CSB BANCORP INC /OH
Form 10-Q
August 11, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2017

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)

Ohio	**34-1687530**
(State or other jurisdiction of incorporation or organization)	**(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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Common stock, $6.25 par value	Outstanding at August 1, 2017: 2,742,242 common shares

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CSB BANCORP, INC.

FORM 10-Q

QUARTER ENDED June 30, 2017

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Part I Financial Information

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CSB BANCORP, INC.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)	**June 30, 2017**	**December 31, 2016**
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 15,445	$ 13,590
Interest-earning deposits in other banks	23,351	23,248
Total cash and cash equivalents	38,796	36,838
Securities		
Available-for-sale, at fair value	103,058	103,875
Held-to-maturity (fair value 2017-$27,213; 2016-$23,444)	27,169	23,883
Restricted stock, at cost	4,614	4,614
Total securities	134,841	132,372
Loans held for sale	432	
Loans	498,625	475,449
Less allowance for loan losses	6,289	5,291
Net loans	492,336	470,158
Premises and equipment, net	8,633	8,749
Core deposit intangible	325	383
Goodwill	4,728	4,728
Bank-owned life insurance	13,045	10,361
Accrued interest receivable and other assets	3,755	6,389
TOTAL ASSETS	$ 696,891	$ 669,978
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$ 169,241	$ 167,824
Interest-bearing	377,863	372,961

Total deposits	547,104	540,785
Short-term borrowings	56,932	48,742
Other borrowings	21,781	12,385
Accrued interest payable and other liabilities	2,348	2,651
Total liabilities	628,165	604,563
SHAREHOLDERS EQUITY		
Common stock, $6.25 par value. Authorized		
9,000,000 shares; issued 2,980,602 shares; outstanding (shares 2017 and 2016 - 2,742,242)	18,629	18,629
Additional paid-in capital	9,815	9,815
Retained earnings	44,988	42,629
Treasury stock at cost (shares 2017 and 2016 - 238,360)	(4,784)	(4,784)
Accumulated other comprehensive income (loss)	78	(874)
Total shareholders equity	68,726	65,415
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 696,891	$ 669,978

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)	**Three Months Ended June 30, 2017**	**Three Months Ended June 30, 2016**	**Six Months Ended June 30, 2017**	**Six Months Ended June 30, 2016**
INTEREST AND DIVIDEND INCOME				
Loans, including fees	$ 5,584	$ 4,966	$ 11,033	$ 9,708
Taxable securities	598	662	1,196	1,398
Nontaxable securities	174	165	339	319
Other	57	20	91	49
Total interest and dividend income	6,413	5,813	12,659	11,474
INTEREST EXPENSE				
Deposits	307	250	574	509
Short-term borrowings	35	19	57	36
Other borrowings	121	98	216	198
Total interest expense	463	367	847	743
NET INTEREST INCOME	5,950	5,446	11,812	10,731
PROVISION FOR LOAN LOSSES	845	165	685	329
Net interest income, after provision for loan losses	5,105	5,281	11,127	10,402
NONINTEREST INCOME				
Service charges on deposit accounts	268	288	559	566
Trust services	152	218	359	444
Debit card interchange fees	296	271	584	533
Gain on sale of loans, net	61	118	103	150
Other income	283	202	561	396
Total noninterest income	1,060	1,097	2,166	2,089
NONINTEREST EXPENSES				
Salaries and employee benefits	2,472	2,299	4,931	4,626
Occupancy expense	214	233	424	477
Equipment expense	171	169	341	343
Professional and director fees	234	189	403	363
Financial institutions and franchise tax expense	127	107	258	214
Marketing and public relations	89	143	167	228

Software expense	203	198	413	384
Debit card expense	141	114	271	218
Amortization of intangible assets	29	30	58	60
FDIC insurance expense	52	82	103	165
Provision for unfunded loan commitments	(540)			
Other expenses	496	498	965	973
Total noninterest expenses	3,688	4,062	8,334	8,051
Income before income taxes	2,477	2,316	4,959	4,440
FEDERAL INCOME TAX PROVISION	751	705	1,503	1,349
NET INCOME	$ 1,726	$ 1,611	$ 3,456	$ 3,091
Basic and diluted net earnings per share	$ 0.63	$ 0.59	$ 1.26	$ 1.13

