

CSB BANCORP INC /OH
Form 10-Q
November 12, 2010

Table of Contents

CSB BANCORP, INC.

**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: September 30, 2010

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
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Common stock, \$6.25 par value

Outstanding at November 12, 2010:
2,734,799 common shares

CSB BANCORP, INC.
FORM 10-Q
QUARTER ENDED September 30, 2010
Table of Contents

Part I Financial Information

| | Page |
|---|------|
| <u>ITEM 1 FINANCIAL STATEMENTS (Unaudited)</u> | |
| <u>Consolidated Balance Sheets</u> | 3 |
| <u>Consolidated Statements of Income</u> | 4 |
| <u>Consolidated Statements of Changes in Shareholders' Equity</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows</u> | 6 |
| <u>Notes to the Consolidated Financial Statements</u> | 7 |
| <u>ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 16 |
| <u>ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 23 |
| <u>ITEM 4T CONTROLS AND PROCEDURES</u> | 24 |

Part II Other Information

| | |
|--|----|
| <u>ITEM 1 Legal Proceedings</u> | 25 |
| <u>1A Risk Factors</u> | 25 |
| <u>2 Unregistered Sales of Equity Securities and Use of Proceeds</u> | 25 |
| <u>3 Defaults upon Senior Securities</u> | 25 |
| <u>4 Removed and Reserved</u> | 25 |
| <u>5 Other Information</u> | 25 |
| <u>6 Exhibits</u> | 26 |
| <u>Signatures</u> | 27 |
| <u>EX-11</u> | |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |
| <u>EX-32.2</u> | |

Table of Contents

CSB BANCORP, INC.
PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| <i>(Dollars in thousands, except per share data)</i> | September 30, 2010 | December 31, 2009 |
|--|--------------------------|-------------------------|
| ASSETS | | |
| Cash and due from bank | \$ 10,017 | \$ 8,803 |
| Interest-earning deposits in other banks | 33,267 | 33,858 |
| Federal funds sold | 328 | |
| Total cash and cash equivalents | 43,612 | 42,661 |
| Securities available-for-sale, at fair value | 72,501 | 75,158 |
| Restricted stock, at cost | 5,463 | 5,463 |
| Total securities | 77,964 | 80,621 |
| Loans held for sale | 427 | 340 |
| Loans | 316,909 | 313,482 |
| Less allowance for loan losses | 4,407 | 4,059 |
| Net loans | 312,502 | 309,423 |
| Premises and equipment, net | 8,007 | 8,354 |
| Bank owned life insurance | 2,933 | 2,854 |
| Core deposit intangible | 423 | 469 |
| Goodwill | 1,725 | 1,725 |
| Accrued interest receivable and other assets | 3,609 | 4,219 |
| Total Assets | \$ 451,586 | \$ 450,666 |
| LIABILITIES | | |
| Deposits | | |
| Noninterest-bearing | \$ 63,988 | \$ 53,974 |
| Interest-bearing | 277,308 | 275,512 |
| Total deposits | 341,296 | 329,486 |
| Short-term borrowings | 29,534 | 28,764 |
| Other borrowings | 31,657 | 45,010 |
| Accrued interest payable and other liabilities | 1,888 | 1,584 |

| | | |
|---|------------|------------|
| Total liabilities | 404,375 | 404,844 |
| SHAREHOLDERS EQUITY | | |
| Common stock, \$6.25 par value: Authorized 9,000,000 shares; issued 2,980,602 shares | 18,629 | 18,629 |
| Additional paid-in capital | 9,994 | 9,994 |
| Retained earnings | 22,210 | 21,146 |
| Treasury stock at cost: 245,803 shares | (5,015) | (5,015) |
| Accumulated other comprehensive income | 1,393 | 1,068 |
| Total shareholders equity | 47,211 | 45,822 |
| Total Liabilities and Shareholders Equity | \$ 451,586 | \$ 450,666 |

See notes to unaudited consolidated financial statements.

3.

Table of Contents

CSB BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| <i>(Dollars in thousands, except per share data)</i> | | | | |
| Interest income | | | | |
| Loans, including fees | \$ 4,384 | \$ 4,566 | \$ 12,971 | \$ 13,769 |
| Taxable securities | 665 | 776 | 2,063 | 2,461 |
| Nontaxable securities | 91 | 84 | 258 | 232 |
| Other | 19 | 8 | 52 | 17 |
| Total interest income | 5,159 | 5,434 | 15,344 | 16,479 |
| Interest expense | | | | |
| Deposits | 889 | 1,055 | 2,641 | 3,353 |
| Other | 313 | 514 | 1,032 | 1,536 |
| Total interest expense | 1,202 | 1,570 | 3,673 | 4,889 |
| Net interest income | 3,957 | 3,864 | 11,671 | 11,590 |
| Provision for loan losses | 238 | 293 | 996 | 928 |
| Net interest income after provision for loan losses | 3,719 | 3,571 | 10,675 | 10,662 |
| Non-interest income | | | | |
| Service charges on deposit accounts | 296 | 313 | 851 | 931 |
| Trust and financial services | 135 | 173 | 401 | 407 |
| Debit card interchange fees | 131 | 101 | 365 | 283 |
| Gain on sale of loans | 62 | 172 | 153 | 357 |
| Securities (losses) gains, net | | (34) | 148 | 82 |
| Other income | 156 | 145 | 482 | 386 |
| Total non-interest income | 780 | 870 | 2,400 | 2,446 |
| Non-interest expenses | | | | |
| Salaries and employee benefits | 1,751 | 1,747 | 5,100 | 5,152 |
| Occupancy expense | 197 | 266 | 609 | 740 |
| Equipment expense | 124 | 131 | 375 | 403 |
| State franchise tax | 135 | 135 | 405 | 371 |
| Professional and director fees | 133 | 157 | 457 | 485 |
| FDIC deposit insurance | 109 | 105 | 417 | 496 |
| Amortization of intangible assets | 15 | 16 | 47 | 49 |
| Other expenses | 751 | 631 | 1,996 | 1,831 |
| Total non-interest expenses | 3,215 | 3,188 | 9,406 | 9,527 |

| | | | | |
|---|---------|---------|----------|----------|
| Income before income taxes | 1,284 | 1,253 | 3,669 | 3,581 |
| Federal income tax provision | 402 | 395 | 1,129 | 1,121 |
| Net income | \$ 882 | \$ 858 | \$ 2,540 | \$ 2,460 |
| Basic and diluted earnings per share | \$ 0.32 | \$ 0.31 | \$ 0.93 | \$ 0.90 |

See notes to unaudited consolidated financial statements.

