

CSB BANCORP INC /OH
Form 10-Q
May 14, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2013

OR

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

Commission file number: 0-21714

CSB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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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 1, 2013:
2,736,060 common shares

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CSB BANCORP, INC.

FORM 10-Q

QUARTER ENDED March 31, 2013

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CSB BANCORP, INC.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|----------------------|
| ASSETS | | |
| <i>(Dollars in thousands)</i> | | |
| Cash and cash equivalents | | |
| Cash and due from banks | \$ 9,238 | \$ 21,485 |
| Interest-earning deposits in other banks | 27,938 | 45,393 |
| Total cash and cash equivalents | 37,176 | 66,878 |
| Securities | | |
| Available-for-sale, at fair value | 131,906 | 129,291 |
| Restricted stock, at cost | 5,463 | 5,463 |
| Total securities | 137,369 | 134,754 |
| Loans | | |
| Less allowance for loan losses | 4,804 | 4,580 |
| Net loans | 368,563 | 360,000 |
| Premises and equipment, net | 8,349 | 8,475 |
| Core deposit intangible | 860 | 894 |
| Goodwill | 4,728 | 4,728 |
| Bank-owned life insurance | 8,356 | 8,298 |
| Accrued interest receivable and other assets | 3,451 | 2,873 |
| TOTAL ASSETS | \$ 568,852 | \$ 586,900 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| LIABILITIES | | |
| Deposits | | |
| Noninterest-bearing | \$ 92,831 | \$ 104,147 |
| Interest-bearing | 364,699 | 371,296 |
| Total deposits | 457,530 | 475,443 |
| Short-term borrowings | 43,551 | 43,992 |
| Other borrowings | 12,611 | 12,672 |
| Accrued interest payable and other liabilities | 2,330 | 2,340 |
| Total liabilities | 516,022 | 534,447 |

SHAREHOLDERS EQUITY

| | | |
|---|-------------------|-------------------|
| Common stock, \$6.25 par value. Authorized 9,000,000 shares; issued 2,980,602 shares; outstanding 2,736,060 shares in 2013 and 2012 | 18,629 | 18,629 |
| Additional paid-in capital | 9,974 | 9,974 |
| Retained earnings | 27,831 | 26,962 |
| Treasury stock at cost 244,542 shares in 2013 and 2012 | (4,976) | (4,976) |
| Accumulated other comprehensive income | 1,372 | 1,864 |
| Total shareholders equity | 52,830 | 52,453 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 568,852 | \$ 586,900 |

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| <i>(Dollars in thousands, except per share data)</i> | Three Months Ended March 31, | |
|--|---|-------------|
| | 2013 | 2012 |
| INTEREST AND DIVIDEND INCOME | | |
| Loans, including fees | \$ 4,567 | \$ 4,252 |
| Taxable securities | 582 | 729 |
| Nontaxable securities | 127 | 112 |
| Other | 24 | 39 |
| Total interest and dividend income | 5,300 | 5,132 |
| INTEREST EXPENSE | | |
| Deposits | 475 | 640 |
| Short-term borrowings | 16 | 24 |
| Other borrowings | 117 | 155 |
| Total interest expense | 608 | 819 |
| NET INTEREST INCOME | 4,692 | 4,313 |
| PROVISION FOR LOAN LOSSES | 210 | 206 |
| Net interest income, after provision for loan losses | 4,482 | 4,107 |
| NONINTEREST INCOME | | |
| Service charges on deposit accounts | 315 | 308 |
| Trust services | 214 | 161 |
| Debit card interchange fees | 178 | 194 |
| Gain on sale of loans, net | 114 | 56 |
| Other | 217 | 229 |
| Total noninterest income | 1,038 | 948 |
| NONINTEREST EXPENSES | | |
| Salaries and employee benefits | 2,050 | 1,963 |
| Occupancy expense | 258 | 246 |
| Equipment expense | 165 | 155 |
| Professional and director fees | 117 | 207 |
| Franchise tax expense | 147 | 139 |
| FDIC insurance expense | 88 | 87 |
| Software expense | 114 | 93 |
| Marketing and public relations | 79 | 73 |
| Debit card expense | 62 | 65 |
| Amortization of intangible assets | 34 | 33 |
| Net cost of operation of other real estate | 9 | 3 |
| Other | 436 | 480 |
| Total noninterest expenses | 3,559 | 3,544 |

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| | | |
|---|-----------------|-----------------|
| Income before income taxes | 1,961 | 1,511 |
| FEDERAL INCOME TAX PROVISION | 599 | 456 |
| NET INCOME | \$ 1,362 | \$ 1,055 |
| Basic and diluted net earnings per share | \$ 0.50 | \$ 0.39 |

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| <i>(Dollars in thousands)</i> | Three Months Ended | |
|---|---------------------------|-------------|
| | 2013 | 2012 |
| Net income | \$ 1,362 | \$ 1,055 |
| Other comprehensive loss | | |
| Unrealized losses arising during the period | (745) | (112) |
| Income tax effect | 253 | 38 |
| Other comprehensive loss | (492) | (74) |
| Total comprehensive income | \$ 870 | \$ 981 |

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

| <i>(Dollars in thousands, except per share data)</i> | Three Months Ended | |
|--|---------------------------|------------------|
| | March 31, | |
| | 2013 | 2012 |
| Balance at beginning of period | \$ 52,453 | \$ 49,429 |
| Net income | 1,362 | 1,055 |
| Other comprehensive loss | (492) | (74) |
| Cash dividends declared | (493) | (492) |
| Balance at end of period | \$ 52,830 | \$ 49,918 |
| Cash dividends declared per share | \$ 0.18 | \$ 0.18 |

