ASB FINANCIAL CORP

ASB FINANCIAL CORP
QUARTERLY RESULTS
(Unaudited)

For the Quarter Ended
March 31, 2016

INDEX

ASB FINANCIAL CORP.
Consolidated Balance Sheets
(In thousands, except share data)
(unaudited)

ASSETS	March 31, 2016	June 30, 2015
Cash and due from banks	$ 1,344	$ 1,361
Interest-bearing deposits in other financial institutions	3,156	2,755
Cash and cash equivalents	4,500	4,116
Available-for-sale securities	27,663	30,892
Loans held for sale	4,402	3,645
Loans receivable, net of allowance for loan losses	206,591	195,208
Premises and equipment	5,759	5,770
Federal Home Loan Bank stock (cost)	1,547	1,547
Interest receivable	873	833
Bank-owned life insurance	4,643	4,544
Goodwill	2,603	2,603
Core deposit intangible	10	12
Other real estate owned	377	163
Prepaid expenses and other assets	1,259	1,161
Total assets	**$ 260,227**	**$ 250,494**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 198,585	$ 195,258
Short term borrowings	5,133	5,037
Advances from the Federal Home Loan Bank	25,862	20,773
Other borrowings	1,700	600
Deferred tax liability	120	40
Accrued interest payable and other liabilities	1,796	2,442
Total liabilities	233,196	224,150
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized, no par value; no shares issued	-	-
Common stock, 4,000,000 shares authorized, no par value; shares issued - 2,243,426	-	-
Additional paid-in capital	13,319	13,319
Retained earnings, restricted	16,710	16,129
Accumulated other comprehensive income	225	119
Treasury stock at cost		
Common; 264,392 shares	(3,223)	(3,223)
Total shareholders' equity	27,031	26,344
Total liabilities and shareholders' equity	**$ 260,227**	**$ 250,494**

ASB FINANCIAL CORP.
Consolidated Statements of Income
(In thousands, except per share data)

(Unaudited)

	For the nine months ended March 31, 2016	For the nine months ended March 31, 2015	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Interest and dividend income				
Loans	$ 6,997	$ 6,822	$ 2,398	$ 2,262
Securities	580	686	190	220
Dividends on Federal Home Loan Bank stock	47	47	16	16
Deposits with financial institutions and other	2	4	1	1
Total interest income	7,626	7,559	2,605	2,499
Interest expense				
Deposits	828	1,075	246	333
Borrowings	447	421	160	130
Total interest expense	1,275	1,496	406	463
Net interest income	6,351	6,063	2,199	2,036
Provision for losses on loans	90	90	30	30
Net interest income after provision for loan losses	6,261	5,973	2,169	2,006
Noninterest Income				
Customer service charges and other fees	1,120	812	337	260
Gain on sale of loans	1,653	907	546	290
Gain on sale of securities	-	-	-	-
Gain (loss) on sale of REO	(9)	(43)	-	4
Other operating	114	257	34	83
Total noninterest income	2,878	1,933	917	637
Noninterest Expense				
Employee compensation and benefits	4,205	3,464	1,408	1,192
Occupancy and equipment	645	572	234	190
Data processing	452	553	128	179
Professional fees	350	439	111	114
Printing and office supplies	105	84	34	32
OREO expenses	111	23	80	3
Franchise taxes	137	160	37	50
Federal deposit insurance premiums	128	135	42	41
Other operating	1,205	963	416	265
Total noninterest expense	7,338	6,393	2,490	2,066
Income before income taxes	1,801	1,513	596	577
Provision for federal income taxes	508	380	175	150
NET INCOME	**$ 1,293**	**$ 1,133**	**$ 421**	**$ 427**
Basic Earnings per Share	**$ 0.65**	**$ 0.57**	**$ 0.21**	**$ 0.22**
Diluted Earnings per Share	**$ 0.65**	**$ 0.57**	**$ 0.21**	**$ 0.22**

ASB FINANCIAL CORP.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands, except per share data)
(unaudited)