4.

Table of Contents

CSB BANCORP, INC.
 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
 (Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Balance at beginning of period | \$ 46,776 | \$ 44,678 | \$ 45,822 | \$ 43,468 |
| Comprehensive income : | | | | |
| Net income | 882 | 858 | 2,540 | 2,460 |
| Change in net unrealized gain, net of reclassification adjustments and related income taxes \$23, \$274, \$167 and \$578, respectively | 45 | 533 | 325 | 1,122 |
| Total comprehensive income | 927 | 1,391 | 2,865 | 3,582 |
| Stock-based compensation expense | | 3 | | 6 |
| Cash dividends declared (\$0.18 and \$0.54 per share in 2010 and 2009) | (492) | (492) | (1,476) | (1,476) |
| Balance at end of period | \$ 47,211 | \$ 45,580 | \$ 47,211 | \$ 45,580 |

See notes to unaudited consolidated financial statements.

5.

Table of Contents

CSB BANCORP, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------------|
| <i>(Dollars in thousands, except per share data)</i> | 2010 | 2009 |
| Net cash from operating activities | \$ 3,486 | \$ 3,378 |
| Cash flows from investing activities | | |
| Securities available-for-sale: | | |
| Proceeds from maturities, calls and repayments | 36,211 | 25,446 |
| Purchases | (36,375) | (20,979) |
| Proceeds from sale of securities | 3,359 | 1,305 |
| Purchase of Federal Reserve Bank stock | | (231) |
| Proceeds from sale of other real estate | 342 | 84 |
| Loan originations, net of repayments | (4,452) | 844 |
| Premises and equipment expenditures, net | (98) | (633) |
| Net cash provided by (used for) investing activities | (1,013) | 5,836 |
| Cash flows from financing activities | | |
| Net change in deposits | 11,874 | (2,374) |
| Net change in short-term borrowings | 770 | 4,165 |
| Repayment of other borrowings | (13,181) | (826) |
| Cash dividends paid | (985) | (985) |
| Net cash used for financing activities | (1,522) | (20) |
| Net change in cash and cash equivalents | 951 | 9,194 |
| Cash and cash equivalents at beginning of period | 42,661 | 12,746 |
| Cash and cash equivalents at end of period | \$ 43,612 | \$ 21,940 |
| Supplemental disclosures | | |
| Interest paid | \$ 3,978 | \$ 5,380 |
| Income taxes paid | 850 | 920 |

See notes to unaudited consolidated financial statements.

Table of Contents

CSB BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The condensed consolidated financial statements have been prepared without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the Company's financial position at September 30, 2010, 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 have been omitted. The Annual Report for CSB for the year ended December 31, 2009, contains consolidated financial statements and related footnote disclosures, which should be read in conjunction with the accompanying consolidated financial statements. The results of operations for the periods ended September 30, 2010 are not necessarily indicative of the operating results for the full year or any future interim period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2009, the FASB issued ASU 2009-16, *Accounting for Transfer of Financial Assets*. ASU 2009-16 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. ASU 2009-16 is effective for annual periods beginning after November 15, 2009 and for interim periods within those fiscal years. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company is currently evaluating the impact the adoption of this guidance will have on the Company's financial position or results of operations.

In August, 2010, the FASB issued ASU 2010-21, *Accounting for Technical Amendments to Various SEC Rules and Schedules*. This ASU amends various SEC paragraphs pursuant to the issuance of Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules, and Codification of Financial Reporting Policies and is not expected to have a significant impact on the Company's financial statements.

Table of Contents

CSB BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)

In August, 2010, the FASB issued ASU 2010-22, *Technical Corrections to SEC Paragraphs*. An announcement made by the staff of the U.S. Securities and Exchange Commission. This ASU amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics and is not expected to have a significant impact on the Company's financial statements.

NOTE 2 SECURITIES

Securities consist of the following at September 30, 2010 and December 31, 2009:

| September 30, 2010 | Amortized Cost | Gross unrealized gains | Gross unrealized losses | Fair Value |
|--|---------------------------|---------------------------------------|--|-----------------------|
| <i>(Dollars in thousands)</i> | | | | |
| Available-for-sale: | | | | |
| U.S. Treasury security | \$ 100 | \$ | \$ | \$ 100 |
| Obligations of U.S. government corporations and agencies | 19,008 | 113 | | 19,121 |
| Mortgage-backed securities | 38,610 | 1,487 | 25 | 40,072 |
| Corporate bonds | 500 | | 8 | 492 |
| Obligations of states and political subdivisions | 12,103 | 558 | | 12,661 |
| Total debt securities | 70,321 | 2,158 | 33 | 72,446 |
| Equity Securities | 69 | 1 | 15 | 55 |
| Total available-for-sale | 70,390 | 2,159 | 48 | 72,501 |
| Restricted stock | 5,463 | | | 5,463 |
| Total securities | \$ 75,853 | \$ 2,159 | \$ 48 | \$ 77,964 |

