

CSB BANCORP INC /OH
Form 10-Q
November 14, 2011
[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: September 30, 2011

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 November 14, 2011:
2,734,799 common shares

Table of Contents

CSB BANCORP, INC.

FORM 10-Q

QUARTER ENDED September 30, 2011

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>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to the Consolidated Financial Statements</u>	7
<u>ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	24
<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 Removed and Reserved</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)

	September 30, 2011	December 31, 2010
ASSETS		
<i>(Dollars in thousands)</i>		
Cash and cash equivalents		
Cash and due from banks	\$ 9,893	\$ 9,798
Interest-earning deposits in other banks	30,965	38,497
Federal funds sold		65
Total cash and cash equivalents	40,858	48,360
Securities		
Available-for-sale, at fair value	85,262	75,204
Restricted stock, at cost	5,463	5,463
Total securities	90,725	80,667
Loans held for sale	136	
Loans	313,980	315,647
Less allowance for loan losses	4,116	4,031
Net loans	309,864	311,616
Premises and equipment, net	7,740	7,878
Core deposit intangible	360	406
Goodwill	1,725	1,725
Bank-owned life insurance	3,042	2,961
Accrued interest receivable and other assets	3,399	3,443
TOTAL ASSETS	\$ 457,849	\$ 457,056
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	\$ 71,140	\$ 69,151
Interest-bearing	283,716	284,340
Total deposits	354,856	353,491
Short-term borrowings	32,527	32,018
Other borrowings	19,333	22,909
Accrued interest payable and other liabilities	1,942	1,484

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

Total liabilities	408,658	409,902
SHAREHOLDERS EQUITY		
Common stock, \$6.25 par value. Authorized 9,000,000 shares; issued 2,980,602 shares; outstanding 2,734,799 shares in 2011 and 2010	18,629	18,629
Additional paid-in capital	9,994	9,994
Retained earnings	24,063	22,673
Treasury stock at cost 245,803 shares in 2011 and 2010	(5,015)	(5,015)
Accumulated other comprehensive income	1,520	873
Total shareholders equity	49,191	47,154
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 457,849	\$ 457,056

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$ 4,233	\$ 4,384	\$ 12,745	\$ 12,971
Taxable securities	601	665	1,809	2,063
Nontaxable securities	110	91	310	258
Other	14	19	42	52
Total interest and dividend income	4,958	5,159	14,906	15,344
INTEREST EXPENSE				
Deposits	663	889	2,154	2,641
Other borrowings	198	313	625	1,032
Total interest expense	861	1,202	2,779	3,673
NET INTEREST INCOME	4,097	3,957	12,127	11,671
PROVISION FOR LOAN LOSSES	240	238	710	996
Net interest income after provision for loan losses	3,857	3,719	11,417	10,675
NONINTEREST INCOME				
Service charges on deposit accounts	286	296	810	851
Trust services	154	135	504	401
Debit card interchange fees	154	131	444	365
Gain on sale of loans, net	54	62	153	153
Securities gains, net	237		237	148
Other income	159	156	441	459
Total noninterest income	1,044	780	2,589	2,377
NONINTEREST EXPENSES				
Salaries and employee benefits	1,856	1,751	5,412	5,100
Occupancy expense	208	197	631	609
Equipment expense	127	124	370	375
Professional fees	200	133	536	457
Franchise tax expense	135	135	405	405
Software expense	66	64	192	190
Marketing and public relations	83	76	215	232
FDIC deposit insurance	36	109	254	417
Debit card expense	70	61	196	171
Gain on sale of other real estate owned, net	(51)		(51)	(23)
Amortization of intangible assets	15	15	46	47
Other expenses	713	550	1,655	1,403
Total noninterest expenses	3,458	3,215	9,861	9,383

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

Income before income taxes	1,443	1,284	4,145	3,669
FEDERAL INCOME TAX PROVISION	444	402	1,278	1,129
NET INCOME	\$ 999	\$ 882	\$ 2,867	\$ 2,540
Basic and diluted net income per share	\$ 0.37	\$ 0.32	\$ 1.05	\$ 0.93