	For the nine months ended March 31, 2016	For the nine months ended March 31, 2015	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Net Income	$ 1,293	$ 1,133	$ 421	$ 427
Other comprehensive income (loss) net of taxes:				
Unrealized gains (losses) on available-for-sale securities	42	71	43	41
Unrealized gains (losses) on derivatives used for cash flow hedges	63	75	(11)	(14)
Other comprehensive income (loss) before tax effect	105	146	32	27
Comprehensive Income	**$ 1,398**	**$ 1,279**	**$ 453**	**$ 454**
Tax expense (credit):				
Unrealized gains (losses) on available-for-sale securities	22	38	23	22
Unrealized gains (losses) on derivatives used for cash flow hedges	33	38	(5)	(7)
Total tax effect	**$ 55**	**76**	**18**	**15**
Accumulated comprehensive income:				
Available-for-sale securities	$ 521	$ 644	$ 521	$ 644
Derivative financial instruments	(296)	(401)	(296)	(401)
Total accumulated comprehensive income	**$ 225**	**$ 243**	**$ 225**	**$ 243**

ASB FINANCIAL CORP.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	For the nine months ended March 31, 2016	For the nine months ended March 31, 2015
Operating Activities		
Net income	$ 1,293	$ 1,133
Items not requiring (providing) cash		
Depreciation and amortization	288	236
Provision for loan losses	90	90
Amortization of premiums and discounts on securities	127	179
Amortization of deferred loan fees, net	(51)	(110)
Amortization of core deposit intangible	2	2
Amortization of FHLB advances deferred prepayment penalties	89	103
Federal income taxes	62	(4)
Gain on sale of loans	(1,706)	(960)
Loss on sale of real estate acquired through foreclosure	9	16
Impairment of foreclosed assets held for sale	54	27
Cash surrender value of bank owned life insurance	(99)	(97)
Changes in:		
Loans held for sale	(757)	(1,074)
Interest receivable	(40)	(98)
Prepaid expenses and other assets	(98)	226
Interest payable and other liabilities	(586)	3
Net cash provided by operating activities	(1,323)	(328)
Investing Activities		
Net change in interest-bearing certificates of deposits	-	249
Purchases of available-for-sale securities	-	(461)
Proceeds from maturities and payments from of available-for-sale securities	3,166	3,739
(Increase) decrease in loans	(10,052)	(2,640)
Purchase of premises and equipment	(277)	(305)
Proceeds from sale of foreclosed assets	59	201
Net cash provided by (used in) investing activities	(7,104)	783
Financing Activities		
Net change in deposits	3,327	(7,781)
Net change in short term borrowings	96	3,661
Proceeds from Federal Home Loan Bank advances	6,100	4,325
Repayment of borrowings and Federal Home Loan Bank advances	-	(1,800)
Dividends paid	(712)	(1,068)
Net cash provided by (used in) financing activities	8,811	(2,663)
Increase (Decrease) in Cash and Cash Equivalents	384	(2,208)
Cash and Cash Equivalents, Beginning of Period	4,116	8,184
Cash and Cash Equivalents, End of Period	$ 4,500	$ 5,976
Supplemental Cash Flows Information:		
Interest Paid	$ 1,259	$ 1,543
Real estate acquired in settlement of loans	$ 336	$ 86
Dividends payable	$ -	$ -

1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of ASB Financial Corp. (the "Corporation") included in the Annual Report for the year ended June 30, 2015. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the financial statements have been included. The results of operations for the nine- and three-month periods ended March 31, 2016, are not necessarily indicative of the results which may be expected for the entire fiscal year. Certain reclassifications have been made to the prior fiscal year financial statements to conform to the current fiscal year financial statement presentation. These reclassifications had no effect on net income.

2. Principles of Consolidation

The accompanying consolidated financial statements include all of the accounts of the Corporation and American Savings Bank, fsb ("American"). All significant intercompany items have been eliminated.

3. Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Corporation's financial condition and results, and they require management to make estimates that are difficult, subjective, or complex. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, without limitation, changes in interest rates, changes in the performance of the economy or changes in the financial condition of borrowers. Management believes that its critical accounting policy focuses primarily on determining the allowance for loan losses. This critical accounting policy is discussed in detail in the Annual Report to Shareholders for the year ended June 30, 2015 in Note 1 of the Notes to Consolidated Financial Statements under "Allowance for Loan Losses." If management were to underestimate the allowance for loan losses, earnings could be reduced in the future as a result of greater than expected net loan losses. Overestimation of the required allowance could result in future increases in income, as loan loss recoveries increase or provisions for losses on loans decrease.

4. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the period less shares in the ASB Financial Corp. Employee Stock Ownership Plan ("ESOP") that are unallocated and not committed to be released. At March 31, 2016 and 2015 all ESOP shares were allocated. Diluted earnings per common share include the dilutive effect of all additional potential common shares issuable under the Corporation's stock option plan. The computations are as follows:

	For the nine months ended March 31,		For the three months ended March 31,	
	2016	**2015**	**2016**	**2015**
Weighted-average common shares outstanding (basic)	1,979,034	1,979,034	1,979,034	1,979,034
Dilutive effect of assumed exercise of stock options	-	-	-	-
Weighted-average common shares outstanding (diluted)	1,979,034	1,979,034	1,979,034	1,979,034

Forward Looking Statements

Certain statements contained in this report that are not historical facts 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 Corporation or its management are intended to identify such forward looking statements. The Corporation'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.

Discussion of Financial Condition Changes from June 30, 2015 to March 31, 2016

At March 31, 2016, the Corporation's assets totaled $260.2 million, an increase of $9.7 million, or 3.9%, compared to total assets at June 30, 2015. Cash and cash equivalents increased by $0.4 million, or 9.8%, from June 30, 2015 levels, for a total of $4.5 million at March 31, 2016, a result of deposit liabilities increasing by $3.3 million, or 1.7%, from June 30, 2015 levels, ending the quarter at $198.6 million.

Available-for-sale securities totaled $27.7 million at March 31, 2016, a decrease of $3.2 million, or 10.4%, from June 30, 2015 levels. The security portfolio consists of U.S. government agencies, mortgage-backed securities of U.S. government-sponsored entities, and state and political subdivision issues. The decrease for the period was a result of the maturing and called municipal securities combined with the monthly principal payments on MBS and CMO securities.

The loan portfolio at March 31, 2016, including loans held for sale, increased $12.1 million, or 6.1%, during the nine-month period, resulting in total loans of $211.1 million at March 31, 2016. The portfolio consisted of 71% secured by one- to four-family residential real estate, 27% for commercial loans (including those secured by multifamily and nonresidential real estate) and 2% for consumer and other loans.

The allowance for loan losses, included in net loans receivable, totaled $1.6 million at March 31, 2016, a decrease of $0.1 million from June 30, 2015, representing 0.8% of total gross loans. Nonperforming and nonaccrual loans totaled $1.9 million at March 31, 2016, a decrease of $0.2 million, or 9.5%, from the balance at June 30, 2015. The allowance for loan losses represented 79.8% and 79.6% of nonperforming loans at March 31, 2016 and June 30, 2015, respectively. At March 31, 2016, nonperforming loans consisted of $0.5 million in one- to four-family residential real estate loans and $0.8 million in nonresidential real estate, consumer and other loans. Management believes such loans are adequately collateralized and does not expect to incur material losses on such loans. Although management believes that its allowance for loan losses at March 31, 2016, was adequate based upon the available facts and circumstances, there can be no assurance that additions to such allowance will not be necessary in future periods, which could adversely affect the Corporation's results of operations.

Total deposits increased $3.3 million, or 1.7%, from June 30, 2015 levels, ending the quarter at $198.6 million. Total borrowings increased $6.3 million, or 23.9%.

Shareholders' equity totaled $27.0 million at March 31, 2016, an increase of $0.7 million, or 2.7%, from the June 30, 2015 level. Dividends paid totaled $0.54 per share for the nine months ended March 31, 2016.