| December 31, 2009 | Amortized Cost | Gross unrealized gains | Gross unrealized losses | Fair Value |
|--|---------------------------|---------------------------------------|--|-----------------------|
| <i>(Dollars in thousands)</i> | | | | |
| Available-for-sale: | | | | |
| U.S. Treasury security | \$ 100 | \$ | \$ | \$ 100 |
| Obligations of U.S. government corporations and agencies | 14,164 | 11 | 142 | 14,033 |
| Mortgage-backed securities | 49,706 | 1,828 | 176 | 51,358 |
| Obligations of states and political subdivisions | 9,505 | 131 | 22 | 9,614 |
| Total debt securities | 73,475 | 1,970 | 340 | 75,105 |
| Equity Securities | 65 | | 12 | 53 |
| Total available-for-sale | 73,540 | 1,970 | 352 | 75,158 |
| Restricted stock | 5,463 | | | 5,463 |

| | | | | | | | |
|-------------------------|----|--------|----|-------|----|-----|-----------|
| Total securities | \$ | 79,003 | \$ | 1,970 | \$ | 352 | \$ 80,621 |
|-------------------------|----|--------|----|-------|----|-----|-----------|

8.

Table of Contents

CSB BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 2 SECURITIES (continued)

The amortized cost and fair value of debt securities at September 30, 2010, 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.

| Available-for-sale | Amortized Cost | Fair Value |
|--|---------------------------|-----------------------|
| Due in one year or less | \$ 10,406 | \$ 10,483 |
| Due after one through five years | 51,910 | 53,498 |
| Due after five years through ten years | 7,106 | 7,538 |
| Due after ten years | 899 | 927 |
| Total debt securities available-for-sale | \$ 70,321 | \$ 72,446 |

Realized Gains and Losses

The following table shows the proceeds from sales of available-for-sale securities and the gross realized gains and losses on the sales of those securities that have been included in earnings as a result of the sales. Gains or losses on the sales of available-for-sale securities are recognized upon sale and are determined by the specific identification method.

| <i>(Dollars in thousands)</i> | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------|-------------------------------------|---------|------------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Proceeds | \$ | \$ 8 | \$ 3,359 | \$ 1,305 |
| Realized gains | \$ | \$ 1 | \$ 148 | \$ 153 |
| Realized losses | | | | 1 |
| Impairment losses | | 35 | | 70 |
| Net securities (losses) gains | \$ | \$ (34) | \$ 148 | \$ 82 |

At least quarterly, the Company conducts a comprehensive security-level impairment assessment. The assessments are based on the nature of the securities, the extent and duration of the securities, the extent and duration of the loss and management's intent to sell or if it is more likely than not that management will be required to sell a security before recovery of its amortized cost basis, which may be maturity. Management believes the Company will fully recover the cost of these securities and it does not intend to sell these securities and likely will not be required to sell them before the anticipated recovery of the remaining amortized cost basis, which may be maturity. As a result, management concluded that these securities were not other-than-temporarily impaired at September 30, 2010 and has recognized the total amount of the impairment in other comprehensive income, net of tax.

Table of Contents

CSB BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

The following table presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2010 and December 31, 2009:

| <i>(Dollars in thousands)</i> | 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 |
| September 30, 2010 | | | | | | |
| Mortgage-backed securities | \$ | \$ | \$ 25 | \$ 613 | \$ 25 | \$ 613 |
| Corporate | 8 | 492 | | | 8 | 492 |
| Total debt securities | 8 | 492 | 25 | 613 | 33 | 1,105 |
| Equity securities | | | 15 | 39 | 15 | 39 |
| Total temporarily impaired securities | \$ 8 | \$ 492 | \$ 40 | \$ 652 | \$ 48 | \$ 1,144 |

| <i>(Dollars in thousands)</i> | 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 |
| December 31, 2009 | | | | | | |
| Obligations of U.S. Corporations and Agencies | \$ 142 | \$ 10,008 | \$ | \$ | \$ 142 | \$ 10,008 |
| Mortgage-backed securities | 6 | 49 | 170 | 2,107 | 176 | 2,156 |
| Obligations of state & political subdivisions | 22 | 3,033 | | | 22 | 3,033 |
| Total debt securities | 170 | 13,090 | 170 | 2,107 | 340 | 15,197 |
| Equity securities | | | 12 | 41 | 12 | 41 |
| Total temporarily impaired securities | \$ 170 | \$ 13,090 | \$ 182 | \$ 2,148 | \$ 352 | \$ 15,238 |

There were four (4) securities in an unrealized loss position at September 30, 2010, three (3) of which were in a continuous loss position for twelve months or more. There were twenty-two (22) securities in an unrealized loss position at December 31, 2009, six (6) of which were in a continuous loss position for twelve months or more.

Table of Contents

CSB BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 3 LOANS

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

Loans consist of the following:

| <i>(in thousands)</i> | September 30, 2010 | December 31, 2009 |
|-------------------------|-----------------------|----------------------|
| Commercial | \$ 79,957 | \$ 69,350 |
| Commercial real estate | 102,533 | 107,794 |
| Residential real estate | 111,015 | 114,882 |
| Installment | 6,680 | 7,464 |
| Construction | 16,504 | 13,761 |
| Deferred loan costs | 220 | 231 |
| Total Loans | \$ 316,909 | \$ 313,482 |

Changes in the allowance for loan losses were as follows:

| <i>(in thousands)</i> | September 30, 2010 | December 31, 2009 |
|---------------------------------|-----------------------|----------------------|
| Balance, at beginning of period | \$ 4,059 | \$ 3,394 |
| Provision for loan losses | 996 | 1,337 |
| Loans charged-off | (767) | (885) |
| Recoveries | 119 | 213 |
| Ending balance | \$ 4,407 | \$ 4,059 |

The following is a summary of the past due and non-accrual loans as of September 30, 2010 and December 31, 2009:

| <i>(in thousands)</i> | 30-89 Days Past Due | 90 Days Past Due Accruing | Non-Accrual |
|-----------------------------|---------------------------|---------------------------------|-----------------|
| September 30, 2010 | | | |
| Commercial | \$ 25 | \$ 26 | \$ 4 |
| Commercial real estate | 940 | 257 | 3,209 |
| Residential real estate | 1,607 | | 1,750 |
| Installment | 150 | | |
| Total past-due loans | \$ 2,722 | \$ 283 | \$ 4,963 |
| December 31, 2009 | | | |
| Commercial | \$ 229 | \$ 24 | \$ 102 |
| Commercial real estate | 1,464 | 330 | 1,499 |
| Residential real estate | | | 2,185 |

| | | | | |
|----------------------|----------|--------|----------|--|
| Installment | 204 | 1 | | |
| Total past-due loans | \$ 1,897 | \$ 355 | \$ 3,786 | |

11.

