

CSB BANCORP INC /OH  
Form 10-Q  
November 13, 2009

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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: September 30, 2009**

**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   
(Do not check if a 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 13, 2009:  
2,734,799 common shares



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QUARTER ENDED September 30, 2009  
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CSB BANCORP, INC.  
PART I FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|                                                  | September 30,<br>2009 | December 31,<br>2008 |
|--------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                    |                       |                      |
| Cash and due from bank                           | \$ 8,681,607          | \$ 8,698,917         |
| Interest-earning deposits in other banks         | 13,258,887            | 2,961,153            |
| Federal funds sold                               |                       | 1,086,000            |
| <br>Total cash and cash equivalents              | <br>21,940,494        | <br>12,746,070       |
| <br>Securities available-for-sale, at fair value | <br>72,614,370        | <br>76,655,816       |
| Restricted stock, at cost                        | 5,463,100             | 5,231,800            |
| <br>Total securities                             | <br>78,077,470        | <br>81,887,616       |
| <br>Loans                                        | <br>314,717,245       | <br>316,290,412      |
| Less allowance for loan losses                   | 3,696,698             | 3,393,685            |
| <br>Net loans                                    | <br>311,020,547       | <br>312,896,727      |
| <br>Premises and equipment, net                  | <br>8,541,328         | <br>8,470,855        |
| Bank owned life insurance                        | 2,827,263             | 2,748,909            |
| Other intangible assets                          | 607,493               | 597,014              |
| Goodwill                                         | 1,423,171             | 1,448,029            |
| Accrued interest receivable and other assets     | 2,952,797             | 3,861,962            |
| <br>Total Assets                                 | <br>\$ 427,390,563    | <br>\$ 424,657,182   |
| <br><b>LIABILITIES</b>                           |                       |                      |
| Deposits                                         |                       |                      |
| Noninterest-bearing                              | \$ 46,366,578         | \$ 49,058,592        |
| Interest-bearing                                 | 256,531,562           | 256,394,147          |
| <br>Total deposits                               | <br>302,898,140       | <br>305,452,739      |
| Short-term borrowings                            | 27,056,770            | 22,891,593           |
| Other borrowings                                 | 49,857,842            | 50,997,537           |
| Accrued interest payable and other liabilities   | 1,997,904             | 1,846,841            |
| <br>Total liabilities                            | <br>381,810,656       | <br>381,188,710      |

**SHAREHOLDERS EQUITY**

|                                                                                                                       |                    |                    |
|-----------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Common stock, \$6.25 par value: 9,000,000 shares authorized:<br>2,980,602 shares issued; 2,734,799 shares outstanding | 18,628,767         | 18,628,767         |
| Additional paid-in capital                                                                                            | 9,992,329          | 9,986,499          |
| Retained earnings                                                                                                     | 20,707,496         | 19,723,972         |
| Treasury stock at cost: 245,803 shares                                                                                | (5,014,541)        | (5,014,541)        |
| Accumulated other comprehensive income                                                                                | 1,265,856          | 143,775            |
| <br>Total shareholders equity                                                                                         | <br>45,579,907     | <br>43,468,472     |
| <br>Total Liabilities and Shareholders Equity                                                                         | <br>\$ 427,390,563 | <br>\$ 424,657,182 |

See notes to unaudited consolidated financial statements.

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

|                                                            | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                   |
|------------------------------------------------------------|-------------------------------------|------------------|------------------------------------|-------------------|
|                                                            | 2009                                | 2008             | 2009                               | 2008              |
| <b>Interest income</b>                                     |                                     |                  |                                    |                   |
| Loans, including fees                                      | \$ 4,565,909                        | \$ 4,073,175     | \$ 13,768,953                      | \$ 12,503,136     |
| Taxable securities                                         | 776,162                             | 800,062          | 2,461,570                          | 2,377,551         |
| Nontaxable securities                                      | 84,281                              | 60,088           | 232,203                            | 159,510           |
| Other                                                      | 7,979                               | 32,992           | 16,835                             | 102,863           |
| <b>Total interest income</b>                               | <b>5,434,331</b>                    | <b>4,966,317</b> | <b>16,479,561</b>                  | <b>15,143,060</b> |
| <b>Interest expense</b>                                    |                                     |                  |                                    |                   |
| Deposits                                                   | 1,055,240                           | 1,068,797        | 3,353,042                          | 3,662,709         |
| Other                                                      | 514,514                             | 457,693          | 1,536,315                          | 1,374,994         |
| <b>Total interest expense</b>                              | <b>1,569,754</b>                    | <b>1,526,490</b> | <b>4,889,357</b>                   | <b>5,037,703</b>  |
| <b>Net interest income</b>                                 | <b>3,864,577</b>                    | <b>3,439,827</b> | <b>11,590,204</b>                  | <b>10,105,357</b> |
| <b>Provision for loan losses</b>                           | <b>292,952</b>                      | <b>107,031</b>   | <b>928,092</b>                     | <b>261,740</b>    |
| <b>Net interest income after provision for loan losses</b> | <b>3,571,625</b>                    | <b>3,332,796</b> | <b>10,662,112</b>                  | <b>9,843,617</b>  |
| <b>Non-interest income</b>                                 |                                     |                  |                                    |                   |
| Service charges on deposit accounts                        | 313,269                             | 326,006          | 930,779                            | 952,414           |
| Trust and financial services                               | 172,555                             | 138,128          | 406,930                            | 489,360           |
| Debit card interchange fees                                | 101,268                             | 81,805           | 282,991                            | 232,995           |
| Gain on sale of loans                                      | 172,466                             | 9,475            | 356,926                            | 281,309           |
| Securities (losses) gains                                  | (33,613)                            | (35,000)         | 81,890                             | (35,000)          |
| Other income                                               | 144,166                             | 153,198          | 386,849                            | 387,966           |
| <b>Total non-interest income</b>                           | <b>870,111</b>                      | <b>673,612</b>   | <b>2,446,365</b>                   | <b>2,309,044</b>  |
| <b>Non-interest expenses</b>                               |                                     |                  |                                    |                   |
| Salaries and employee benefits                             | 1,747,309                           | 1,532,758        | 5,151,886                          | 4,596,823         |
| Occupancy expense                                          | 265,563                             | 183,735          | 739,725                            | 566,531           |
| Equipment expense                                          | 131,479                             | 122,541          | 403,175                            | 367,312           |
| State franchise tax                                        | 134,950                             | 108,560          | 371,320                            | 323,370           |
| Professional and director fees                             | 157,137                             | 95,454           | 485,453                            | 375,353           |
| FDIC deposit insurance                                     | 105,100                             | 20,000           | 496,300                            | 34,585            |
| Amortization of intangible assets                          | 16,227                              |                  | 48,772                             |                   |
| Other expenses                                             | 629,949                             | 598,796          | 1,830,230                          | 1,743,601         |

