

CSB BANCORP INC /OH
Form 10-Q
May 14, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2012

OR

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

Commission file number: 0-21714

CSB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

Ohio
(State or other jurisdiction of
incorporation or organization)

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

91 North Clay, P.O. Box 232, Millersburg, Ohio 44654
(Address of principal executive offices)

(330) 674-9015
(Registrant's telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Common stock, \$6.25 par value

Outstanding at May 14, 2012:

2,734,799 common shares

Table of Contents

CSB BANCORP, INC.

FORM 10-Q

QUARTER ENDED March 31, 2012

Table of Contents

	Page
<u>Part I Financial Information</u>	
<u>ITEM 1 FINANCIAL STATEMENTS (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	7
<u>Notes to the Consolidated Financial Statements</u>	8
<u>ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	25
<u>ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	30
<u>ITEM 4 CONTROLS AND PROCEDURES</u>	31
<u>Part II Other Information</u>	
<u>ITEM 1 Legal Proceedings</u>	32
<u>ITEM 1A Risk Factors</u>	32
<u>ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>ITEM 3 Defaults upon Senior Securities</u>	32
<u>ITEM 4 Mine Safety Disclosures</u>	32
<u>ITEM 5 Other Information</u>	32
<u>ITEM 6 Exhibits</u>	33
<u>Signatures</u>	34

Table of Contents

CSB BANCORP, INC.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(Dollars in thousands)</i>	March 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 12,855	\$ 12,519
Interest-earning deposits in other banks	67,026	69,739
Total cash and cash equivalents	79,881	82,258
Securities		
Available-for-sale, at fair value	122,639	123,026
Restricted stock, at cost	5,463	5,463
Total securities	128,102	128,489
Loans held for sale	461	
Loans	331,353	324,182
Less allowance for loan losses	4,246	4,082
Net loans	327,107	320,100
Premises and equipment, net	8,413	8,513
Core deposit intangible	1,001	1,034
Goodwill	4,728	4,728
Bank-owned life insurance	8,113	3,068
Accrued interest receivable and other assets	2,997	3,043
TOTAL ASSETS	\$ 560,803	\$ 551,233
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	\$ 87,271	\$ 85,890
Interest-bearing	362,936	357,663
Total deposits	450,207	443,553
Short-term borrowings	41,717	37,073
Other borrowings	17,009	19,161
Accrued interest payable and other liabilities	1,952	2,017
Total liabilities	510,885	501,804

SHAREHOLDERS EQUITY

Common stock, \$6.25 par value. Authorized 9,000,000 shares; issued 2,980,602 shares; outstanding 2,734,799 shares in 2012 and 2011	18,629	18,629
Additional paid-in capital	9,994	9,994
Retained earnings	24,954	24,391
Treasury stock at cost 245,803 shares in 2012 and 2011	(5,015)	(5,015)
Accumulated other comprehensive income	1,356	1,430
Total shareholders equity	49,918	49,429
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 560,803	\$ 551,233

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended	
	March 31,	
	2012	2011
INTEREST AND DIVIDEND INCOME		
Loans, including fees	\$ 4,252	\$ 4,236
Taxable securities	729	595
Nontaxable securities	112	98
Other	39	17
Total interest and dividend income	5,132	4,946
INTEREST EXPENSE		
Deposits	640	786
Short-term borrowings	24	42
Other borrowings	155	184
Total interest expense	819	1,012
NET INTEREST INCOME	4,313	3,934
PROVISION FOR LOAN LOSSES	206	280
Net interest income, after provision for loan losses	4,107	3,654
NONINTEREST INCOME		
Service charges on deposit accounts	308	245
Trust services	161	160
Debit card interchange fees	194	138
Gain on sale of loans, net	56	70
Other	229	146
Total noninterest income	948	759
NONINTEREST EXPENSES		
Salaries and employee benefits	1,963	1,763
Occupancy expense	246	219
Equipment expense	155	120
Professional fees	207	159
Franchise tax expense	139	135
FDIC assessment expense	87	110
Software expense	93	91
Marketing and public relations	73	59
Amortization of intangible assets	33	15
Other	548	447
Total noninterest expenses	3,544	3,118

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

Income before income taxes	1,511	1,295
FEDERAL INCOME TAX PROVISION	456	399
NET INCOME	\$ 1,055	896
Basic and diluted net income per share	\$ 0.39	\$ 0.33

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	
	2012	2011
Net income	\$ 1,055	\$ 896
Available-for-sale securities:		
Unrealized losses arising during the period	(112)	(153)
Income tax effect	(38)	(52)
Other comprehensive loss	(74)	(101)
Total comprehensive income	\$ 981	\$ 795