Table of Contents

CSB BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 3 LOANS (continued)

The recorded investment in loans for which impairment has been recognized amounted to \$3.8 million at September 30, 2010 compared to \$2.1 million at December 31, 2009. The valuation allowance related to impaired loans amounted to \$743 thousand at September 30, 2010 and \$343 thousand at December 31, 2009. The increase in the valuation allowance is primarily from a single commercial relationship.

A loan is considered impaired, based on current information and events, if it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired collateral-dependent loans are measured for impairment based on the fair value of the collateral, while other loans are valued based on the present value of expected future cash flows discounted at the historical effective interest rate.

NOTE 4 FAIR VALUE MEASUREMENTS

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

Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

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

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents the assets reported on the consolidated statements of financial condition at their fair value as of September 30, 2010 and December 31, 2009, 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 and obligations of states and political subdivisions are valued at observable market data for similar assets.

Table of Contents

CSB BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 4- FAIR VALUE MEASUREMENTS (continued)

| <i>(Dollars in thousands)</i> | Level I | Level II | Level III | Total |
|--|----------------|---------------------------|------------------|------------------|
| | | September 30, 2010 | | |
| Assets: | | | | |
| Securities available-for-sale | | | | |
| U.S. Treasury security | \$ 100 | \$ | \$ | \$ 100 |
| Obligations of U.S. government corporations and agencies | | 19,121 | | 19,121 |
| Mortgage-backed securities | | 40,072 | | 40,072 |
| Corporate bonds | | 492 | | 492 |
| Obligations of states and political subdivisions | | 12,661 | | 12,661 |
| Total debt securities | 100 | 72,346 | | 72,446 |
| Equity Securities | 55 | | | 55 |
| Total available-for-sale securities | \$ 155 | \$ 72,346 | \$ | \$ 72,501 |
| | | December 31, 2009 | | |
| Securities available-for-sale | | | | |
| U.S. Treasury security | \$ 100 | \$ | \$ | \$ 100 |
| Obligations of U.S. government corporations and agencies | | 14,033 | | 14,033 |
| Mortgage-backed securities | | 51,358 | | 51,358 |
| Obligations of states and political subdivisions | | 9,614 | | 9,614 |
| Total debt securities | 100 | 75,005 | | 75,105 |
| Equity Securities | 53 | | | 53 |
| Total available-for-sale securities | \$ 153 | \$ 75,005 | \$ | \$ 75,158 |

The following table presents the assets measured on a nonrecurring basis on the consolidated balance sheets at their fair value as of September 30, 2010, and December 31, 2009, by level within the fair value hierarchy. Impaired loans and other real estate that are collateral dependent are written down to fair value through the establishment of specific reserves. Premises include a building currently used for storage that has been written down to appraised value. The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions based on management's best judgment that are significant inputs to the discounting calculations. As a result, these rights are measured at fair value on a nonrecurring basis and are classified within level III of the fair value hierarchy. Techniques used to value the collateral that secure the impaired loans include: quoted market prices for identical assets classified as Level I inputs; observable inputs employed by certified appraisers for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

Table of Contents

CSB BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

NOTE 4 FAIR VALUE MEASUREMENTS (continued)

| <i>(Dollars in thousands)</i> | Level I | Level II September 30, 2010 | Level III | Total |
|---|---------|--------------------------------|-----------|----------|
| Assets Measured on a Nonrecurring Basis: | | | | |
| Impaired loans | \$ | \$ 3,082 | \$ | \$ 3,082 |
| Other real estate owned | | 163 | | 163 |
| Premises | | 158 | | 158 |
| Mortgage servicing rights | | | 152 | 152 |
| December 31, 2009 | | | | |
| Impaired loans | \$ | \$ 1,736 | \$ | \$ 1,736 |
| Other real estate owned | | 162 | | 162 |
| Premises | | 181 | | 181 |
| Mortgage servicing rights | | | 138 | 138 |

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of recognized financial instruments as of September 30, 2010 and December 31, 2009 are as follows:

| <i>(Dollars in thousands)</i> | 2010 | | 2009 | |
|-------------------------------|----------------|------------|----------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 43,612 | \$ 43,612 | \$ 42,661 | \$ 42,661 |
| Securities | 77,964 | 77,964 | 80,621 | 80,621 |
| Loans, net | 312,502 | 316,652 | 309,423 | 313,993 |
| Accrued interest receivable | 1,413 | 1,413 | 1,315 | 1,315 |
| Financial liabilities: | | | | |
| Deposits | \$ 341,296 | \$ 343,763 | \$ 329,486 | \$ 331,511 |
| Short-term borrowings | 29,594 | 29,594 | 28,764 | 28,764 |
| Other borrowings | 31,657 | 32,281 | 45,010 | 46,535 |
| Accrued interest payable | 252 | 252 | 322 | 322 |

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, Accrued interest payable

The fair value of the above instruments is considered to be carrying value.

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,

Table of Contents

CSB BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5 FAIR VALUES OF FINANCIAL INSTRUMENTS -(continued)

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.

Loans, net

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.

Deposits and Other Borrowed Funds

The fair values of certificates of deposit and other borrowed funds are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year end.