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|                                             |            |            |              |              |
|---------------------------------------------|------------|------------|--------------|--------------|
| Total non-interest expenses                 | 3,187,714  | 2,661,844  | 9,526,861    | 8,007,575    |
| <b>Income before income taxes</b>           | 1,254,022  | 1,344,564  | 3,581,616    | 4,145,086    |
| Federal income tax provision                | 395,700    | 454,000    | 1,121,300    | 1,375,000    |
| <b>Net income</b>                           | \$ 858,322 | \$ 890,564 | \$ 2,460,316 | \$ 2,770,086 |
| <b>Basic and diluted earnings per share</b> | \$ 0.31    | \$ 0.37    | \$ 0.90      | \$ 1.14      |

See notes to unaudited consolidated financial statements.

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

|                                                                                                                                                         | Three Months Ended |               | Nine Months Ended |               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------|-------------------|---------------|
|                                                                                                                                                         | September 30,      |               | September 30,     |               |
|                                                                                                                                                         | 2009               | 2008          | 2009              | 2008          |
| Balance at beginning of period                                                                                                                          | \$ 44,678,325      | \$ 36,577,306 | \$ 43,468,472     | \$ 36,278,048 |
| Comprehensive income:                                                                                                                                   |                    |               |                   |               |
| Net income                                                                                                                                              | 858,322            | 890,564       | 2,460,316         | 2,770,086     |
| Change in net unrealized gain, net of reclassification adjustments and related income taxes \$274,391, \$245,875, \$578,042, and \$92,263, respectively | 532,642            | 477,287       | 1,122,081         | 179,098       |
| Total comprehensive income                                                                                                                              | 1,390,964          | 1,367,851     | 3,582,397         | 2,949,184     |
| Stock-based compensation expense                                                                                                                        | 2,882              | 3,750         | 5,830             | 11,250        |
| Purchase of treasury shares                                                                                                                             |                    | (1,006)       |                   | (415,259)     |
| Cash dividends declared (\$0.18 for the three months and \$0.54 for the nine months per share in 2009 and 2008)                                         | (492,264)          | (435,957)     | (1,476,792)       | (1,311,279)   |
| Balance at end of period                                                                                                                                | \$ 45,579,907      | \$ 37,511,944 | \$ 45,579,907     | \$ 37,511,944 |

See notes to unaudited consolidated financial statements.

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

|                                                         | Nine Months Ended<br>September 30, |                      |
|---------------------------------------------------------|------------------------------------|----------------------|
|                                                         | 2009                               | 2008                 |
| <b>Net cash provided by operating activities</b>        | \$ 3,377,602                       | \$ 3,384,940         |
| <b>Cash flows from investing activities</b>             |                                    |                      |
| Securities available-for-sale:                          |                                    |                      |
| Proceeds from maturities, calls and repayments          | 25,446,408                         | 17,869,675           |
| Proceeds from sales                                     | 1,305,425                          |                      |
| Purchases                                               | (20,978,926)                       | (13,611,007)         |
| Purchase of Federal Reserve Bank stock                  | (231,300)                          | (114,900)            |
| Proceeds from sale of other real estate                 | 83,500                             | 105,000              |
| Loan originations, net of repayments                    | 843,888                            | (1,983,166)          |
| Proceeds from sale of credit cards                      |                                    | 2,513,671            |
| Premises and equipment expenditures, net                | (632,313)                          | (320,292)            |
| <b>Net cash provided by investing activities</b>        | <b>5,836,682</b>                   | <b>4,458,981</b>     |
| <b>Cash flows from financing activities</b>             |                                    |                      |
| Net change in deposits                                  | (2,374,007)                        | (13,433,237)         |
| Net change in short-term borrowings                     | 4,165,177                          | (2,548,323)          |
| Proceeds from other borrowings                          |                                    | 8,000,000            |
| Repayment of other borrowings                           | (826,502)                          | (341,890)            |
| Purchase of treasury shares                             |                                    | (415,259)            |
| Cash dividends paid                                     | (984,528)                          | (875,322)            |
| <b>Net cash used for financing activities</b>           | <b>(19,860)</b>                    | <b>(9,614,031)</b>   |
| <b>Net change in cash and cash equivalents</b>          | <b>9,194,424</b>                   | <b>(1,770,110)</b>   |
| <b>Cash and cash equivalents at beginning of period</b> | <b>12,746,070</b>                  | <b>12,193,362</b>    |
| <b>Cash and cash equivalents at end of period</b>       | <b>\$ 21,940,494</b>               | <b>\$ 10,423,252</b> |
| <b>Supplemental disclosures</b>                         |                                    |                      |
| Interest paid                                           | \$ 5,380,325                       | \$ 5,120,995         |
| Income taxes paid                                       | 920,000                            | 1,326,000            |

