

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

**For the Quarter Ended
December 31, 2011**

INDEX

	<u>Page</u>
PART I - FINANCIAL INFORMATION	
Consolidated Statements of Financial Condition	3
Consolidated Statements of Earnings	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8
Management's Discussion and Analysis of Financial Condition and Results of Operations	11

ASB Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS	December 31, 2011	June 30, 2011
Cash and due from banks	\$ 1,266	\$ 1,476
Interest-bearing deposits in other financial institutions	<u>1,396</u>	<u>8,151</u>
Cash and cash equivalents	2,662	9,627
Available-for-sale securities	44,505	41,057
Loans receivable - net	167,663	167,005
Office premises and equipment - at depreciated cost	2,370	2,434
Federal Home Loan Bank stock - at cost	1,327	1,327
Accrued interest receivable	937	1,049
Prepaid expenses and other assets	1,731	1,279
Bank-owned life insurance	4,064	4,018
Core deposit intangible	58	75
Foreclosed assets held for sale	805	988
Prepaid federal income taxes	-	42
Deferred federal income taxes	<u>535</u>	<u>398</u>
Total assets	<u>\$226,657</u>	<u>\$229,299</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$189,404	\$193,400
Advances from the Federal Home Loan Bank	13,073	13,010
Advances by borrowers for taxes and insurance	283	215
Accrued interest payable and other liabilities	<u>2,942</u>	<u>1,768</u>
Total liabilities	205,702	208,393
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; 1,858,426 and 1,858,426 shares issued at December 31, 2011 and June 30, 2011, respectively	-	-
Additional paid-in capital	8,683	8,683
Retained earnings, restricted	15,146	14,937
Accumulated comprehensive income (loss), unrealized gains (losses) on securities designated as available for sale, net of related tax effects	799	509
Accumulated comprehensive income, change in fair value of derivative financial instrument, net of related tax effects	(450)	-
Less 264,192 shares of treasury stock at December 31, 2011 and June 30 2011 - at cost	<u>(3,223)</u>	<u>(3,223)</u>
Total shareholders' equity	<u>20,955</u>	<u>20,906</u>
Total liabilities and shareholders' equity	<u>\$226,657</u>	<u>\$229,299</u>

ASB Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	For the six months ended December 31,		For the three months ended December 31,	
	2011	2010	2011	2010
Interest income				
Loans	\$4,683	\$5,061	\$2,411	\$2,483
Cash and available for sale securities	<u>615</u>	<u>669</u>	<u>312</u>	<u>332</u>
Total interest income	5,298	5,730	2,723	2,815
Interest expense				
Deposits	1,056	1,349	519	646
Borrowings	<u>136</u>	<u>348</u>	<u>100</u>	<u>173</u>
Total interest expense	<u>1,192</u>	<u>1,697</u>	<u>619</u>	<u>819</u>
Net interest income	4,106	4,033	2,104	1,996
Provision for losses on loans	<u>525</u>	<u>275</u>	<u>375</u>	<u>180</u>
Net interest income after provision for losses on loans	3,581	3,758	1,729	1,816
Other income				
Loss on sale of REO	(34)	(22)	(22)	(3)
Gain (loss) on sale of investments and loans	43	81	28	64
Other operating	<u>549</u>	<u>564</u>	<u>263</u>	<u>315</u>
Total other income	558	623	269	376
General, administrative and other expense				
Employee compensation and benefits	1,501	1,562	700	734
Occupancy and equipment	257	258	130	123
Franchise taxes	171	113	50	57
Data processing	352	307	162	161
Other operating	<u>787</u>	<u>833</u>	<u>478</u>	<u>402</u>
Total general, administrative and other expense	<u>3,068</u>	<u>3,073</u>	<u>1,520</u>	<u>1,477</u>
Earnings before income taxes	1,071	1,308	478	715
Federal income taxes				
Current	344	58	145	(106)
Deferred	<u>(54)</u>	<u>285</u>	<u>(17)</u>	<u>285</u>
Total federal income taxes	<u>290</u>	<u>343</u>	<u>128</u>	<u>179</u>
NET EARNINGS	<u>\$ 781</u>	<u>\$ 965</u>	<u>\$ 350</u>	<u>\$ 536</u>
EARNINGS PER SHARE				
Basic	<u>\$.49</u>	<u>\$.61</u>	<u>\$.22</u>	<u>\$.34</u>
Diluted	<u>\$.49</u>	<u>\$.61</u>	<u>\$.22</u>	<u>\$.34</u>

ASB Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	For the six months ended December 31,		For the three months ended December 31,	
	2011	2010	2011	2010
Net earnings	\$781	\$965	\$350	\$536
Other comprehensive income (loss), net of taxes (benefits):				
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of \$(82), \$(173), \$6 and \$(206) during the respective periods	(160)	(321)	18	(384)
Reclassification adjustment for realized gains included in earnings, net of taxes of - during both the six-month and three-month periods ended December 31, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Comprehensive income	<u>\$621</u>	<u>\$ 644</u>	<u>\$368</u>	<u>\$152</u>
Accumulated comprehensive income	<u>\$ 349</u>	<u>\$ 77</u>	<u>\$ 349</u>	<u>\$77</u>

ASB Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended December 31,
(In thousands)