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 48,538	\$ 46,776	\$ 47,154	\$ 45,822
Comprehensive income:				
Net income	999	882	2,867	2,540
Change in net unrealized gain, net of reclassification adjustments and related income taxes of \$75, \$23, \$333, and \$167, respectively	146	45	646	325
Total comprehensive income	1,145	927	3,513	2,865
Cash dividends declared:				
\$0.18 and \$0.54 per share for the quarter and nine month periods ended, respectively	(492)	(492)	(1,476)	(1,476)
Balance at end of period	\$ 49,191	\$ 47,211	\$ 49,191	\$ 47,211

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
<i>(Dollars in thousands, except per share data)</i>		
NET CASH FROM OPERATING ACTIVITIES	\$ 3,857	\$ 3,486
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale:		
Proceeds from maturities and repayments	27,928	36,211
Purchases	(40,159)	(36,375)
Proceeds from sale of securities	3,244	3,359
Loan originations, net of repayments	248	(4,452)
Proceeds from sale of other real estate	347	342
Property, equipment, and software acquisitions	(311)	(98)
Net cash used in investing activities	(8,703)	(1,013)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	1,396	11,874
Net change in short-term borrowings	509	770
Repayments of other borrowings	(3,576)	(13,181)
Cash dividends paid	(985)	(985)
Net cash used in financing activities	(2,656)	(1,522)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,502)	951
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	48,360	42,661
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 40,858	\$ 43,612
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	\$ 2,868	\$ 3,978
Income taxes	1,100	850
Noncash investing activities:		
Transfer of loans to other real estate owned	764	331

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 September 30, 2011, 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, 2010, 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 periods ended September 30, 2011 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 Accounting Standards Update (ASU) 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The amendments in this Update provide additional guidance or clarification to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual reporting period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company has provided the necessary disclosures in Note 3.

In April 2011, the FASB issued ASU 2011-03, *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. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In May 2011, the FASB issued ASU 2011-04, *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 International Financial Reporting Standards (IFRS). 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. This ASU is not expected to have a significant impact on the Company's financial statements.

In June 2011, the FASB issued ASU 2011-05, *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. This ASU is not expected to have a significant impact on the Company's financial statements.

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 and are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. This ASU is not expected to have a significant impact on the Company's financial statements.

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES

Securities consist of the following at September 30, 2011 and December 31, 2010:

<i>(Dollars in thousands)</i>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
September 30, 2011				
Available-for-sale:				
U.S. Treasury security	\$ 100	\$	\$	\$ 100
Obligations of U.S. Government corporations and agencies	21,982	83		22,065
Mortgage-backed securites in government sponsored entities	45,043	1,604	2	46,645
Obligations of states and political subdivisions	13,263	699		13,962
Corporate bonds	2,503		75	2,428
Total debt securities	82,891	2,386	77	85,200
Equity securities in financial institutions	68	3	9	62
Total available-for-sale	82,959	2,389	86	85,262
Restricted stock	5,463			5,463
Total securities	\$ 88,422	\$ 2,389	\$ 86	\$ 90,725
December 31, 2010				
Available-for-sale:				
U.S. Treasury security	\$ 100	\$	\$	\$ 100
Obligations of U.S. Government corporations and agencies	20,009	8	306	19,711
Mortgage-backed securites in government sponsored entities	41,005	1,374	28	42,351
Obligations of states and political subdivisions	11,699	341	46	11,994
Corporate bonds	1,000		8	992
Total debt securities	73,813	1,723	388	75,148
Equity securities in financial institutions	69	3	16	56
Total available-for-sale	73,882	1,726	404	75,204
Restricted stock	5,463			5,463
Total securities	\$ 79,345	\$ 1,726	\$ 404	\$ 80,667

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 September 30, 2011, 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	\$ 1,540	\$ 1,543
Due after one through five years	8,009	8,179
Due after five through ten years	20,759	21,400
Due after ten years	52,583	54,078
Total debt securities available-for-sale	\$ 82,891	\$ 85,200

Realized Gains and Losses

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. Gains or losses on the sales of available-for-sale securities are recognized upon sale and are determined by the specific identification method.