See notes to unaudited consolidated financial statements.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying condensed consolidated financial statements include the accounts of CSB Bancorp, Inc. and its wholly-owned subsidiaries, The Commercial and Savings Bank 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, 2009, 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, 2008, 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 September 30, 2009 are not necessarily indicative of the operating results for the full year or any future interim period.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2009-01, *Topic 105 Generally Accepted Accounting Principles FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. The Company adopted this standard for the interim reporting period ending September 30, 2009. The adoption of this standard did not have a material impact on the Company's results of operations or financial position.

In June 2009, the FASB issued an accounting standard related to the accounting for transfers of financial assets, which is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. This standard enhances reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. This standard eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. This standard also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. This accounting standard was subsequently codified into ASC Topic 860. The Company is currently evaluating the impact the adoption of the standard will have on the Company's results of operations.

In September 2006, the FASB issued an accounting standard related to fair value measurements, which was effective for the Company on January 1, 2008. This standard defined fair value, established a framework for measuring fair value, and expanded disclosure requirements about fair value measurements. On January 1, 2008, the Company adopted this accounting standard related to fair value measurements for the Company's financial assets and financial liabilities. The Company deferred

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

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS-(continued)**

adoption of this accounting standard related to fair value measurements for the Company's nonfinancial assets and nonfinancial liabilities, except for those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. The adoption of this accounting standard related to fair value measurements for the Company's nonfinancial assets and nonfinancial liabilities had no impact on retained earnings and is not expected to have a material impact on the Company's statements of income and condition. This accounting standard was subsequently codified into ASC Topic 820, Fair Value Measurements and Disclosures.

In April 2009, the FASB issued new guidance impacting ASC Topic 820, *Fair Value Measurements and Disclosures*. This ASC provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The adoption of this new guidance did not have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued new guidance impacting ASC 825-10-50, *Financial Instruments*, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance is effective for interim and annual periods ending after June 15, 2009. The Company has presented the necessary disclosures in Note 4 herein.

In April 2009, the FASB issued new guidance impacting ASC 320-10, *Investments - Debt and Equity Securities*, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this new guidance did not have a material impact on the Company's financial position or results of operations.

In August 2009, the FASB issued ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The Company is currently evaluating the impact of this standard on the Company's financial condition, results of operations, and disclosures.

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

**NOTE 2 SECURITIES**

Securities consist of the following at September 30, 2009 and December 31, 2008:

**September 30, 2009**

|                                                             | <b>Amortized<br/>Cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Fair<br/>Value</b> |
|-------------------------------------------------------------|---------------------------|---------------------------------------|----------------------------------------|-----------------------|
| Available-for-sale:                                         |                           |                                       |                                        |                       |
| U.S. Treasury security                                      | \$ 100,530                | \$ 142                                | \$                                     | \$ 100,672            |
| Obligations of U.S. government corporations<br>and agencies | 10,186,745                | 7,829                                 | 24,204                                 | 10,170,370            |
| Mortgage-backed securities                                  | 51,441,268                | 1,890,761                             | 180,179                                | 53,151,850            |
| Obligations of states and political subdivisions            | 8,903,053                 | 236,866                               | 862                                    | 9,139,057             |
| Total debt securities                                       | 70,631,596                | 2,135,598                             | 205,245                                | 72,561,949            |
| Equity Securities                                           | 64,811                    | 285                                   | 12,675                                 | 52,421                |
| Total available-for-sale                                    | 70,696,407                | 2,135,883                             | 217,920                                | 72,614,370            |
| Restricted stock                                            | 5,463,100                 |                                       |                                        | 5,463,100             |
| <b>Total securities</b>                                     | <b>\$ 76,159,507</b>      | <b>\$ 2,135,883</b>                   | <b>\$ 217,920</b>                      | <b>\$ 78,077,470</b>  |

**December 31, 2008**

|                                                             | <b>Amortized<br/>Cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Fair<br/>Value</b> |
|-------------------------------------------------------------|---------------------------|---------------------------------------|----------------------------------------|-----------------------|
| Available-for-sale:                                         |                           |                                       |                                        |                       |
| U.S. Treasury security                                      | \$ 99,988                 | \$ 473                                | \$                                     | \$ 100,461            |
| Obligations of U.S. government corporations<br>and agencies | 12,447,301                | 93,055                                |                                        | 12,540,356            |
| Mortgage-backed securities                                  | 56,697,763                | 618,677                               | 417,495                                | 56,898,945            |
| Obligations of states and political subdivisions            | 7,045,468                 | 77,901                                | 83,073                                 | 7,040,296             |
| Total debt securities                                       | 76,290,520                | 790,106                               | 500,568                                | 76,580,058            |
| Equity Securities                                           | 147,458                   | 645                                   | 72,345                                 | 75,758                |
| Total available-for-sale                                    | 76,437,978                | 790,751                               | 572,913                                | 76,655,816            |
| Restricted stock                                            | 5,231,800                 |                                       |                                        | 5,231,800             |
| <b>Total securities</b>                                     | <b>\$ 81,669,778</b>      | <b>\$ 790,751</b>                     | <b>\$ 572,913</b>                      | <b>\$ 81,887,616</b>  |