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| <i>(Dollars in thousands)</i> | 2013 | 2012 |
| NET CASH FROM OPERATING ACTIVITIES | \$ 1,182 | \$ 550 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Securities available-for-sale: | | |
| Proceeds from maturities and repayments | 8,128 | 13,279 |
| Purchases | (11,630) | (13,128) |
| Loan originations, net of repayments | (8,745) | (7,202) |
| Proceeds from sale of other real estate | 18 | 7 |
| Property, equipment, and software acquisitions | (262) | (67) |
| Purchase of bank-owned life insurance | | (5,000) |
| Net cash used in investing activities | (12,491) | (12,111) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in deposits | (17,891) | 6,692 |
| Net change in short-term borrowings | (441) | 4,644 |
| Repayments of other borrowings | (61) | (2,152) |
| Net cash (used in) provided by financing activities | (18,393) | 9,184 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (29,702) | (2,377) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 66,878 | 82,258 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 37,176 | \$ 79,881 |
| SUPPLEMENTAL DISCLOSURES | | |
| Cash paid during the year for: | | |
| Interest | \$ 635 | \$ 876 |
| Income taxes | 230 | |
| Noncash investing activities: | | |
| Transfer of loans to other real estate owned | | 5 |

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements include the accounts of CSB Bancorp, Inc. and its wholly-owned subsidiaries, The Commercial and Savings Bank (the Bank) and CSB Investment Services, LLC (together referred to as the Company or CSB). All significant intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated financial statements have been prepared without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the Company's financial position at March 31, 2013, and the results of operations and changes in cash flows for the periods presented have been made.

Certain information and footnote disclosures typically included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been omitted. The Annual Report for CSB for the year ended December 31, 2012, contains consolidated financial statements and related footnote disclosures, which should be read in conjunction with the accompanying consolidated financial statements. The results of operations for the period ended March 31, 2013 are not necessarily indicative of the operating results for the full year or any future interim period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES

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

| <i>(Dollars in thousands)</i> | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| March 31, 2013 | | | | |
| Available-for-sale: | | | | |
| U.S. Treasury securities | \$ 1,106 | \$ 4 | \$ | \$ 1,110 |
| Obligations of U.S. Government corporations and agencies | 39,996 | 21 | 122 | 39,895 |
| Mortgage-backed securities in government sponsored entities | 64,722 | 1,634 | 224 | 66,132 |
| Asset-backed securities in government sponsored entities | 2,829 | 27 | | 2,856 |
| Obligations of states and political subdivisions | 16,752 | 645 | 24 | 17,373 |
| Corporate bonds | 4,317 | 121 | 11 | 4,427 |
| Total debt securities | 129,722 | 2,452 | 381 | 131,793 |
| Equity securities in financial institutions | 106 | 10 | 3 | 113 |
| Total available-for-sale | 129,828 | 2,462 | 384 | 131,906 |
| Restricted stock | 5,463 | | | 5,463 |
| Total securities | \$ 135,291 | \$ 2,462 | \$ 384 | \$ 137,369 |
| December 31, 2012 | | | | |
| Available-for-sale: | | | | |
| U.S. Treasury securities | \$ 100 | \$ | \$ | \$ 100 |
| Obligations of U.S. Government corporations and agencies | 35,996 | 27 | 43 | 35,980 |
| Mortgage-backed securities in government sponsored entities | 66,933 | 2,107 | 1 | 69,039 |
| Asset-backed securities in government sponsored entities | 2,862 | | 39 | 2,823 |
| Obligations of states and political subdivisions | 16,194 | 701 | 12 | 16,883 |
| Corporate bonds | 4,313 | 112 | 28 | 4,397 |
| Total debt securities | 126,398 | 2,947 | 123 | 129,222 |
| Equity securities in financial institutions | 69 | 9 | 9 | 69 |
| Total available-for-sale | 126,467 | 2,956 | 132 | 129,291 |
| Restricted stock | 5,463 | | | 5,463 |
| Total securities | \$ 131,930 | \$ 2,956 | \$ 132 | \$ 134,754 |

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES (CONTINUED)

The amortized cost and fair value of debt securities at March 31, 2013, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| <i>(Dollars in thousands)</i> | Amortized cost | Fair value |
|---|---------------------------|-------------------|
| Available-for-sale: | | |
| Due in one year or less | \$ 801 | \$ 803 |
| Due after one through five years | 17,042 | 17,414 |
| Due after five through ten years | 29,918 | 30,266 |
| Due after ten years | 81,961 | 83,310 |
| Total debt securities available-for-sale | \$ 129,722 | \$ 131,793 |

Securities with a carrying value of approximately \$92.0 million and \$79.2 million were pledged at March 31, 2013 and December 31, 2012, respectively, to secure public deposits, as well as other deposits and borrowings as required or permitted by law.

Restricted stock primarily consists of investments in FHLB and Federal Reserve Bank stock. The Bank's investment in FHLB stock amounted to approximately \$5.0 million at March 31, 2013 and December 31, 2012. Federal Reserve Bank stock was \$471 thousand at March 31, 2013 and December 31, 2012.