See notes to unaudited consolidated financial statements

CSB BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)	**Three Months Ended June 30, 2017**	**Three Months Ended June 30, 2016**	**Six Months Ended June 30, 2017**	**Six Months Ended June 30, 2016**
Net income	$ 1,726	$ 1,611	$ 3,456	$ 3,091
Other comprehensive income				
Unrealized gains arising during the period	916	519	1,386	1,327
Amounts reclassified from accumulated other comprehensive income, held-to-maturity	26	271	58	317
Income tax effect	(321)	(269)	(492)	(559)
Other comprehensive income	621	521	952	1,085
Total comprehensive income	$ 2,347	$ 2,132	$ 4,408	$ 4,176

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	**2017**	**2016**	**2017**	**2016**
Balance at beginning of period	$ 66,927	$ 62,796	$ 65,415	$ 61,266
Net income	1,726	1,611	3,456	3,091
Other comprehensive income	621	521	952	1,085
Stock options exercised				
1,246 shares issued in 2016				7
Cash dividends declared	(548)	(521)	(1,097)	(1,042)
Balance at end of period	$ 68,726	$ 64,407	$ 68,726	$ 64,407
Cash dividends declared per share	$ 0.20	$ 0.19	$ 0.40	$ 0.38

See notes to unaudited consolidated financial statements.

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CSB BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2017	2016
NET CASH FROM OPERATING ACTIVITIES	$ 3,024	$ 3,185
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities:		
Proceeds from repayments, held-to-maturity	1,447	14,263
Proceeds from repayments, available-for-sale	11,187	26,566
Purchases, available-for-sale	(9,243)	(17,014)
Purchases, held-to-maturity	(4,700)	(4,000)
Loan originations, net of repayments	(22,820)	(27,785)
Property, equipment, and software acquisitions	(293)	(930)
Net cash used in investing activities	(24,422)	(8,900)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	6,319	(8,545)
Net change in short-term borrowings	8,190	5,527
Proceeds from other borrowings	10,000	
Repayment of other borrowings	(604)	(891)
Cash dividends paid	(549)	(521)
Net cash provided by (used in) financing activities	23,356	(4,430)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 1,958	$ (10,145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	36,838	38,272
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 38,796	$ 28,127
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	$ 836	$ 751
Income taxes	2,160	1,400
Noncash financing activities:		
Dividends declared	548	521

See notes to unaudited consolidated financial statements.

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The condensed consolidated financial statements have been prepared without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the Company s financial position at June 30, 2017, 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, 2016, contains Consolidated Financial Statements and related footnote disclosures, which should be read in conjunction with the accompanying Consolidated Financial Statements. The results of operations for the period ended June 30, 2017 are not necessarily indicative of the operating results for the full year or any future interim period.

Certain items in the prior-year financial statements were reclassified to conform to the current-year presentation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

ASU 2014-09 Revenue from Contracts with Customers. The amendments in ASU 2014-09 require an entity to recognize revenue upon the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. FASB issued a one-year deferral for implementation, for public entities with a calendar year-end, the new guidance is effective in the quarter and year beginning January 1, 2018. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities, we do not expect the new standard, or any of the amendments, to result in a material change from our current accounting for revenue because the majority of the Company s financial instruments are not within the scope of Topic 606. However, we do expect that the standard will result in new disclosure requirements, which are currently being evaluated.

ASU 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities. This Update sets forth targeted improvements to GAAP including, but not limited to, requiring an entity to recognize the changes in fair value of equity investments in the income statement, requiring public business entities to use the exit price when measuring the fair value of financial instruments for financial statement disclosure purposes, eliminating certain disclosures required by existing GAAP, and providing for additional disclosures. The Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

ASU 2016-02 Leases. This Update sets forth a new lease accounting model for lessors and lessees. For lessees, virtually all leases will be required to be recognized on the balance sheet by recording a right-of-use asset. Subsequent accounting for leases varies depending on whether the lease is an operating lease or a finance lease. The accounting provided by a lessor is largely unchanged from that applied under the existing guidance. The ASU requires additional qualitative and quantitative disclosures with the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Update is effective for fiscal years beginning after December 15, 2018, with early application permitted. Based on the Company s preliminary analysis of its current portfolio, the impact to the Company s balance sheet is estimated to result in less than a 1 percent increase in assets and liabilities. This Update is not expected to have a significant impact on the Company s financial statements.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

ASU 2016-13 Financial Instruments Credit Losses. The Update requires that financial assets be presented at the net amount expected to be collected (i.e. net of expected credit losses), eliminating the probable recognition threshold for credit losses on financial assets measured at amortized cost. The measurement of expected credit losses should be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The Update is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. We expect the Update will result in an increase in the allowance for credit losses for the estimated life of the financial asset, including an estimate for debt securities. The amount of the increase will be impacted by the portfolio composition and quality at the adoption date, as well as economic conditions and forecasts at that time. A cumulative-effect adjustment to retained earnings is required as of the beginning of the year of adoption. The Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

ASU 2016-15 Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. Current guidance lacks consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. FASB issued the ASU with the intent of reducing diversity in practice with respect to several types of cash flows. The amendments in this Update are effective using a retrospective transition approach for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact the adoption of the standard will have on the Company s statement of cash flows.

