	\$ 35,632	\$	\$	\$ 35,632
Securities available-for-sale	106,575	1,068	105,507		106,575
Securities held-to-maturity	34,446		35,558		35,558
Restricted stock	4,614	4,614			4,614
Loans held for sale	299	299			299
Net loans	416,367			421,853	421,853
Bank-owned life insurance	9,881	9,881			9,881
Accrued interest receivable	1,625	1,625			1,625
Mortgage servicing rights	222			222	222
Financial liabilities:					
Deposits	\$ 497,333	\$ 370,962	\$	\$ 127,054	\$ 498,016
Short-term borrowings	52,133	52,133			52,133
Other borrowings	14,788			15,036	15,036
Accrued interest payable	82	82			82
<u>December 31, 2014</u>					
Financial assets:					
Cash and cash equivalents	\$ 43,923	\$ 43,923	\$	\$	\$ 43,923
Securities available-for-sale	100,108	1,128	98,980		100,108
Securities held-to-maturity	38,316		38,950		38,950
Restricted stock	4,614	4,614			4,614
Loans held for sale	75	75			75
Net loans	406,522			411,168	411,168
Bank-owned life insurance	9,815	9,815			9,815
Accrued interest receivable	1,329	1,329			1,329
Mortgage servicing rights	222			222	222
Financial liabilities:					
Deposits	\$ 500,075	\$ 372,312	\$	\$ 128,445	\$ 500,757

Short-term borrowings	46,627	46,627	46,627
Other borrowings	14,953		15,348
Accrued interest payable	84	84	84

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

Cash and cash equivalents; Loans held for sale; 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.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Securities

The fair value of securities available-for-sale and securities held-to-maturity 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.

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.

Restricted stock

Restricted 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.

Mortgage servicing rights

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 discounted cash flow and repayment assumptions based on management's best judgment. As a result, these rights are measured at fair value on a recurring basis and are classified within Level III of the fair value hierarchy.

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.

Other borrowings

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 March 31, 2015 and December 31, 2014. These financial instruments relate to commitments to extend credit and letters of credit. The aggregated contract amount of such financial instruments was approximately \$126 million at March 31, 2015 and \$128 million at December 31, 2014. 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.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 6 ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income by component net of tax for the three month periods ended March 31, 2015 and 2014:

<i>(Dollars in thousands)</i>	Pretax	Tax (Expense) Benefit	After-tax	Affected Line Item in the Consolidated Statements of Income
Three months ended March 31, 2015				
Balance as of December 31, 2014	\$ (427)	\$ 145	\$ (282)	
Unrealized holding gain on available-for-sale securities arising during the period	768	(261)	507	
Reclassify gain included in income	(35)	12	(23)	(a,b)
Amortization of held-to-maturity discount resulting from transfer	54	(18)	36	(c)
Total other comprehensive income	787	(267)	520	
Balance as of March 31, 2015	\$ 360	\$ (122)	\$ 238	
Three months ended March 31, 2014				
Balance as of December 31, 2013	\$ (2,207)	\$ 751	\$ (1,456)	
Unrealized holding gain on available-for-sale securities arising during the period	774	(263)	511	
Reclassify gain included in income				(a,b)
Amortization of held-to-maturity discount resulting from transfer	52	(18)	34	(c)
Total other comprehensive income	826	(281)	545	
Balance as of March 31, 2014	\$ (1,381)	\$ 470	\$ (911)	

(a) Securities gain, net

(b) Federal Income Tax Provision

(c) There was no income statement effect from the transfer of securities to held-to-maturity.

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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 March 31, 2015 as compared to December 31, 2014, and the consolidated results of operations for the three month period ended March 31, 2015 compared to the same period in 2014. 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 contained in Part I, Item 1 of this Quarterly Report.

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", 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 \$625 million at March 31, 2015, compared to \$621 million at December 31, 2014, representing an increase of \$4 million, or less than 1%. This growth was funded by a \$5 million increase in short-term borrowings during the three month period ended March 31, 2015. Loans and securities increased by \$10 million and \$3 million respectively, during the three month period while cash and cash equivalents decreased \$8 million, or 19%.

Net loans increased \$10 million, or 2%, during the three months ended March 31, 2015. Commercial loans including commercial real estate loans increased \$11 million, or 4%, while construction and land development loans decreased \$1 million, or 8%, with construction projects transferring to permanent financing during the three month period. Residential real estate loans increased \$1 million, or 1%, and consumer loans decreased less than 1% from

December 31, 2014. Consumers continued to refinance their mortgage loans for lower long-term rates. Residential mortgage loan originations for the three months ended March 31, 2015 were \$8 million as compared to \$7 million for the prior year three month period. The Bank originates and sells fixed-rate thirty year mortgages into the secondary market.