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended	
	2012	2011
Balance at beginning of period	\$ 49,429	\$ 47,154
Comprehensive income:		
Net income	1,055	896
Other comprehensive loss	(74)	(101)
Total comprehensive income	981	795
Common cash dividends declared	(492)	(492)
Balance at end of period	\$ 49,918	\$ 47,457
Common cash dividends per share	\$ 0.18	\$ 0.18

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	2012	2011
<i>(Dollars in thousands, except per share data)</i>		
NET CASH FROM OPERATING ACTIVITIES	\$ 550	\$ 1,041
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale:		
Proceeds from maturities and repayments	13,279	4,240
Purchases	(13,128)	(12,344)
Loan originations, net of repayments	(7,202)	(6,679)
Proceeds from sale of other real estate	7	8
Property, equipment, and software acquisitions	(67)	(517)
Purchase of bank-owned life insurance	(5,000)	
Net cash used in investing activities	(12,111)	(15,292)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	6,692	(5,271)
Net change in short-term borrowings	4,644	(3,636)
Repayments of other borrowings	(2,152)	(3,202)
Net cash provided by (used in) financing activities	9,184	(12,109)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,377)	(26,360)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	82,258	48,360
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 79,881	\$ 22,000
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	\$ 876	\$ 1,042
Income taxes		50
Noncash investing activities:		
Transfer of loans to other real estate owned		5

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 March 31, 2012, and the results of operations and changes in cash flows for the periods presented have been made.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-03, *Transfers and Services (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. The main objective in developing this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this Update apply to all entities, both public and nonpublic. The amendments affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. This ASU is not expected to have a significant impact on the Company's financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The Company has provided the necessary disclosure in Note 5.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The amendments in this Update should be applied retrospectively, and early adoption is permitted. The Company has provided the necessary disclosure in the Statement of Comprehensive Income.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other Topics (Topic 350), Testing Goodwill for Impairment*. The objective of this update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this Update apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements. This ASU is not expected to have a significant impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The Company has provided the necessary disclosure in Statement of Comprehensive Income.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES

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

<i>(Dollars in thousands)</i>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
March 31, 2012				
Available-for-sale:				
U.S. Treasury security	\$ 100	\$	\$	\$ 100
Obligations of U.S. Government corporations and agencies	28,310	30	138	28,202
Mortgage-backed securites in government sponsored entities	75,026	1,540	17	76,549
Obligations of states and political subdivisions	13,631	664	4	14,291
Corporate bonds	3,448	49	67	3,430
Total debt securities	120,515	2,283	226	122,572
Equity securities in financial institutions	69	6	8	67
Total available-for-sale	120,584	2,289	234	122,639
Restricted stock	5,463			5,463
Total securities	\$ 126,047	\$ 2,289	\$ 234	\$ 128,102
December 31, 2011				
Available-for-sale:				
U.S. Treasury security	\$ 100	\$	\$	\$ 100
Obligations of U.S. Government corporations and agencies	28,263	83	23	28,323
Mortgage-backed securites in government sponsored entities	74,834	1,562	64	76,332
Obligations of states and political subdivisions	14,148	732		14,880
Corporate bonds	3,445	6	121	3,330
Total debt securities	120,790	2,383	208	122,965
Equity securities in financial institutions	69	3	11	61
Total available-for-sale	120,859	2,386	219	123,026
Restricted stock	5,463			5,463
Total securities	\$ 126,322	\$ 2,386	\$ 219	\$ 128,489

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES (CONTINUED)

The amortized cost and fair value of debt securities at March 31, 2012, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<i>(Dollars in thousands)</i>	Amortized cost	Fair value
Available-for-sale:		
Due in one year or less	\$ 200	\$ 200
Due after one through five years	12,124	12,469
Due after five through ten years	16,015	16,412
Due after ten years	92,176	93,491
Total debt securities available-for-sale	\$ 120,515	\$ 122,572

Realized Gains and Losses

There were no sales of available-for-sale securities for the three month period ending March 31, 2012 or 2011. Gains or losses on the sales of available-for-sale securities are recognized upon sale and are determined by the specific identification method.

At least quarterly, the Company conducts a comprehensive security-level impairment assessment. The assessments are based on the nature of the securities, the extent and duration of the securities in an unrealized loss position, the extent and duration of the loss and management's intent to sell or if it is more likely than not that management will be required to sell a security before recovery of its amortized cost basis, which may be maturity. Management believes the Company will fully recover the cost of these securities and it does not intend to sell these securities and likely will not be required to sell them before the anticipated recovery of the remaining amortized cost basis, which may be maturity. As a result, management concluded that these securities were not other-than-temporarily impaired at March 31, 2012 and has recognized the total amount of the impairment in other comprehensive income, net of tax.