ASU 2017-04 Simplifying the Test for Goodwill Impairment. The Update simplifies the goodwill impairment test. Under the new guidance, Step 2 of the goodwill impairment process that requires an entity to determine the implied fair value of its goodwill by assigning fair value to all its assets and liabilities is eliminated. Instead, the entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new guidance is effective for annual and interim goodwill tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted. This Update is not expected to have a material impact on the Company s financial statements.

ASU 2017-08 Premium Amortization on Purchased Callable Debt Securities. The Update amends the guidance related to amortization for certain callable debt securities held at a premium. The new guidance requires the premium to be amortized to the earliest call date. The guidance does not require an accounting change for securities held at a discount. The Update was adopted in the current reporting period and did not have a significant impact on the Company s financial statements.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 SECURITIES

Securities consist of the following at June 30, 2017 and December 31, 2016:

(Dollars in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 2017				
Available-for-sale				
U.S. Treasury security	$ 998	$	$ 1	$ 997
U.S. Government agencies	10,350	1	35	10,316
Mortgage-backed securities of government agencies	53,106	438	210	53,334
Asset-backed securities of government agencies	1,232		19	1,213
State and political subdivisions	27,217	443	72	27,588
Corporate bonds	9,598	72	144	9,526
Equity securities	53	31		84
Total available-for-sale	102,554	985	481	103,058
Held-to-maturity securities				
U.S. Government agencies	9,475	23	129	9,369
Mortgage-backed securities of government agencies	12,994	207	81	13,120
State and political subdivisions	4,700	24		4,724
Total held-to-maturity	27,169	254	210	27,213
Restricted stock	4,614			4,614
Total securities	$ 134,337	$ 1,239	$ 691	$ 134,885
December 31, 2016				
Available-for-sale				
U.S. Treasury security	$ 1,001	$	$	$ 1,001
U.S. Government agencies	6,500		98	6,402
Mortgage-backed securities of government agencies	56,187	239	589	55,837
Other mortgage-backed securities	65			65
Asset-backed securities of government agencies	1,312		46	1,266
State and political subdivisions	30,007	140	439	29,708
Corporate bonds	9,632	28	144	9,516
Equity securities	53	27		80

Total available-for-sale	104,757	434	1,316	103,875
Held-to-maturity				
U.S. Government agencies	9,472	17	396	9,093
Mortgage-backed securities of government agencies	14,411	141	201	14,351
Total held-to-maturity	23,883	158	597	23,444
Restricted stock	4,614			4,614
Total securities	$ 133,254	$ 592	$ 1,913	$ 131,933

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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 June 30, 2017, 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.

(Dollars in thousands)	**Amortized cost**	**Fair value**
Available-for-sale		
Due in one year or less	$ 2,815	$ 2,836
Due after one through five years	21,224	21,370
Due after five through ten years	26,517	26,770
Due after ten years	51,945	51,998
Total debt securities available-for-sale	$ 102,501	$ 102,974
Held-to-maturity		
Due in one year or less	$ 4,700	$ 4,724
Due after one through five years	476	499
Due after five through ten years	3,000	2,918
Due after ten years	18,993	19,072
Total debt securities held-to-maturity	$ 27,169	$ 27,213

Securities with a fair value of approximately $107 million and $95 million were pledged at June 30, 2017 and December 31, 2016, 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 Federal Home Loan Bank of Cincinnati (FHLB) and Federal Reserve Bank stock. The Bank s investment in FHLB stock amounted to approximately $4.1 million at June 30, 2017 and December 31, 2016. Federal Reserve Bank stock was $471 thousand at June 30, 2017 and December 31, 2016.

There were no proceeds from sales of securities for the three or six month periods ending June 30, 2017 and 2016.

