ASB FINANCIAL CORP.

ASB FINANCIAL CORP
QUARTERLY RESULTS
(Unaudited)

For the Quarter Ended
March 31, 2017

INDEX

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

ASSETS		March 31, 2017		June 30, 2016
Cash and due from banks	$	1,646	$	1,595
Interest-bearing deposits in other financial institutions		4,421		2,933
Cash and cash equivalents		6,067		4,528
Available-for-sale securities		23,474		26,796
Loans held for sale		4,327		6,242
Loans receivable, net of allowance for loan losses		229,248		214,484
Premises and equipment		5,825		5,835
Federal Home Loan Bank stock (cost)		1,558		1,558
Interest receivable		853		820
Bank-owned life insurance		4,676		4,676
Goodwill		2,603		2,603
Core deposit intangible		8		10
Other real estate owned		91		352
Prepaid expenses and other assets		1,261		1,420
Total assets	**$**	**279,991**	**$**	**269,324**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits	$	196,270	$	203,135
Short term borrowings		3,912		6,209
Advances from the Federal Home Loan Bank		47,121		28,884
Other borrowings		3,000		2,060
Deferred tax liability		187		114
Accrued interest payable and other liabilities		1,552		1,641
Total liabilities		252,042		242,043
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		17,696		16,872
Accumulated other comprehensive income		157		313
Treasury stock at cost				
Common; 264,392 shares		(3,223)		(3,223)
Total shareholders' equity		27,949		27,281
Total liabilities and shareholders' equity	**$**	**279,991**	**$**	**269,324**

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

	For the nine months ended March 31, 2017	For the nine months ended March 31, 2016	For the three months ended March 31, 2017	For the three months ended March 31, 2016
Interest and dividend income				
Loans	$ 7,541	$ 6,997	$ 2,584	$ 2,398
Securities	511	580	160	190
Dividends on Federal Home Loan Bank stock	49	47	18	16
Deposits with financial institutions and other	5	2	3	1
Total interest income	8,106	7,626	2,765	2,605
Interest expense				
Deposits	668	828	199	246
Borrowings	526	447	203	160
Total interest expense	1,194	1,275	402	406
Net interest income	6,912	6,351	2,363	2,199
Provision for losses on loans	80	90	30	30
Net interest income after provision for loan losses	6,832	6,261	2,333	2,169
Noninterest Income				
Customer service charges and other fees	1,323	1,120	409	337
Gain on sale of loans	2,727	1,653	677	546
Gain on sale of other assets	14	-	-	-
Gain (loss) on sale of REO	(27)	(9)	(20)	-
Other operating	236	114	160	34
Total noninterest income	4,273	2,878	1,226	917
Noninterest Expense				
Employee compensation and benefits	5,144	4,205	1,664	1,408
Occupancy and equipment	754	645	260	234
Data processing	287	452	98	128
Professional fees	224	350	75	111
Printing and office supplies	112	105	32	34
OREO expenses	42	111	-	80
Franchise taxes	196	137	55	37
Federal deposit insurance premiums	68	128	24	42
Other operating	1,610	1,205	582	416
Total noninterest expense	8,437	7,338	2,790	2,490
Income before income taxes	2,668	1,801	769	596
Provision for federal income taxes	776	508	183	175
NET INCOME	**$ 1,892**	**$ 1,293**	**$ 586**	**$ 421**
Basic Earnings per Share	**$ 0.96**	**$ 0.65**	**$ 0.30**	**$ 0.21**
Diluted Earnings per Share	**$ 0.96**	**$ 0.65**	**$ 0.30**	**$ 0.21**