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 March 31, 2012 and December 31, 2011:

	XXXX.X		XXXX.X		XXXX.X		XXXX.X	
	Less than 12 months Gross unrealized losses	Fair value	12 months or more Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Total Gross unrealized losses	Fair value
<i>(Dollars in thousands)</i>								
March 31, 2012								
Obligations of U.S. Corporations and agencies	\$ 138	\$ 19,123	\$	\$	\$ 138	\$ 19,123		
Mortgage-backed securities in government sponsored entities	16	11,129	1	118	17	11,247		
Obligations of state and political subdivisions	4	588			4	588		
Corporate bonds	17	483	50	450	67	933		
Total debt securities	175	31,323	51	568	226	31,891		
Equity securities in financial institutions			8	46	8	46		
Total temporarily impaired securities	\$ 175	\$ 31,323	\$ 59	\$ 614	\$ 234	\$ 31,937		
December 31, 2011								
Obligations of U.S. Corporations and agencies	\$ 306	\$ 12,686	\$	\$	\$ 306	\$ 12,686		
Mortgage-backed securities in government sponsored entities	14	4,032	14	493	28	4,525		
Obligations of state & political subdivisions	46	2,561			46	2,561		
Corporate bonds	8	492			8	492		
Total debt securities	374	19,771	14	493	388	20,264		
Equity securities in financial institutions			16	38	16	38		
Total temporarily impaired securities	\$ 374	\$ 19,771	\$ 30	\$ 531	\$ 404	\$ 20,302		

There were nineteen (19) securities in an unrealized loss position at March 31, 2012, four (4) of which were in a continuous loss position for twelve months or more. There were seventeen (17) securities in an unrealized loss position at December 31, 2011, two (2) of which were in a continuous loss position for twelve months or more.

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>	March 31, 2012	December 31, 2011
Commercial	\$ 96,920	\$ 89,828
Commercial real estate	103,795	106,332
Residential real estate	105,393	103,518
Consumer	6,170	6,216
Construction & Land Development	18,834	18,061
Total loans before deferred costs	331,112	323,955
Deferred loan costs	241	227
Total Loans	\$ 331,353	\$ 324,182

Loan Origination/Risk Management

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

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. The Company's management examines current and occasionally projected cash flows to determine the ability of the borrower to repay their obligations. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and usually incorporate the personal guarantees of business owners; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type which helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At March 31, 2012 approximately 88% of the outstanding principal balances of the Company's commercial real estate loans were secured by owner-occupied properties.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

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

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

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

Concentrations of Credit

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

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table details activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2012 and 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Construction & Land Development	Unallocated	Total
March 31, 2012							
Beginning balance, January 1, 2012	\$ 1,024	\$ 1,673	\$ 894	\$ 78	\$ 180	\$ 233	\$ 4,082
Provision for possible loan losses	(49)	(10)	85	(15)	4	191	206
Charge-offs	(4)	(14)	(45)	(16)			(79)
Recoveries	5		5	27			37
Net charge-offs	1	(14)	(40)	11			(42)
Ending balance	\$ 976	\$ 1,649	\$ 939	\$ 74	\$ 184	\$ 424	\$ 4,246

<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Construction & Land Development	Unallocated	Total
March 31, 2011							
Beginning balance, January 1, 2011	\$ 1,179	\$ 1,183	\$ 1,057	\$ 80	\$ 213	\$ 319	\$ 4,031
Provision for possible loan losses	11	330	69	33	(55)	(108)	280
Charge-offs	(204)		(68)	(44)			(316)
Recoveries	10		9	14			33
Net charge-offs	(194)		(59)	(30)			(283)
Ending balance	\$ 996	\$ 1,513	\$ 1,067	\$ 83	\$ 158	\$ 211	\$ 4,028

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 March 31, 2012 and December 31, 2011:

<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Construction & Land Development	Unallocated	Total
March 31, 2012							
Allowance for loan losses:							
Ending allowance balances attributable to loans:							
Individually evaluated for impairment	\$ 86	\$ 438	\$ 98	\$ 74	\$ 184	\$ 424	\$ 622
Collectively evaluated for impairment	890	1,211	841	74	184	424	3,624
Total ending allowance balance	\$ 976	\$ 1,649	\$ 939	\$ 74	\$ 184	\$ 424	\$ 4,246
Loans:							
Loans individually evaluated for impairment	\$ 3,885	\$ 3,867	\$ 434	\$ 6,170	\$ 167		\$ 8,353
Loans collectively evaluated for impairment	93,035	99,928	104,959	6,170	18,667		322,759
Total ending loans balance	\$ 96,920	\$ 103,795	\$ 105,393	\$ 6,170	\$ 18,834		\$ 331,112
December 31, 2011							
Allowance for loan losses:							
Ending allowance balances attributable to loans:							
Individually evaluated for impairment	\$ 165	\$ 304	\$ 53	\$ 180	\$ 78	\$ 233	\$ 522
Collectively evaluated for impairment	859	1,369	841	180	78	233	3,560
Total ending allowance balance	\$ 1,024	\$ 1,673	\$ 894	\$ 180	\$ 78	\$ 233	\$ 4,082
Loans:							
Loans individually evaluated for impairment	\$ 4,605	\$ 2,476	\$ 182	\$ 18,061	\$ 6,216		\$ 7,263
Loans collectively evaluated for impairment	85,223	103,856	103,336	18,061	6,216		316,692
Total ending loans balance	\$ 89,828	\$ 106,332	\$ 103,518	\$ 18,061	\$ 6,216		\$ 323,955

