

CSB BANCORP INC /OH  
Form 10-Q  
August 13, 2013  
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, 2013

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 1, 2013:  
2,736,634 common shares

**Table of Contents**

CSB BANCORP, INC.

FORM 10-Q

QUARTER ENDED June 30, 2013

Table of Contents

**Part I - Financial Information**

	Page
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 Consolidated Financial Statements</u>	8
ITEM 2 <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	26
ITEM 3 <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	32
ITEM 4 <u>CONTROLS AND PROCEDURES</u>	33

**Part II - Other Information**

ITEM 1 <u>Legal Proceedings</u>	34
ITEM 1A <u>Risk Factors</u>	34
ITEM 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
ITEM 3 <u>Defaults upon Senior Securities</u>	34
ITEM 4 <u>Mine Safety Disclosures</u>	34
ITEM 5 <u>Other Information</u>	34
ITEM 6 <u>Exhibits</u>	35
<u>Signatures</u>	36

**Table of Contents**

## CSB BANCORP, INC.

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(Dollars in thousands)</i>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 13,532	\$ 21,485
Interest-earning deposits in other banks	23,534	45,393
<b>Total cash and cash equivalents</b>	<b>37,066</b>	<b>66,878</b>
Securities		
Available-for-sale, at fair value	127,515	129,291
Restricted stock, at cost	5,463	5,463
<b>Total securities</b>	<b>132,978</b>	<b>134,754</b>
Loans held for sale	103	
Loans	378,191	364,580
Less allowance for loan losses	4,945	4,580
<b>Net loans</b>	<b>373,246</b>	<b>360,000</b>
Premises and equipment, net	8,326	8,475
Core deposit intangible	826	894
Goodwill	4,728	4,728
Bank-owned life insurance	9,419	8,298
Accrued interest receivable and other assets	4,376	2,873
<b>TOTAL ASSETS</b>	<b>\$ 571,068</b>	<b>\$ 586,900</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Deposits		
Noninterest-bearing	\$ 101,644	\$ 104,147
Interest-bearing	361,201	371,296
<b>Total deposits</b>	<b>462,845</b>	<b>475,443</b>
Short-term borrowings	41,851	43,992
Other borrowings	12,558	12,672
Accrued interest payable and other liabilities	2,423	2,340

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

Total liabilities	519,677	534,447
<b>SHAREHOLDERS EQUITY</b>		
Common stock, \$6.25 par value. Authorized 9,000,000 shares; issued 2,980,602 shares; shares outstanding 2,736,634 in 2013 and 2,736,060 in 2012	18,629	18,629
Additional paid-in capital	9,964	9,974
Retained earnings	28,586	26,962
Treasury stock at cost - 243,968 in 2013 and 244,542 shares in 2012	(4,958)	(4,976)
Accumulated other comprehensive (loss) income	(830)	1,864
Total shareholders equity	51,391	52,453
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 571,068</b>	<b>\$ 586,900</b>

*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		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
<b>INTEREST AND DIVIDEND INCOME</b>				
Loans, including fees	\$ 4,441	\$ 4,272	\$ 9,008	\$ 8,524
Taxable securities	585	707	1,167	1,436
Nontaxable securities	128	131	255	243
Other	19	41	43	80
Total interest and dividend income	5,173	5,151	10,473	10,283
<b>INTEREST EXPENSE</b>				
Deposits	448	590	923	1,230
Short-term borrowings	16	25	32	49
Other borrowings	117	139	234	294
Total interest expense	581	754	1,189	1,573
<b>NET INTEREST INCOME</b>	4,592	4,397	9,284	8,710
<b>PROVISION FOR LOAN LOSSES</b>	210	205	420	411
Net interest income, after provision for loan losses	4,382	4,192	8,864	8,299
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	333	318	648	626
Trust services	226	167	440	328
Debit card interchange fees	190	201	368	395
Gain on sale of loans, net	102	137	216	193
Securities gain, net	10		10	
Other	205	211	422	440
Total noninterest income	1,066	1,034	2,104	1,982
<b>NONINTEREST EXPENSES</b>				
Salaries and employee benefits	2,042	1,961	4,092	3,924
Occupancy expense	255	241	513	487
Equipment expense	177	139	342	294
Professional and director fees	174	242	291	449
Franchise tax expense	147	138	294	277
FDIC insurance expense	84	68	172	155
Software expense	118	88	232	181
Marketing and public relations	106	79	185	152
Debit card expense	50	84	112	148
Amortization of intangible assets	34	33	68	66
Net cost of operation of other real estate		6	9	8
Other	476	481	912	963

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

Total noninterest expenses	3,663	3,560	7,222	7,104
Income before income taxes	1,785	1,666	3,746	3,177
<b>FEDERAL INCOME TAX PROVISION</b>	538	525	1,137	981
<b>NET INCOME</b>	<b>\$ 1,247</b>	<b>\$ 1,141</b>	<b>\$ 2,609</b>	<b>\$ 2,196</b>
<b>Basic and diluted net earnings per share</b>	<b>\$ 0.45</b>	<b>\$ 0.41</b>	<b>\$ 0.95</b>	<b>\$ 0.80</b>

*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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 1,247	\$ 1,141	\$ 2,609	\$ 2,196
Other comprehensive (loss) income				
Unrealized (losses) gains arising during the period	(3,326)	924	(4,072)	812
Reclassification adjustment for gains included in income	(10)		(10)	
Net unrealized (losses) gains	(3,336)	924	(4,082)	812
Income tax effect	1,134	(314)	1,388	(276)
Other comprehensive (loss) income	(2,202)	610	(2,694)	536
Total comprehensive (loss) income	\$ (955)	\$ 1,751	\$ (85)	\$ 2,732