The allowance for loan losses as a percentage of total loans was 1.07% at March 31, 2015 and December 31, 2014. Outstanding loan balances increased 2% to \$421 million at March 31, 2015. A provision of \$194 thousand, offset by net charge-offs of \$81 thousand, increased the allowance for loan losses for the three months ended March 31, 2015.

Nonaccrual loans decreased during first quarter 2015, new loans totaling \$62 thousand were placed on nonaccrual status, \$78 thousand in charge-offs were recognized, \$104 thousand was returned to accrual status and pay downs of \$150 thousand were received during the quarter on loans in nonaccrual status.

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CSB BANCORP, INC.

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

<i>(Dollars in thousands)</i>	March 31, 2015	December 31, 2014	March 31, 2014
Non-performing loans	\$ 3,685	\$ 3,949	\$ 5,291
Other real estate			
Allowance for loan losses	4,494	4,381	5,065
Total loans	420,861	410,903	407,770
Allowance: Loans	1.07%	1.07%	1.24%
Allowance: Non-performing loans	1.2x	1.1x	1.0x

The ratio of gross loans to deposits was 85% at March 31, 2015, compared to 82% at December 31, 2014. The increase in this ratio is the result of loan volume increases during the three months ended March 31, 2015.

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 \$129 thousand within the available-for-sale and held-to-maturity portfolios as of March 31, 2015, 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 March 31, 2015, are considered temporary and no impairment loss relating to these securities has been recognized.

Deposits decreased \$3 million, or less than 1%, from December 31, 2014 with noninterest bearing deposits decreasing \$1 million and interest-bearing deposit accounts also decreasing \$2 million. Total deposits as of March 31, 2015 are \$31 million greater than March 31, 2014 deposit balances. On a year over year comparison, increases were recognized in every deposit category except for time deposits under \$100 thousand.

Short-term borrowings consisting of overnight repurchase agreements with retail customers increased \$6 million at March 31, 2015 from December 31, 2014 and other borrowings decreased \$165 thousand as the Company repaid FHLB advances with required monthly amortization.

Total shareholders' equity amounted to \$58.8 million, or 9.4% of total assets, at March 31, 2015, compared to \$57.5 million, or 9.3% of total assets, at December 31, 2014. The increase in shareholders' equity during the three months ending March 31, 2015 was due to net income of \$1.3 million and other comprehensive income increasing \$520 thousand, which were partially offset by dividends declared of \$521 thousand. The Company and the Bank met all regulatory capital requirements at March 31, 2015.

RESULTS OF OPERATIONS**Three months ended March 31, 2015 and 2014**

For the quarter ended March 31, 2015, the Company recorded net income of \$1.3 million or \$0.49 per share, as compared to net income of \$1.4 million, or \$0.52 per share for the quarter ended March 31, 2014. The \$74 thousand

decrease in net income for the quarter was primarily the result of noninterest expenses increasing \$271 thousand and a \$9 thousand increase in provision for loan losses. This increase was partially offset by an increase in net interest income of \$116 thousand and noninterest income of \$101 thousand. Return on average assets and return on average equity were 0.87% and 9.33%, respectively, for the three month period of 2015, compared to 0.97% and 10.70%, respectively for the same quarter in 2014.

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CSB BANCORP, INC.

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

<i>(Dollars in thousands)</i>	For the three months ended March 31,			
	2015		2014	
	Average balance	Average rate	Average balance	Average rate
ASSETS				
Interest-earning deposits in other banks	\$ 24,113	0.25%	\$ 6,944	0.35%
Federal funds sold	1,116	0.24	96	0.24
Taxable securities	127,649	2.19	136,800	2.33
Tax-exempt securities	18,825	4.26	15,624	4.52
Loans	414,761	4.48	396,028	4.55
Total earning assets	586,464	3.79%	555,492	3.95%
Other assets	36,164		35,485	
TOTAL ASSETS	\$ 622,628		\$ 590,977	
LIABILITIES AND SHAREHOLDERS EQUITY				
Interest-bearing demand deposits	\$ 74,715	0.03%	\$ 72,309	0.06%
Savings deposits	159,441	0.07	152,182	0.09
Time deposits	127,077	0.76	131,288	0.80
Other borrowed funds	64,478	0.77	64,806	0.84
Total interest bearing liabilities	425,711	0.37%	420,585	0.42%
Non-interest bearing demand deposits	136,413		114,708	
Other liabilities	2,153		2,003	
Shareholders' Equity	58,351		53,681	
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 622,628		\$ 590,977	
Taxable equivalent net interest spread		3.42%		3.53%
Taxable equivalent net interest margin		3.52%		3.63%