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

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

<i>(Dollars in thousands)</i>	Unpaid Principal Balance	Recorded Investment with no Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
March 31, 2012						
Commercial	\$ 3,885	\$	\$ 3,885	\$ 3,885	\$ 86	\$ 4,245
Commercial real estate	4,018	1,276	2,591	3,867	438	3,937
Residential real estate	500	93	341	434	98	443
Construction & land development	173	167		167		169
Total impaired loans	\$ 8,576	\$ 1,536	\$ 6,817	\$ 8,353	\$ 622	\$ 8,794
December 31, 2011						
Commercial	\$ 4,605	\$	\$ 4,605	\$ 4,605	\$ 165	\$ 2,890
Commercial real estate	2,621		2,476	2,476	304	2,924
Residential real estate	182		182	182	53	103
Total impaired loans	\$ 7,408	\$	\$ 7,263	\$ 7,263	\$ 522	\$ 5,917

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

<i>(Dollars in thousands)</i>	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days + Past Due	Non- Accrual	Total Past Due and Non- Accrual	Total Loans
March 31, 2012							
Commercial	\$ 96,616	\$ 268	\$ 10	\$ 15	\$ 11	\$ 304	\$ 96,920
Commercial real estate	101,610	285			1,900	2,185	103,795
Residential real estate	102,937	964	342	33	1,117	2,456	105,393
Consumer	6,088	57	7	18		82	6,170
Construction & land development	18,667				167	167	18,834
Total Loans	\$ 325,918	\$ 1,574	\$ 359	\$ 66	\$ 3,195	\$ 5,194	\$ 331,112
December 31, 2011							
Commercial	\$ 89,365	\$ 272	\$ 28	\$ 150	\$ 13	463	\$ 89,828

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

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

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The Company has troubled debt restructurings of \$7.9 million as of March 31, 2012, and \$8.5 million as of December 31, 2011, with \$569 thousand and \$516 thousand of specific reserves allocated as of March 31, 2012 and December 31, 2011 respectively to customers whose loan terms have been modified in troubled debt restructurings. At March 31, 2012, \$7.2 million of the loans classified as troubled debt restructurings were performing to modified terms. The remaining \$700 thousand were in nonaccrual status.

Loan modifications that are considered troubled debt restructurings completed during the three-month period ended March 31, 2012 were as follows:

<i>(Dollars in thousands)</i>	For the Three Months Ended March 31		
	Number of loans restructured	Pre- Modification Recorded Investment	Post- Modification Recorded Investment
Residential real estate	2	\$ 156	\$ 156
Total Restructured Loans	2	\$ 156	\$ 156

The loans restructured during the three-month period ending March 31, 2012 were modified by changing the monthly payment to interest only. No principal reductions were made.

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.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

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.

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 March 31, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

<i>(Dollars in thousands)</i>	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
March 31, 2012						
Commercial	\$ 84,249	\$ 4,825	\$ 7,153	\$	\$ 693	\$ 96,920
Commercial real estate	82,618	9,758	9,361		2,058	103,795
Residential real estate	213		96		105,084	105,393
Consumer					6,170	6,170
Construction & land development	13,551	4,344	167		772	18,834
Total	\$ 180,631	\$ 18,927	\$ 16,777	\$	\$ 114,777	\$ 331,112
December 31, 2011						
Commercial	\$ 76,216	\$ 5,147	\$ 7,710	\$	\$ 755	\$ 89,828
Commercial real estate	84,846	10,385	8,686		2,415	106,332
Residential real estate	1,151		61		102,306	103,518
Consumer					6,216	6,216
Construction & land development	12,695	4,340	168		858	18,061
Total	\$ 174,908	\$ 19,872	\$ 16,625	\$	\$ 112,550	\$ 323,955

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

<i>(Dollars in thousands)</i>	Performing	Non-Performing	Total
March 31, 2012			
Commercial	\$ 693	\$	\$ 693
Commercial real estate	2,004	54	2,058
Residential real estate	103,992	1,092	105,084
Consumer	6,152	18	6,170

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

Construction & land development		772		772
Total		\$ 113,613	\$ 1,164	\$ 114,777
December 31, 2011				
Commercial		\$ 755	\$	\$ 755
Commercial real estate		2,415		2,415
Residential real estate		100,892	1,414	102,306
Consumer		6,208	8	6,216
Construction & land development		850	8	858
Total		\$ 111,120	\$ 1,430	\$ 112,550

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

Loans serviced for others approximated \$51.9 million and \$49.9 million at March 31, 2012 and December 31, 2011, respectively.