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

	For the nine months ended March 31,		For the three months ended March 31,	
	2017	**2016**	**2017**	**2016**
Net Income	$ 1,892	$ 1,293	$ 586	$ 421
Other comprehensive income (loss) net of taxes:				
Unrealized gains (losses) on available-for-sale securities	(300)	42	23	43
Unrealized gains (losses) on derivatives used for cash flow hedges	144	63	34	(11)
Other comprehensive income (loss) before tax effect	(156)	105	57	32
Comprehensive Income	**$ 1,736**	**$ 1,398**	**$ 643**	**$ 453**
Tax expense (credit):				
Unrealized gains (losses) on available-for-sale securities	(154)	22	13	23
Unrealized gains (losses) on derivatives used for cash flow hedges	74	33	17	(5)
Total tax effect	**$ (80)**	**55**	**$ 30**	**$ 18**
Accumulated comprehensive income:				
Available-for-sale securities	$ 286	$ 521	$ 286	$ 521
Derivative financial instruments	(129)	(296)	(129)	(296)
Total accumulated comprehensive income	**$ 157**	**$ 225**	**157**	**$ 225**

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

	For the nine months ended March 31, 2017	2016
Operating Activities		
Net income	$ 1,892	$ 1,293
Items not requiring (providing) cash:		
Depreciation and amortization	334	288
Provision for loan losses	80	90
Amortization of premiums and discounts on securities	99	127
Amortization of deferred loan fees, net	1	(51)
Amortization of core deposit intangible	2	2
Amortization of FHLB advances deferred prepayment penalties	52	89
Federal income taxes	(81)	62
Gain on sale of loans	(2,791)	(1,706)
Loss on sale of real estate acquired through foreclosure	(1)	9
Impairment of foreclosed assets held for sale	28	54
Gain on sale of premises and equipment	(14)	-
Cash surrender value of bank owned life insurance	(220)	(99)
Changes in:		
Loans held for sale	1,915	(757)
Interest receivable	(33)	(40)
Prepaid expenses and other assets	159	(98)
Interest payable and other liabilities	363	(586)
Net cash provided by operating activities	1,785	(1,323)
Investing Activities		
Proceeds from maturities and payments from AFS securities and BOLI	2,989	3,166
(Increase) decrease in loans	(12,138)	(10,052)
Purchase of premises and equipment	(360)	(277)
Proceeds from sale of premises and equipment	50	-
Proceeds from sale of foreclosed assets	318	59
Net cash provided by (used in) investing activities	(9,141)	(7,104)
Financing Activities		
Net change in deposits	(6,865)	3,327
Net change in short term borrowings	(2,297)	96
Proceeds from Federal Home Loan Bank advances	19,940	6,100
Repayment of borrowings and Federal Home Loan Bank advances	(815)	-
Dividends paid	(1,068)	(712)
Net cash provided by (used in) financing activities	8,895	8,811
Increase (Decrease) in Cash and Cash Equivalents	1,539	384
Cash and Cash Equivalents, Beginning of Period	4,528	4,116
Cash and Cash Equivalents, End of Period	$ 6,067	$ 4,500
Supplemental Cash Flows Information:		
Interest Paid	$ 1,204	$ 1,259
Real estate acquired in settlement of loans	$ 84	$ 336
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, 2016. 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, 2017, 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, 2016 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, 2017 and 2016 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,	
	2017	**2016**	**2017**	**2016**
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, 2016 to March 31, 2017

At March 31, 2017, the Corporation's assets totaled $280.0 million, an increase of $10.7 million, or 4.0%, compared to total assets at June 30, 2016. Cash and cash equivalents increased by $1.6 million, or 35.6%, from June 30, 2016 levels, for a total of $6.1 million at March 31, 2017.

Available-for-sale securities totaled $23.5 million at March 31, 2017, a decrease of $3.3 million, or 12.3%, from June 30, 2016 levels. The security portfolio consists of U.S. government agencies, mortgage-backed securities (MBS) and collateralized mortgage obligations (CMO) of U.S. government-sponsored entities, and state and political subdivision issues. The decrease for the quarter was primarily the result of the monthly principal payments on MBS and CMO securities and the decrease in market value.