*See notes to unaudited consolidated financial statements.*



**Table of Contents**

## CSB BANCORP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<i>(Dollars in thousands, except per share data)</i>				
Balance at beginning of period	\$ 52,830	\$ 49,918	\$ 52,453	\$ 49,429
Net income	1,247	1,141	2,609	2,196
Other comprehensive (loss) income	(2,202)	610	(2,694)	536
Stock options exercised, 574 shares	8		8	
Cash dividends declared	(492)	(493)	(985)	(985)
Balance at end of period	\$ 51,391	\$ 51,176	\$ 51,391	\$ 51,176
Cash dividends declared 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)

	Six Months Ended June 30,	
	2013	2012
<i>(Dollars in thousands)</i>		
<b>NET CASH FROM OPERATING ACTIVITIES</b>	\$ 3,137	\$ 1,273
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Securities available-for-sale:		
Proceeds from maturities and repayments	23,384	31,456
Purchases	(26,442)	(34,543)
Proceeds from sale of securities	500	
Loan originations, net of repayments	(13,639)	(19,940)
Premises from sale of other real estate	18	7
Property, equipment, and software acquisitions	(473)	(256)
Purchase of bank-owned life insurance	(1,000)	(5,000)
Net cash used in investing activities	(17,652)	(28,276)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in deposits	(12,558)	11,238
Net change in short-term borrowings	(2,141)	4,122
Repayments of other borrowings	(114)	(2,291)
Cash dividends	(492)	(492)
Proceeds from stock options exercised	8	
Net cash (used in) provided by financing activities	(15,297)	12,577
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(29,812)	(14,426)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	66,878	82,258
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 37,066	\$ 67,832
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid during the year for:		
Interest	\$ 1,241	\$ 1,678
Income taxes	960	400
Noncash investing activities:		
Transfer of loans to other real estate owned		5
Noncash financing activities:		
Dividends declared	492	493

*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, 2013, 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, 2012, 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, 2013 are not necessarily indicative of the operating results for the full year or any future interim period.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (this Update). The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company has provided the necessary disclosure in Note 6.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. The amendments in this Update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the

**Table of Contents**

## CSB BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

**NOTE 2 SECURITIES**

Securities consist of the following at June 30, 2013 and December 31, 2012:

<i>(Dollars in thousands)</i>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>June 30, 2013</b>				
Available-for-sale:				
U.S. Treasury securities	\$ 1,106	\$	\$ 13	\$ 1,093
Obligations of U.S. government corporations and agencies	33,995	12	1,148	32,859
Mortgage-backed securities in government sponsored entities	69,444	825	1,218	69,051
Asset-backed securities in government sponsored entities	2,796	24		2,820
Obligations of states and political subdivisions	16,922	370	183	17,109
Corporate bonds	4,404	80	15	4,469
<b>Total debt securities</b>	<b>128,667</b>	<b>1,311</b>	<b>2,577</b>	<b>127,401</b>
Equity securities in financial institutions	106	9	1	114
<b>Total available-for-sale</b>	<b>128,773</b>	<b>1,320</b>	<b>2,578</b>	<b>127,515</b>
Restricted stock	5,463			5,463
<b>Total securities</b>	<b>\$ 134,236</b>	<b>\$ 1,320</b>	<b>\$ 2,578</b>	<b>\$ 132,978</b>
<b>December 31, 2012</b>				
Available-for-sale:				
U.S. Treasury securities	\$ 100	\$	\$	\$ 100
Obligations of U.S. government corporations and agencies	35,996	27	43	35,980
Mortgage-backed securities in government sponsored entities	66,933	2,107	1	69,039
Asset-backed securities in government sponsored entities	2,862		39	2,823
Obligations of states and political subdivisions	16,194	701	12	16,883
Corporate bonds	4,313	112	28	4,397
<b>Total debt securities</b>	<b>126,398</b>	<b>2,947</b>	<b>123</b>	<b>129,222</b>
Equity securities in financial institutions	69	9	9	69

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

Total available-for-sale	126,467	2,956	132	129,291
Restricted stock	5,463			5,463
<b>Total securities</b>	<b>\$ 131,930</b>	<b>\$ 2,956</b>	<b>\$ 132</b>	<b>\$ 134,754</b>

**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, 2013, 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>	<b>Amortized cost</b>	<b>Fair value</b>
Available-for-sale:		
Due in one year or less	\$ 821	\$ 821
Due after one through five years	14,207	14,484
Due after five through ten years	25,113	24,655
Due after ten years	88,526	87,441
<b>Total debt securities available-for-sale</b>	<b>\$ 128,667</b>	<b>\$ 127,401</b>

Securities with a carrying value of approximately \$87.3 million and \$79.2 million were pledged at June 30, 2013 and December 31, 2012, 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 FHLB and Federal Reserve Bank stock. The Bank's investment in FHLB stock amounted to approximately \$5.0 million at June 30, 2013 and December 31, 2012. Federal Reserve Bank stock was \$471 thousand at June 30, 2013 and December 31, 2012.

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>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Proceeds	\$ 500	\$	\$ 500	\$
Realized gains	\$ 10	\$	\$ 10	\$
Realized losses				
Impairment losses				
<b>Net securities gains</b>	<b>\$ 10</b>	<b>\$</b>	<b>\$ 10</b>	<b>\$</b>

The income tax provision applicable to realized gains amounted to \$3 thousand in 2013 and \$0 in 2012. There were no tax benefits recognized from gross realized losses in 2013 or 2012.