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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 June 30, 2017 and December 31, 2016:

	Securities in a continuous unrealized loss position					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
June 30, 2017						
Available-for-sale						
U.S. Treasury security	$ 1	$ 997	$	$	$ 1	$ 997
U.S. Government agencies	35	6,464			35	6,464
Mortgage-backed securities of government agencies	210	20,136			210	20,136
Asset-backed securities of government agencies			19	1,213	19	1,213
State and political subdivisions	53	3,597	19	813	72	4,410
Corporate bonds	1	940	143	2,357	144	3,297
Held-to-maturity						
U.S. Government agencies	129	6,869			129	6,869
Mortgage-backed securities of government agencies			81	3,534	81	3,534
Total temporarily impaired securities	$ 429	$ 39,003	$ 262	$ 7,917	$ 691	$ 46,920
December 31, 2016						
Available-for-sale						
U.S. Government agencies	$ 98	$ 6,402	$	$	$ 98	$ 6,402
Mortgage-backed securities of government agencies	589	27,243			589	27,243
Asset-backed securities of government agencies			46	1,266	46	1,266
State and political subdivisions	439	19,328			439	19,328
Corporate bonds	33	3,593	111	1,889	144	5,482
Held-to-maturity						
U.S. Government agencies	396	8,602			396	8,602
Mortgage-backed securities of government agencies	28	2,018	173	3,621	201	5,639
Total temporarily impaired securities	$ 1,583	$ 67,186	$ 330	$ 6,776	$ 1,913	$ 73,962

There were forty-one securities in an unrealized loss position at June 30, 2017, eight (8) of which were in a continuous loss position for twelve months or more. At least quarterly, the Company conducts a comprehensive security-level impairment assessment. The assessments are based on the nature of the securities, the extent and duration of the securities in an unrealized loss position, the extent and duration of the loss and management s intent to sell or if it is more likely than not that management will be required to sell a security before recovery of its amortized cost basis, which may be maturity. Management believes the Company will fully recover the cost of these securities. It does not intend to sell these securities and likely will not be required to sell them before the anticipated recovery of the remaining amortized cost basis, which may be maturity. As a result, management concluded that these securities were not other-than-temporarily impaired at June 30, 2017.

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS

Loans consist of the following:

(Dollars in thousands)	**June 30, 2017**	**December 31, 2016**
Commercial	$ 141,285	$ 134,268
Commercial real estate	168,812	159,475
Residential real estate	151,126	144,489
Construction & land development	20,705	23,428
Consumer	16,173	13,308
Total loans before deferred costs	498,101	474,968
Deferred loan costs	524	481
Total Loans	$ 498,625	$ 475,449

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.

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.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

Construction and land development loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

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

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

Loans serviced for others approximated $81.6 million and $85.9 million at June 30, 2017 and December 31, 2016, respectively.

Concentrations of Credit

Nearly all of the Company s lending activity occurs within the state of Ohio, including the four (4) counties of Holmes, Stark, Tuscarawas and Wayne, as well as other markets. The majority of the Company s loan portfolio consists of commercial and commercial real estate loans. As of June 30, 2017 and December 31, 2016, there were no concentrations of loans related to any single industry.

Allowance for Loan Losses

The following tables detail activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2017 and 2016. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

The increase in the provision for loan losses for the three months ended June 30, 2017 related to commercial and commercial real estate loans was primarily due to the increase in the specific allocation related to two commercial relationships. The decrease in the provision related to residential real estate is due to the improvement in the historical losses of loans in this category.

The increase in the provision for loan losses related to commercial real estate was due to the increase in the specific allocation for one commercial real estate relationship, the increase in nonaccrual loans in this category and the increase of special mention loan balances. The decrease in the provision for loan losses for the six months ended June 30, 2017 related to commercial loans was primarily due to the recovery of prior loan charge-offs from one relationship.

The increase in the provision for loan losses for the three and six months ended June 30, 2016 related to commercial loans were due to the increase in specific reserve amounts for two commercial relationships, the downgrade of one commercial relationship and the increase in loan volume. The decrease in the provision related to commercial real estate loans for the six month period in 2016 was primarily due to a recovery of a prior charge-off. The increase in the provision for commercial real estate loans for the three month period of 2016 was due to the downgrade of one commercial relationship.