The loan portfolio at March 31, 2017, including loans held for sale, increased $12.8 million, or 5.8%, during the nine-month period, resulting in total loans of $233.6 million at March 31, 2017. The portfolio consisted of 70% secured by one- to four-family residential real estate, 29% for commercial loans (including those secured by multifamily and nonresidential real estate) and 1% for consumer and other loans.

The allowance for loan losses, included in net loans receivable, totaled $1.5 million at March 31, 2017, consistent with June 30, 2016, representing 0.6% of total gross loans. Nonperforming and nonaccrual loans totaled $1.0 million at March 31, 2017, an increase of $0.2 million, or 28.4%, from the balance at June 30, 2016. The allowance for loan losses represented 158.9% and 200.7% of nonperforming loans at March 31, 2017 and June 30, 2016, respectively. At March 31, 2017, nonperforming loans consisted of $0.4 million in one- to four-family residential real estate loans and $0.6 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, 2017, 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 decreased $6.8 million, or 3.3%, from June 30, 2016 levels, ending the quarter at $196.3 million. Total borrowings, including FHLB Advances, increased $16.8 million, or 45.2%

Shareholders' equity totaled $27.9 million at March 31, 2017, an increase of $0.6 million, or 2.2%, from the June 30, 2016 level. Dividends paid totaled $0.54 per share for the nine months ended March 31, 2017.

American is required to meet minimum regulatory capital requirements promulgated by the Office of the Comptroller of the Currency ("OCC"). At March 31, 2017, American's regulatory capital exceeded the minimum capital requirements.

Comparison of Operating Results for the Nine-Month Periods Ended March 31, 2017 and 2016

General

Net income totaled $1.9 million for the nine months ended March 31, 2017 compared to net income of $1.3 million in the same period in 2016. The increase in net earnings was the result of increased noninterest income and net interest income, partially offset by increased noninterest expenses.

Net Interest Income

Total interest income at $8.1 million for the nine-month period ending March 31, 2017 represents an increase of 6.3%, or $0.5 million from the same period last year. Interest income on the loan portfolio totaled $7.5 million for the nine months ended March 31, 2017, an increase of 7.8% over the same nine months in 2016. The year-to-date average balance of the loan portfolio increased $24.0 million, or 10.6%, at March 31, 2017 as compared to the same nine-month period in 2016, while the weighted-average yield decreased 17 basis points. Interest income on cash and investments totaled $0.6 million for the nine months ending March 31, 2017, representing no substantial change compared to the 2016 total. The average balance of the interest-bearing deposits and security portfolio decreased $5.0 million, or 18.1%, at March 31, 2017 as compared to the same nine-month period in 2016; however, the weighted-average yield increased 16 basis points. The overall yield on interest earning assets decreased 7 basis points as compared to March 31, 2016.

Interest expense on liabilities decreased $0.1 million, or 6.4%, for the nine months ended March 31, 2017 compared to the same period in 2016. The Corporation experienced a $7.4 million, or 3.2%, increase in the average balance of deposits and interest-cost liabilities, and a 7 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased $10.2 million from the same period in the prior year and borrowings increased $17.6 million.

As a result of the foregoing changes in interest income and interest expense, net interest income increased $0.6 million, or 8.8%, to a total of $6.9 million for the nine months ended March 31, 2017. The interest rate spread remained at 3.56% for the nine months ended March 31, 2017, the same as the 2016 period, while the net interest margin increased to 3.62% in the 2016 period compared to 3.59% in the 2016 period.

Provision for Losses on Loans

American recorded a provision for losses on loans totaling $80,000 during the nine months ended March 31, 2017, a decrease of $10,000 in the comparable nine-month period in 2016. 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 $4.3 million for the nine months ended March 31, 2017, an increase of $1.4 million, or 48.5%, from the same period in 2016. The increase was due to gain on sales of loans totaling $2.7 million in the nine months in 2016 created by the mortgage origination division in 2016, as compared to $1.7 million in 2016. Customer service charges and other fees increased by $203,000, or 18.1%. The increase of other operating income was a result of proceeds received on a bank owned life insurance policy.