The amortized cost and fair value of securities at September 30, 2009, 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.

| <b>Available-for-sale</b>                    | <b>Amortized</b>  | <b>Fair Value</b> |
|----------------------------------------------|-------------------|-------------------|
|                                              | <b>Cost</b>       |                   |
| Due in one year or less                      | \$ 3,818,603      | \$ 3,841,296      |
| Due after one through five years             | 2,957,178         | 2,980,738         |
| Due after five years through ten years       | 15,232,643        | 15,508,162        |
| Due after ten years                          | 48,623,172        | 50,231,753        |
| <br>Total debt securities available-for-sale | <br>\$ 70,631,596 | <br>\$ 72,561,949 |

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

**NOTE 2 SECURITIES**-(continued)**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.

|                               | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|-------------------------------|---------------------------|-------------|--------------------------|-------------|
|                               | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                               | 2009                      | 2008        | 2009                     | 2008        |
| Proceeds                      | \$ 8,484                  | \$          | \$ 1,305,425             | \$          |
| Realized gains                | \$ 1,387                  | \$          | \$ 152,467               | \$          |
| Realized losses               |                           |             | 577                      |             |
| Impairment losses             | 35,000                    | 35,000      | 70,000                   | 35,000      |
| Net securities (losses) gains | \$ (33,613)               | \$ (35,000) | \$ 81,890                | \$ (35,000) |

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, 2009 and has recognized the total amount of the impairment in other comprehensive income, net of tax. A \$70,000 other-than-temporary impairment was recognized on an equity investment during the first nine months of 2009. This equity investment has been sold as of September 30, 2009.

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**NOTE 2 SECURITIES-(continued)**

The following table presents gross unrealized losses and fair value of securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2009 and December 31, 2008:

**Securities in a Continuous Unrealized Loss Position**

|                                                                | Less than 12 Months           |               | 12 Months or More             |               | Total                         |               |
|----------------------------------------------------------------|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
|                                                                | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>September 30, 2009</b>                                      |                               |               |                               |               |                               |               |
| Obligations of U.S.<br>government corporations<br>and agencies | \$ 24,204                     | \$ 4,983,200  | \$                            | \$            | \$ 24,204                     | \$ 4,983,200  |
| Mortgage-backed<br>securities                                  | 13,326                        | 2,478,502     | 166,853                       | 2,491,340     | 180,179                       | 4,969,842     |
| Obligations of state &<br>political subdivisions               | 862                           | 802,095       |                               |               | 862                           | 802,095       |
| Total debt securities                                          | 38,392                        | 8,263,797     | 166,853                       | 2,491,340     | 205,245                       | 10,755,137    |
| Equity securities                                              |                               |               | 12,674                        | 41,061        | 12,674                        | 41,061        |
| Total temporarily impaired<br>securities                       | \$ 38,392                     | \$ 8,263,797  | \$ 179,527                    | \$ 2,532,401  | \$ 217,919                    | \$ 10,796,198 |

**Securities in a Continuous Unrealized Loss Position**

|                                                  | Less than 12 Months           |               | 12 Months or More             |               | Total                         |               |
|--------------------------------------------------|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
|                                                  | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>December 31, 2008</b>                         |                               |               |                               |               |                               |               |
| Mortgage-backed<br>securities                    | \$ 312,520                    | \$ 9,327,561  | \$ 104,975                    | \$ 1,101,425  | \$ 417,495                    | \$ 10,428,986 |
| Obligations of state &<br>political subdivisions | 83,073                        | 4,291,747     |                               |               | 83,073                        | 4,291,747     |
| Total debt securities                            | 395,593                       | 13,619,308    | 104,975                       | 1,101,425     | 500,568                       | 14,720,733    |
| Equity securities                                |                               |               | 72,345                        | 64,038        | 72,345                        | 64,038        |
| Total temporarily<br>impaired securities         | \$ 395,593                    | \$ 13,619,308 | \$ 177,320                    | \$ 1,165,463  | \$ 572,913                    | \$ 14,784,771 |

**NOTE 3 FAIR VALUE MEASUREMENTS**

The Company adopted FASB ASC Topic 820 which, among other things, requires enhanced 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:

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**NOTE 3 FAIR VALUE MEASUREMENTS-(continued)**

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, 2009 and December 31, 2008, 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.