Realized Gains and Losses

There were no sales of available-for-sale securities for the three month periods ending March 31, 2013 or 2012. Gains or losses on the sales of available-for-sale securities are recognized upon sale and are determined by the specific identification method.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES (CONTINUED)

The following table presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2013 and December 31, 2012:

| | Securities in a continuous unrealized loss position | | | | | |
|---|---|------------------|-------------------------|-----------------|-------------------------|------------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value |
| <i>(Dollars in thousands)</i> | | | | | | |
| March 31, 2013 | | | | | | |
| Obligations of U.S. Government corporations and agencies | \$ 122 | \$ 24,876 | \$ | \$ | \$ 122 | \$ 24,876 |
| Mortgage-backed securities in government sponsored entities | 224 | 18,311 | | | 224 | 18,311 |
| Obligations of state and political subdivisions | 24 | 2,433 | | | 24 | 2,433 |
| Corporate bonds | 3 | 364 | 8 | 992 | 11 | 1,356 |
| Total debt securities | 373 | 45,984 | 8 | 992 | 381 | 46,976 |
| Equity securities in financial institutions | | | 3 | 51 | 3 | 51 |
| Total temporarily impaired securities | \$ 373 | \$ 45,984 | \$ 11 | \$ 1,043 | \$ 384 | \$ 47,027 |
| December 31, 2012 | | | | | | |
| Obligations of U.S. Government corporations and agencies | \$ 43 | \$ 15,957 | \$ | \$ | \$ 43 | \$ 15,957 |
| Mortgage-backed securities in government sponsored entities | 1 | 344 | | | 1 | 344 |
| Asset-backed securities in government sponsored entities | 39 | 1,833 | | | 39 | 1,833 |
| Obligations of states and political subdivisions | 12 | 1,737 | | | 12 | 1,737 |
| Corporate bonds | 4 | 366 | 24 | 975 | 28 | 1,341 |
| Total debt securities | \$ 99 | 20,237 | 24 | 975 | 123 | 21,212 |
| Equity securities in financial institutions | | | 9 | 45 | 9 | 45 |
| Total temporarily impaired securities | \$ 99 | \$ 20,237 | \$ 33 | \$ 1,020 | \$ 132 | \$ 21,257 |

There were forty-four (44) securities in an unrealized loss position at March 31, 2013, four (4) of which were in a continuous loss position for twelve months or more. At least quarterly, the Company conducts a comprehensive security-level impairment assessment. The assessments are based on the nature of the securities, the extent and duration of the securities in an unrealized loss position, the extent and duration of the loss and management's intent to sell or if it is more likely than not that management will be required to sell a security before recovery of its amortized cost basis, which may be maturity. Management believes the Company will fully recover the cost of these securities 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, 2013 and has recognized the total amount of the impairment in other comprehensive income, net of tax.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS

Loans consist of the following:

| <i>(Dollars in thousands)</i> | March 31, 2013 | December 31, 2012 |
|-----------------------------------|---------------------------|------------------------------|
| Commercial | \$ 108,387 | \$ 104,899 |
| Commercial real estate | 132,928 | 119,192 |
| Residential real estate | 112,082 | 110,412 |
| Construction & land development | 13,145 | 23,358 |
| Consumer | 6,567 | 6,480 |
| | | |
| Total loans before deferred costs | 373,109 | 364,341 |
| Deferred loan costs | 258 | 239 |
| | | |
| Total Loans | \$ 373,367 | \$ 364,580 |

Loan Origination/Risk Management

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

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

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Company's exposure to adverse economic events that affect any single industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At March 31, 2013 and December 31, 2012, approximately 79% and 81%, respectively of the outstanding principal balance of the Company's commercial real estate loans were secured by owner-occupied properties.

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With respect to loans to developers and builders that are secured by non-owner occupied properties, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction and land development loans are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction and land development loans are generally based upon estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction and land development loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

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

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

Loans serviced for others approximated \$62.9 million and \$60.2 million at March 31, 2013 and December 31, 2012, respectively.

Concentrations of Credit

Nearly all of the Company's lending activity occurs within the state of Ohio, including the four counties of Holmes, Stark, Tuscarawas and Wayne, as well as other markets. The majority of the Company's loan portfolio consists of commercial and industrial and commercial real estate loans. As of March 31, 2013 and December 31, 2012, there were no concentrations of loans related to any single industry.

Allowance for Loan Losses

The following table details activity in the allowance for loan losses by portfolio segment for the three month periods ended March 31, 2013 and 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories. The decreases in the provision for possible loan losses related to commercial real estate loans and consumer loans are due to the decrease in historical losses in these categories, while the decrease in the provision for loan losses related to construction and land development loans is due to the decrease in the volume of loans in this category as loans have moved into permanent financing.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

| <i>(Dollars in thousands)</i> | Commercial | Commercial Real Estate | Residential Real Estate | Construction & Land Development | Consumer | Unallocated | Total |
|------------------------------------|-------------------|---------------------------------------|--|--|-----------------|--------------------|--------------|
| March 31, 2013 | | | | | | | |
| Beginning balance, January 1, 2013 | \$ 933 | \$ 1,902 | \$ 1,096 | \$ 253 | \$ 76 | \$ 320 | \$ 4,580 |
| Provision for possible loan losses | 242 | (78) | 177 | (119) | (12) | | 210 |
| Charge-offs | (6) | | | | (10) | | (16) |
| Recoveries | 7 | | 9 | | 14 | | 30 |
| Net charge-offs | 1 | | 9 | | 4 | | 14 |
| Ending balance | \$ 1,176 | \$ 1,824 | \$ 1,282 | \$ 134 | \$ 68 | \$ 320 | \$ 4,804 |

| <i>(Dollars in thousands)</i> | Commercial | Commercial Real Estate | Residential Real Estate | Construction & Land Development | Consumer | 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 |