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

Summary of Allowance for Loan Losses

(Dollars in thousands)	**Commercial**	**Commercial Real Estate**	**Residential Real Estate**	**Construction & Land Development**	**Consumer**	**Unallocated**	**Total**
Three months ended June 30, 2017							
Beginning balance	$ 1,704	$ 1,538	$ 1,303	$ 184	$ 165	$ 560	$ 5,454
Provision for loan losses	675	180	(47)	38	18	(19)	845
Charge-offs	(32)				(2)		(34)
Recoveries	15		8		1		24
Net charge-offs	(17)		8		(1)		(10)
Ending balance	$ 2,362	$ 1,718	$ 1,264	$ 222	$ 182	$ 541	$ 6,289
Six months ended June 30, 2017							
Beginning balance	$ 2,207	$ 1,264	$ 1,189	$ 178	$ 141	$ 312	$ 5,291
Provision for loan losses	(156)	454	67	44	47	229	685
Charge-offs	(40)				(7)		(47)
Recoveries	351		8		1		360
Net charge-offs	311		8		(6)		313
Ending balance	$ 2,362	$ 1,718	$ 1,264	$ 222	$ 182	$ 541	$ 6,289
Three months ended June 30, 2016							
Beginning balance	$ 2,053	$ 1,225	$ 1,084	$ 106	$ 94	$ 443	$ 5,005
Provision for loan losses	326	48	11	21	16	(257)	165
Charge-offs	(6)	(12)					(18)
Recoveries	3	1					4
Net charge-offs	(3)	(11)					(14)
Ending balance	$ 2,376	$ 1,262	$ 1,095	$ 127	$ 110	$ 186	$ 5,156

Six months ended June 30, 2016							
Beginning balance	$ 1,664	$ 1,271	$ 1,086	$ 123	$ 86	$ 432	$ 4,662
Provision for loan losses	720	(180)	7	4	24	(246)	329
Charge-offs	(15)	(12)			(1)		(28)
Recoveries	7	183	2		1		193
Net charge-offs	(8)	171	2				165
Ending balance	$ 2,376	$ 1,262	$ 1,095	$ 127	$ 110	$ 186	$ 5,156

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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 class and based on the impairment method as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	**Commercial**	**Commercial Real Estate**	**Residential Real Estate**	**Construction & Land Development**	**Consumer**	**Unallocated**	**Total**
June 30, 2017							
Allowance for loan losses:							
Individually evaluated for impairment	$ 573	$ 243	$ 25	$	$	$	$ 841
Collectively evaluated for impairment	1,789	1,475	1,239	222	182	541	5,448
Total ending allowance balance	$ 2,362	$ 1,718	$ 1,264	$ 222	$ 182	$ 541	$ 6,289
Loans:							
Loans individually evaluated for impairment	$ 3,169	$ 3,693	$ 1,465	$	$		$ 8,327
Loans collectively evaluated for impairment	138,116	165,119	149,661	20,705	16,173		489,774
Total ending loans balance	$ 141,285	$ 168,812	$ 151,126	$ 20,705	$ 16,173		$ 498,101
December 31, 2016							
Allowance for loan losses:							
Individually evaluated for impairment	$ 705	$	$ 24	$	$	$	$ 729
Collectively evaluated for impairment	1,502	1,264	1,165	178	141	312	4,562
Total ending allowance balance	$ 2,207	$ 1,264	$ 1,189	$ 178	$ 141	$ 312	$ 5,291
Loans:							

Loans individually evaluated for impairment	$ 5,028	$ 621	$ 1,507	$	$		$ 7,156
Loans collectively evaluated for impairment	129,240	158,854	142,982	23,428	13,308		467,812
Total ending loans balance	$ 134,268	$ 159,475	$ 144,489	$ 23,428	$ 13,308		$ 474,968

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	**Unpaid Principal Balance**	**Recorded Investment with no Allowance**	**Recorded Investment with Allowance**	**Total Recorded Investment**	**Related Allowance**
June 30, 2017					
Commercial	$ 3,181	$ 1,012	$ 2,160	$ 3,172	$ 573
Commercial real estate	3,884	2,456	1,237	3,693	243
Residential real estate	1,643	1,059	409	1,468	25
Total impaired loans	$ 8,708	$ 4,527	$ 3,806	$ 8,333	$ 841
December 31, 2016					
Commercial	$ 5,476	$ 1,690	$ 3,354	$ 5,044	$ 705
Commercial real estate	796	600	21	621	
Residential real estate	1,681	1,036	472	1,508	24
Total impaired loans	$ 7,953	$ 3,326	$ 3,847	$ 7,173	$ 729

The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated.