|                                                          | Level I           | Level II                  | Level III | Total                |
|----------------------------------------------------------|-------------------|---------------------------|-----------|----------------------|
|                                                          |                   | <b>September 30, 2009</b> |           |                      |
| <b>Assets:</b>                                           |                   |                           |           |                      |
| Securities available-for-sale                            |                   |                           |           |                      |
| U.S. Treasury security                                   | \$ 100,672        | \$                        | \$        | \$ 100,672           |
| Obligations of U.S. government corporations and agencies |                   | 10,170,370                |           | 10,170,370           |
| Mortgage-backed securities                               |                   | 53,151,850                |           | 53,151,850           |
| Obligations of states and political subdivisions         |                   | 9,139,057                 |           | 9,139,057            |
| Total debt securities                                    |                   | 72,461,277                |           | 72,561,949           |
| Equity Securities                                        | 52,421            |                           |           | 52,421               |
| <b>Total available-for-sale securities</b>               | <b>\$ 153,093</b> | <b>\$ 72,461,277</b>      | <b>\$</b> | <b>\$ 72,614,370</b> |
|                                                          |                   |                           |           |                      |
|                                                          |                   | <b>December 31, 2008</b>  |           |                      |
| Securities available-for-sale                            |                   |                           |           |                      |
| U.S. Treasury security                                   | \$ 100,461        | \$                        | \$        | \$ 100,461           |
| Obligations of U.S. government corporations and agencies |                   | 12,540,356                |           | 12,540,356           |
| Mortgage-backed securities                               |                   | 56,898,945                |           | 56,898,945           |
| Obligations of states and political subdivisions         |                   | 7,040,296                 |           | 7,040,296            |

|                                            |            |               |    |               |
|--------------------------------------------|------------|---------------|----|---------------|
| Total debt securities                      |            | 76,479,597    |    | 76,580,058    |
| Equity Securities                          | 75,758     |               |    | 75,758        |
| <b>Total available-for-sale securities</b> | \$ 176,219 | \$ 76,479,597 | \$ | \$ 76,655,816 |

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**NOTE 3 FAIR VALUE MEASUREMENTS-(continued)**

The following table presents the assets measured on a nonrecurring basis on the consolidated balance sheets at their fair value as of September 30, 2009, and December 31, 2008, by level within the fair value hierarchy. Impaired loans that are collateral dependent 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; 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.

|                                                 | Level<br>I | Level II                  | Level<br>III | Total       |
|-------------------------------------------------|------------|---------------------------|--------------|-------------|
|                                                 |            | <b>September 30, 2009</b> |              |             |
| <b>Assets Measured on a Nonrecurring Basis:</b> |            |                           |              |             |
| Impaired loans                                  | \$         | \$2,253,831               | \$           | \$2,253,831 |
|                                                 |            | <b>December 31, 2008</b>  |              |             |
| Impaired loans                                  | \$         | \$2,049,171               | \$           | \$2,049,171 |

**NOTE 4 FAIR VALUES OF FINANCIAL INSTRUMENTS**

The estimated fair values of recognized financial instruments as of September 30, 2009 and December 31, 2008 are as follows:

|                             | 2009              |               | 2008              |               |
|-----------------------------|-------------------|---------------|-------------------|---------------|
|                             | Carrying<br>value | Fair<br>value | Carrying<br>value | Fair<br>value |
| (Dollars in thousands)      |                   |               |                   |               |
| Financial assets:           |                   |               |                   |               |
| Cash and cash equivalents   | \$ 21,940         | \$ 21,940     | \$ 12,746         | \$ 12,746     |
| Securities                  | 78,077            | 78,077        | 81,888            | 81,888        |
| Loans, net                  | 311,021           | 321,124       | 312,897           | 321,924       |
| Accrued Interest Receivable | 1,344             | 1,344         | 1,386             | 1,386         |
| Financial liabilities:      |                   |               |                   |               |
| Deposits                    | \$302,898         | \$304,314     | \$305,453         | \$308,213     |
| Short-term borrowings       | 27,057            | 27,057        | 22,892            | 22,892        |
| Other borrowings            | 49,858            | 52,021        | 50,998            | 53,073        |
| Accrued Interest Payable    | 241               | 241           | 417               | 417           |

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, 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.



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**NOTE 4 FAIR VALUES OF FINANCIAL INSTRUMENTS** -(continued)

**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, 2009 and December 31, 2008. These financial instruments relate to commitments to extend credit and letters of credit. The aggregated contract amount of such financial instruments was approximately \$61,342,000 at September 30, 2009 and \$61,791,000 at December 31, 2008. Such amounts are also considered to be the estimated fair values.

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

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**NOTE 5 BUSINESS COMBINATION**

Effective after the close of business on October 31, 2008, CSB completed the acquisition of Indian Village Bancorp, Inc. ( Indian Village ). CSB and Indian Village entered into a definitive Agreement and Plan of Merger on May 14, 2008. Immediately following the merger, Indian Village Community Bank was merged with and into The Commercial and Savings Bank of Millersburg. Indian Village banking centers are located in Gnadenuhuten, New Philadelphia and North Canton, Ohio. Under the terms of the agreement, the Company paid a combination of stock and cash as set forth in the definitive agreement and plan of merger for each outstanding common share of Indian Village, resulting in aggregate merger consideration of approximately \$8.1 million. This transaction was accounted for using the purchase method of accounting.

