

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,	
<i>(Dollars in thousands)</i>	2013	2012
<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
<b>Total debt securities</b>	<b>2,569</b>	<b>66,214</b>	<b>8</b>	<b>1,357</b>	<b>2,577</b>	<b>67,571</b>
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
<b>Total debt securities</b>	<b>99</b>	<b>20,237</b>	<b>24</b>	<b>975</b>	<b>123</b>	<b>21,212</b>
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>	<b>Commercial</b>	<b>Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Construction &amp; Land Development</b>	<b>Consumer</b>	<b>Unallocated</b>	<b>Total</b>
<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>		
<i>(Dollars in thousands)</i>	<b>Number of loans restructured</b>	<b>Pre- Modification Recorded Investment</b>	<b>Post- Modification Recorded Investment</b>
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>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Not Rated</b>	<b>Total</b>
<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						