(Dollars in thousands)	**Three months ended June 30, 2017**	**2016**	**Six months ended June 30, 2017**	**2016**
Average recorded investment:				
Commercial	$ 2,794	$ 6,579	$ 3,505	$ 6,360
Commercial real estate	3,600	746	2,019	865
Residential real estate	1,540	1,497	1,514	1,518
Average recorded investment in impaired loans	$ 7,934	$ 8,822	$ 7,038	$ 8,743

Interest income recognized:								
Commercial	$	17	$	56	$	31	$	122
Commercial real estate		2		2		2		6
Residential real estate		15		14		30		29
Interest income recognized on a cash basis on impaired loans	$	34	$	72	$	63	$	157

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents the aging of past due loans and nonaccrual loans as of June 30, 2017 and December 31, 2016 by class of loans:

(Dollars in thousands)	**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**
June 30, 2017							
Commercial	$ 139,066	$ 147	$	$	$ 2,072	$ 2,219	$ 141,285
Commercial real estate	165,328	58		39	3,387	3,484	168,812
Residential real estate	150,426	174	18	30	478	700	151,126
Construction & land development	20,705						20,705
Consumer	16,047	87	9		30	126	16,173
Total Loans	$ 491,572	$ 466	$ 27	$ 69	$ 5,967	$ 6,529	$ 498,101
December 31, 2016							
Commercial	$ 133,630	$ 151	$ 62	$	$ 425	$ 638	$ 134,268
Commercial real estate	158,504	435		39	497	971	159,475
Residential real estate	142,926	816	61	196	490	1,563	144,489
Construction & land development	23,428						23,428
Consumer	13,234	21	16		37	74	13,308
Total Loans	$ 471,722	$ 1,423	$ 139	$ 235	$ 1,449	$ 3,246	$ 474,968

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

Troubled Debt Restructurings

All troubled debt restructurings (TDR s) are individually evaluated for impairment and a related allowance is recorded, as needed. Loans whose terms have been modified as TDR s totaled $4.9 million as of June 30, 2017, and $6.4 million as of December 31, 2016, with $456 thousand and $711 thousand of specific reserves allocated to those loans, respectively. At June 30, 2017, $2.5 million of the loans classified as TDR s were performing in accordance with their modified terms. Of the remaining $2.4 million, all were in nonaccrual of interest status.

The Company held no foreclosed real estate as of June 30, 2017, or December 31, 2016. Consumer mortgage loans in the process of foreclosure were $225 thousand at June 30, 2017 and $448 thousand at December 31, 2016.

The following table presents loans restructured during the three and six month periods ended June 30, 2017 and 2016.

(Dollars in thousands)	**Number of loans restructured**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
For the three months ended June 30, 2017			
Commercial Real Estate	4	$ 288	$ 288
Residential Real Estate	1	14	14
Total Restructured Loans	5	$ 302	$ 302
For the six months ended June 30, 2017			
Commercial Real Estate	4	$ 288	$ 288
Residential Real Estate	1	14	14
Total Restructured Loans	5	$ 302	$ 302
For the three months ended June 30, 2016			
Residential Real Estate	3	$ 327	$ 327
Total Restructured Loans	3	$ 327	$ 327
For the six months ended June 30, 2016			
Residential Real Estate	3	$ 327	$ 327

Total Restructured Loans	3	$	327	$	327

The restructured loans were modified by changing the monthly payment to interest only. No principal reductions were made. There was one commercial loan in the amount of $3.3 million that was restructured in the fourth quarter of 2016 that has defaulted in 2017. None of the loans that were restructured in 2015 have subsequently defaulted in the six month period ended June 30, 2016.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes commercial loans individually by classifying the loans as to credit risk. This analysis includes commercial loans with an outstanding balance greater than $300 thousand. This analysis 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 a minimum represent an acceptable risk to the Bank. Borrowers in this rating may have leveraged but acceptable balance sheet positions, satisfactory asset quality, stable to favorable sales and earnings trends, acceptable liquidity and adequate cash flow. Loans are considered fully collectible and require an average amount of administration. While generally adhering to credit policy, these loans may exhibit occasional exceptions that do not result in undue risk to the Bank. Borrowers are generally capable of absorbing setbacks, financial and otherwise, without the threat of failure.