The following unaudited summary information presents the consolidated results of operations of CSB on a pro forma basis, as if the Indian Village acquisition had occurred at the beginning of each of the periods presented. The pro forma data gives effect to the merger and is based on numerous assumptions and estimates.

| (in thousands, except per share amounts) | For the three months<br>ended September 30, |         | For the nine months<br>ended September 30, |          |
|------------------------------------------|---------------------------------------------|---------|--------------------------------------------|----------|
|                                          | 2009                                        | 2008    | 2009                                       | 2008     |
| Net interest income                      | \$3,865                                     | \$3,996 | \$11,590                                   | \$11,863 |
| Provision for loan losses                | 293                                         | 407     | 928                                        | 719      |
| Non-interest income                      | 870                                         | 781     | 2,446                                      | 2,433    |
| Non-interest expense                     | 3,188                                       | 3,279   | 9,527                                      | 9,853    |
| Net income                               | \$ 858                                      | \$ 723  | \$ 2,460                                   | \$ 2,585 |
| Net income per common share              |                                             |         |                                            |          |
| Basic                                    | \$ 0.31                                     | \$ 0.26 | \$ 0.90                                    | \$ 0.94  |
| Diluted                                  | \$ 0.31                                     | \$ 0.26 | \$ 0.90                                    | \$ 0.94  |

**NOTE 6 SUBSEQUENT EVENTS**

The Company assessed events occurring subsequent to September 30, 2009 through November 13, 2009 for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustment to or disclosure in the consolidated financial statements, which were issued on November 13, 2009.

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CSB BANCORP, INC.

**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, 2009 as compared to December 31, 2008, and the consolidated results of operations for the three and nine-month periods ended September 30, 2009 compared to the same period in 2008. 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 \$427.4 million at September 30, 2009, compared to \$424.7 million at December 31, 2008, representing an increase of \$2.7 million or 0.6%. Cash and cash equivalents increased \$9.2 million, or 72.1%, during the nine-month period ending September 30, 2009, due to a \$10.3 million increase in interest-earning deposits in other banks, offset partially by a \$1.1 million decrease in Federal funds sold. Securities decreased \$3.1 million or 4.7% during the first nine months of 2009 primarily due to calls within the U.S. Agency portfolio and principal repayments within the mortgage-backed securities portfolio. Net loans decreased \$1.9 million, or 0.6%, while deposits decreased \$2.6 million, or 0.8%, during the nine-month period. Short-term borrowings of Federal funds purchased, securities sold under repurchase agreement and Federal Home Loan Bank borrowings increased \$4.2 million, while other borrowings decreased \$1.1 million during the period.

Net loans decreased \$1.9 million, or 0.6%, during the nine-month period ended September 30, 2009. Loan balance increases were recognized in commercial loans of \$5.3 million, home equity lines of \$5.7 million, and construction loans of \$2.5 million during the nine-month period. Mortgage loans declined \$14.1 million due to customers refinancing into lower rate mortgage loans which were primarily sold on the secondary market. Consumer installment credit continued to decline another \$760,000 during the period. The allowance for loan losses amounted to \$3,697,000, or 1.17% of total loans at September 30, 2009 compared to \$3,394,000 or 1.07% of total loans at December 31, 2008.

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The allowance for loan losses totaled \$3.7 million at September 30, 2009, an increase of \$300 thousand over June 30, 2009 and December 31, 2008. The Company provided \$928 thousand to the allowance for loan losses for the nine-month period ending September 30, 2009 while net loan charge-offs totaled \$625 thousand for the same period. At September 30, 2009 nonperforming loans, other real estate owned and delinquent loans reflect balance increases from June 30, 2009 of \$1,046,000 and December 31, 2008 of \$918,000.

|                                     | September 30,<br>2009 | June 30, 2009 | December 31,<br>2008 |
|-------------------------------------|-----------------------|---------------|----------------------|
| Non-performing loans                | \$ 4,504,000          | \$ 4,071,028  | \$ 2,642,728         |
| Other real estate                   | 40,000                | 52,000        | 79,000               |
| Allowance for loan losses           | 3,696,698             | 3,397,920     | 3,393,685            |
| Total loans                         | 314,717,245           | 317,879,674   | 316,290,412          |
| Allowance: loans                    | 1.17%                 | 1.07%         | 1.07%                |
| 30-89 day loan delinquency          | 2,207,000             | 1,581,869     | 3,111,000            |
| Allowance: non-performing loans     | 0.8x                  | 0.8x          | 1.3x                 |
| Non-performing assets: total assets | 1.06%                 | 1.00%         | 0.64%                |

The ratio of gross loans to deposits was 103.9% at September 30, 2009, compared to 103.5% at December 31, 2008. The increase in this ratio is the result of larger deposit decreases than loan balance decreases experienced during the nine months ended September 30, 2009.

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. The Company had net unrealized gains of \$1.9 million within its securities portfolio at September 30, 2009, compared to net unrealized gains of \$218,000 at December 31, 2008. Gross unrealized losses of \$218,000 as of September 30, 2009 were primarily concentrated in two (2) private label CMOs. These investments represent \$1.7 million fair value, \$4.5 million original par value and \$159,000 gross unrealized loss. All bonds are investment grade at September 30, 2009, collateralized primarily by 1-4 family mortgage loans and borrowers in a wide geographical dispersion. 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, 2009 and has recognized the total amount of the impairment in other comprehensive income, net of tax. A \$70,000 other-than-temporary impairment was recognized on an equity investment during the first nine months of 2009. As of September 30, 2009, this equity investment has been sold.

Short-term borrowings increased \$4.2 million from December 31, 2008 as new customer relationships were opened as repurchase agreements. Other borrowings decreased \$1.1 million due to maturities and payments of Federal Home Loan Bank advances.

Deposits decreased \$2.6 million, or 0.8% from December 31, 2008 with non-interest bearing deposits declining \$2.7 million and interest-bearing deposit accounts increasing \$137 thousand. By deposit type, increases were recognized in money market savings accounts of \$4.7 million, while time deposits of \$100 thousand and greater decreased \$2.9 million for the nine-month period ended September 30, 2009. Included in the decrease of time deposits of \$100 thousand and greater, were \$3.2 million of brokered deposits acquired through the merger with Indian Village that matured and were not renewed. Decreases were also reflected in interest-bearing demand deposits and traditional savings accounts.