Interest income for the quarter ended March 31, 2015, was \$5.4 million representing a \$71 thousand increase, or a 1% improvement, compared to the same period in 2014. This increase was primarily due to average loan volume increasing \$19 million for the quarter ended March 31, 2015 as compared to the first quarter 2014. Interest expense

for the quarter ended March 31, 2015 was \$393 thousand, a decrease of \$45 thousand, or 10%, from the same period in 2014. The decrease in interest expense occurred primarily due to a decrease of 0.05% in interest rates paid on interest-bearing deposits which decreased from 0.35% in 2014 to 0.30% in 2015 and a rate decrease of 0.07% on all other borrowings which declined from 0.84% in 2014 to 0.77% for the quarter ended March 31, 2015.

The provision for loan losses for the quarter ended March 31, 2015 was \$194 thousand, compared to a \$185 thousand provision for the same quarter in 2014. 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.

Noninterest income for the quarter ended March 31, 2015, was \$1.1 million, an increase of \$101 thousand, or 11%, compared to the same quarter in 2014. There was a gain of \$35 thousand on sale of investments during first quarter 2015 as compared to no gain on sale of investments in the first quarter 2014. Service charges on deposit accounts decreased \$11 thousand, or 4%, compared to the same quarter in 2014 primarily from decreases in overdraft fees. Debit card interchange income increased \$29 thousand, or 15%, with greater fee income. Fees from trust and brokerage services decreased \$14 thousand to \$202 thousand for the first quarter 2015 as compared to the same quarter in 2014. The gain on the sale of mortgage loans to the secondary market increased to \$70 thousand for the quarter ending March 31, 2015, from \$24 thousand in the same quarter in 2014. The gain in 2015 was greater due to an additional volume of loans sold during the first quarter 2015.

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CSB BANCORP, INC.

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

Noninterest expenses for the quarter ended March 31, 2015 increased \$271 thousand, or 7%, compared to the first quarter of 2014. Salaries and employee benefits increased \$131 thousand, or 6%. Professional and director fees increased \$108 thousand during for the quarter ended March 31, 2015 as compared to first quarter 2014, as a one-time expense of \$110 thousand was incurred to contract a professional firm to assist the company with assessment of market opportunities and long-term strategic goals. Occupancy and equipment expenses decreased \$14 thousand in 2015 over the first quarter of 2014. Other expenses increased \$34 thousand, or 8%, compared to the first quarter 2014

Federal income tax expense increased \$11 thousand, or 2%, for the quarter ended March 31, 2015 as compared to the first quarter of 2014. The provision for income taxes was \$584 thousand (effective rate of 30%) for the quarter ended March 31, 2015, compared to \$573 thousand (effective rate of 29%) for the same quarter ended 2014. The increase in the expense in 2015 resulted from the recapture of a \$35 thousand capital loss tax carryforward in first quarter 2014 that did not recur in 2015.

CAPITAL RESOURCES

CSB maintained a strong capital position with tangible common equity to tangible assets of 8.63% at March 31, 2015 compared with 8.12% at March 31, 2014.

The Board of Governors of the Federal Reserve System (the Federal Reserve) adopted risk-based capital guidelines on July 2, 2013 for bank holding companies and state member banks, designed to improve the level and quality of capital. CSB became subject to the new capital and risk weighting rules on January 1, 2015 with its first reporting period on March 31, 2015. The quality of capital will be provided by the new measurement of Tier 1 capital called common equity tier 1 or (CET1). Effective with the March 31, 2015 Call Report the Bank selected the opt-out election for accumulated other comprehensive income (AOCI). This election will neutralize the effects of unrealized gains and losses from available-for-sale securities and other elements of the AOCI account for regulatory capital purposes.

Consistent with the Board of Director's commitment to public confidence and safe and sound banking operations, capital targets and minimum risk-based capital ratios for CSB were established to maintain excess capital to well-capitalized standards. To be considered well-capitalized, an institution must have a total risk-based capital ratio of at least 10%, a tier 1 capital ratio of at least 8%, a leverage capital ratio of at least 5%, a CET1 ratio of at least 6.5%, and must not be subject to any order or directive requiring the institution to improve its capital level. An adequately capitalized institution has a total risk-based capital ratio of at least 8%, a tier 1 capital ratio of at least 6%, a CET1 ratio of at least 4.5% and a leverage ratio of at least 4%.