The Company also has unrecognized financial instruments at September 30, 2010 and December 31, 2009. These financial instruments relate to commitments to extend credit and letters of credit. The aggregated contract amount of such financial instruments was approximately \$72,777,000 at September 30, 2010 and \$67,424,000 at December 31, 2009. 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.

Table of Contents

CSB BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion focuses on the consolidated financial condition of CSB Bancorp, Inc. and its subsidiaries (the Company) at September 30, 2010 as compared to December 31, 2009, and the consolidated results of operations for the three and nine month period ended September 30, 2010 compared to the same periods in 2009. 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 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 such forward-looking statements. 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.

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.

FINANCIAL CONDITION

Total assets were \$451.6 million at September 30, 2010, compared to \$450.7 million at December 31, 2009, representing an increase of \$900 thousand or 0.2%. Cash and cash equivalents increased \$1.0 million, or 2.2%, during the nine-month period ending September 30, 2010, due to an \$1.2 million increase in cash and due from banks. Securities decreased \$2.7 million or 3.5% during the first nine months of 2010 primarily due to calls within the US Agency portfolio and principal repayments within the mortgage-backed securities portfolio. Net loans increased \$3.1 million, or 1.0%, while deposits increased \$11.8 million, or 3.6%, during the nine-month period. Short-term borrowings of securities sold under repurchase agreement increased \$800 thousand and Federal Home Loan Bank advances decreased \$13.4 million, during the period as advances matured and required amortized payments were made on outstanding advances at the Federal Home Loan Bank.

Net loans increased \$3.1 million, or 1.0%, during the nine-month period ended September 30, 2010. Commercial loans increased \$10.6 million, or 15.3%, and home equity lines increased \$2.8 million, or 8.7%, over December 31, 2009. Decreases were recognized in real estate mortgage loans of \$6.7 million, or 8.8%, commercial real estate loans of \$5.3 million, or 4.9%, and consumer installment loans of \$784 thousand, or 10.5%. Consumers continued to refinance their mortgage loans for lower long-term rates offered in the secondary market. The allowance for loan losses amounted to \$4.4 million or 1.39% of total loans at September 30, 2010 compared to \$4.1 million or 1.29% of total loans at December 31, 2009.

Table of Contents

CSB BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The allowance for loan losses as a percentage of total loans increased at September 30, 2010 as compared to December 31, 2009 as the additional provision of \$996 thousand exceeded net charge-offs of \$648 thousand for the nine months ended September 30, 2010 and outstanding loan balances increased 1.1% to approximately \$317 million at September 30, 2010. Non-performing loans have increased \$1.1 million or 27% from December 31, 2009, primarily the result of the bank's internal analysis of cash flows of one \$2.5 million commercial real estate loan and related line being moved to nonaccrual status.

| <i>(Dollars in thousands)</i> | September 30, 2010 | December 31, 2009 | September 30, 2009 |
|---------------------------------|-----------------------|----------------------|-----------------------|
| Non-performing loans | \$ 5,246 | \$ 4,141 | \$ 4,504 |
| Other real estate | 163 | 162 | 40 |
| Allowance for loan losses | 4,407 | 4,059 | 3,697 |
| Total loans | 316,909 | 313,482 | 314,717 |
| Allowance: loans | 1.39% | 1.29% | 1.17% |
| Allowance: non-performing loans | 0.8x | 1.0x | 0.8x |

The ratio of gross loans to deposits was 92.9% at September 30, 2010, compared to 95.1% at December 31, 2009. The decrease in this ratio is primarily the result of deposits increasing faster than loans during the nine months ended September 30, 2010.

The Company had net unrealized gains of \$2.2 million within its securities portfolio at September 30, 2010, compared to net unrealized gains of \$1.6 million at December 31, 2009. The Company has no exposure to government-sponsored enterprise preferred stocks, collateralized debt obligations or trust preferred securities. The Company holds 3 issues of nonagency collateralized mortgage obligations that have paid down to \$1.4 million outstanding from an original face of \$5.5 million. Most of the unrealized loss in the mortgage-backed securities relates to one private label mortgage-backed security. The Company has the ability and intent to hold the bond until the recovery of its cost and despite a credit downgrade below investment grade in 2010, there is no significant evidence to support an adverse change in the expected cash flows. Management has considered industry analyst reports, sector credit reports and the volatility within the bond market in concluding that the gross unrealized losses of \$48 thousand within the portfolio as of September 30, 2010, 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 September 30, 2010, are considered temporary and no impairment loss relating to these securities has been recognized..

Short-term borrowings increased \$800 thousand from December 31, 2009 and other borrowings decreased \$13.4 million as the Company used cash flows from investments to repay required maturities and monthly payments on advances from the Federal Home Loan Bank (FHLB).

Deposits increased \$11.8 million, or 3.6% from December 31, 2009 with non-interest bearing deposits increasing \$10.0 million and interest-bearing deposit accounts increasing \$1.8 million. By deposit type, increases were recognized in all interest-bearing accounts except interest bearing demand accounts for the nine-month period ended September 30, 2010.

Table of Contents

CSB BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Total shareholders' equity amounted to \$47.2 million, or 10.5%, of total assets, at September 30, 2010, compared to \$45.8 million, or 10.2% of total assets, at December 31, 2009. The increase in shareholders' equity during the nine months ended September 30, 2010 was due to net income of \$2.5 million and gains in accumulated other comprehensive income of \$325 thousand. The increase was partially offset by dividends declared of \$1.5 million. The Company and its subsidiary bank met all regulatory capital requirements at September 30, 2010.

RESULTS OF OPERATIONS**Three months ended September 30, 2010 and 2009**

For the quarter ended September 30, 2010, the Company recorded net income of \$882 thousand or \$0.32 per share, as compared to net income of \$858 thousand, or \$0.31 per share for the quarter ended September 30, 2009. The \$24 thousand increase in net income for the quarter was a result of net interest income increasing \$93 thousand and a decrease in the provision for loan losses of \$55 thousand. These gains were partially offset by a decline in noninterest income of \$90 thousand and an increase in other expenses of \$27 thousand.