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Total shareholders' equity amounted to \$45.6 million, or 10.7%, of total assets, at September 30, 2009, compared to \$43.5 million, or 10.2% of total assets, at December 31, 2009. The increase in shareholders' equity during the nine months ended September 30, 2009 was due to net income of \$2,460,000 and the increase in net unrealized gains, net of tax, on securities of \$1,122,000. These increases were partially offset by dividends declared of \$1,477,000. The Company and its subsidiary bank met all regulatory capital requirements at September 30, 2009.

**RESULTS OF OPERATIONS**

**Three months ended September 30, 2009 and 2008**

For the quarter ended September 30, 2009, the Company recorded net income of \$858,000, or \$0.31 per share, as compared to net income of \$891,000, or \$0.37 per share for the quarter ended September 30, 2008. The \$33,000 decrease in net income for the quarter was principally due to a \$186,000 increase in the provision for loan losses and a \$526,000 increase in other expenses. The increase in expenses was offset by increases in net interest income of \$425,000, and other income of \$196,000 and a decline in federal income tax provision of \$58,000.

Interest income for the quarter ended September 30, 2009, was \$5,434,000, representing a \$468,000 increase, or 9.4%, compared to the same period in 2008. This increase was primarily due to an increase in average loan volume of \$62 million for the third quarter in 2009 compared to the quarter ended September 30, 2008. These interest income increases were partially offset by a rate decline of 1.77% on approximately \$6.6 million in overnight fed funds sold and interest bearing deposit accounts.

Interest expense for the quarter ended September 30, 2009 was \$1,570,000, an increase of \$43,000, or 2.8%, from the same period in 2008. The increase in interest expense occurred due to volume increases in average interest-bearing deposit balances and Federal Home Loan Bank advances acquired in the Indian Village transactions, which were mostly offset by decreases in interest rates across the board for the quarter ended September 30, 2009. During the third quarter 2009, maturing time deposits renewed at interest rates that were lower than the previous period.

The provision for loan losses for the quarter ended September 30, 2009, was \$293,000, compared to a \$107,000 provision for the same quarter in 2008. 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, 2009, was \$870,000, an increase of \$196,000, or 29.2%, compared to the same quarter in 2008. This increase occurred due to the gain on sale of mortgage loans into the secondary market of \$172,000 for the quarter, as compared to the prior year quarter of \$9,000, and was attributable to refinancings in the current low rate mortgage market environment. Additional increases were made in debit card interchange fees of \$19,000 and trust and brokerage fees of \$34,000 on a quarter over quarter basis. Service charges on deposit accounts declined by \$13,000 or 3.9% as customer use of overdraft privilege products declined.

Non-interest expenses for the quarter ended September 30, 2009, increased \$526,000, or 19.8%, compared to the third quarter of 2008 primarily the result of increased operating costs of a larger company. FDIC assessments increased \$85,000 due to increased rates, while a previous credit balance was exhausted. Increases in all other expenses occurred primarily as a result of the Indian Village acquisition; salaries and employee benefits increased \$215,000, occupancy and equipment expenses increased \$91,000, professional and director fees increased \$62,000, and other expenses increased \$31,000.

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Federal income tax expense decreased \$58,000, or 12.8% for the quarter ended September 30, 2009 as compared to the third quarter of 2008. The provision for income taxes was \$396,000 (effective rate of 31.6%) for the quarter ended September 30, 2009, compared to \$454,000 (effective rate of 33.8%) for the quarter ended September 30, 2008. The decrease in the effective tax rate resulted from an increase in tax-exempt interest income and decreased income generated by the company.

**Nine months ended September 30, 2009 and 2008**

Net income for the nine months ending September 30, 2009, was \$2,460,000, or \$0.90 per share, as compared to \$2,770,000 or \$1.14 per share during the same period in 2008. Return on average assets and return on average equity were 0.78% and 7.33%, respectively, for the nine-month period of 2009, compared to 1.08% and 9.91%, respectively for 2008.

Net interest income was \$11,590,000 for the nine months ended September 30, 2009, an increase of \$1,485,000 or 14.7% from the same period last year. Comparative net income decreased primarily due to the increase in the provision for loan losses of \$666,000 and the increase in FDIC premiums and assessments of \$462,000 compared to the same period in 2008, and additional costs resulting from operating a larger organization after the Indian Village acquisition.

Interest income on loans increased \$1,266,000, or 10.1%, for the nine months ended September 30, 2009, as compared to the same period in 2008. This increase was primarily due to an average volume increase of \$65 million partially offset by an interest rate decrease of 82 basis points for the comparable nine-month periods. Interest income on securities increased \$157,000, or 6.2%, as average investment balances increased by \$6.0 million, partially offset by yield decreases. Interest income on fed funds sold and interest bearing deposits decreased \$86,000 for the nine months ended September 30, 2009 as the average fed funds sold rate decreased 192 basis points to 0.13%, compared to the same period in 2008.

Interest expense decreased \$148,000 to \$4,889,000 for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008. Interest expense on deposits decreased \$310,000, or 8.5%, from the same period as last year, while interest expense on other borrowings increased \$161,000 or 11.7%. 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 saving instruments anticipating higher rate time deposits. 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 25 basis points for the nine-month period ended September 30, 2009, to 3.90%, from 4.15% for the same period in 2008.