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents the balance in the allowance for loan losses and the ending loan balances by portfolio segment and based on the impairment method as of March 31, 2013 and December 31, 2012:

| <i>(Dollars in thousands)</i> | Commercial | Commercial Real Estate | Residential Real Estate | Construction & Land Development | Consumer | Unallocated | Total |
|--|------------|---------------------------|-------------------------------|---------------------------------------|----------|-------------|------------|
| March 31, 2013 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Ending allowance balances attributable to loans: | | | | | | | |
| Individually evaluated for impairment | \$ 178 | \$ 522 | \$ 233 | \$ | \$ | \$ | \$ 933 |
| Collectively evaluated for impairment | 998 | 1,302 | 1,049 | 134 | 68 | 320 | 3,871 |
| Total ending allowance balance | \$ 1,176 | \$ 1,824 | \$ 1,282 | \$ 134 | \$ 68 | \$ 320 | \$ 4,804 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | \$ 4,096 | \$ 3,625 | \$ 1,651 | \$ | \$ | \$ | \$ 9,372 |
| Loans collectively evaluated for impairment | 104,291 | 129,303 | 110,431 | 13,145 | 6,567 | \$ | 363,737 |
| Total ending loans balance | \$ 108,387 | \$ 132,928 | \$ 112,082 | \$ 13,145 | \$ 6,567 | \$ | \$ 373,109 |
| December 31, 2012 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Ending allowance balances attributable to loans: | | | | | | | |
| Individually evaluated for impairment | \$ 85 | \$ 522 | \$ 172 | \$ | \$ | \$ | \$ 779 |
| Collectively evaluated for impairment | 848 | 1,380 | 924 | 253 | 76 | 320 | 3,801 |
| Total ending allowance balance | \$ 933 | \$ 1,902 | \$ 1,096 | \$ 253 | \$ 76 | \$ 320 | \$ 4,580 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | \$ 4,315 | \$ 4,573 | \$ 1,137 | \$ 166 | \$ | \$ | \$ 10,191 |
| Loans collectively evaluated for impairment | 100,584 | 114,619 | 109,275 | 23,192 | 6,480 | \$ | 354,150 |
| Total ending loans balance | \$ 104,899 | \$ 119,192 | \$ 110,412 | \$ 23,358 | \$ 6,480 | \$ | \$ 364,341 |

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2013 and December 31, 2012:

| <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 | Interest Income Recognized |
|---------------------------------|--------------------------------|--|---|---------------------------------|----------------------|-----------------------------------|----------------------------------|
| March 31, 2013 | | | | | | | |
| Commercial | \$ 4,096 | \$ 1 | \$ 4,108 | \$ 4,109 | \$ 178 | \$ 4,205 | \$ 45 |
| Commercial real estate | 3,965 | 748 | 2,877 | 3,625 | 522 | 4,102 | 49 |
| Residential real estate | 1,745 | 499 | 1,145 | 1,644 | 233 | 1,232 | 9 |
| Construction & land development | | | | | | 83 | 2 |
| Total impaired loans | \$ 9,806 | \$ 1,248 | \$ 8,130 | \$ 9,378 | \$ 933 | \$ 9,622 | \$ 105 |
| December 31, 2012 | | | | | | | |
| Commercial | \$ 4,315 | \$ | \$ 4,329 | \$ 4,329 | \$ 85 | \$ 4,123 | \$ 167 |
| Commercial real estate | 4,906 | 1,723 | 2,849 | 4,572 | 522 | 4,396 | 152 |
| Residential real estate | 1,223 | 86 | 1,057 | 1,143 | 172 | 770 | 18 |
| Construction & land development | 173 | 166 | | 166 | | 167 | |
| Total impaired loans | \$ 10,617 | \$ 1,975 | \$ 8,235 | \$ 10,210 | \$ 779 | \$ 9,456 | \$ 337 |

The following table presents the aging of past due and nonaccrual loans as of March 31, 2013 and December 31, 2012 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, 2013 | | | | | | | |
| Commercial | \$ 108,171 | \$ 154 | \$ 1 | \$ 2 | \$ 59 | \$ 216 | \$ 108,387 |
| Commercial real estate | 131,319 | 287 | 74 | | 1,248 | 1,609 | 132,928 |
| Residential | 110,273 | 628 | 303 | 37 | 841 | 1,809 | 112,082 |
| Construction | 13,145 | | | | | | 13,145 |
| Consumer | 6,475 | 89 | 3 | | | 92 | 6,567 |
| Total Loans | \$ 369,383 | \$ 1,158 | \$ 381 | \$ 39 | \$ 2,148 | \$ 3,726 | \$ 373,109 |
| December 31, 2012 | | | | | | | |
| Commercial | \$ 104,348 | \$ 60 | \$ 8 | \$ | \$ 483 | \$ 551 | \$ 104,899 |

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

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The Company had \$8.4 million as of March 31, 2013, and \$8.7 million as of December 31, 2012, with \$796 thousand and \$718 thousand of specific reserves allocated, respectively to customers whose loan terms have been modified in troubled debt restructurings. At March 31, 2013, \$7.7 million of the loans classified as troubled debt restructurings were performing to modified terms. Of the remaining \$706 thousand, \$599 thousand were in nonaccrual of interest status.

None of the loans that were restructured in 2011 or 2012 have subsequently defaulted in the three month periods ending March 31, 2012 and 2013.