Noninterest Expense

Noninterest expense totaled $8.4 million for the nine months ended March 31, 2017, an increase of $1.1 million, or 15.0%, over the same period in 2016. The higher expenses were primarily due to the cost of expanding its southwestern Ohio presence. Higher employee and benefit costs, an increase of $0.9 million, or 22.3%, are a result of expansion of lending operations in that market.

Comparison of Operating Results for the Nine-Month Periods Ended March 31, 2017 and 2016 *(continued)*

Federal Income Taxes

The provision for federal income taxes totaled $776,000 for the nine months ended March 31, 2017 as compared to $508,000 for the same period in 2016, an increase of $268,000, or 52.8%. The effective tax rates were 29.1% and 28.2% for the nine-month periods ended March 31, 2017 and 2016, respectively.

Comparison of Operating Results for the Three-month Periods Ended March 31, 2017 and 2016

General

Net income totaled $586,000 for the three months ended March 31, 2017 compared to net income of $421,000 in the same period in 2016. The increase in net earnings for the period is primarily a result of improved noninterest income.

Net Interest Income

Total interest income at $2.8 million for the three-month period ended March 31, 2017 represents a 6.1% increase from the same period last year. Interest income on the loan portfolio totaled $2.6 million for the three months ended March 31, 2017, a 7.89% increase from the same three-month period in 2016. The quarterly average balance of the loan portfolio increased $21.5 million, or 7.8%, at March 31, 2017 as compared to the same three-month period in 2016; however, the weighted-average yield decreased 10 basis points. Interest income on cash and investments totaled $181,000 for the three months ending March 31, 2017, down $26,000, or 12.6%, from the 2016 total. The average balance of the interest-bearing deposits and security portfolio decreased $2.3 million, or 8.1%, at March 31, 2017 as compared to the same three-month period in 2016; and the weighted-average yield decreased 14 basis points. The overall yield on interest earning assets decreased 7 basis points as compared to March 31, 2016.

Interest expense on liabilities at $0.4 million was the same for the three months ended March 31, 2017 as compared to the same period in 2016. The Corporation experienced an $18.0 million increase, or 7.3%, in the average balance of deposits and interest-cost liabilities, and a 6 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased $3.9 million from the same period in the prior year and borrowings increased $21.8 million.

As a result of the foregoing changes in interest income and interest expense, net interest income increased $0.2 million, or 7.6%, to a total of $2.4 million for the three months ended March 31, 2017. The interest rate spread decreased to 3.59% for the three months ended March 31, 2017, from 3.60% for the 2016 period, while the net interest margin decreased to 3.62% in the 2016 period compared to 3.64% in the 2016 period.

Provision for Losses on Loans

American recorded a provision for losses on loans totaling $30,000 during the three months ended March 31, 2017, same as recorded in the comparable three-month period in 2016. 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 $1.2 million for the three months ended March 31, 2017, an increase of $0.3 million, or 33.7%, from the same period in 2016. The increase was due to the increase in gain on sale of loans, other operating income and customer service charges and fees.

Comparison of Operating Results for the Three-month Periods Ended March 31, 2017 and 2016 *(continued)*

Noninterest Expense

Noninterest expense totaled $2.8 million for the three months ended March 31, 2017, an increase of 12.0%, from the same period in 2016. Higher employee and benefit costs, an increase of $0.3 million, or 18.2%, are a result of expansion of lending operations in the Bank's southwestern Ohio market. The company was able to partially offset these higher costs with reductions in the other noninterest expense classifications.

Federal Income Taxes

The provision for federal income taxes totaled $183,000 for the three months ended March 31, 2017 as compared to $175,000 for the same period in 2016, an increase of $8,000. The effective tax rates were 23.8% and 29.4% for the three-month periods ended March 31, 2017 and 2016, respectively.