Average Balance Sheets and Net Interest Margin Analysis

| <i>(Dollars in thousands)</i> | For the Three Months Ended September 30, | | | |
|---|---|-------------------------|----------------------------|-------------------------|
| | 2010 | | 2009 | |
| | Average Balance | Average Rate | Average Balance | Average Rate |
| Assets | | | | |
| Due from banks-interest bearing | \$ 28,266 | 0.26% | \$ 13,463 | 0.24% |
| Taxable securities | 68,216 | 3.87% | 65,761 | 4.68% |
| Tax-exempt securities | 11,503 | 4.77% | 8,941 | 5.67% |
| Federal funds sold | 251 | 0.13% | 315 | 0.05% |
| Loans | 315,355 | 5.53% | 316,149 | 5.74% |
| Total earning assets | 423,591 | 4.89% | 404,629 | 5.38% |
| Other assets | 22,508 | | 20,810 | |
| Total Assets | \$ 446,099 | | \$ 425,439 | |
| Liabilities and Shareholders' Equity | | | | |
| Interest bearing demand deposits | \$ 50,252 | 0.08% | \$ 44,591 | 0.09% |
| Savings deposits | 74,377 | 0.32% | 57,240 | 0.38% |
| Time deposits | 151,199 | 2.15% | 153,595 | 2.56% |
| Other borrowed funds | 61,266 | 2.02% | 77,968 | 2.62% |
| Total interest bearing liabilities | 337,094 | 1.41% | 333,394 | 1.87% |
| Non-interest bearing demand deposits | 60,261 | | 45,226 | |
| Other liabilities | 1,531 | | 1,370 | |
| Shareholders' Equity | 47,213 | | 45,449 | |
| Total Liabilities and Shareholders' Equity | \$ 446,099 | | \$ 425,439 | |
| Taxable equivalent net interest spread | | 3.76% | | 3.84% |
| Taxable equivalent net interest margin | | 3.48% | | 3.51% |

Table of Contents

CSB BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Interest income for the quarter ended September 30, 2010, was \$5.2 million representing a \$275 thousand decrease, or 5.1% decline, compared to the same period in 2009. This decrease was primarily due to a decline in the average loan yield of 0.21% to 5.53% for the quarter ended September 30, 2010 as compared to a loan yield of 5.74% for the third quarter ended September 30, 2009. Additionally, average loan volume declined by \$800 thousand to approximately \$315 million for the quarter ended September 30, 2010 as compared the third quarter 2009. Investment interest income decreased \$104 thousand as both investment volume and yield decreased in 2010 over the third quarter in 2009. Interest expense for the quarter ended September 30, 2010 was \$1.2 million a decrease of \$368 thousand or 23.4%, from the same period in 2009. The decrease in interest expense occurred due to decreases in interest rates across the board for the quarter ended September 30, 2010.

The provision for loan losses for the quarter ended September 30, 2010, was \$238 thousand, compared to a \$293 thousand provision for the same quarter in 2009. The provision for loan losses is determined based on management's calculation of the adequacy of the allowance for loan losses, which includes provisions for classified loans as well as for the remainder of the portfolio based on historical data including past charge-offs and current economic trends. Non-interest income for the quarter ended September 30, 2010, was \$780 thousand, a decrease of \$90 thousand, or 10.3%, compared to the same quarter in 2009. During the third quarter ended 2010, service charges on deposit accounts decreased \$17 thousand or 5.4%, as consumers decreased their usage of overdraft products and maintained higher average deposit balances. The gain on the sale of mortgage loans to the secondary market declined to \$62 thousand for the three month period ended September 30 2010, from \$172 thousand in the 3 month period ended September 30, 2010. Refinancing activity declined from 2009, and housing sales stalled after the curtailment of the home buyers tax credit.

The Company recognized \$0 and \$148 thousand (tax provision of \$50 thousand) in realized gains from the sales of securities during the third quarter and first nine months of 2010 as compared to recognizing gross gains on sales of available for sale securities of \$1 and \$153 thousand (tax provision of \$52 thousand) which was partially offset by the recognition of a \$35 thousand (tax benefit of \$12 thousand) from other-than-temporary impairment of an equity investment and \$70 thousand (tax benefit of \$24 thousand) during the third quarter and first nine months of 2009.

Non-interest expenses for the quarter ended September 30, 2010, increased \$27 thousand, or 0.8%, compared to the third quarter of 2009. Salaries and employee benefits increased \$4 thousand, or 0.2%.

Occupancy and equipment expenses decreased \$76 thousand in 2010 over the third quarter of 2009 due to an impairment write-down of the Main Office of \$50 thousand in 2009 and a decrease in depreciation expense of \$25 thousand relating to furniture and equipment located at the corporate offices in Millersburg which were totally depreciated following the tenth anniversary of the building in 2009. Other operating expenses increased \$120 thousand primarily due to the increase in loan collection expense resulting from the recognition of delinquent real estate taxes and assessments on one commercial property which has been sold at sheriff's sale in the third quarter but has not transferred.

Federal income tax expense increased \$7 thousand, or 1.8% for the quarter ended September 30, 2010 as compared to the third quarter of 2009. The provision for income taxes was \$402 thousand (effective rate of 31.3%) for the quarter ended September 30, 2010, compared to \$395 thousand (effective rate of 31.5%)

Table of Contents

CSB BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

for the quarter ended September 30, 2009. The decrease in the effective tax rate resulted from an increased percentage of tax-exempt interest income.

Nine months ended September 30, 2010 and 2009

Net income for the nine months ending September 30, 2010, was \$2.54 million or \$0.93 per share, as compared to \$2.46 million or \$0.90 per share during the same period in 2009. Return on average assets and return on average equity were 0.77% and 7.25%, respectively, for the nine-month period of 2010, compared to 0.78% and 7.33%, respectively for 2009.