There were no loan modifications of loans that were considered troubled debt restructurings completed during the three month periods ending March 31, 2013. Loan modifications that are considered troubled debt restructurings completed during the three month period ending March 31, 2012 were as follows:

| <i>(Dollars in thousands)</i> | For the Three Months Ended March 31, 2012 | | |
|-------------------------------|---|--|---|
| | 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 months 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.

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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.

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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, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| <i>(Dollars in thousands)</i> | Pass | Special Mention | Substandard | Doubtful | Not Rated | Total |
|---------------------------------|-------------------|--------------------|------------------|-----------|-------------------|-------------------|
| March 31, 2013 | | | | | | |
| Commercial | \$ 94,441 | \$ 5,274 | \$ 7,768 | \$ | \$ 904 | \$ 108,387 |
| Commercial real estate | 116,328 | 7,080 | 7,727 | | 1,793 | 132,928 |
| Residential real estate | 195 | | 52 | | 111,835 | 112,082 |
| Construction & land development | 9,721 | 1,451 | 991 | | 982 | 13,145 |
| Consumer | | | | | 6,567 | 6,567 |
| Total | \$ 220,685 | \$ 13,805 | \$ 16,538 | \$ | \$ 122,081 | \$ 373,109 |
| December 31, 2012 | | | | | | |
| Commercial | \$ 92,123 | \$ 5,854 | \$ 6,637 | \$ | \$ 285 | \$ 104,899 |
| Commercial real estate | 102,602 | 5,671 | 8,459 | | 2,460 | 119,192 |
| Residential real estate | 200 | | 53 | | 110,159 | 110,412 |
| Construction & land development | 18,063 | 2,750 | 1,244 | | 1,301 | 23,358 |
| Consumer | | | | | 6,480 | 6,480 |
| Total | \$ 212,988 | \$ 14,275 | \$ 16,393 | \$ | \$ 120,685 | \$ 364,341 |

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

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, 2013 and December 31, 2012. Non-performing loans include loans past due 90 days and greater and loans on nonaccrual of interest.

| <i>(Dollars in thousands)</i> | Performing | Non-Performing | Total |
|---------------------------------|-------------------|-----------------------|-------------------|
| March 31, 2013 | | | |
| Commercial | \$ 895 | \$ 9 | \$ 904 |
| Commercial real estate | 1,793 | | 1,793 |
| Residential real estate | 111,008 | 827 | 111,835 |
| Construction & land development | 982 | | 982 |
| Consumer | 6,567 | | 6,567 |
| Total | \$ 121,245 | \$ 836 | \$ 122,081 |
| December 31, 2012 | | | |
| Commercial | \$ 285 | \$ | \$ 285 |
| Commercial real estate | 2,460 | | 2,460 |
| Residential real estate | 109,276 | 883 | 110,159 |
| Construction & land development | 1,294 | 7 | 1,301 |
| Consumer | 6,480 | | 6,480 |
| Total | \$ 119,795 | \$ 890 | \$ 120,685 |

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.

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The following table presents the assets reported on the consolidated statements of financial condition at their fair value as of March 31, 2013 and December 31, 2012, by level within the fair value hierarchy. No liabilities are carried at fair value. As required by the accounting standards, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Equity securities and U.S. Treasury Notes are valued at the closing price reported on the active market on which the individual securities are traded. Obligations of U.S. government corporations and agencies, mortgage-backed securities, asset-backed securities, obligations of states and political subdivisions and corporate bonds are valued at observable market data for similar assets.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

| <i>(Dollars in thousands)</i> | Level I | Level II | Level III | Total |
|---|--------------------------|----------|-----------|----------|
| | March 31, 2013 | | | |
| Assets measured on a nonrecurring basis: | | | | |
| Impaired loans | \$ | \$ | \$ 8,439 | \$ 8,439 |
| Mortgage servicing rights | | | 221 | 221 |
| | December 31, 2012 | | | |
| Impaired loans | \$ | \$ | \$ 9,412 | \$ 9,412 |
| Other real estate owned | | | 25 | 25 |
| Mortgage servicing rights | | | 214 | 214 |

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

| <i>(Dollars in thousands)</i> | Fair Value Estimate | Quantitative Valuation Techniques | Unobservable Input | Range |
|-------------------------------|---------------------|-----------------------------------|---|-----------------------|
| | | | March 31, 2013 | |
| Impaired loans | \$ 7,325 | Discounted cash flow | Remaining term Discount rate | 12 mos to 30 yrs |
| | | | | 7.5% to 10.2% |
| | 1,114 | Appraisal of collateral (1),(3) | Appraisal adjustments (2) Liquidation expense (2) | -20% to -25% -10% |
| Mortgage servicing rights | 221 | Discounted cash flow | Remaining term Discount rate | 21 mos to 30 yrs 1.5% |
| | | | December 31, 2012 | |
| Impaired loans | \$ 7,260 | Discounted cash flow | Remaining term Discount rate | 4 mos to 29 yrs |
| | | | | 7.5% to 12% |
| | 2,152 | Appraisal of collateral (1),(3) | Appraisal adjustments (2) Liquidation expense (2) | -20% to -35% -10% |
| Other real estate owned | 25 | Appraisal of collateral (1), (3) | Management discount for property type (3) | 0% to -67% |
| Mortgage servicing rights | 214 | Discounted cash flow | Remaining term Discount rate | 24 mos to 30 yrs 1.5% |