Special Mention. Loans classified as special mention have material weaknesses that deserve management s close attention. If left uncorrected, these weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than $300 thousand or are included in groups of homogeneous loans. Based on the most recent analysis performed, the risk category of loans by class is as follows as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	**Pass**	**Substandard**	**Doubtful**	**Total**

		Special Mention			Not Rated	
June 30, 2017						
Commercial	$ 114,648	$ 17,640	$ 8,180	$	$ 817	$ 141,285
Commercial real estate	152,806	10,480	5,008		518	168,812
Residential real estate	211		112		150,803	151,126
Construction & land development	15,282	1,423	648		3,352	20,705
Consumer					16,173	16,173
Total	$ 282,947	$ 29,543	$ 13,948	$	$ 171,663	$ 498,101
December 31, 2016						
Commercial	$ 116,739	$ 6,874	$ 9,704	$	$ 951	$ 134,268
Commercial real estate	149,630	4,168	4,766		911	159,475
Residential real estate	216		175		144,098	144,489
Construction & land development	17,183	981	504		4,760	23,428
Consumer					13,308	13,308
Total	$ 283,768	$ 12,023	$ 15,149	$	$ 164,028	$ 474,968

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 LOANS (CONTINUED)

The following table presents loans that are not rated by class of loans as of June 30, 2017 and December 31, 2016. Nonperforming loans include loans past due 90 days or more and loans on nonaccrual of interest status.

(Dollars in thousands)	**Performing**	**Non-Performing**	**Total**
June 30, 2017			
Commercial	$ 817	$	$ 817
Commercial real estate	518		518
Residential real estate	150,295	508	150,803
Construction & land development	3,352		3,352
Consumer	16,143	30	16,173
Total	$ 171,125	$ 538	$ 171,663
December 31, 2016			
Commercial	$ 951	$	$ 951
Commercial real estate	911		911
Residential real estate	143,440	658	144,098
Construction & land development	4,760		4,760
Consumer	13,271	37	13,308
Total	$ 163,333	$ 695	$ 164,028

NOTE 4 SHORT-TERM BORROWINGS

The following table provides additional detail regarding repurchase agreements accounted for as secured borrowings.

	Remaining Contractual Maturity Overnight and Continuous	
(Dollars in thousands)	**June 30, 2017**	**December 31, 2016**
Securities of U.S. Government Agencies and mortgage-backed securities of government agencies pledged, fair value	$ 57,103	$ 48,866

Repurchase agreements	56,932	48,742

NOTE 5 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; and 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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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5- FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the assets reported on the Consolidated Balance Sheets at their fair value as of June 30, 2017 and December 31, 2016 by level within the fair value hierarchy. No liabilities are carried at fair value. 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 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.

(Dollars in thousands)	**Level I**	**Level II**	**Level III**	**Total**
June 30, 2017				
Assets:				
Securities available-for-sale				
U.S. Treasury security	$ 997	$	$	$ 997
U.S. Government agencies		10,316		10,316
Mortgage-backed securities of government agencies		53,334		53,334
Asset-backed securities of government agencies		1,213		1,213
State and political subdivisions		27,588		27,588
Corporate bonds		9,526		9,526
Total debt securities	997	101,977		102,974
Equity securities	84			84
Total available-for-sale securities	$ 1,081	$ 101,977	$	$ 103,058
December 31, 2016				
Assets:				
Securities available-for-sale				
U.S. Treasury security	$ 1,001	$	$	$ 1,001
U.S. Government agencies		6,402		6,402
Mortgage-backed securities of government agencies		55,837		55,837
Other mortgage-backed securities		65		65
Asset-backed securities of government agencies		1,266		1,266
State and political subdivisions		29,708		29,708
Corporate bonds		9,516		9,516

Total debt securities	1,001	102,794		103,795
Equity securities	80			80
Total available-for-sale securities	$ 1,081	$ 102,794	$	$ 103,875

The following table presents the assets measured on a nonrecurring basis on the Consolidated Balance Sheets at their fair value as of June 30, 2017 and December 31, 2016, by level within the fair value hierarchy. Impaired loans are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include: quoted market prices for identical assets classified as Level I inputs; and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5- FAIR VALUE MEASUREMENTS (CONTINUED)

(Dollars in thousands)	**Level I**	**Level II**	**Level III**	**Total**
June 30, 2017				
Assets measured on a nonrecurring basis:				
Impaired loans	$	$	$ 5,577	$ 5,577
December 31, 2016				
Assets measured on a nonrecurring basis:				
Impaired loans	$	$	$ 6,427	$ 6,427

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:

	Quantitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
June 30, 2017				
Impaired loans	$ 5,128	Discounted cash flow	Remaining term	1 mo to 29.8 yrs (102 months)
			Discount rate	3.5% to 9.8% (5.2%)
	449	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -50% (-17%)
			Liquidation expense (2)	-10%
December 31, 2016				
Impaired loans	$ 5,330	Discounted cash flow	Remaining term	6 mos to 29.9 yrs / (61.1 mos)
			Discount rate	3.1% to 12.0% / (4.9%)
	1,097	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -50% (-21.7%)
			Liquidation expense (2)	-10%

