



**ASB FINANCIAL CORP
QUARTERLY RESULTS
(Unaudited)**

**For the Quarter Ended
September 30, 2015**

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

ASSETS	September 30, 2015	June 30, 2015
Cash and due from banks	\$ 1,727	\$ 1,361
Interest-bearing deposits in other financial institutions	2,992	2,755
Federal funds sold	-	-
Cash and cash equivalents	4,719	4,116
Available-for-sale securities	29,934	30,892
Loans held for sale	2,252	3,645
Loans receivable, net of allowance for loan losses	198,477	195,208
Premises and equipment	5,787	5,770
Federal Home Loan Bank stock (cost)	1,547	1,547
Interest receivable	926	833
Bank-owned life insurance	4,577	4,544
Goodwill	2,603	2,603
Core deposit intangible	11	12
Other real estate owned	416	163
Deferred federal income taxes	-	-
Prepaid expenses and other assets	1,074	1,161
Total assets	\$ 252,323	\$ 250,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$ 194,447	\$ 194,979
Short term borrowings	1,858	5,037
Advances from the Federal Home Loan Bank	25,802	20,773
Other borrowings	950	600
Advances by borrowers for taxes and insurance	370	279
Deferred federal income taxes	43	40
Accrued interest payable and other liabilities	2,411	2,442
Total liabilities	225,881	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	16,232	16,129
Accumulated other comprehensive income	114	119
Treasury stock at cost		
Common; 264,392 shares	(3,223)	(3,223)
Total shareholders' equity	26,442	26,344
Total liabilities and shareholders' equity	\$ 252,323	\$ 250,494

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

	For the three months ended September 30,	
	2015	2014
Interest and dividend income		
Loans	\$ 2,363	\$ 2,292
Securities	195	233
Dividends on Federal Home Loan Bank stock	15	15
Deposits with financial institutions and other	-	2
Total interest income	2,573	2,542
Interest expense		
Deposits	297	377
Borrowings	143	145
Total interest expense	440	522
Net interest income	2,133	2,020
Provision for losses on loans	30	30
Net interest income after provision for loan losses	2,103	1,990
Noninterest Income		
Customer service charges and other fees	355	307
Gain on sale of loans	585	319
Gain on sale of securities	-	-
Gain (loss) on sale of REO	-	(34)
Other operating	51	49
Total noninterest income	991	641
Noninterest Expense		
Employee compensation and benefits	1,421	1,135
Occupancy and equipment	211	196
Data processing	187	178
Professional fees	114	146
Printing and office supplies	42	24
OREO expenses	14	4
Franchise taxes	50	55
Federal deposit insurance premiums	44	48
Other operating	374	315
Total noninterest expense	2,457	2,101
Income before income taxes	637	530
Provision for federal income taxes	178	136
NET INCOME	\$ 459	\$ 394
Basic Earnings per Share	\$ 0.23	\$ 0.20
Diluted Earnings per Share	\$ 0.23	\$ 0.20

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

	For the three months ended September 30,	
	2015	2014
Net Income	\$ 459	\$ 394
Other comprehensive income (loss) net of taxes:		
Unrealized gains (losses) on available-for-sale securities	3	(18)
Unrealized gains (losses) on derivatives used for cash flow hedges	<u>(9)</u>	<u>83</u>
Other comprehensive income (loss) before tax effect	<u>(6)</u>	<u>65</u>
Comprehensive Income	\$ <u>453</u>	<u>459</u>
Tax expense (credit):		
Unrealized gains (losses) on available-for-sale securities	2	(9)
Unrealized gains (losses) on derivatives used for cash flow hedges	<u>(4)</u>	<u>42</u>
Total tax effect	\$ <u>(2)</u>	<u>33</u>
Accumulated comprehensive income:		
Available-for-sale securities	\$ 482	\$ 554
Derivative financial instruments	<u>(368)</u>	<u>(392)</u>
Total accumulated comprehensive income	\$ <u>114</u>	<u>162</u>