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various inputs which are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.
- (3) Includes qualitative adjustments by management and estimated liquidation expenses.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of recognized financial instruments as of March 31, 2013 and December 31, 2012 are as follows:

| | Carrying Value | Level I | Level II | Level III | Total Fair Value |
|-------------------------------|----------------|------------|----------|------------|------------------|
| <i>(Dollars in thousands)</i> | | | | | |
| Financial assets: | | | | | |
| Cash and cash equivalents | \$ 37,176 | \$ 37,176 | \$ | \$ | \$ 37,176 |
| Securities | 131,906 | 1,223 | 130,683 | | 131,906 |
| Net loans | 368,563 | | | 374,438 | 374,438 |
| Bank-owned life insurance | 8,356 | 8,356 | | | 8,356 |
| Restricted stock | 5,463 | | 5,463 | | 5,463 |
| Accrued interest receivable | 1,472 | 1,472 | | | 1,472 |
| Financial liabilities: | | | | | |
| Deposits | \$ 457,530 | \$ 303,082 | \$ | \$ 155,681 | \$ 458,763 |
| Short-term borrowings | 43,551 | 43,511 | | | 43,511 |
| Other borrowings | 12,611 | | | 13,028 | 13,028 |
| Accrued interest payable | 131 | 131 | | | 131 |

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

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

Cash and cash equivalents; Accrued interest receivable; Short-term borrowings, and Accrued interest payable

The fair value of the above instruments is considered to be carrying value. Classified as Level I in the fair value hierarchy.

Securities

The fair value of securities available-for-sale which are measured on a recurring basis are determined primarily by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Net loans

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

Bank-owned life insurance

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

Regulatory stock

Regulatory stock includes Federal Home Loan Bank Stock and Federal Reserve Bank Stock. It is not practicable to determine the fair value of regulatory equity securities due to restrictions placed on their transferability. Fair value is based on carrying value, classified as Level II.

Deposits

The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rates are estimated using market rates currently offered for similar instruments with similar remaining maturities, resulting in a Level III classification. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of quarter end, resulting in a Level I classification.

Other borrowings

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

The Company also has unrecognized financial instruments at March 31, 2013 and December 31, 2012. These financial instruments relate to commitments to extend credit and letters of credit. The aggregated contract amount of such financial instruments was approximately \$100.2 million at March 31, 2013 and \$107.4 million at December 31, 2012. Such amounts are also considered to be the estimated fair values.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 6 ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income by component net of tax for the three months ended March 31, 2013:

| <i>(Dollars in thousands)</i> | Unrealized gains on available for sale securities (a) |
|---|--|
| Balance as of December 31, 2012 | \$ 1,864 |
| Other comprehensive loss before reclassification | (492) |
| Amount reclassified from accumulated other comprehensive income | |
| Total other comprehensive loss | (492) |
| Balance as of March 31, 2013 | \$ 1,372 |

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

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CSB BANCORP, INC.

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

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis focuses on the consolidated financial condition of the Company at March 31, 2013 as compared to December 31, 2012, and the consolidated results of operations for the three months ending March 31, 2013 compared to the same period in 2012. The purpose of this discussion is to provide the reader with a more thorough understanding of the Consolidated Financial Statements. This discussion should be read in conjunction with the interim Consolidated Financial Statements and related footnotes.

FORWARD-LOOKING STATEMENTS

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

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

FINANCIAL CONDITION

Total assets were \$568.9 million at March 31, 2013, compared to \$586.9 million at December 31, 2012, representing a decrease of \$18 million, or 3%. Cash and cash equivalents decreased \$30 million, or 44%, during the three months ending March 31, 2013, primarily as a result of funding decreases in deposits. Securities increased \$3 million, or 2%, during the first three months of 2013 as bonds were purchased within the US government agency portfolio and tax exempt bonds.

Net loans increased \$9 million, or 2%, during the three months ending March 31, 2013. Commercial loans including commercial real estate loans increased \$17 million, or 8%, home equity lines decreased \$800 thousand, or 2%, real estate mortgage loans increased \$3 million, or 4%, construction and land development loans decreased \$10 million, or 44%, and consumer loans increased slightly over December 31, 2012. Consumers continued to refinance their mortgage loans for lower long-term rates. During 2012 and the first quarter of 2013 the Bank originated and retained some fifteen year fixed rate mortgage loans for its portfolio. Residential mortgage originations for the quarter ended March 31, 2013 were \$8.6 million as compared to \$14.7 million for fourth quarter 2012 and \$7.6 million for first quarter 2012. The Bank originates and sells fixed rate thirty year mortgages into the secondary market.

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

The allowance for loan losses as a percentage of total loans was 1.29% at March 31, 2013, an increase from 1.26% at December 31, 2012. Outstanding loan balances increased 9% to \$373 million at March 31, 2013. Net recoveries of \$14 thousand and a provision of \$210 thousand increased the allowance for loan losses for the three months ending March 31, 2013.

| <i>(Dollars in thousands)</i> | March 31, 2013 | December 31, 2012 | March 31, 2012 |
|---------------------------------|---------------------------|------------------------------|---------------------------|
| Non-performing loans | \$ 2,187 | \$ 3,337 | \$ 3,261 |
| Other real estate | 0 | 25 | 5 |
| Allowance for loan losses | 4,804 | 4,580 | 4,246 |
| Total loans | 373,367 | 364,580 | 331,353 |
| Allowance: loans | 1.29% | 1.26% | 1.28% |
| Allowance: non-performing loans | 2.2x | 1.4x | 1.3x |

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

The Company had net unrealized gains of \$2.1 million within its securities portfolio at March 31, 2013, compared to net unrealized gains of \$2.8 million at December 31, 2012. The Company has no exposure to government-sponsored enterprise preferred stocks, collateralized debt obligations or trust preferred securities. Management has considered industry analyst reports, sector credit reports and the volatility within the bond market in concluding that the gross unrealized losses of \$384 thousand within the total portfolio as of March 31, 2013, were primarily the result of customary and expected fluctuations in the bond market and not necessarily the expected cash flows of the individual securities. As a result, all security impairments detailed above on March 31, 2013, are considered temporary and no impairment loss relating to these securities has been recognized.