**Table of Contents**

## 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 June 30, 2013 and December 31, 2012:

	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>						
<b>June 30, 2013</b>						
U.S. Treasury securities	\$ 13	\$ 993	\$	\$	\$ 13	\$ 993
Obligations of U.S. Government corporations and agencies	1,148	26,849			1,148	26,849
Mortgage-backed securities in government sponsored entities	1,218	32,565			1,218	32,565
Obligations of state and political subdivisions	183	5,239			183	5,239
Corporate bonds	7	568	8	1,357	15	1,925
Total debt securities	2,569	66,214	8	1,357	2,577	67,571
Equity securities in financial institutions			1	53	1	53
<b>Total temporarily impaired securities</b>	<b>\$ 2,569</b>	<b>\$ 66,214</b>	<b>\$ 9</b>	<b>\$ 1,410</b>	<b>\$ 2,578</b>	<b>\$ 67,624</b>
<b>December 31, 2012</b>						
Obligations of U.S. Government corporations and agencies	\$ 43	\$ 15,957	\$	\$	\$ 43	\$ 15,957
Mortgage-backed securities in government sponsored entities	1	344			1	344
Asset-backed securities in government sponsored entities	39	1,833			39	1,833
Obligations of states and political subdivisions	12	1,737			12	1,737
Corporate bonds	4	366	24	975	28	1,341
Total debt securities	99	20,237	24	975	123	21,212
Equity securities in financial institutions			9	45	9	45
<b>Total temporarily impaired securities</b>	<b>\$ 99</b>	<b>\$ 20,237</b>	<b>\$ 33</b>	<b>\$ 1,020</b>	<b>\$ 132</b>	<b>\$ 21,257</b>

There were sixty (60) securities in an unrealized loss position at June 30, 2013, five (5) 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 June 30, 2013.





**Table of Contents**

## CSB BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 3 LOANS**

Loans consist of the following:

<i>(Dollars in thousands)</i>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Commercial	\$ 116,898	\$ 104,899
Commercial real estate	129,013	119,192
Residential real estate	111,186	110,412
Construction & land development	14,056	23,358
Consumer	6,790	6,480
Total loans before deferred costs	377,943	364,341
Deferred loan costs	248	239
<b>Total Loans</b>	<b>\$ 378,191</b>	<b>\$ 364,580</b>

**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 June 30, 2013 and December 31, 2012, approximately 79% and 81%, respectively of the outstanding principal balance of the Company's commercial real estate loans were secured by owner-occupied properties.

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

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.

**Table of Contents**

CSB BANCORP, INC.

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 \$64.1 million and \$60.2 million at June 30, 2013 and December 31, 2012, 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 June 30, 2013 and December 31, 2012, 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 and six month periods ended June 30, 2013 and 2012. 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 possible loan losses related to commercial loans was affected by a qualitative adjustment for loans rated special mention, as well as changes in volume and credit quality of loans in this category. The provision for possible loan losses related to residential real estate decreased during second quarter 2013 as a result of a decrease in loan impairment.

**Table of Contents**

## CSB BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 3 LOANS (CONTINUED)**

<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Residential Real Estate	Construction & Land Development	Consumer	Unallocated	Total
<b>Three months ended June 30, 2013</b>							
Beginning balance, March 31, 2013	\$ 1,176	\$ 1,824	\$ 1,282	\$ 134	\$ 68	\$ 320	\$ 4,804
Provision for possible loan losses	171	42	(110)	28	65	14	210
Charge-offs	(32)	(51)			(12)		(95)
Recoveries	1		2		23		26
Net charge-offs	(31)	(51)	2		11		(69)
Ending balance	\$ 1,316	\$ 1,815	\$ 1,174	\$ 162	\$ 144	\$ 334	\$ 4,945

<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Residential Real Estate	Construction & Land Development	Consumer	Unallocated	Total
<b>Six months ended June 30, 2013</b>							
Beginning balance, December 31, 2012	\$ 933	\$ 1,902	\$ 1,096	\$ 253	\$ 76	\$ 320	\$ 4,580
Provision for possible loan losses	413	(36)	67	(91)	53	14	420
Charge-offs	(38)	(51)			(22)		(111)
Recoveries	8		11		37		56
Net charge-offs	(30)	(51)	11		15		(55)
Ending balance	\$ 1,316	\$ 1,815	\$ 1,174	\$ 162	\$ 144	\$ 334	\$ 4,945

<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Residential Real Estate	Construction & Land Development	Consumer	Unallocated	Total
<b>Three months ended June 30, 2012</b>							
Beginning balance, March 31, 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)		(59)		(15)		(85)
Recoveries	9		84		12		105
Net charge-offs	(2)		25		(3)		20
Ending balance	\$ 896	\$ 1,927	\$ 1,051	\$ 217	\$ 64	\$ 316	\$ 4,471

<i>(Dollars in thousands)</i>	Commercial	Commercial Real	Residential Real Estate	Construction & Land	Consumer	Unallocated	Total
-------------------------------	------------	--------------------	----------------------------	------------------------	----------	-------------	-------

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

	Estate			Development			
<b>Six months ended June 30, 2012</b>							
Beginning balance, December 31, 2011	\$ 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)		(31)		(164)
Recoveries	14		89		39		142
Net charge-offs	(1)	(14)	(15)		8		(22)
Ending balance	\$ 896	\$ 1,927	\$ 1,051	\$ 217	\$ 64	\$ 316	\$ 4,471

**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, 2013 and December 31, 2012:

<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Residential Real Estate	Construction & Land Development	Consumer	Unallocated	Total
<b>June 30, 2013</b>							
Allowance for loan losses:							
Ending allowance balances attributable to loans:							
Individually evaluated for impairment	\$ 194	\$ 463	\$ 264	\$	\$	\$	\$ 921
Collectively evaluated for impairment	1,122	1,352	910	162	144	334	4,024
Total ending allowance balance	\$ 1,316	\$ 1,815	\$ 1,174	\$ 162	\$ 144	\$ 334	\$ 4,945
Loans:							
Loans individually evaluated for impairment	\$ 3,504	\$ 3,502	\$ 1,690	\$	\$	\$	\$ 8,696
Loans collectively evaluated for impairment	113,394	125,511	109,496	14,056	6,790	\$	369,247
Total ending loans balance	\$ 116,898	\$ 129,013	\$ 111,186	\$ 14,056	\$ 6,790	\$	\$ 377,943
<b>December 31, 2012</b>							
Allowance for loan losses:							
Ending allowance balances attributable to loans:							
Individually evaluated for impairment	\$ 85	\$ 522	\$ 172	\$	\$	\$	\$ 779
Collectively evaluated for impairment	848	1,380	924	253	76	320	3,801
Total ending allowance balance	\$ 933	\$ 1,902	\$ 1,096	\$ 253	\$ 76	\$ 320	\$ 4,580
Loans:							
Loans individually evaluated for impairment	\$ 4,315	\$ 4,573	\$ 1,137	\$ 166	\$	\$	\$ 10,191
Loans collectively evaluated for impairment	100,584	114,619	109,275	23,192	6,480	\$	354,150
Total ending loans balance	\$ 104,899	\$ 119,192	\$ 110,412	\$ 23,358	\$ 6,480	\$	\$ 364,341