NOTE 4 FAIR VALUE MEASUREMENTS

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

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

The following table presents the assets reported on the Consolidated Balance Sheets at their fair value on a recurring basis as of March 31, 2012 and December 31, 2011, by level within the fair value hierarchy. No liabilities are carried at fair value. As required by the applicable accounting standards, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Equity securities and U.S. Treasury Notes are valued at the closing price reported on the active market on which the individual securities are traded. Obligations of U.S. government corporations and agencies, mortgage-backed securities and obligations of states and political subdivisions 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
	March 31, 2012			
Assets:				
Securities available-for-sale				
U.S. Treasury security	\$ 100	\$	\$	\$ 100
Obligations of U.S. government corporations and agencies		28,202		28,202
Mortgage-backed securities in government sponsored entities		76,549		76,549
Obligations of states and political subdivisions		14,291		14,291
Corporate bonds		3,430		3,430
Total debt securities	100	122,472		122,572
Equity securities in financial institutions	67			67
Loans held for sale	461			461
Total Assets	\$ 628	\$ 122,472	\$	\$ 123,100
	December 31, 2011			
Assets:				
Securities available-for-sale				
U.S. Treasury security	\$ 100	\$	\$	\$ 100
Obligations of U.S. government corporations and agencies		28,323		28,323
Mortgage-backed securities in government sponsored entities		76,332		76,332
Obligations of states and political subdivisions		14,880		14,880
Corporate bonds		3,330		3,330
Total debt securities	100	122,865		122,965
Equity securities in financial institutions	61			61
Total Assets	\$ 161	\$ 122,865	\$	\$ 123,026

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

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
	March 31, 2012			
Assets measured on a nonrecurring basis:				
Impaired loans	\$	\$	\$ 7,731	\$ 7,731
Other real estate owned			5	5
Mortgage servicing rights			166	166
	December 31, 2011			
Impaired loans	\$	\$	\$ 6,741	\$ 6,741
Other real estate owned			10	10
Mortgage servicing rights			167	167

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

	Fair value estimate	Quantitative Information about Level 3 Fair Value Measurements		Range
		Valuation techniques	Unobservable input	
<i>(Dollars in thousands)</i>			March 31, 2012	
Impaired loans	7,731	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expense (2)	0% to - 50% 0% to -10%
Other real estate owned	5	Appraisal of collateral (1), (3)	Management discount for property type	-83%
Mortgage servicing rights	166	Discounted cash flow	Remaining term Discount rate	8 mos to 30 yrs 2.1%

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

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

<i>(Dollars in thousands)</i>	Carrying Value	March 31, 2012			Total Fair Value
		Level I	Level II	Level III	
		<i>(dollars in thousands)</i>			

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

Financial assets:					
Cash and cash equivalents	\$ 79,881	\$ 79,881	\$	\$	\$ 79,881
Securities	122,639	167	122,472		122,639
Loans held for sale	461	461			461
Net loans	327,107			333,708	333,708
Bank-owned life insurance	8,113	8,113			8,113
Regulatory stock	5,463		5,463		5,463
Accrued interest receivable	1,427	1,427			1,427
Financial liabilities:					
Deposits	\$ 450,207	\$ 283,343	\$	\$ 168,676	\$ 452,019
Short-term borrowings	41,717	41,717			41,717
Federal Home Loan Bank advances	17,009			17,906	17,906
Accrued interest payable	163	163			163

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Cash and cash equivalents; Loans held for sale; Accrued interest receivable; Short term borrowings, 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 securities without relying exclusively on quoted prices for the specific securities but rather by relying on securities' relationship to other similar securities. Classified as Level I or Level II in the fair value hierarchy

Net Loans

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

Bank-owned Life Insurance

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

Regulatory stock

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

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.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**Federal Home Loan Bank advances**

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

The Company also has unrecognized financial instruments at March 31, 2012 and December 31, 2011. These financial instruments relate to commitments to extend credit and letters of credit. The aggregated contract amount of such financial instruments was approximately \$101 million at March 31, 2012 and \$92 million at December 31, 2011. Such amounts are also considered to be the estimated fair values.