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

	For the three months ended September 30,	
	2015	2014
Operating Activities		
Net income	\$ 459	\$ 394
Items not requiring (providing) cash		
Depreciation and amortization	89	76
Provision for loan losses	30	30
Amortization of premiums and discounts on securities	52	61
Amortization of deferred loan fees, net	(48)	(45)
Amortization of core deposit intangible	1	-
Amortization of FHLB advances deferred prepayment penalties	29	37
Federal income taxes	3	37
Gain on sale of loans	(605)	(344)
Gain on sale of real estate acquired through foreclosure	-	3
Loss on sale of available-for-sale securities	-	18
Impairment of foreclosed assets held for sale	-	16
Cash surrender value of bank owned life insurance	(33)	(31)
Changes in:		
Loans held for sale	1,393	411
Interest receivable	(93)	(92)
Prepaid expenses and other assets	87	214
Interest payable and other liabilities	(42)	38
Net cash provided by operating activities	<u>1,322</u>	<u>823</u>
Investing Activities		
Net change in interest-bearing certificates of deposits	-	-
Purchases of available-for-sale securities	-	(461)
Proceeds from maturities and payments from of available-for-sale securities	912	1,260
(Increase) decrease in loans	(2,899)	(1,370)
Purchase of premises and equipment	(106)	(130)
Proceeds from sale of foreclosed assets	-	106
Net cash provided by (used in) investing activities	<u>(2,093)</u>	<u>(595)</u>
Financing Activities		
Net change in deposits	(532)	(2,321)
Net change in short term borrowings	(3,179)	478
Proceeds from Federal Home Loan Bank advances	5,350	-
Repayment of borrowings and Federal Home Loan Bank advances	-	-
Issuance of stock	-	-
Dividends paid	(356)	(356)
Net decrease in advances from borrowers for taxes and insurance	91	66
Net cash provided by (used in) financing activities	<u>1,374</u>	<u>(2,133)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>603</u>	<u>(1,905)</u>
Cash and Cash Equivalents, Beginning of Period	<u>4,116</u>	<u>8,184</u>
Cash and Cash Equivalents, End of Period	<u>\$ 4,719</u>	<u>\$ 6,279</u>
Supplemental Cash Flows Information:		
Interest Paid	\$ 423	\$ 559
Real estate acquired in settlement of loans	\$ 253	\$ -
Dividends payable	\$ 356	\$ 356

ASB FINANCIAL CORP.
Notes to Consolidated Financial Statements

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 three-month period ended September 30, 2015, 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 September 30, 2015 and 2014 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 three months ended September 30,	
	<u>2015</u>	<u>2014</u>
Weighted-average common shares outstanding (basic)	1,979,034	1,979,034
Dilutive effect of assumed exercise of stock options	-	-
Weighted-average common shares outstanding (diluted)	<u>1,979,034</u>	<u>1,979,034</u>

ASB FINANCIAL CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the three-month periods ended September 30, 2015 and 2014

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 September 30, 2015

At September 30, 2015, the Corporation's assets totaled \$252.3 million, an increase of \$1.8 million, or 0.7%, compared to total assets at June 30, 2015. Cash and cash equivalents increased by \$0.6 million, or 14.6%, from June 30, 2015 levels, for a total of \$4.7 million at September 30, 2015.

Available-for-sale securities totaled \$29.9 million at September 30, 2015, a decrease of \$1.0 million, or 3.2%, from June 30, 2015 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 a result of the monthly principal payments on MBS and CMO securities.

Net loans receivable increased by \$3.3 million, or 1.7%, during the three-month period, resulting in total loans of \$198.5 million at September 30, 2015. Loan disbursements for portfolio loans amounted to \$9.3 million for the three-month period. New loans originated consisted of 68% secured by one- to four-family residential real estate, 25% for commercial loans (including those secured by multifamily and nonresidential real estate) and 7% for consumer and other loans. Loans held for sale decreased \$1.3 million, or 36.1%, compared to June 30, 2015.

