



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

**For the Quarter Ended  
September 30, 2016**

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

<b>ASSETS</b>	<b>September 30, 2016</b>	<b>June 30, 2016</b>
Cash and due from banks	\$ 1,643	\$ 1,595
Interest-bearing deposits in other financial institutions	<u>4,162</u>	<u>2,933</u>
Cash and cash equivalents	5,805	4,528
Available-for-sale securities	26,065	26,796
Loans held for sale	4,412	6,242
Loans receivable, net of allowance for loan losses	219,166	214,484
Premises and equipment	5,909	5,835
Federal Home Loan Bank stock (cost)	1,558	1,558
Interest receivable	904	820
Bank-owned life insurance	4,708	4,676
Goodwill	2,603	2,603
Core deposit intangible	9	10
Other real estate owned	153	352
Prepaid expenses and other assets	<u>1,357</u>	<u>1,420</u>
Total assets	<b>\$ <u>272,649</u></b>	<b>\$ <u>269,324</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$ 197,991	\$ 203,135
Short term borrowings	10,367	6,209
Advances from the Federal Home Loan Bank	32,086	28,884
Other borrowings	2,420	2,060
Deferred tax liability	334	114
Accrued interest payable and other liabilities	<u>1,759</u>	<u>1,641</u>
Total liabilities	244,957	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	17,257	16,872
Accumulated other comprehensive income	339	313
Treasury stock at cost		
Common; 264,392 shares	<u>(3,223)</u>	<u>(3,223)</u>
Total shareholders' equity	<u>27,692</u>	<u>27,281</u>
Total liabilities and shareholders' equity	<b>\$ <u>272,649</u></b>	<b>\$ <u>269,324</u></b>

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

	<b>For the three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Interest and dividend income</b>		
Loans	\$ 2,458	\$ 2,275
Securities	180	195
Dividends on Federal Home Loan Bank stock	15	15
Deposits with financial institutions and other	<u>1</u>	<u>-</u>
Total interest income	2,654	2,485
<b>Interest expense</b>		
Deposits	246	297
Borrowings	<u>153</u>	<u>143</u>
Total interest expense	<u>399</u>	<u>440</u>
<b>Net interest income</b>	2,255	2,045
<b>Provision for losses on loans</b>	<u>20</u>	<u>30</u>
<b>Net interest income after provision for loan losses</b>	2,235	2,015
<b>Noninterest Income</b>		
Customer service charges and other fees	474	437
Gain on sale of loans	1,056	585
Gain on sale of other assets	15	-
Gain (loss) on sale of REO	7	-
Other operating	<u>39</u>	<u>58</u>
Total noninterest income	1,591	1,080
<b>Noninterest Expense</b>		
Employee compensation and benefits	1,676	1,448
Occupancy and equipment	228	211
Data processing	91	187
Professional fees	86	114
Printing and office supplies	37	42
OREO expenses	20	14
Franchise taxes	70	50
Federal deposit insurance premiums	42	44
Other operating	<u>485</u>	<u>348</u>
Total noninterest expense	<u>2,735</u>	<u>2,458</u>
<b>Income before income taxes</b>	1,091	637
<b>Provision for federal income taxes</b>	<u>350</u>	<u>178</u>
<b>NET INCOME</b>	<u>\$ 741</u>	<u>\$ 459</u>
<b>Basic Earnings per Share</b>	<u>\$ 0.37</u>	<u>\$ 0.23</u>
<b>Diluted Earnings per Share</b>	<u>\$ 0.37</u>	<u>\$ 0.23</u>