American is required to meet minimum regulatory capital requirements promulgated by the Office of the Comptroller of the Currency ("OCC"). At March 31, 2016, American's regulatory capital exceeded the minimum capital requirements.

Comparison of Operating Results for the Nine-Month Periods Ended March 31, 2016 and 2015

General

Net income totaled $1.3 million for the nine months ended March 31, 2016 compared to net income of $1.1 million in the same period in 2015. The increase in net earnings was the result of increased noninterest income and net interest income, partially offset by increased noninterest expenses. Noninterest income increased by $0.9 million, or 48.9%, compared to nine months ended March 31, 2015, primarily a result of the bank expanding its secondary market loan operations as well as increased fee income. Net interest income increased $0.3 million, or 4.8%, with interest expenses declining $0.2 million and interest income showing very little change. Noninterest expenses increased $0.9 million, or 14.8%, due to increased personnel costs with the growth of the secondary market loan operations. The provision for federal income tax increased by $0.1 million, or 33.7%.

Net Interest Income

Total interest income at $7.6 million for the nine-month period ending March 31, 2016 represents 0.9% increase from the same period last year. Interest income on the loan portfolio totaled $7.0 million for the nine months ended March 31, 2016, a 2.6% increase over the same nine-month period in 2015. The year-to-date average balance of the loan portfolio increased $11.8 million at March 31, 2016 as compared to the same nine-month period in 2015; however, the weighted-average yield decreased 16 basis points. Interest income on cash and investments totaled $0.6 million for the nine months ending March 31, 2016, down 14.7%, compared to the 2015 total. The average balance of the interest-bearing deposits and security portfolio decreased $8.2 million at March 31, 2016 as compared to the same nine-month period in 2015; and the weighted-average yield increased 16 basis points. The overall yield on interest earning assets decreased 3 basis points as compared to March 31, 2015.

Interest expense on liabilities decreased $0.2 million, or 14.8%, for the nine months ended March 31, 2016 compared to the same period in 2015. The Corporation experienced a $5.1 million, or 2.3%, increase in the average balance of deposits and interest-cost liabilities and a 15 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased $5.0 million from the period in the prior year and borrowings increased $10.1 million.

As a result of the foregoing changes in interest income and interest expense, net interest income increased $0.3 million, or 4.8%, to a total of $6.4 million for the nine months ended March 31, 2016. The interest rate spread increased to 3.56% for the nine months ended March 31, 2016, from 3.44% for the 2015 period, while the net interest margin increased to 3.59% in the 2016 period compared to 3.48% in the 2015 period.

Provision for Losses on Loans

American charges a provision for losses on loans to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by American, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to American's market area, and other factors related to the collectability of American's loan portfolio. American recorded a provision for losses on loans totaling $90,000 during the nine-month periods ended March 31, 2016 and March 31, 2015. The provision for loan loss is determined based upon management's evaluation of the overall risk and outstanding balance of the loan portfolio. There can be no assurance that the loan loss allowance will be adequate to absorb losses on known nonperforming loans or that the allowance will be adequate to cover losses on nonperforming assets in the future, which could adversely affect the Corporation's results of operations.

Noninterest Income

Noninterest income totaled $2.9 million for the nine months ended March 31, 2016, an increase of $0.9 million, or 48.9%, from the same period in 2015. The increase was due to gain on sales of loans totaling $1.7 million in the nine months in 2016 created by the expansion of its mortgage origination division in 2015, as compared to $1.0 million in 2015. Customer service charges and other fees increased by $0.3 million, or 37.9%. These combined increases were partially offset by lower other operating income, declining $0.1 million, or 55.6%.

Comparison of Operating Results for the Nine-Month Periods Ended March 31, 2016 and 2015 *(continued)*

Noninterest Expense

Noninterest expense totaled $7.3 million for the nine months ended March 31, 2016, an increase of $0.9 million, or 14.8%, over the same period in 2015. The higher expenses were primarily due to higher cost of mortgage operations in the southwestern Ohio market, particularly in employee compensation and benefits associated with greater loan volume. Data processing fees decreased $0.1 million, or 18.3%, compared to March 31, 2015 with the Bank undergoing its core processor and network conversion in the second quarter of the current fiscal year.