**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, 2013 and December 31, 2012:

<i>(Dollars in thousands)</i>	<b>Unpaid Principal Balance</b>	<b>Recorded Investment with no Allowance</b>	<b>Recorded Investment with Allowance</b>	<b>Total Recorded Investment</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>June 30, 2013</b>							
Commercial	\$ 3,506	\$ 76	\$ 3,436	\$ 3,512	\$ 194	\$ 3,988	\$ 84
Commercial real estate	3,839	698	2,805	3,503	463	3,838	85
Residential real estate	1,792	548	1,146	1,694	264	1,233	19
Construction & land development						42	2
Total impaired loans	\$ 9,137	\$ 1,322	\$ 7,387	\$ 8,709	\$ 921	\$ 9,101	\$ 190
<b>December 31, 2012</b>							
Commercial	\$ 4,315	\$	\$ 4,329	\$ 4,329	\$ 85	\$ 4,123	\$ 167
Commercial real estate	4,906	1,723	2,849	4,572	522	4,396	152
Residential real estate	1,223	86	1,057	1,143	172	770	18
Construction & land development	173	166		166		167	
Total impaired loans	\$ 10,617	\$ 1,975	\$ 8,235	\$ 10,210	\$ 779	\$ 9,456	\$ 337

The following table presents the aging of past due loans and nonaccrual loans as of June 30, 2013 and December 31, 2012 by class of loans:

<i>(Dollars in thousands)</i>	<b>Current</b>	<b>30 - 59 Days Past Due</b>	<b>60 - 89 Days Past Due</b>	<b>90 Days + Past Due</b>	<b>Non- Accrual</b>	<b>Total Past Due and Non- Accrual</b>	<b>Total Loans</b>
<b>June 30, 2013</b>							
Commercial	\$ 116,588	\$ 105	\$ 152	\$	\$ 53	\$ 310	\$ 116,898
Commercial real estate	127,247	583			1,183	1,766	129,013
Residential real estate	109,396	616	25	133	1,016	1,790	111,186
Construction & land development	14,050				6	6	14,056
Consumer	6,576	151	61	2		214	6,790
Total Loans	\$ 373,857	\$ 1,455	\$ 238	\$ 135	\$ 2,258	\$ 4,086	\$ 377,943
<b>December 31, 2012</b>							
Commercial	\$ 104,348	\$ 60	\$ 8	\$	\$ 483	\$ 551	\$ 104,899



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

Commercial real estate	117,372	41	34		1,745	1,820	119,192
Residential real estate	108,574	472	430	131	805	1,838	110,412
Construction & land development	23,180		5		173	178	23,358
Consumer	6,325	132	23			155	6,480
Total Loans	\$ 359,799	\$ 705	\$ 500	\$ 131	\$ 3,206	\$ 4,542	\$ 364,341

**Table of Contents**

## CSB BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 3 LOANS (CONTINUED)****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 \$7.7 million as of June 30, 2013, and \$8.7 million as of December 31, 2012, with \$781 thousand and \$718 thousand of specific reserves allocated to those loans, respectively. At June 30, 2013, \$7.0 million of the loans classified as TDR s were performing to modified terms. Of the remaining \$679 thousand, all were in nonaccrual of interest status.

None of the loans that were restructured in 2011 or 2012 have subsequently defaulted in the three or six month periods ending June 30, 2013 and 2012. Loan modifications that are considered TDR s completed during the three and six month periods ending June 30, 2013 and 2012 were as follows:

	<b>For the Three Months Ended June 30, 2013</b>		
	<b>Number of loans restructured</b>	<b>Pre- Modification Recorded Investment</b>	<b>Post- Modification Recorded Investment</b>
<i>(Dollars in thousands)</i>			
Commercial	2	\$ 76	\$ 76
Total Restructured Loans	2	\$ 76	\$ 76

	<b>For the Six Months Ended June 30, 2013</b>		
	<b>Number of loans restructured</b>	<b>Pre- Modification Recorded Investment</b>	<b>Post- Modification Recorded Investment</b>
<i>(Dollars in thousands)</i>			
Commercial	2	\$ 76	\$ 76
Total Restructured Loans	2	\$ 76	\$ 76

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

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

The loans restructured during the three and six months ending June 30, 2013 and 2012 were modified by changing the monthly payment to interest only. No principal reductions were made.

**Table of Contents**

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 3 LOANS (CONTINUED)**

**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, 2013 and December 31, 2012, 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
<b>June 30, 2013</b>						
Commercial	\$ 99,512	\$ 7,220	\$ 9,158	\$	\$ 1,008	\$ 116,898
Commercial real estate	113,780	7,206	6,639		1,388	129,013
Residential real estate	190		50		110,946	111,186
Construction & land development	10,602	1,451	991		1,012	14,056
Consumer					6,790	6,790
<b>Total</b>	<b>\$ 224,084</b>	<b>\$ 15,877</b>	<b>\$ 16,838</b>	<b>\$</b>	<b>\$ 121,144</b>	<b>\$ 377,943</b>
<b>December 31, 2012</b>						
Commercial	\$ 92,123	\$ 5,854	\$ 6,637	\$	\$ 285	\$ 104,899
Commercial real estate	102,602	5,671	8,459		2,460	119,192
Residential real estate	200		53		110,159	110,412
Construction & land development	18,063	2,750	1,244		1,301	23,358
Consumer					6,480	6,480
<b>Total</b>	<b>\$ 212,988</b>	<b>\$ 14,275</b>	<b>\$ 16,393</b>	<b>\$</b>	<b>\$ 120,685</b>	<b>\$ 364,341</b>