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, 2014. As of March 31, 2015 the Company and the Bank met all capital adequacy requirements to which they were subject.

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CSB BANCORP, INC.

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

	Capital Ratios	
	March 31, 2015	December 31, 2014
CET1		
Consolidated	12.3%	NA
Bank	12.0%	NA
Tier 1 ratio		
Consolidated	12.3%	12.5%
Bank	12.0%	12.3%
Total Capital		
Consolidated	13.3%	13.6%
Bank	13.1%	13.4%

LIQUIDITY

<i>(Dollars in millions)</i>	March 31, 2015	December 31, 2014	Change
Cash and cash equivalents	\$ 36	\$ 44	\$ (8)
Unused lines of credit	50	46	4
Unpledged securities at fair market value	50	48	2
	\$ 136	\$ 138	\$ (2)
Net deposits and short-term liabilities	\$ 495	\$ 497	\$ (2)
Liquidity ratio	27.5%	27.9%	(0.4)
Minimum board approved liquidity ratio	20.0%	20.0%	

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. Liquidity is monitored by the Company's Asset Liability Committee. Other sources of liquidity include, but are not limited to, purchases of federal funds, advances from the FHLB, adjustments of interest rates to attract deposits, brokered 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.

The liquidity ratio was 27.5% and 27.9% at March 31, 2015 and December 31, 2014.

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.

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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 March 31, 2015, from the disclosures presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Management performs a quarterly analysis of the Company's interest rate risk over a twenty-four month horizon. 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.

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 increments, in market interest rates at March 31, 2015 and December 31, 2014. The net interest income reflected is for the first twelve month period of the modeled twenty-four month horizon. The underlying balance sheet for illustrative purposes is dynamic with projected growth in assets and liabilities.

March 31, 2015

(Dollars
in
thousands)

Change in Interest Rates (basis points)	Net Interest Income	Dollar Change	Percentage Change	Board Policy Limits
+400	\$ 21,579	\$ 1,225	6.0%	+/-25%
+300	21,220	866	4.3	+/-15
+200	20,883	529	2.6	+/-10
+100	20,569	215	1.1	+/-5
0	20,354			
-100	20,080	(274)	(1.4)	+/-5

December 31, 2014

+400	\$ 21,408	\$ 1,144	5.6%	+/-25%
+300	21,082	818	4.0	+/-15
+200	20,766	502	2.5	+/-10
+100	20,454	190	0.9	+/-5
0	20,264			
-100	20,022	(242)	(1.1)	+/-5

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CSB BANCORP, INC.

CONTROLS AND PROCEDURES

ITEM 4 - 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 Commission'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.

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FORM 10-Q

Quarter ended March 31, 2015

PART II OTHER INFORMATION

ITEM 1- LEGAL PROCEEDINGS.

In the opinion of management there are no outstanding legal proceedings that are reasonably likely to 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, 2014.

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

On July 7, 2005 CSB Bancorp, Inc. filed Form 8-K with the 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 may be made from time to time as market and business conditions warrant, in the open market, through block purchases and in negotiated private transactions. No repurchases were made during the quarterly period ended March 31, 2015.

ITEM 3- DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4- MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5- OTHER INFORMATION.

Not applicable.

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CSB BANCORP, INC.

FORM 10-Q

Quarter ended March 31, 2015

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 Registrant's Quarterly Report on Form 10-Q filed August 6, 2004, Exhibit 3.1, film number 04958544).
3.2	Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to the Registrant's Form 10-SB).
3.2.1	Amended Article VIII of the Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to Registrant's Form DEF 14a filed on March 25, 2009, Appendix A, film number 09703970).
4.0	Specimen stock certificate (incorporated by reference to Registrant's Form 10-SB).
11	Statement Regarding Computation of Per Share Earnings.
31.1	Rule 13a-14(a)/15d-14(a) Chief Executive Officer's Certification.
31.2	Rule 13a-14(a)/15d-14(a) Chief Financial Officer's Certification.
32.1	Section 1350 Chief Executive Officer's Certification.
32.2	Section 1350 Chief Financial Officer's Certification.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 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.

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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: May 14, 2015

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

Date: May 14, 2015

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

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