Net interest income was \$11.7 million for the nine months ended September 30, 2010, an increase of \$81 thousand or 0.7% from the same period last year.

Comparative net income increased due to a decrease in noninterest expense primarily related to the lack of a special FDIC assessment in 2010 compared to 2009 and a decrease in incentive and profit sharing accruals from the first quarter in 2010.

| <i>(unaudited, dollars in thousands)</i> | 2010 | | 2009 | |
|--|----------------------------|-------------------------|----------------------------|-------------------------|
| | Average Balance | Average Rate | Average Balance | Average Rate |
| Assets | | | | |
| Due from banks-interest bearing | \$ 28,290 | 0.24% | \$ 9,630 | 0.23% |
| Taxable securities | 68,577 | 4.02% | 66,513 | 4.95% |
| Tax-exempt securities | 10,026 | 5.19% | 8,164 | 5.76% |
| Federal funds sold | 240 | 0.13% | 200 | 0.13% |
| Loans | 312,943 | 5.56% | 317,957 | 5.80% |
| Total earning assets | 420,076 | 4.94% | 402,464 | 5.53% |
| Other assets | 22,514 | | 21,137 | |
| Total Assets | \$ 442,590 | | \$ 423,601 | |
| Liabilities and Shareholders Equity | | | | |
| Interest bearing demand deposits | \$ 51,819 | 0.08% | \$ 44,848 | 0.11% |
| Savings deposits | 73,061 | 0.36% | 57,582 | 0.43% |
| Time deposits | 149,504 | 2.16% | 155,031 | 2.70% |
| Other borrowed funds | 64,206 | 2.15% | 74,688 | 2.75% |
| Total interest bearing liabilities | 338,590 | 1.45% | 332,149 | 1.97% |
| Non-interest bearing demand deposits | 55,677 | | 44,722 | |
| Other liabilities | 1,486 | | 1,868 | |
| Shareholders' Equity | 46,837 | | 44,862 | |
| Total Liabilities and Shareholders' Equity | \$ 442,590 | | \$ 423,601 | |
| Taxable equivalent net interest spread | | 3.77% | | 3.90% |
| Taxable equivalent net interest margin | | 3.49% | | 3.56% |

Table of Contents

CSB BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Interest income on loans decreased \$798 thousand, or 5.8%, for the nine months ended September 30, 2010, as compared to the same period in 2009. This decrease was primarily due to an average loan volume decrease of \$5 million compounded by an interest rate decrease of 24 basis points for the comparable nine-month period. Interest income on securities decreased \$372 thousand, or 13.8%, as the yield on taxable securities decreased 86 basis points due to both calls in the Agency portfolio and accelerated payments within the mortgage-backed securities portfolio, while average investment balances increased by \$3.9 million. Interest income on fed funds sold and interest bearing deposits increased \$35 thousand for the nine months ended September 30, 2010 as the average fed funds sold rate increased 1 basis points to 0.24%, compared to the same period in 2009.

Interest expense decreased \$1.2 million to \$3.7 million for the nine months ended September 30, 2010, compared to the nine months ended September 30, 2009. Interest expense on deposits decreased \$712 thousand, or 21.2%, from the same period as last year, while interest expense on other borrowings decreased \$504 thousand or 32.8%. The decrease in interest expense has been caused by lower interest rates being paid across the board on interest-bearing deposit accounts and borrowings. Time deposits continue to renew at lower interest rates, and some depositors have moved monies to savings instruments anticipating higher rate time deposits in the future. Competition for deposits appears to be decreasing from a year ago with larger money center banks reducing the premium paid for term deposits. The net interest margin declined by 13 basis points for the nine-month period ended September 30, 2010, to 3.77%, from 3.90% for the same period in 2009.

The provision for loan losses was \$996 thousand during the first nine months of 2010, compared to \$928 thousand in the same nine-month period of 2009. The provision or credit for loan losses is determined based on management's calculation of the adequacy of the allowance for loan losses, which includes provisions for classified loans as well as for the remainder of the portfolio based on historical data including past charge-offs and current economic trends.

Non-interest income decreased \$46 thousand, or 1.9%, during the nine months ended September 30, 2010, as compared to the same period in 2009. The decrease in non-interest income was primarily due to the reduction in gain on sale of mortgage loans into the secondary market and reductions in service charges on deposits as deposit customers curtailed their use of overdraft privilege products in 2010 and have maintained higher average deposit balances to offset monthly fees. Increases in fee revenue occurred on debit card interchange fees as customers increased their card usage and increases were recognized on securities gains as the securities losses recognized in 2009 did not reoccur in 2010. Other income increased \$96 thousand, or 25.0%, primarily due to an increase in servicing fees from loans sold of \$40 thousand and an increase in check printing fee income of \$27 thousand.

Decreases were recognized in gains on mortgage loans sold in the secondary market for the first nine months of 2010, as the wave of refinancing activity stalled and new housing sales were virtually nonexistent following the government's curtailment of the home buyers credit in 2010.

Non-interest expenses decreased \$121 thousand, or 1.3%, for the nine months ended September 30, 2010, compared to the same period in 2009. The bank's FDIC deposit premium decreased \$79 thousand from \$496 thousand for the nine months ended 2009 reflecting the lack of a special assessment fully expensed and payable on September 30, 2009 which has not been reinstated in 2010. Salaries and employee benefits decreased \$52 thousand, or 1.0%, primarily the result of the decrease of incentive and profit sharing accruals in first quarter 2010. Professional and directors fees decreased \$28 thousand or 5.8%.

Table of Contents

CSB BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Occupancy and equipment expense has decreased during the first nine-months of 2010 as compared with 2009 as depreciation on the furniture and equipment located at the corporate offices in Millersburg ceased following the tenth anniversary of the building in 2009. Other expenses increased \$165 thousand, or 9.0%, primarily due to an increase of \$152 thousand in loan collection expenses.