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, 2013 and December 31, 2012. 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
<b>June 30, 2013</b>			
Commercial	\$ 1,002	\$ 6	\$ 1,008
Commercial real estate	1,388		1,388
Residential real estate	109,841	1,105	110,946
Construction & land development	1,012		1,012
Consumer	6,788	2	6,790
<b>Total</b>	<b>\$ 120,031</b>	<b>\$ 1,113</b>	<b>\$ 121,144</b>
<b>December 31, 2012</b>			

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

Commercial	\$ 285	\$	\$ 285
Commercial real estate	2,460		2,460
Residential real estate	109,276	883	110,159
Construction & land development	1,294	7	1,301
Consumer	6,480		6,480
Total	\$ 119,795	\$ 890	\$ 120,685

**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 statements of financial condition at their fair value as of June 30, 2013 and December 31, 2012, by level within the fair value hierarchy. No liabilities are carried at fair value. As required by the 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, asset-backed securities, obligations of states and political subdivisions and corporate bonds are valued at observable market data for similar assets.

**Table of Contents**

## 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
<b>June 30, 2013</b>				
<b>Assets:</b>				
Securities available-for-sale				
U.S. Treasury securities	\$ 1,093	\$	\$	\$ 1,093
Obligations of U.S. government corporations and agencies		32,859		32,859
Mortgage-backed securities in government sponsored entities		69,051		69,051
Asset-backed securities in government sponsored entities		2,820		2,820
Obligations of states and political subdivisions		17,109		17,109
Corporate bonds		4,469		4,469
<b>Total debt securities</b>	<b>1,093</b>	<b>126,308</b>		<b>127,401</b>
Equity securities in financial institutions	114			114
Loans held for sale	103			103
<b>Total Assets</b>	<b>\$ 1,310</b>	<b>\$ 126,308</b>	<b>\$</b>	<b>\$ 127,618</b>
<b>December 31, 2012</b>				
<b>Assets:</b>				
Securities available-for-sale				
U.S. Treasury securities	\$ 100	\$	\$	\$ 100
Obligations of U.S. government corporations and agencies		35,980		35,980
Mortgage-backed securities in government sponsored entities		69,039		69,039
Asset-backed securities in government sponsored entities		2,823		2,823
Obligations of states and political subdivisions		16,883		16,883
Corporate bonds		4,397		4,397
<b>Total debt securities</b>	<b>100</b>	<b>129,122</b>		<b>129,222</b>
Equity securities in financial institutions	69			69
<b>Total Assets</b>	<b>\$ 169</b>	<b>\$ 129,122</b>	<b>\$</b>	<b>\$ 129,291</b>

The following table presents the assets measured on a nonrecurring basis on the Consolidated Balance Sheets at their fair value as of June 30, 2013 and December 31, 2012, 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; 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.

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 nonrecurring basis and are classified within Level III of the fair value hierarchy.





**Table of Contents**

## 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
<b>June 30, 2013</b>				
<b>Assets measured on a nonrecurring basis:</b>				
Impaired loans	\$	\$	\$ 7,775	\$ 7,775
Mortgage servicing rights			226	226
<b>December 31, 2012</b>				
Impaired loans	\$	\$	\$ 9,412	\$ 9,412
Other real estate owned			25	25
Mortgage servicing rights			214	214

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:

<i>(Dollars in thousands)</i>	Quantitative Information about Level III Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
<b>June 30, 2013</b>				
Impaired loans		Discounted	Remaining term	9 mos to 29 yrs
	\$ 6,652	cash flow	Discount rate	4.63% to 12%
		Appraisal of	Appraisal adjustments (2)	-20% to -25%
	1,123	collateral (1),(3)	Liquidation expense (2)	-10%
Mortgage servicing rights		Discounted	Remaining term	18 mos to 30 yrs
	226	cash flow	Discount rate	1.5%
<b>December 31, 2012</b>				
Impaired loans		Discounted	Remaining term	4 mos to 29 yrs
	\$ 7,260	cash flow	Discount rate	7.5% to 12%
		Appraisal of	Appraisal adjustments (2)	-20% to -35%
	2,152	collateral (1),(3)	Liquidation expense (2)	-10%
Other real estate owned		Appraisal of	Management discount	
	25	collateral (1), (3)	for property type (3)	0% to -67%
Mortgage servicing rights		Discounted	Remaining term	24 mos to 30 yrs
	214	cash flow	Discount rate	1.5%

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

- (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.

**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, 2013 and December 31, 2012 are as follows:

<i>(Dollars in thousands)</i>	Carrying Value	Level I	Level II	Level III	Total Fair Value
<b>June 30, 2013</b>					
Financial assets:					
Cash and cash equivalents	\$ 37,066	\$ 37,066	\$	\$	\$ 37,066
Securities	127,515	1,207	126,308		127,515
Loans held for sale	103	103			103
Net loans	373,246			377,473	377,473
Bank-owned life insurance	9,419	9,419			9,419
Restricted stock	5,463		5,463		5,463
Accrued interest receivable	1,343	1,343			1,343
Financial liabilities:					
Deposits	\$ 462,845	\$ 312,312	\$	\$ 151,610	\$ 463,922
Short-term borrowings	41,851	41,851			41,851
Other borrowings	12,558			13,185	13,185
Accrued interest payable	124	124			124

<i>(Dollars in thousands)</i>	Carrying Value	Level I	Level II	Level III	Total Fair Value
<b>December 31, 2012</b>					
Financial assets:					
Cash and cash equivalents	\$ 66,878	\$ 66,878	\$	\$	\$ 66,878
Securities	129,291	169	129,122		129,291
Net loans	360,000			367,028	367,028
Bank-owned life insurance	8,298	8,298			8,298
Restricted stock	5,463		5,463		5,463
Accrued interest receivable	1,317	1,317			1,317
Financial liabilities:					
Deposits	\$ 475,443	\$ 317,369	\$	\$ 159,573	\$ 476,942
Short-term borrowings	43,992	43,992			43,992
Other borrowings	12,672			13,772	13,772
Accrued interest payable	135	135			135

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.