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

NOTE 6 BRANCH ACQUISITION

Effective as of the close of business on October 14, 2011, the Bank completed the branch purchase and assumption of liabilities of two branches of Premier Bank & Trust, National Association, (Premier) located in Wooster, Ohio pursuant to the terms of the Office Purchase and Assumption Agreement dated as of June 23, 2011, (the Purchase Agreement). Under the terms and conditions of the Purchase Agreement, the Bank acquired the leasehold and owned real estate and fixed assets located at Premier s two Wooster branches, \$9 million in loans, and assumed total deposits of approximately \$74 million. The Bank paid a 5% premium on all deposit accounts. As a result of this purchase, the two full-service banking offices of Premier located at 305 West Liberty Street and 3562 Commerce Parkway in Wooster, Ohio, became full-service banking offices of the Bank.

The following table summarizes the book values of the assets acquired and liabilities assumed at the date of the branch acquisition. Fair market value adjustments will be made as additional information becomes available.

(Dollars in thousands)

Cash	\$ 60,872
Loans, net	9,219
Premises, leasehold and equipment	672
Goodwill	3,003
Core deposit intangible	706
Other assets	31
Total assets acquired	\$ 74,503

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

Deposits	\$ 74,475
Other liabilities	28
Total liabilities assumed	\$ 74,503

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 March 31, 2012 as compared to December 31, 2011, and the consolidated results of operations for the three month period ended March 31, 2012 compared to the same period in 2011. The purpose of this discussion is to provide the reader with a more thorough understanding of the Consolidated Financial Statements. This discussion should be read in conjunction with the interim Consolidated Financial Statements and related footnotes.

FORWARD-LOOKING STATEMENTS

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

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

FINANCIAL CONDITION

Total assets were \$560.8 million at March 31, 2012, compared to \$551.2 million at December 31, 2011, representing an increase of \$9.6 million, or 1.7%. Cash and cash equivalents decreased \$2.4 million, or 2.9%, during the three-month period ended March 31, 2012, primarily as a result of increases in loans. Securities decreased \$400 thousand, or 0.3%, during the first three months of 2012 as bonds were called within the US government agency portfolio and monthly principal payments were received on mortgage-backed securities issued by government sponsored agencies. Net loans increased \$7.0 million, or 2.2%, while deposits increased \$6.7 million, or 1.5%, during the three-month period. Short-term borrowings of securities sold under repurchase agreement increased \$4.6 million and Federal Home Loan Bank (FHLB) advances decreased \$2.2 million, during the period as advances matured and required amortized payments were made on outstanding advances at the FHLB.

Net loans increased \$7.0 million, or 2.2%, during the three-month period ended March 31, 2012. Commercial loans including commercial real estate loans increased \$4.5 million, or 2.3%, home equity lines increased \$0.6 million, or 1.4%, real estate mortgage loans increased \$1.3 million, or 2.0% and construction and land development loans increased \$0.8 million, or 4.3% over December 31, 2011. Decreases were recognized in consumer installment loans of \$46 thousand, or 0.7%. Consumers continued to refinance their mortgage loans for lower long-term rates. During the fourth quarter 2011 and first quarter 2012 the bank originated and retained fifteen year fixed rate mortgage loans for its portfolio.

Table of Contents

CSB BANCORP, INC.

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

The allowance for loan losses as a percentage of total loans was 1.28% at March 31, 2012, an increase from 1.26% at December 31, 2011. Outstanding loan balances increased 2.2% to \$331 million at March 31, 2012 while net charge-offs of \$42 thousand were offset by a provision of \$206 thousand to the allowance for loan losses for the three-months ended March 31, 2012. Non-performing loans decreased \$228 thousand or 6.5% from December 31, 2011.

<i>(Dollars in thousands)</i>	March 31, 2012	December 31, 2011	March 31, 2011
Non-performing loans	\$ 3,261	\$ 3,489	\$ 3,913
Other real estate	5	10	30
Allowance for loan losses	4,246	4,082	4,028
Total loans	331,353	324,182	322,017
Allowance: loans	1.28%	1.26%	1.25%
Allowance: non-performing loans	1.3x	1.2x	1.0x

The ratio of gross loans to deposits was 73.6% at March 31, 2012, compared to 73.1% at December 31, 2011. The increase in this ratio is the result of loan volume increases outpacing increases in deposits during the three-months ended March 31, 2012.

The Company had net unrealized gains of \$2.1 million within its securities portfolio at March 31, 2012, compared to net unrealized gains of \$2.2 million at December 31, 2011. The Company has no exposure to government-sponsored enterprise preferred stocks, collateralized debt obligations or trust preferred securities. The Company holds two issues of nonagency collateralized mortgage obligations that have paid down to \$605 thousand outstanding from an original face value of \$5.5 million. The Company has the ability and intent to hold the securities until the recovery of their cost and there is no significant evidence to support an adverse change in expected cash flows. Management has considered industry analyst reports, sector credit reports and the volatility within the bond market in concluding that the gross unrealized losses of \$234 thousand within the total portfolio as of March 31, 2012, were primarily the result of customary and expected fluctuations in the bond market and not necessarily the expected cash flows of the individual securities. As a result, all security impairments detailed above on March 31, 2012, are considered temporary and no impairment loss relating to these securities has been recognized.