Deposits decreased \$18 million, or 4% from December 31, 2012 with non-interest bearing deposits decreasing \$11 million and interest-bearing deposit accounts decreasing \$7 million. Much of the deposit decrease is related to normal seasonal fluctuations experienced during the first quarter. Total deposits as of March 31, 2013 are \$7.3 million above March 31, 2012 deposit balances. By deposit type, increases were recognized in statement and passbook savings accounts and money market savings accounts for the period ended March 31, 2013.

Short-term borrowings consisting of overnight repurchase agreements with retail customers decreased \$441 thousand from December 31, 2012 and other borrowings decreased \$61 thousand as the Company used cash from interest-earning deposits in other banks to repay required maturities and monthly payments on advances from the FHLB.

Total shareholders' equity amounted to \$53 million, or 9% of total assets, at March 31, 2013, compared to \$52 million, or 9% of total assets, at December 31, 2012. The increase in shareholders' equity during the three months ending March 31, 2013 was due to net income of \$1.4 million, which was partially offset by a decrease of \$492 thousand in other comprehensive income and dividends declared of \$493 thousand. The Company and the Bank met all regulatory capital requirements at March 31, 2013.

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CSB BANCORP, INC.

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

RESULTS OF OPERATIONS**Three months ended March 31, 2013 and 2012**

For the quarter ended March 31, 2013, the Company recorded net income of \$1.4 million or \$0.50 per share, as compared to net income of \$1.1 million, or \$0.39 per share for the quarter ended March 31, 2012. The \$307 thousand increase in net income for the quarter was a result of net interest income increasing \$379 thousand and other noninterest income increasing \$90 thousand. These gains were partially offset by an increase in noninterest expense of \$15 thousand and an increase in the federal income tax provision of \$143 thousand. Return on average assets and return on average equity were 0.96% and 10.43%, respectively, for the three month period of 2013, compared to 0.77% and 8.46%, respectively for the same quarter in 2012.

Average Balance Sheets and Net Interest Margin Analysis

| | For the three months ended March 31, | | | |
|---|--------------------------------------|--------------|-------------------|--------------|
| | 2013 | | 2012 | |
| (Dollars in thousands) | Average balance | Average rate | Average balance | Average rate |
| ASSETS | | | | |
| Interest-earning deposits in other banks | \$ 34,088 | 0.29% | \$ 66,744 | 0.23% |
| Federal funds sold | 106 | 0.16 | 62 | 0.01 |
| Taxable securities | 119,432 | 1.98 | 113,254 | 2.59 |
| Tax-exempt securities | 16,378 | 4.76 | 13,539 | 5.04 |
| Loans | 373,064 | 4.98 | 327,203 | 5.24 |
| Total earning assets | 543,068 | 4.01% | 520,802 | 4.02% |
| Other assets | 32,857 | | 31,605 | |
| TOTAL ASSETS | \$ 575,925 | | \$ 552,407 | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Interest-bearing demand deposits | \$ 70,299 | 0.06% | \$ 60,132 | 0.09% |
| Savings deposits | 140,222 | 0.11 | 128,846 | 0.19 |
| Time deposits | 156,536 | 1.10 | 169,524 | 1.34 |
| Other borrowed funds | 57,678 | 0.94 | 57,483 | 1.25 |
| Total interest bearing liabilities | 424,735 | 0.58% | 415,985 | 0.79% |
| Non-interest bearing demand deposits | 95,973 | | 84,471 | |
| Other liabilities | 2,257 | | 1,804 | |
| Shareholders' Equity | 52,960 | | 50,147 | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 575,925 | | \$ 552,407 | |
| Taxable equivalent net interest spread | | 3.43% | | 3.22% |
| Taxable equivalent net interest margin | | 3.56% | | 3.38% |

Interest income for the quarter ended March 31, 2013, was \$5.3 million representing a \$168 thousand increase, or a 3.3% improvement, compared to the same period in 2012. This increase was primarily due to average loan volume increasing \$46 million for the quarter ended

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March 31, 2013 as compared to the first quarter 2012. Interest expense for the quarter ended March 31, 2013 was \$608 thousand, a decrease of \$211 thousand or 25.8%, from the same period in 2012. The decrease in interest expense occurred primarily due to a decrease of 0.20% in interest rates paid on interest-bearing deposits which decreased from 0.72% in 2012 to 0.52% in 2013 and a rate decrease of 0.31% on all other borrowings which declined from 1.25% in 2012 to 0.94% for the quarter ended March 31, 2013.

The provision for loan losses for the quarter ended March 31, 2013 was \$210 thousand, compared to a \$206 thousand provision for the same quarter in 2012. The provision for loan losses is determined based on management's calculation of the adequacy of the allowance for loan losses, which includes provisions for classified loans as well as for the remainder of the portfolio based on historical data, including past charge-offs and current economic trends.

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CSB BANCORP, INC.