**Securities**

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

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

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.

**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 June 30, 2013 and December 31, 2012. These financial instruments relate to commitments to extend credit and letters of credit. The aggregated contract amount of such financial instruments was approximately \$107.0 million at June 30, 2013 and \$107.4 million at December 31, 2012. 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.

## 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 and six months ended June 30, 2013:

<i>(Dollars in thousands)</i>	Unrealized gains on available for sale securities (a)	Affected Line Item in the Consolidated Statements of Income
Balance as of March 31, 2013	\$ 1,372	
Other comprehensive loss before reclassification	(2,195)	
Amount reclassified from accumulated other comprehensive income	(7)	Securities gain, net of tax
Total other comprehensive loss	(2,202)	
Balance as of June 30, 2013	\$ (830)	
Balance as of December 31, 2012	\$ 1,864	
Other comprehensive loss before reclassification	(2,687)	
Amount reclassified from accumulated other comprehensive income	(7)	Securities gain, net of tax
Total other comprehensive loss	(2,694)	
Balance as of June 30, 2013	\$ (830)	

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

---

**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, 2013 as compared to December 31, 2012, and the consolidated results of operations for the three and six month periods ending June 30, 2013 compared to the same periods in 2012. 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 \$571.1 million at June 30, 2013, compared to \$586.9 million at December 31, 2012, representing a decrease of \$15.8 million, or 3%. This decrease was a result of a decline in deposits of \$12.6 million, or 3%, during the six month period ended June 30, 2013 to \$462.8 million. Cash and cash equivalents decreased \$29.8 million, or 45%, during the six months ending June 30, 2013, primarily as a result of funding increases in loans. Securities decreased \$1.8 million, or 1%, during the first six months of 2013 as bonds were called within the US government agency portfolio.

Net loans increased \$13.2 million, or 4%, during the six months ending June 30, 2013. Commercial loans including commercial real estate loans increased \$21.8 million, or 10%, home equity lines decreased \$650 thousand, or 2%, real estate mortgage loans increased \$1.0 million, or 2%, construction and land development loans decreased \$9.3 million, or 40%, and consumer loans increased slightly over December 31, 2012. Consumers continued to refinance their mortgage loans for lower long-term rates. During 2012 and the first six months of 2013 the Bank originated and retained some fifteen year fixed rate mortgage loans for its portfolio. Residential mortgage originations for the six months ended June 30, 2013 were \$13.8 million as compared to \$17.9 million for the prior year six-month period. The Bank originates and sells fixed rate thirty year mortgages into the secondary market.



**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 1.31% at June 30, 2013, an increase from 1.26% at December 31, 2012. Outstanding loan balances increased 4% to \$378.2 million at June 30, 2013. A provision of \$420 thousand, partially offset by net charge-offs of \$55 thousand, increased the allowance for loan losses for the six months ending June 30, 2013.

<i>(Dollars in thousands)</i>	<b>June 30, 2013</b>		<b>December 31, 2012</b>		<b>June 30, 2012</b>	
Non-performing loans	\$ 2,393		\$ 3,337		\$ 4,005	
Other real estate			25		5	
Allowance for loan losses	4,945		4,580		4,471	
Total loans	378,191		364,580		344,116	
Allowance: loans	1.31	%	1.26	%	1.30	%
Allowance: non-performing loans	2.1	x	1.4	x	1.1	x

The ratio of gross loans to deposits was 82% at June 30, 2013, compared to 77% at December 31, 2012. The increase in this ratio is the result of loan volume increases and decreases in deposits during the six months ending June 30, 2013.

The Company had net unrealized losses of \$1.3 million within its securities portfolio at June 30, 2013, compared to net unrealized gains of \$2.8 million at December 31, 2012. 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 \$2.6 million within the total portfolio as of June 30, 2013, 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, 2013, are considered temporary and no impairment loss relating to these securities has been recognized.

Deposits decreased \$12.6 million, or 3% from December 31, 2012 with non-interest bearing deposits decreasing \$2.5 million and interest-bearing deposit accounts decreasing \$10.0 million. Total deposits as of June 30, 2013 are \$8.1 million above June 30, 2012 deposit balances. On a year over year comparison, increases were recognized in non-interest bearing demand deposits, interest bearing demand deposits and statement and passbook savings accounts for the period ended June 30, 2013.

Short-term borrowings consisting of overnight repurchase agreements with retail customers decreased \$2.1 million from December 31, 2012 and other borrowings decreased \$114 thousand as the Company used cash from interest-earning deposits in other banks to repay required maturities and monthly payments on advances from the FHLB.

Total shareholders' equity amounted to \$51.4 million, or 9% of total assets, at June 30, 2013, compared to \$52.5 million, or 9% of total assets, at December 31, 2012. The decrease in shareholders' equity during the six months ending June 30, 2013 was due to other comprehensive income decreasing \$2.7 million and dividends declared of \$1.0 million, which were partially offset by net income of \$2.6 million. The Company and the Bank met all regulatory capital requirements at June 30, 2013.

**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, 2013 and 2012**

For the quarter ended June 30, 2013, the Company recorded net income of \$1.2 million or \$0.45 per share, as compared to net income of \$1.1 million, or \$0.41 per share for the quarter ended June 30, 2012. The \$106 thousand increase in net income for the quarter was a result of net interest income increasing \$195 thousand and other noninterest income increasing \$32 thousand. These gains were partially offset by an increase in noninterest expense of \$103 thousand and an increase in the federal income tax provision of \$13 thousand. Return on average assets and return on average equity were 0.88% and 9.32%, respectively, for the three month period of 2013, compared to 0.82% and 8.98%, respectively for the same quarter in 2012.