<i>(Dollars in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Proceeds	\$ 3,244	\$	\$ 3,244	\$ 3,359
Realized gains	\$ 237	\$	\$ 237	\$ 148
Realized losses				
Impairment losses				
Net securities (losses) gains	\$ 237	\$	\$ 237	\$ 148

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, 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 September 30, 2011 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 September 30, 2011 and December 31, 2010:

	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>						
September 30, 2011						
Mortgage-backed securities in government sponsored entities	\$	\$	\$ 2	\$ 261	\$ 2	\$ 261
Corporate bonds	10	990	65	435	75	1,425
Total debt securities	10	990	67	696	77	1,686
Equity securities in financial institutions			9	44	9	44
Total temporarily impaired securities	\$ 10	\$ 990	\$ 76	\$ 740	\$ 86	\$ 1,730
December 31, 2010						
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 seven (7) securities in an unrealized loss position at September 30, 2011, four (4) of which were in a continuous loss position for twelve months or more. There were twenty-two (22) securities in an unrealized loss position at December 31, 2010, three (3) 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

The Company grants commercial, commercial real estate, residential and consumer loans primarily to customers in Holmes, Tuscarawas, Wayne, Stark and contiguous counties in north central Ohio.

Loans consist of the following:

<i>(Dollars in thousands)</i>	September 30, 2011	December 31, 2010
Commercial	\$ 85,675	\$ 78,540
Commercial real estate	102,999	104,829
Residential real estate	102,244	108,832
Consumer	6,429	6,715
Construction & Land Development	16,416	16,515
Total loans before deferred costs	313,763	315,431
Deferred loan costs	217	216
Total Loans	\$ 313,980	\$ 315,647

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 September 30, 2011

approximately 87% 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 September 30, 2011 and December 31, 2010, there were no concentrations of loans related to any single industry in excess of 6.7% and 6.2% respectively, of total loans.

The following table represents a summary of the activity in the allowance for loan losses for the three and nine months ended September 30, 2011 and 2010:

<i>(Dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning balance	\$ 4,054	\$ 4,608	\$ 4,031	\$ 4,060
Provision for loan losses	240	238	710	996
Loans charged-off	(192)	(459)	(686)	(768)
Recoveries	14	20	61	119
Ending balance	\$ 4,116	\$ 4,407	\$ 4,116	\$ 4,407

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 nine months ended September 30, 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
September 30, 2011							
Beginning balance, January 1, 2011	\$ 1,179	\$ 1,183	\$ 1,057	\$ 80	\$ 213	\$ 319	\$ 4,031
Provision for possible loan losses	120	359	98	36	63	34	710
Charge-offs	(343)	(68)	(156)	(78)	(41)		(686)
Recoveries	12		9	40			61
Net charge-offs	(331)	(68)	(147)	(38)	(41)		(625)
Ending balance	\$ 968	\$ 1,474	\$ 1,008	\$ 78	\$ 235	\$ 353	\$ 4,116

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 September 30, 2011 and December 31, 2010:

<i>(Dollars in thousands)</i>	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Construction & Land Development	Unallocated	Total
September 30, 2011							
Allowance for loan losses:							
Ending allowance balances attributable to loans:							
Individually evaluated for impairment	\$ 179	\$ 326	\$ 53	\$	\$	\$	\$ 558
Collectively evaluated for impairment	789	1,148	955	78	235	353	3,558
Acquired with deteriorated credit quality							
Total ending allowance balance	\$ 968	\$ 1,474	\$ 1,008	\$ 78	\$ 235	\$ 353	\$ 4,116
Loans:							
Loans individually evaluated for impairment	\$ 4,461	\$ 2,761	\$ 182	\$	\$	\$	\$ 7,404
Loans collectively evaluated for impairment	81,214	100,238	102,062	6,429	16,416		306,359
Loans acquired with deteriorated credit quality							
Total ending loans balance	\$ 85,675	\$ 102,999	\$ 102,244	\$ 6,429	\$ 16,416	\$	\$ 313,763
December 31, 2010							
Allowance for loan losses:							
Ending allowance balances attributable to loans:							
Individually evaluated for impairment	\$ 106	\$ 132	\$	\$	\$	\$	\$ 238
Collectively evaluated for impairment	1,073	1,051	1,057	80	121	319	3,701
Acquired with deteriorated credit quality					92		92
Total ending allowance balance	\$ 1,179	\$ 1,183	\$ 1,057	\$ 80	\$ 213	\$ 319	\$ 4,031
Loans:							
Loans individually evaluated for impairment	\$ 621	\$ 886	\$ 299	\$	\$	\$	\$ 1,806
Loans collectively evaluated for impairment	77,919	103,943	108,533	6,715	16,075		313,185
Loans acquired with deteriorated credit quality					440		440
Total ending loans balance	\$ 78,540	\$ 104,829	\$ 108,832	\$ 6,715	\$ 16,515	\$	\$ 315,431