Federal Income Taxes

The provision for federal income taxes totaled $0.5 million for the nine months ended March 31, 2016 as compared to $0.4 million for the same period in 2015, an increase of $0.1 million. The effective tax rates were 28.2% and 25.1% for the nine-month periods ended March 31, 2016 and 2015, respectively.

Comparison of Operating Results for the Three-month Periods Ended March 31, 2016 and 2015

General

Net income totaled $421,000 for the three months ended March 31, 2016 compared to net income of $427,000 in the same period in 2015. The decrease in net earnings for the period is primarily a result the higher provision for federal income taxes. Net income before the tax provision was up over last year's three-month period.

Net Interest Income

Total interest income at $2.6 million for the three-month period ended March 31, 2016 represents a 4.2% increase from the same period last year. Interest income on the loan portfolio totaled $2.4 million for the three months ended March 31, 2016, a 6.0% increase from the same three-month period in 2015. The quarterly average balance of the loan portfolio increased $17.8 million at March 31, 2016 as compared to the same three-month period in 2015; however, the weighted-average yield decreased 14 basis points. Interest income on cash and investments totaled $207,000 for the three months ending March 31, 2016, down $30,000, or 12.7%, from the 2015 total. The average balance of the interest-bearing deposits and security portfolio decreased $6.4 million at March 31, 2016 as compared to the same three-month period in 2015; but the weighted-average yield increased 13 basis points. The overall yield on interest earning assets decreased 3 basis points as compared to March 31, 2015.

Interest expense on liabilities decreased $57,000, or 12.3%, for the three months ended March 31, 2016 compared to the same period in 2015. The Corporation experienced a $10.6 million increase in the average balance of deposits and interest-cost liabilities and a 14 basis point decrease in the weighted average cost. The average balance of deposits outstanding increased $0.4 million from the same period in the prior year and borrowings increased $10.1 million.

As a result of the foregoing changes in interest income and interest expense, net interest income increased $163,000, or 8.0%, to a total of $2.2 million for the three months ended March 31, 2016. The interest rate spread increased to 3.60% for the three months ended March 31, 2016, from 3.49% for the 2015 period, while the net interest margin increased to 3.64% in the 2016 period compared to 3.54% in the 2015 period.

Provision for Losses on Loans

American recorded a provision for losses on loans totaling $30,000 during the three months ended March 31, 2016, same as recorded in the comparable three-month period in 2015. The provision for loan loss is determined based upon management's evaluation of the overall risk and outstanding balance of the loan portfolio. There can be no assurance that the loan loss allowance will be adequate to absorb losses on known nonperforming loans or that the allowance will be adequate to cover losses on nonperforming assets in the future, which could adversely affect the Corporation's results of operations.

Comparison of Operating Results for the Three-month Periods Ended March 31, 2016 and 2015 *(continued)*

Noninterest Income

Noninterest income totaled $917,000 for the three months ended March 31, 2016, an increase of $280,000, or 44.0%, from the same period in 2015. The increase was due to the increase in gain on sale of loans generated by the mortgage origination division as well as higher fee income from customer relationships. The combined increase was partially offset by declines in other operating income.

Noninterest Expense

Noninterest expense totaled $2.5 million for the three months ended March 31, 2016, an increase of 20.5%, from the same period in 2015. Higher employee and benefit costs, an increase of $216,000, or 18.1%, are a result of expansion of lending operations in the Bank's southwestern Ohio market. The company was able offset these higher costs with reductions in the other noninterest expense classifications.

Federal Income Taxes

The provision for federal income taxes totaled $175,000 for the three months ended March 31, 2016 as compared to $150,000 for the same period in 2015, an increase of $25,000. The effective tax rates were 29.4% and 26.0% for the three-month periods ended March 31, 2016 and 2015, respectively.