**Average Balance Sheets and Net Interest Margin Analysis**

<i>(Dollars in thousands)</i>	For the three months ended June 30,			
	2013	2013	2012	2012
	Average balance	Average rate	Average balance	Average rate
<b>ASSETS</b>				
Interest-earning deposits in other banks	\$ 27,429	0.28%	\$ 57,108	0.29%
Federal funds sold	217	0.08	145	0.00
Taxable securities	117,583	2.00	118,045	2.41
Tax-exempt securities	16,489	4.72	13,690	5.85
Loans	375,447	4.76	339,829	5.07
Total earning assets	537,165	3.92%	528,817	3.98%
Other assets	34,404		33,474	
<b>TOTAL ASSETS</b>	<b>\$ 571,569</b>		<b>\$ 562,291</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Interest-bearing demand deposits	\$ 71,125	0.06%	\$ 62,751	0.08%
Savings deposits	138,136	0.10	133,442	0.18
Time deposits	152,349	1.06	165,693	1.25
Other borrowed funds	54,510	0.98	57,672	1.14
Total interest bearing liabilities	416,120	0.56%	419,558	0.72%
Non-interest bearing demand deposits	99,878		89,760	
Other liabilities	1,894		1,848	
Shareholders' Equity	53,677		51,125	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 571,569</b>		<b>\$ 562,291</b>	
Taxable equivalent net interest spread		3.36%		3.26%
Taxable equivalent net interest margin		3.49%		3.40%

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

Interest income for the quarter ended June 30, 2013, was \$5.2 million representing a \$22 thousand increase, or a 0.4% improvement, compared to the same period in 2012. This increase was primarily due to average loan volume increasing \$36 million for the quarter ended June 30, 2013 as compared to the second quarter 2012. Interest expense for the quarter ended June 30, 2013 was \$581 thousand, a decrease of \$173 thousand or 23%, from the same period in 2012. The decrease in interest expense occurred primarily due to a decrease of 0.1% in interest rates paid on interest-bearing deposits which decreased from 0.6% in 2012 to 0.5% in 2013 and a rate decrease of .16% on all other borrowings which declined from 1.1% in 2012 to 1.0% for the quarter ended June 30, 2013.

The provision for loan losses for the quarter ended June 30, 2013 was \$210 thousand, compared to a \$205 thousand provision for the same quarter in 2012. 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.

**Table of Contents**

CSB BANCORP, INC.

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

Noninterest income for the quarter ended June 30, 2013, was \$1.1 million, an increase of \$32 thousand, or 3%, compared to the same quarter in 2012. Service charges on deposit accounts increased \$15 thousand, or 5%, compared to the same quarter in 2012. Debit card interchange income declined \$11 thousand, or 5%, as competitive pricing and alternative clearing channels were provided by debit card processors. Fees from trust and brokerage services increased \$59 thousand to \$226 thousand for the second quarter 2013 as compared to the same quarter in 2012. The gain on the sale of mortgage loans to the secondary market decreased to \$102 thousand for the quarter ending June 30, 2013, from \$137 thousand in the quarter ended June 30, 2012. Mortgage origination decreased during the quarter as secondary market mortgage refinancings have declined with higher mortgage interest rates.

Noninterest expenses for the quarter ended June 30, 2013 increased \$103 thousand, or 3%, compared to the second quarter of 2012. Salaries and employee benefits increased \$81 thousand, or 4%. Occupancy and equipment expenses increased \$52 thousand in 2013 over the second quarter of 2012. Other expenses decreased \$5 thousand, or 1%, compared to the second quarter 2012.

Federal income tax expense increased \$13 thousand, or 2%, for the quarter ended June 30, 2013 as compared to the second quarter of 2012. The provision for income taxes was \$538 thousand (effective rate of 30%) for the quarter ended June 30, 2013, compared to \$525 thousand (effective rate of 32%) for the quarter ended June 30, 2012. The increase in the expense resulted from improved income.

**RESULTS OF OPERATIONS**

**Six months ended June 30, 2013 and 2012**

Net income for the six months ending June 30, 2013, was \$2.6 million or \$0.95 per share, as compared to \$2.2 million or \$0.80 per share during the same period in 2012. Return on average assets and return on average equity were 0.92% and 9.87%, respectively, for the six month period of 2013, compared to 0.79% and 8.73%, respectively for 2012.

Comparative net income increased as net interest income improved to \$9.3 million for the six months ended June 30, 2013, an increase of \$574 thousand or 7% from the same period last year. Total noninterest income rose \$122 thousand or 6% to \$2.1 million. The provision for loan losses increased \$9 thousand or 2% during the same comparative period. These improvements were partially offset by higher noninterest expenses for the six month period ending in 2013 as compared to 2012.

Interest income on loans increased \$484 thousand, or 6%, for the six months ended June 30, 2013, as compared to the same period in 2012. This increase was primarily due to an average volume increase of \$40.7 million for the comparable six month periods. Interest income on securities decreased \$257 thousand, or 15%, as the average volume of securities increased \$5.3 million for the comparable six month periods. Interest income on fed funds sold and interest bearing deposits decreased \$37 thousand for the six months ended June 30, 2013 as the average fed funds sold and due from banks interest bearing balances decreased \$31.1 million, compared to the same period in 2012.