Short-term borrowings increased \$4.6 million from December 31, 2011 and other borrowings decreased \$2.2 million as the Company used cash from interest-earning deposits in other banks to repay required maturities and monthly payments on advances from the FHLB.

Deposits increased \$6.7 million, or 1.5% from December 31, 2011 with non-interest bearing deposits increasing \$1.4 million and interest-bearing deposit accounts increasing \$5.3 million. By deposit type, increases were recognized in statement and passbook savings accounts and money market savings accounts for the period ended March 31, 2012.

Total shareholders' equity amounted to \$49.9 million, or 8.9% of total assets, at March 31, 2012, compared to \$49.4 million, or 9.0% of total assets, at December 31, 2011. The increase in shareholders' equity during the three-months ended March 31, 2012 was due to net income of \$1.1 million. A decrease of \$74 thousand in other comprehensive income and dividends declared of \$0.5 million partially offset the above increases. The Company and its subsidiary bank met all regulatory capital requirements at March 31, 2012.

Table of Contents

CSB BANCORP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**RESULTS OF OPERATIONS****Three months ended March 31, 2012 and 2011**

For the quarter ended March 31, 2012, the Company recorded net income of \$1.1 million or \$0.39 per share, as compared to net income of \$896 thousand, or \$0.33 per share for the quarter ended March 31, 2011. The \$159 thousand increase in net income for the quarter was a result of net interest income increasing \$379 thousand and other noninterest income increasing \$189 thousand. These gains were partially offset by an increase in noninterest expense of \$426 thousand and an increase in the federal income tax provision of \$57 thousand. Return on average assets and return on average equity were 0.77% and 8.46%, respectively, for the three-month period of 2012, compared to 0.80% and 7.67%, respectively for 2011.

Average Balance Sheets and Net Interest Margin Analysis

<i>(Dollars in thousands)</i>	For the three months ended March 31,			
	2012	2011	2012	2011
	Average balance	Average rate	Average balance	Average rate
ASSETS				
Due from banks-interest bearing	\$ 66,744	0.23%	\$ 23,321	0.30%
Federal funds sold	62	0.01	90	0.11
Taxable securities	113,254	2.59	73,941	3.26
Tax-exempt securities	13,539	5.04	11,688	5.12
Loans	327,203	5.24	319,646	5.39
Total earning assets	520,802	4.02%	428,686	4.74%
Other assets	31,605		22,980	
TOTAL ASSETS	\$ 552,407		\$ 451,666	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Interest bearing demand deposits	\$ 60,132	0.09%	\$ 52,341	0.08%
Savings deposits	128,846	0.19	82,242	0.27
Time deposits	169,524	1.34	149,844	1.95
Other borrowed funds	57,483	1.25	53,092	1.73
Total interest bearing liabilities	415,985	0.79%	337,519	1.22%
Non-interest bearing demand deposits	84,471		65,147	
Other liabilities	1,804		1,613	
Shareholders' Equity	50,147		47,387	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 552,407		\$ 451,666	
Taxable equivalent net interest spread		3.22%		3.52%
Taxable equivalent net interest margin		3.38%		3.78%

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

Interest income for the quarter ended March 31, 2012, was \$5.1 million representing a \$186 thousand increase, or a 4% improvement, compared to the same period in 2011. This increase was primarily due to average investment volume increasing \$41 million for the quarter ended March 31, 2012 as compared to the first quarter 2011. Interest expense for the quarter ended March 31, 2012 was \$819 thousand, a decrease of \$193 thousand or 19%, from the same period in 2011. The decrease in interest expense occurred primarily due to a decrease of 0.39% in interest rates paid on interest-bearing deposits which decreased from 1.11% in 2011 to 0.72% in 2012 and a rate decrease of 0.48% on all other borrowings which declined from 1.73% in 2011 to 1.25% for the quarter ended March 31, 2012.

Table of Contents

CSB BANCORP, INC.

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

The provision for loan losses for the quarter ended March 31, 2012 was \$206 thousand, compared to a \$280 thousand provision for the same quarter in 2011. The provision for loan losses is determined based on management's calculation of the adequacy of the allowance for loan losses, which includes provisions for classified loans as well as for the remainder of the portfolio based on historical data, including past charge-offs and current economic trends.