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

	<b>For the three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
Net Income	\$ 741	\$ 459
Other comprehensive income (loss) net of taxes:		
Unrealized gains (losses) on available-for-sale securities	(32)	3
Unrealized gains (losses) on derivatives used for cash flow hedges	<u>56</u>	<u>(9)</u>
Other comprehensive income (loss) before tax effect	<u>24</u>	<u>(6)</u>
<b>Comprehensive Income</b>	<b>\$ <u>765</u></b>	<b>\$ <u>453</u></b>
Tax expense (credit):		
Unrealized gains (losses) on available-for-sale securities	(16)	2
Unrealized gains (losses) on derivatives used for cash flow hedges	<u>29</u>	<u>(4)</u>
<b>Total tax effect</b>	<b><u>13</u></b>	<b><u>(2)</u></b>
<b>Accumulated comprehensive income:</b>		
Available-for-sale securities	\$ 556	\$ 482
Derivative financial instruments	<u>(217)</u>	<u>(368)</u>
<b>Total accumulated comprehensive income</b>	<b>\$ <u>339</u></b>	<b>\$ <u>114</u></b>

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

	<b>For the three months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating Activities</b>		
Net income	\$ 741	\$ 459
Items not requiring (providing) cash		
Depreciation and amortization	97	89
Provision for loan losses	20	30
Amortization of premiums and discounts on securities	31	52
Amortization of deferred loan fees, net	-	(48)
Amortization of core deposit intangible	1	1
Amortization of FHLB advances deferred prepayment penalties	17	29
Federal income taxes	12	3
Gain on sale of loans	(1,080)	(605)
Loss on sale of real estate acquired through foreclosure	(7)	-
Gain on sale of premises and equipment	(15)	-
Cash surrender value of bank owned life insurance	(32)	(33)
Changes in:		
Loans held for sale	1,830	1,393
Interest receivable	(84)	(93)
Prepaid expenses and other assets	63	87
Interest payable and other liabilities	401	(42)
<b>Net cash provided by operating activities</b>	<b>1,995</b>	<b>1,322</b>
<b>Investing Activities</b>		
Proceeds from maturities and payments from of available-for-sale securities	651	912
(Increase) decrease in loans	(3,638)	(2,899)
Purchase of premises and equipment	(181)	(106)
Proceeds from sale of premises and equipment	25	-
Proceeds from sale of foreclosed assets	222	-
<b>Net cash provided by (used in) investing activities</b>	<b>(2,921)</b>	<b>(2,093)</b>
<b>Financing Activities</b>		
Net change in deposits	(5,144)	(441)
Net change in short term borrowings	4,158	(3,179)
Proceeds from Federal Home Loan Bank advances	4,360	5,350
Repayment of borrowings and Federal Home Loan Bank advances	(815)	-
Dividends paid	(356)	(356)
<b>Net cash provided by (used in) financing activities</b>	<b>2,203</b>	<b>1,374</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,277</b>	<b>603</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>4,528</b>	<b>4,116</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 5,805</b>	<b>\$ 4,719</b>
<b>Supplemental Cash Flows Information:</b>		
Interest Paid	\$ 402	\$ 423
Real estate acquired in settlement of loans	\$ 16	\$ 253
Dividends payable	\$ -	\$ 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, 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 three-month period ended September 30, 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, 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 September 30, 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:

	<b>For the three months ended September 30,</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
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)	1,979,034	1,979,034

**ASB FINANCIAL CORP.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three-month periods ended September 30, 2016 and 2015**

**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 September 30, 2016**

At September 30, 2016, the Corporation's assets totaled \$272.6 million, an increase of \$3.3 million, or 1.2%, compared to total assets at June 30, 2016. Cash and cash equivalents increased by \$1.3 million, or 28.9%, from June 30, 2016 levels, for a total of \$5.8 million at September 30, 2016.

Available-for-sale securities totaled \$26.1 million at September 30, 2016, a decrease of \$0.7 million, or 2.6%, 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.

Loans receivable, net of allowance for loan losses, increased by \$4.7 million, or 2.2%, during the three-month period, resulting in total loans of \$219.2 million at September 30, 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. Loans held for sale decreased \$1.8 million, or 29.0%, compared to June 30, 2016.

Total deposits decreased \$5.1 million, or 2.5%, from June 30, 2015 levels, ending the quarter at \$198.0 million. Total borrowings increased \$7.7 million, or 20.7%.