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 September 30, 2011 and December 31, 2010:

<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
September 30, 2011						
Commercial	\$ 4,509	\$	\$ 4,463	\$ 4,463	\$ 179	\$ 2,011
Commercial real estate	3,326	266	2,495	2,761	326	2,395
Residential real estate						
Construction & land development						
Total impaired loans	\$ 7,835	\$ 266	\$ 6,958	\$ 7,224	\$ 505	\$ 4,406
December 31, 2010						
Commercial	\$ 644	\$ 51	\$ 571	\$ 622	\$ 106	\$ 571
Commercial real estate	1,047	109	777	886	132	1,631
Residential real estate	590	298		298		97
Construction & land development	683		440	440	92	483
Total impaired loans	\$ 2,964	\$ 458	\$ 1,788	\$ 2,246	\$ 330	\$ 2,782

The following table presents the aging of past due and nonaccrual loans as of September 30, 2011 and December 31, 2010 by class of loans:

<i>(Dollars in thousands)</i>	Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days + Past Due	Total Past Due and Accruing	Non- Accrual	Total Loans
September 30, 2011							
Commercial	\$ 85,407	\$ 147	\$ 19	\$	\$ 166	\$ 102	\$ 85,675
Commercial real estate	100,933	49	325		374	1,692	102,999
Residential real estate	99,465	1,223	94	57	1,374	1,405	102,244
Consumer	6,234	110	26	59	195		6,429
Construction & land development	16,236					180	16,416
Total Loans	\$ 308,275	\$ 1,529	\$ 464	\$ 116	\$ 2,109	\$ 3,379	\$ 313,763
December 31, 2010							
Commercial	\$ 78,235	\$ 63	\$ 160	\$ 58	\$ 281	\$ 24	\$ 78,540

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

Commercial real estate	100,914	2,156	114	26	2,296	1,619	104,829
Residential real estate	105,593	574	253	601	1,428	1,811	108,832
Consumer	6,580	69	66		135		6,715
Construction & land development	16,061	3			3	451	16,515
Total Loans	\$ 307,383	\$ 2,865	\$ 593	\$ 685	\$ 4,143	\$ 3,905	\$ 315,431

Table of Contents

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 3 Loans (CONTINUED)**Troubled Debt Restructurings**

The Company has troubled debt restructurings of \$8.6 million as of September 30, 2011, and \$4.1 million as of December 31, 2010, with \$525 thousand and \$22 thousand of specific reserves allocated as of September 30, 2011 and December 31, 2010 respectively to customers whose loan terms have been modified in troubled debt restructurings. At September 30, 2011 \$7.7 million of the loans classified as troubled debt restructurings were performing to modified terms. The remaining \$900 thousand were on nonaccrual status.

Loan modifications that are considered troubled debt restructurings completed during the three-month and nine-month periods ended September 30, 2011 were as follows:

For the Three Months Ended September 30, 2011

<i>(Dollars in thousands)</i>	Number of loans restructured	Pre-Modification Recorded Investment	Post- Modification Recorded Investment
Commercial		\$	\$
Commercial real estate	1	298	298
Residential			
Construction			
Total Restructured Loans	1	\$ 298	\$ 298

For the Nine Months Ended September 30, 2011

Commercial	2	\$ 4,440	\$ 4,445
Commercial real estate			