The provision for loan losses was \$928,000 during the first nine months of 2009, compared to \$262,000 in the same nine-month period of 2008. 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 increased \$137,000, or 5.9%, during the nine months ended September 30, 2009, as compared to the same period in 2008. The increase in non-interest income was primarily due to gains on the sale of mortgage loans into the secondary market of \$357,000 in 2009, as compared to \$14,000 in 2008. The increase from the sale of mortgage loans was partially offset as the gain on the sale of the credit card portfolio of \$267,000 that occurred in 2008 was non recurring in 2009. Net gains on the sale of securities were \$117,000 greater in 2009 as compared to the same period in 2008. Trust fees declined \$98,000 due to declines in market values of assets under management, while brokerage fees increased by

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

\$16,000 over the same period in 2008. Additional increases of \$50,000 were made in debit card interchange fees, due to increased customer usage. Service charges on deposits decreased \$22,000 from the same period in 2008 as deposit customers curtailed their use of overdraft privilege products in 2009.

Non-interest expenses increased \$1,519,000, or 19.0%, for the nine months ended September 30, 2009, compared to the same period in 2008. The bank's FDIC deposit premium rose \$462,000 from \$35,000 for the nine months ended 2008 reflecting the rising assessment rate, the exhaustion of the bank's credit in 2009 and the effect of the special assessment paid on September 30, 2009. Salaries and employee benefits increased \$555,000, or 12.1%, primarily the result of increased number of employees following the merger of Indian Village as well as increased cost of benefit programs. Professional and directors fees increased as a result of rising legal and legal collection fees due to an increased number of nonperforming loans. Occupancy expense has increased during the first nine-months of 2009 as compared with 2008 due to increased rents, maintenance and utilities on three additional offices. Other expenses increased \$87,000 or 5.0% primarily the result of increased operating costs of a larger company.

The provision for income taxes was \$1,121,000 (effective rate of 31.3%) for the nine months ended September 30, 2009, compared to \$1,375,000 (effective rate of 33.2%) for the nine months ended September 30, 2008. 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, and decreased income generated by the company.

**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, 2008, and as of September 30, 2009 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 \$21.9 million at September 30, 2009, an increase of \$9.2 million from \$12.7 million at December 31, 2008. 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 11.9% of total assets as of September 30, 2009 compared to 6.6% of total assets at year-end 2008. 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.

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## CSB BANCORP, INC.

## QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

**ITEM 3 QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in the quantitative and qualitative disclosures about market risks as of September 30, 2009, from that presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. 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, 2009 and December 31, 2008:

**September 30, 2009**

| Changes in<br>Interest Rates<br>(basis points) | Net Interest<br>Income<br>(Dollars in Thousands) | Dollar<br>Change | Percentage<br>Change |
|------------------------------------------------|--------------------------------------------------|------------------|----------------------|
| +200                                           | \$ 16,321                                        | \$ 841           | 5.4%                 |
| +100                                           | 15,858                                           | 378              | 2.4%                 |
| 0                                              | 15,480                                           | 0                | 0                    |
| -100                                           | N/A                                              | N/A              | N/A                  |
| -200                                           | N/A                                              | N/A              | N/A                  |

**December 31, 2008**

| Changes in<br>Interest Rates<br>(basis points) | Net Interest<br>Income<br>(Dollars in Thousands) | Dollar<br>Change | Percentage<br>Change |
|------------------------------------------------|--------------------------------------------------|------------------|----------------------|
| +200                                           | \$ 16,084                                        | \$ 651           | 4.2%                 |
| +100                                           | 15,786                                           | 353              | 2.3                  |
| 0                                              | 15,433                                           | 0                | 0.0                  |
| -100                                           | 15,532                                           | 99               | 0.6                  |
| -200                                           | N/A                                              | N/A              | N/A                  |

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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.

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CSB BANCORP, INC.  
FORM 10-Q  
Quarter ended September 30, 2009  
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, 2008.

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

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

**Issuer Purchase of Equity Securities**

| Period                                  | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total Number<br>of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans | Maximum<br>Number of<br>Shares that May<br>Yet<br>be Purchased<br>Under<br>the Plan |
|-----------------------------------------|-------------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| July 1, 2009 to July 31, 2009           |                                           |                                    |                                                                                           | 41,471                                                                              |
| August 1, 2009 to August 31, 2009       |                                           |                                    |                                                                                           | 41,471                                                                              |
| September 1, 2009 to September 30, 2009 |                                           |                                    |                                                                                           | 41,471                                                                              |

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 Submission of Matters to a Vote of Security Holders:**

There are no matters to be reported under this item.

**Item 5 Other Information:**

There are no matters required to be reported under this item

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CSB BANCORP, INC.  
FORM 10-Q  
Quarter ended September 30, 2009  
PART II OTHER INFORMATION(continued)

**Item 6 Exhibits:**

| <b>Exhibit<br/>Number</b> | <b>Description of Document</b>                                                                                                                                                                    |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 Def14-a 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                                                                                                                                                                  |

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CSB BANCORP, INC.  
SIGNATURES

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

CSB BANCORP, INC.  
(Registrant)

Date: November 13, 2009

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

Date: November 13, 2009

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

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CSB BANCORP, INC.  
Index to Exhibits

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| 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                                                                                                                                                                  |

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