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

Noninterest income for the quarter ended March 31, 2013, was \$1.0 million, an increase of \$90 thousand, or 9%, compared to the same quarter in 2012. Service charges on deposit accounts increased \$7 thousand or 2% compared to the same quarter in 2012. Debit card interchange income declined \$16 thousand, or 8%, as competitive pricing and alternative channels were provided by debit card processors. Fees from trust and brokerage services increased \$53 thousand to \$214 thousand for first quarter 2013 as compared to the same quarter in 2012. The gain on the sale of mortgage loans to the secondary market increased to \$114 thousand for the three months ending March 31, 2013, from \$56 thousand in the three month period ended March 31, 2012. Mortgage origination increased during the quarter as secondary market mortgage interest rates reached new lows.

Noninterest expenses for the quarter ended March 31, 2013 increased \$15 thousand, or less than 1%, compared to the first quarter of 2012. Salaries and employee benefits increased \$87 thousand, or 4%. Occupancy and equipment expenses increased \$22 thousand in 2013 over the first quarter of 2012. Other expenses decreased \$94 thousand, or 8%, compared to the first quarter 2012.

Federal income tax expense increased \$143 thousand, or 31%, for the quarter ended March 31, 2013 as compared to the first quarter of 2012. The provision for income taxes was \$599 thousand (effective rate of 30.5%) for the quarter ended March 31, 2013, compared to \$456 thousand (effective rate of 30.2%) for the quarter ended March 31, 2012. 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, 2012. As of March 31, 2013 the Company and the Bank meet all capital adequacy requirements to which they are subject.

LIQUIDITY

| <i>(Dollars in millions)</i> | March 31, 2013 | December 31, 2012 | Change |
|---|-------------------|----------------------|---------|
| Cash and cash equivalents | \$ 37 | \$ 67 | \$ (30) |
| Unused lines of credit | 45 | 41 | 4 |
| Unpledged securities at fair market value | 48 | 59 | (11) |
| | \$ 130 | \$ 167 | \$ (37) |
| Net deposits and short-term liabilities | \$ 413 | \$ 444 | \$ (31) |
| Liquidity ratio | 31.8% | 37.6% | |
| Minimum board approved liquidity ratio | 20.0% | 20.0% | |

Liquidity refers to the Company's ability to generate sufficient cash to fund current loan demand, meet deposit withdrawals, pay operating expenses and meet other obligations. Liquidity is monitored by CSB's Asset Liability Committee. Other sources of liquidity include, but are not limited to, purchase of federal funds, advances from the FHLB, adjustments of interest rates to attract deposits, and borrowing at the Federal Reserve discount window. Management believes that its sources of liquidity are adequate to meet cash flow obligations for the foreseeable future.

OFF-BALANCE SHEET ARRANGEMENTS

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

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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, 2013, from that presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Management performs a quarterly analysis over a twenty-four month horizon of the Company's interest rate risk. The analysis includes two balance sheet models, one based on a static balance sheet and one on a dynamic balance sheet with projected growth in assets and liabilities. All positions are currently within the Company's board-approved policy under a dynamic balance sheet. Board set limits are minimally exceeded under a static balance sheet due to the volume of liquidity held by the bank on March 31, 2013.

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

(Dollars in thousands)

| March 31, 2013 | | | | |
|---|---------------------|---------------|-------------------|---------------------|
| Change in interest rates (basis points) | Net interest income | Dollar change | Percentage change | Board Policy Limits |
| +400 | \$ 19,333 | \$ 1,410 | 7.9% | +/-25 |
| +300 | 18,950 | 1,027 | 5.7 | +/-15 |
| +200 | 18,581 | 658 | 3.7 | +/-10 |
| +100 | 18,242 | 319 | 1.8 | +/-5 |
| 0 | 17,923 | 0 | 0.0 | |
| -100 | 17,693 | (230) | (1.3) | +/-5 |
| -200 | N/A | N/A | N/A | |

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

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CSB BANCORP, INC.

CONTROLS AND PROCEDURES

ITEM 4 CONTROLS AND PROCEDURES

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

- (a) information required to be disclosed by the Company in this Quarterly Report on Form 10-Q would be accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure;
- (b) information required to be disclosed by the Company in this Quarterly Report on Form 10-Q would be recorded, processed, summarized and reported within the time periods specified in the 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.

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PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS.

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

ITEM 1A RISK FACTORS.

There have been no material changes to the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

On July 7, 2005 CSB Bancorp, Inc. filed Form 8-K with the 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.

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Quarter ended March 31, 2013

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 registrant's Quarterly Report on Form 10-Q filed August 6, 2004, Exhibit 3.1, film number 04958544). |
| 3.2 | Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to the Registrant's Form 10-SB). |
| 3.2.1 | Amended Article VIII Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to Registrant's Form DEF 14a filed on March 25, 2009, Appendix A, film number 09703970). |
| 4.0 | Specimen stock certificate (incorporated by reference to Registrant's Form 10-SB). |
| 11 | Statement Regarding Computation of Per Share Earnings. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Chief Executive Officer's Certification. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Chief Financial Officer's Certification. |
| 32.1 | Section 1350 Chief Executive Officer's Certification. |
| 32.2 | Section 1350 Chief Financial Officer's Certification. |
| 101 | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity; (v) Condensed Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements. |

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CSB BANCORP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|--------------------|--|
| | CSB BANCORP, INC. (Registrant) |
| Date: May 14, 2013 | /s/ Eddie L. Steiner Eddie L. Steiner President Chief Executive Officer |
| Date: May 14, 2013 | /s/ Paula J. Meiler Paula J. Meiler Senior Vice President Chief Financial Officer |

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CSB BANCORP, INC.

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