The allowance for loan losses, included in net loans receivable, totaled \$1.5 million at September 30, 2016, relatively no change from June 30, 2016, representing 0.7% of total gross loans. Nonperforming and nonaccrual loans totaled \$0.6 million at September 30, 2016, a decrease of \$0.1 million, or 16.6%, from the balance at June 30, 2016. The allowance for loan losses represented 243.6% and 200.7% of nonperforming loans at September 30, 2016 and June 30, 2016, respectively. At September 30, 2016, nonperforming loans consisted of \$0.5 million in one- to four-family residential real estate loans and \$0.1 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, 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.

Shareholders' equity totaled \$27.7 million at September 30, 2016, an increase of \$0.4 million, or 1.5%, from the June 30, 2016 level. Dividends totaled \$0.18 per share for the three months ended September 30, 2016.

American is required to meet minimum regulatory capital requirements promulgated by the Office of the Comptroller of the Currency ("OCC"). At September 30, 2016, 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, 2016 and 2015**

**Comparison of Operating Results for the Three-month Periods Ended September 30, 2016 and 2015**

General

Net income totaled \$741,000 for the three months ended September 30, 2016 compared to net income of \$459,000 in the same period in 2015. The increase in net earnings for the period is primarily a result of improved net interest income and increased noninterest income, partially offset by increased noninterest expenses.

Net Interest Income

Total interest income at \$2.7 million for the three-month period ended September 30, 2016 represents a 6.8% increase from the same period last year. Interest income on the loan portfolio totaled \$2.5 million for the three months ended September 30, 2016, an 8.0% increase from the same three-month period in 2015. The quarterly average balance of the loan portfolio increased \$23.0 million, or 10.4%, at September 30, 2016 as compared to the same three-month period in 2015; however, the weighted-average yield decreased 15 basis points. Interest income on cash and investments totaled \$196,000 for the three months ending September 30, 2016, down \$14,000, or 6.7%, from the 2015 total. The average balance of the interest-bearing deposits and security portfolio decreased \$5.0 million, or 16.8%, at September 30, 2016 as compared to the same three-month period in 2015; but the weighted-average yield increased 22 basis points. The overall yield on interest earning assets decreased 4 basis points as compared to September 30, 2015.

Interest expense on liabilities decreased \$41,000, or 9.3%, for the three months ended September 30, 2016 compared to the same period in 2015. The Corporation experienced a \$12.6 million, or 6.0%, decrease in the average balance of interest-cost liabilities and a 3 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased \$25.3 million, or 14.9%, from the same period in the prior year and borrowings increased \$12.7 million, or 32.3%.

As a result of the foregoing changes in interest income and interest expense, net interest income increased \$210,000, or 10.3%, to a total of \$2.3 million for the three months ended September 30, 2016. The interest rate spread decreased to 3.47% for the three months ended September 30, 2016, from 3.48% for the 2015 period, while the net interest margin increased to 3.60% in the 2016 period compared to 3.51% in the 2015 period.

Provision for Losses on Loans

American recorded a provision for losses on loans totaling \$20,000 during the three months ended September 30, 2016, a decrease of \$10,000 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.

Noninterest Income

Noninterest income totaled \$1.6 million for the three months ended September 30, 2016, an increase of \$0.5 million, or 47.3%, from the same period in 2015. 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 \$2.7 million for the three months ended September 30, 2016, an increase of 11.3%, from the same period in 2015. Higher employee and benefit costs, an increase of \$228,000, or 15.7%, 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, 2016 and 2015**

Comparison of Operating Results for the Three-month Periods Ended September 30, 2016 and 2015 (continued)

Federal Income Taxes

The provision for federal income taxes totaled \$350,000 for the three months ended September 30, 2016 as compared to \$178,000 for the same period in 2015, an increase of \$172,000. The effective tax rates were 32.1% and 27.9% for the three-month periods ended September 30, 2016 and 2015, respectively.