Non-interest income for the quarter ended March 31, 2012, was \$948 thousand, an increase of \$189 thousand, or 25%, compared to the same quarter in 2011. Service charges on deposit accounts increased \$63 thousand or 26% compared to the same quarter in 2011 reflecting the increase in fees generated from deposits acquired during October 2011. Debit card interchange income rose \$56 thousand, or 41%, due to volume and as consumers increased their usage of the product. Fees from trust and brokerage services increased \$1 thousand to \$161 thousand for first quarter 2012 as compared to the same quarter in 2011. The gain on the sale of mortgage loans to the secondary market decreased to \$56 thousand for the three month period ended March 31, 2012, from \$70 thousand in the three-month period ended March 31, 2011. Secondary market mortgage interest rates reached new lows for the year; however, the Company originated and retained fifteen year fixed rate mortgages for its portfolio during the first quarter 2012.

Non-interest expenses for the quarter ended March 31, 2012 increased \$426 thousand, or 14%, compared to the first quarter of 2011. Salaries and employee benefits increased \$200 thousand, or 11%. Occupancy and equipment expenses increased \$62 thousand in 2012 over the first quarter of 2011. Other expenses rose \$101 thousand, or 23%, compared to the first quarter 2011. Increases in non-interest expense in salaries and employee benefits, occupancy and equipment and some other expenses are the direct result of acquiring two branches in Wooster, Ohio during fourth quarter 2011 which did not occur in first quarter 2011. A reduction in FDIC deposit premium expense for the quarter of \$23 thousand reflected the change in the assessment calculation in bank assessments based on total assets less tangible capital.

Federal income tax expense increased \$57 thousand, or 14%, for the quarter ended March 31, 2012 as compared to the first quarter of 2011. The provision for income taxes was \$456 thousand (effective rate of 30.2%) for the quarter ended March 31, 2012, compared to \$399 thousand (effective rate of 30.8%) for the quarter ended March 31, 2011. The increase in the expense resulted from improved income.

CAPITAL RESOURCES

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

LIQUIDITY

Liquidity refers to the Company's ability to generate sufficient cash to fund current loan demand, meet deposit withdrawals, pay operating expenses and meet other obligations. The Company's primary sources of liquidity are cash and cash equivalents, which totaled \$80 million at March 31, 2012, a decrease of \$2 million from \$82 million at December 31, 2011. Net income, securities available-for-sale, and loan repayments also serve as sources of liquidity. Cash and cash equivalents and estimated principal cash flow and maturities on investments maturing within one year represent 20% of total assets as of March 31, 2012 compared to 21% of total assets at year-end 2011. Other sources of liquidity include, but are not limited to, purchase of federal funds, advances from the FHLB, adjustments of interest rates to attract deposits, and borrowing at the Federal Reserve discount window. Management believes that its sources of liquidity are adequate to meet cash flow obligations for the foreseeable future.

Table of Contents

CSB BANCORP, INC.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Table of Contents

CSB BANCORP, INC.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the quantitative and qualitative disclosures about market risks as of March 31, 2012, from that presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Management performs a quarterly analysis of the Company's interest rate risk. All positions are currently within the Company's board-approved policy.

The following table presents an analysis of the estimated sensitivity of the Company's annual net interest income to sudden and sustained 100 through 400 basis point changes, in 100 basis point changes, in market interest rates at March 31, 2012 and 100 and 200 basis point changes in market interest rates at December 31, 2011. Due to the current low interest rate environment, particularly for short-term rates, the decreasing change is not calculated.

(Dollars in thousands)

March 31, 2012					
Change in interest rates (basis points)	Net interest income	Dollar change	Percentage change		
+ 400	\$ 17,649	\$ 777	4.6%		
+ 300	17,443	571	3.4		
+ 200	17,234	362	2.1		
+ 100	17,066	194	1.1		
0	16,872				
- 100	N/A	N/A	N/A		
- 200	N/A	N/A	N/A		
December 31, 2011					
Change in interest rates (basis points)	Net interest income	Dollar change	Percentage change		
+ 400	\$ 17,500	\$ 818	4.9%		
+ 300	17,241	559	3.4		
+ 200	17,028	346	2.1		
+ 100	16,857	17	1.0		
0	16,682				
- 100	N/A	N/A	N/A		
- 200	N/A	N/A	N/A		

Table of Contents

CSB BANCORP, INC.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4T CONTROLS AND PROCEDURES

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

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Table of Contents

CSB BANCORP, INC.

FORM 10-Q

Quarter ended March 31, 2012

PART II OTHER INFORMATION

ITEM 1- LEGAL PROCEEDINGS.

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

ITEM 1A- RISK FACTORS.

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

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

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

ITEM 3- DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4- MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5- OTHER INFORMATION.

Not applicable.

Table of Contents

CSB BANCORP, INC.

FORM 10-Q

Quarter ended March 31, 2012

PART II OTHER INFORMATION

Item 6 -Exhibits:

Exhibit

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

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: May 14, 2012

/s/ Eddie L. Steiner
Eddie L. Steiner

President
Chief Executive Officer

Date: May 14, 2012

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

Table of Contents

CSB BANCORP, INC.

INDEX TO EXHIBITS

Exhibit

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