The provision for income taxes was \$1.1 million (effective rate of 30.8%) for the nine months ended September 30, 2010, compared to \$1.1 million (effective rate of 31.3%) for the nine months ended September 30, 2009. The decrease in the effective tax rate resulted from an increase in tax-exempt interest income as a portion of total income before income taxes.

CAPITAL RESOURCES

The Federal Reserve Board (FRB) 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 CSB Bancorp's annual report on Form 10-K for the year ended December 31, 2009, and as of September 30, 2010 the holding company and its bank meet all capital adequacy requirements to which they are subject.

LIQUIDITY

Liquidity refers to the Company's ability to generate sufficient cash to fund current loan demand, meet deposit withdrawals, pay operating expenses and meet other obligations. The Company's primary sources of liquidity are cash and cash equivalents, which totaled \$39.9 million at September 30, 2010, a decrease of \$2.8 million from \$42.7 million at December 31, 2009. Net income, securities available-for-sale, and loan repayments also serve as sources of liquidity. Cash and cash equivalents and estimated principal cash flow and maturities on investments maturing within one year represent 14.9% of total assets as of September 30, 2010 compared to 15.0% of total assets at year-end 2009. 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

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

Table of Contents

CSB BANCORP, INC.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the quantitative and qualitative disclosures about market risks as of September 30, 2010, from that presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. Management performs a quarterly analysis of the Company's interest rate risk. All positions are currently within the Company's board-approved policy.

The following table presents an analysis of the estimated sensitivity of the Company's annual net interest income to sudden and sustained 100 and 200 basis point changes in market interest rates at September 30, 2010 and December 31, 2009:

September 30, 2010

| Changes in Interest Rates (basis points) | Net Interest Income (Dollars in Thousands) | Dollar Change | Percentage Change |
|--|--|------------------|----------------------|
| +200 | \$ 16,391 | \$ 1,248 | 8.2% |
| +100 | 15,558 | 415 | 2.7 |
| 0 | 15,143 | 0 | 0.0 |
| -100 | N/A | N/A | N/A |
| -200 | N/A | N/A | N/A |

December 31, 2009

| Changes in Interest Rates (basis points) | Net Interest Income (Dollars in Thousands) | Dollar Change | Percentage Change |
|--|--|------------------|----------------------|
| +200 | \$ 17,287 | \$ 849 | 5.2% |
| +100 | 16,739 | 301 | 1.8 |
| 0 | 16,438 | 0 | 0.0 |
| -100 | N/A | N/A | N/A |
| -200 | N/A | N/A | N/A |

23.

Table of Contents

CSB BANCORP, INC.

ITEM 4T CONTROLS AND PROCEDURES

With the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our 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, our 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 our 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 our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

CSB BANCORP, INC.
FORM 10-Q
Quarter ended September 30, 2010
PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

There are no matters required to be reported under this item.

ITEM 1A RISK FACTORS

There were no material changes to the Risk Factors described in Item 1A in the Company's Annual Report on Form 10-K for the period ended December 31, 2009.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There are no matters required to be reported under this item.

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:

There are no matters required to be reported under this item.

ITEM 4 Removed and Reserved:

ITEM 5 Other Information:

There are no matters required to be reported under this item

25.

Table of Contents

CSB BANCORP, INC.
FORM 10-Q
Quarter ended September 30, 2010
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 Form 10-KSB for the Fiscal Year ended December 31, 1994). |
| 3.1.1 | Amended form of Article Fourth of Amended Articles of Incorporation, as effective April 9, 1998 (incorporated by reference to Registrant's Form 10-K for the Fiscal Year ended December 31, 1998). |
| 3.2 | Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to 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 for the Fiscal Year ended December 31, 2008). |
| 4.0 | Specimen stock certificate (incorporated by reference to Registrant's Form 10-SB). |
| 11 | Statement Regarding Computation of Per Share Earnings (reference is hereby made to Consolidated Statements of Income on page 4 hereof). |
| 31.1 | Rule 13a-14(a)/15d-14(a) CEO's Certification |
| 31.2 | Rule 13a-14(a)/15d-14(a) CFO's Certification |
| 32.1 | Section 1350 CEO's Certification |
| 32.2 | Section 1350 CFO's Certification |

Table of Contents

CSB BANCORP, INC.
SIGNATURES

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

CSB BANCORP, INC.
(Registrant)

Date: November 12, 2010

/s/ Eddie L. Steiner
Eddie L. Steiner
President Chief Executive Officer

Date: November 12, 2010

/s/ Paula J. Meiler
Paula J. Meiler
Senior Vice President
Chief Financial Officer
27.

Table of Contents

CSB BANCORP, INC.
Index to Exhibits

| Exhibit Number | Description of Document |
|---------------------------|---|
| 3.1 | Amended Articles of Incorporation of CSB Bancorp, Inc. (incorporated by reference to Registrant's Form 10-KSB for the Fiscal Year ended December 31, 1994) |
| 3.1.1 | Amended form of Article Fourth of Amended Articles of Incorporation, as effective April 9, 1998 (incorporated by reference to Registrant's Form 10-k for the Fiscal Year ended December 31, 1998) |
| 3.2 | Code of Regulations of CSB Bancorp, Inc. (incorporated by reference to 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 for the Fiscal Year ended December 31, 2008). |
| 4 | Specimen stock certificate (incorporated by reference to Registrant's Form 10-SB) |
| 11 | Statement Regarding Computation of Per Share Earnings (reference is hereby made to Consolidated Statements of Income on page 4 hereof.) |
| 31.1 | Rule 13a-14(a)/15d-14(a) CEO's Certification |
| 31.2 | Rule 13a-14(a)/15d-14(a) CFO's Certification |
| 32.1 | Section 1350 CEO's Certification |
| 32.2 | Section 1350 CFO's Certification |