The allowance for loan losses, included in net loans receivable, totaled \$1.5 million at September 30, 2015, a decrease of \$0.2 million from June 30, 2015, representing 0.8% of total gross loans. Nonperforming and nonaccrual loans totaled \$1.6 million at September 30, 2015, a decrease of \$0.6 million, or 25.7%, from the balance at June 30, 2015. The allowance for loan losses represented 97.5% and 79.6% of nonperforming loans at September 30, 2015 and June 30, 2015, respectively. At September 30, 2015, nonperforming loans consisted of \$0.6 million in one- to four-family residential real estate loans and \$1.0 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 September 30, 2015, 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.

Shareholders' equity totaled \$26.4 million at September 30, 2015, an increase of \$0.1 million, or 0.4%, from the June 30, 2015 level. Dividends totaled \$0.18 per share for the three months ended September 30, 2015.

American is required to meet minimum regulatory capital requirements promulgated by the Office of the Comptroller of the Currency ("OCC"). At September 30, 2015, American's regulatory capital exceeded the minimum capital requirements.

ASB FINANCIAL CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the three-month periods ended September 30, 2015 and 2014

Comparison of Operating Results for the Three-month Periods Ended September 30, 2015 and 2014

General

Net income totaled \$459,000 for the three months ended September 30, 2015 compared to net income of \$394,000 in the same period in 2014. The increase in net earnings for the period is primarily a result of improved net interest income and increased noninterest income.

Net Interest Income

Total interest income at \$2.6 million for the three-month period ended September 30, 2015 represents a 1.2% increase from the same period last year. Interest income on the loan portfolio totaled \$2.4 million for the three months ended September 30, 2015, a 3.1% increase from the same three-month period in 2014. The quarterly average balance of the loan portfolio increased \$8.1 million at September 30, 2015 as compared to the same three-month period in 2014; however, the weighted-average yield increased 6 basis points. Interest income on cash and investments totaled \$210,000 for the three months ending September 30, 2015, down \$40,000, or 16.0%, from the 2014 total. The average balance of the interest-bearing deposits and security portfolio decreased \$8.6 million at September 30, 2015 as compared to the same three-month period in 2014; but the weighted-average yield increased 11 basis points. The overall yield on interest earning assets increased 6 basis points as compared to September 30, 2014.

Interest expense on liabilities decreased \$82,000, or 15.7%, for the three months ended September 30, 2015 compared to the same period in 2014. The Corporation experienced an \$0.2 million decrease in the average balance of interest-cost liabilities and an 15 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased \$9.6 million from the same period in the prior year and borrowings increased \$9.4 million.

As a result of the foregoing changes in interest income and interest expense, net interest income increased \$113,000, or 5.6%, to a total of \$2.1 million for the three months ended September 30, 2015. The interest rate spread increased to 3.63% for the three months ended September 30, 2015, from 3.42% for the 2014 period, while the net interest margin increased to 3.67% in the 2015 period compared to 3.46% in the 2014 period.

Provision for Losses on Loans

American recorded a provision for losses on loans totaling \$30,000 during the three months ended September 30, 2015, same as recorded in the comparable three-month period in 2014. 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 \$991,000 for the three months ended September 30, 2015, an increase of \$350,000, or 54.6%, from the same period in 2014. The increase was primarily due to the increase in gain on sale of loans generated by the mortgage origination division as well as increased customer service charges and fee.

Noninterest Expense

Noninterest expense totaled \$2.5 million for the three months ended September 30, 2015, an increase of 16.9%, from the same period in 2014. Higher employee and benefit costs, an increase of \$141,000, or 14.2%, 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.

ASB FINANCIAL CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the three-month periods ended September 30, 2015 and 2014

Comparison of Operating Results for the Three-month Periods Ended September 30, 2015 and 2014 (continued)

Federal Income Taxes

The provision for federal income taxes totaled \$178,000 for the three months ended September 30, 2015 as compared to \$136,000 for the same period in 2014, an increase of \$42,000. The effective tax rates were 27.9% and 25.7% for the three-month periods ended September 30, 2015 and 2014, respectively.