**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**

<i>(Dollars in thousands)</i>	For the six months ended June 30,			
	2013	Average rate	2012	Average rate
	Average balance		Average balance	
<b>ASSETS</b>				
Due from banks-interest bearing	\$ 30,740	0.28%	\$ 61,926	0.26%
Federal funds sold	162	0.17	104	0.10
Taxable securities	118,141	1.99	115,649	2.50
Tax-exempt securities	16,434	4.74	13,615	5.44
Loans	374,263	4.86	333,516	5.15
<b>Total earning assets</b>	<b>539,740</b>	<b>3.97%</b>	<b>524,810</b>	<b>4.00%</b>
Other assets	33,972		32,524	
<b>TOTAL ASSETS</b>	<b>\$ 573,712</b>		<b>\$ 557,334</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Interest bearing demand deposits	\$ 70,715	0.06%	\$ 61,442	0.09%
Savings deposits	139,172	0.11	131,143	0.18
Time deposits	154,431	1.08	167,609	1.30
Other borrowed funds	56,085	0.96	57,578	1.20
<b>Total interest bearing liabilities</b>	<b>420,403</b>	<b>0.57%</b>	<b>417,772</b>	<b>0.76%</b>
Non-interest bearing demand deposits	97,928		87,114	
Other liabilities	2,061		1,864	
Shareholders' Equity	53,320		50,584	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 573,712</b>		<b>\$ 557,334</b>	
Taxable equivalent net interest spread		3.40%		3.24%
Taxable equivalent net interest margin		3.53%		3.39%

Interest expense decreased \$384 thousand to \$1.2 million for the six months ended June 30, 2013, compared to the six months ended June 30, 2012. Interest expense on deposits decreased \$307 thousand, or 25%, from the same period as last year, while interest expense on short-term and other borrowings decreased \$77 thousand or 22%. 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 2013. 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 increased by 14 basis points for the six month period ended June 30, 2013, to 3.53%, from 3.39% for the same period in 2012. This margin increase is primarily the result of decreased interest expense and the change in the asset mix from overnight funds to loans.

The provision for loan losses was \$420 thousand during the six months of 2013, compared to \$411 thousand in the same six month period of 2012. 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 increased \$122 thousand, or 6%, during the six months ended June 30, 2013, as compared to the same period in 2012. Debit card interchange income decreased \$27 thousand or 7% as a result of decreased servicer revenue. Service charges on deposits increased \$22 thousand from the same period in 2012 reflecting the increase in fees based on transaction activity.

**Table of Contents**

## CSB BANCORP, INC.

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

Increases were recognized in gains on mortgage loans sold in the secondary market during the first quarter of 2013 which gradually tapered off in the second quarter of 2013 as refinancing activity decreased with rising mortgage rates.

Non-interest expenses increased \$118 thousand, or 2%, for the six months ended June 30, 2013, compared to the same period in 2012. The Bank's FDIC deposit premium increased \$17 thousand to \$172 thousand for the six months ended 2012 reflecting an increase in assets for the six months ended June 30, 2013 as compared to 2012. Salaries and employee benefits increased \$168 thousand, or 4%, primarily the result of benefit increases. Professional fees decreased \$158 thousand, or 35%, as certain employment search fees for Chief Operating Officer and commercial lending positions, as well as fees spent to review the Company's computer operating system in 2012 did not recur in 2013. During the first quarter 2013 legal fees of \$43 thousand were recovered on 2 commercial relationships and 1 real estate mortgage relationship. Occupancy and equipment expense increased \$74 thousand, or 9% reflecting the increase in depreciation and maintenance as compared to 2012.

The provision for income taxes was \$1.1 million (effective rate of 30%) for the six months ended June 30, 2013, compared to \$981 thousand (effective rate of 31%) for the six months ended June 30, 2012.

**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, 2012. As of June 30, 2013 the Company and the Bank meet all capital adequacy requirements to which they are subject.

**LIQUIDITY**

<i>(Dollars in millions)</i>	June 30, 2013	December 31, 2012	Change
Cash and cash equivalents	\$ 37	\$ 67	\$ (30)
Unused lines of credit	46	41	5
Unpledged securities at fair market value	47	59	(12)
	\$ 130	\$ 167	\$ (37)
Net deposits and short-term liabilities	\$ 419	\$ 444	\$ (25)
Liquidity ratio	31.0%	37.6%	
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 CSB's Asset Liability Committee. 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**

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

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, 2013, from that presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. 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. Board set limits under a static balance sheet assumption were minimally exceeded on December 31, 2012 due to the volume of liquidity held by the Bank.

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, 2013 and December 31, 2012. The net interest income reflected is for the first twelve months of the modeled twenty-four month period.

*(Dollars in thousands)*

<b>June 30, 2013</b>					
Change in					
	interest rates	Net			Board
	(basis points)	interest	Dollar	Percentage	Policy
		income	change	change	Limits
+	400	\$ 19,593	\$ 1,263	6.9%	+/- 25
+	300	19,253	923	5.0	+/-15
+	200	18,920	590	3.2	+/-10
+	100	18,594	264	1.4	+/-5
	0	18,330	0	0.0	
-	100	18,082	(248)	(1.4)	+/-5
-	200	N/A	N/A	N/A	

<b>December 31, 2012</b>					
Change in					
	interest rates	Net			Board
	(basis points)	interest	Dollar	Percentage	Policy
		income	change	change	Limits
+	400	\$ 19,420	\$ 1,762	10.0%	+/- 25
+	300	18,982	1,324	7.5	+/-15
+	200	18,507	849	4.8	+/-10
+	100	18,053	395	2.2	+/-5
	0	17,658			
-	100	17,483	(175)	(1.0)	+/-5
-	200	N/A	N/A	N/A	

**Table of Contents**

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.

**Table of Contents**

CSB BANCORP, INC.

FORM 10-Q

Quarter ended June 30, 2013

**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, 2012.

**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 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, 2013

PART II OTHER INFORMATION

**ITEM 6- Exhibits.**

<b>Exhibit Number</b>	<b>Description of Document</b>
3.1	Amended Articles of Incorporation of CSB Bancorp, Inc. (incorporated by reference to 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 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 June 30, 2013 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, 2013

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

Date: August 13, 2013

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

---

**Table of Contents**

CSB BANCORP, INC.

INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Description of Document</b>
3.1	Amended Articles of Incorporation of CSB Bancorp, Inc. (incorporated by reference to 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 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 June 30, 2013 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.