(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. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 6 FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of recognized financial instruments as of June 30, 2017 and December 31, 2016 are as follows:

(Dollars in thousands)	**Carrying Value**	**Level I**	**Level II**	**Level III**	**Fair Value**
June 30, 2017					
Financial assets					
Cash and cash equivalents	$ 38,796	$ 38,796	$	$	$ 38,796
Securities available-for-sale	103,058	1,081	101,977		103,058
Securities held-to-maturity	27,169		27,213		27,213
Restricted stock	4,614	4,614			4,614
Loans held for sale	432	432			432
Net loans	492,336			496,611	496,611
Bank-owned life insurance	13,045	13,045			13,045
Accrued interest receivable	1,440	1,440			1,440
Mortgage servicing rights	260			260	260
Financial liabilities					
Deposits	$ 547,104	$ 436,592	$	$ 110,825	$ 547,417
Short-term borrowings	56,932	56,932			56,932
Other borrowings	21,781			20,955	20,955
Accrued interest payable	87	87			87
December 31, 2016					
Financial assets					
Cash and cash equivalents	$ 36,838	$ 36,838	$	$	$ 36,838
Securities available-for-sale	103,875	1,081	102,794		103,875
Securities held-to-maturity	23,883		23,444		23,444
Restricted stock	4,614	4,614			4,614
Net loans	470,158			471,815	471,815
Bank-owned life insurance	10,361	10,361			10,361
Accrued interest receivable	1,409	1,409			1,409
Mortgage servicing rights	261			261	261
Financial liabilities					
Deposits	$ 540,785	$ 428,676	$	$ 112,642	$ 541,318
Short-term borrowings	48,742	48,742			48,742
Other borrowings	12,385			12,511	12,511
Accrued interest payable	76	76			76

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

Cash and cash equivalents; Loans held for sale; Accrued interest receivable; Short-term borrowings and Accrued interest payable

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

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CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 6 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Securities

The fair value of securities available-for-sale and securities held-to-maturity which are measured on a recurring basis are determined primarily by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on securities relationship to other similar securities, classified as Level I or Level II in the fair value hierarchy.

Net loans

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

Bank-owned life insurance

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

Restricted stock

Restricted 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 I.

Mortgage servicing rights

The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates discounted cash flow and repayment assumptions based on management s best judgment.

Deposits

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

Other borrowings

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

The Company also has unrecognized financial instruments at June 30, 2017 and December 31, 2016. These financial instruments relate to commitments to extend credit and letters of credit. The aggregated contract amount of such financial instruments was approximately $178.5 million at June 30, 2017 and $163.7 million at December 31, 2016. Such amounts are also considered to be the 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.

CSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 7- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the three and six month periods ended June 30, 2017 and 2016:

(Dollars in thousands)	**Pretax**	**Tax Effect**	**After-tax**
Three months ended June 30, 2017			
Balance as of March 31, 2017	$ (821)	$ 278	$ (543)
Unrealized holding gain on available-for-sale securities arising during the period	916	(312)	604
Amortization of held-to-maturity discount resulting from transfer	26	(9)	17
Total other comprehensive income	942	(321)	621
Balance as of June 30, 2017	$ 121	$ (43)	$ 78
Six months ended June 30, 2017			
Balance as of December 31, 2016	$ (1,323)	$ 449	$ (874)
Unrealized holding gain on available-for-sale securities arising during the period	1,386	(471)	915
Amortization of held-to-maturity discount resulting from transfer	58	(21)	37
Total other comprehensive income	1,444	(492)	952
Balance as of June 30, 2017	$ 121	$ (43)	$ 78
Three months ended June 30, 2016			
Balance as of March 31, 2016	$ 223	$ (76)	$ 147
Unrealized holding gain on available-for-sale securities arising during the period	519	(176)	343
Amortization of held-to-maturity discount resulting from transfer	271	(93)	178
Total other comprehensive income	790	(269)	521
Balance as of June 30, 2016	$ 1,013	$ (345)	$ 668
Six months ended June 30, 2016			
Balance as of December 31, 2015	$ (631)	$ 214	$ (417)
Unrealized holding gain on available-for-sale securities arising during the period	1,327	(451)	876
Amortization of held-to-maturity discount resulting from transfer	317	(108)	209

Total other comprehensive income	1,644	(559)	1,085
Balance as of June 30, 2016	$ 1,013	$ (345)	$ 668

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