	2011	2010
Cash flows from operating activities:		
Net earnings for the period	\$ 781	\$ 965
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of discounts and premiums of deposit premium, investments and mortgage-backed securities - net	230	189
Amortization of deferred loan origination fees	(105)	(139)
Depreciation and amortization	114	114
Provision for losses on loans	525	275
(Gain) loss on sale of loans and investment securities	(2)	8
Gain on sale of loans	(40)	(90)
Loss on sale of REO	34	22
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	112	124
Prepaid expenses and other assets	(452)	261
Accrued interest payable and other liabilities	387	(309)
Federal income taxes		
Current	227	(282)
Deferred	(54)	(347)
Net cash provided by operating activities	1,757	791
Cash flows provided by (used in) investing activities:		
Proceeds from maturities of investment securities	6,997	10,379
Purchase of investment securities	(10,899)	(15,872)
Proceeds from sale of REO	149	434
Net change in loans	(1,038)	3,357
Purchase of bank-owned life insurance	(46)	(36)
Purchase of office equipment	(50)	(118)
Net cash provided by (used in) investing activities	(4,887)	(1,856)
Cash flows provided by (used in) financing activities:		
Net increase (decrease) in deposit accounts	(3,394)	2,205
Proceeds from Federal Home Loan Bank advances	119	-
Repayment of Federal Home Loan Bank advances	(56)	(60)
Advances by borrowers for taxes and insurance	68	14
Dividends paid on common stock	(572)	(573)
Net cash provided by (used in) financing activities	(3,835)	1,586
Net increase (decrease) in cash and cash equivalents	(6,965)	521
Cash and cash equivalents at beginning of period	9,627	11,189
Cash and cash equivalents at end of period	\$ 2,662	\$ 11,710

ASB Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the six months ended December 31,
(In thousands)

	2011	2010
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$ <u>-0-</u>	\$ <u>250</u>
Interest on deposits and borrowings	\$ <u>1,182</u>	\$ <u>1,697</u>
Supplemental disclosure of noncash investing activities:		
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	\$ <u>(160)</u>	\$ <u>(321)</u>

ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended December 31, 2011 and 2010

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, 2011. 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 six- and three-month periods ended December 31, 2011, are not necessarily indicative of the results which may be expected for the entire fiscal year.

2. Principles of Consolidation

The accompanying consolidated financial statements include all of the accounts of the Corporation, American Savings Bank, fsb ("American") and American's wholly-owned subsidiaries, ASB Community Development Corp. and A.S.L. Services, Inc. All significant intercompany items have been eliminated.

3. Critical Accounting Policies

Certain of the Corporation's accounting policies are important to the portrayal of the Corporation's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. 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, 2011 in Note A 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.

ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended December 31, 2011 and 2010

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 December 31, 2011 and 2010 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 six months ended December 31,		For the three months ended December 31,	
	2011	2010	2011	2010
Weighted-average common shares outstanding (basic)	1,594,234	1,594,234	1,594,234	1,594,234
Dilutive effect of assumed exercise of stock options	—	—	—	—
Weighted-average common shares outstanding (diluted)	<u>1,594,234</u>	<u>1,594,234</u>	<u>1,594,234</u>	<u>1,594,234</u>

5. Stock Option Plan

During fiscal 1996 the Board of Directors and shareholders adopted the ASB Financial Corp. 1995 Stock Option and Incentive Plan (the “Plan”) that provided for the issuance of 225,423 shares, as adjusted, of authorized but unissued common shares of common stock at fair value on the date of grant. In fiscal 1996, the Corporation granted 197,521 options which currently have an adjusted exercise price per share of \$7.64. The number of options granted and the exercise price have been adjusted to give effect to the return of capital and special dividend distributions paid by the Corporation.

The Corporation accounts for the Plan in accordance with SFAS No. 123, “Accounting for Stock-Based Compensation,” which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue to account for stock options and similar equity instruments under Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees.” Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net earnings and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

The Corporation applies APB Opinion No. 25 and related Interpretations in accounting for the Plan. Accordingly, no compensation cost has been recognized for the Plan. Had compensation cost for the Plan been determined based on the fair value at the grant dates for awards under the Plan consistent with the accounting method utilized in SFAS No. 123, the Corporation’s net earnings and earnings per share for the six- and three-month periods ended December 31, 2011 and 2010, would have been reported as the pro forma amounts indicated below:

ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended December 31, 2011 and 2010

5. Stock Option Plan (continued)

		Six months ended December 31,		Three months ended December,	
		2011	2010	2011	2010
Net earnings (In thousands)	As reported	\$ 781	\$965	\$536	\$536
	Stock-based compensation, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Pro-forma	<u>\$ 781</u>	<u>\$ 965</u>	<u>\$536</u>	<u>\$536</u>
Earnings per share					
Basic	As reported	\$.49	\$.61	\$.34	\$.34
	Stock-based compensation, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Pro-forma	<u>\$.49</u>	<u>\$.61</u>	<u>\$.34</u>	<u>\$.34</u>
Diluted	As reported	\$.49	\$.61	\$.34	\$.34
	Stock-based compensation, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Pro-forma	<u>\$.49</u>	<u>\$.61</u>	<u>\$.34</u>	<u>\$.34</u>

A summary of the status of the Corporation's Plan as of December 31, 2011 and June 30, 2011, and changes during the periods ending on those dates is presented below:

	Six months ended December 31, 2011		Year ended June 30, 2011	
	Shares	Weighted- average exercise price	Shares	Weighted- average exercise price
Outstanding at beginning of period	2,684	\$ 16.50	2,684	\$16.50
Exercised	<u>-0-</u>	<u>-0-</u>	<u>-</u>	<u>-</u>
Outstanding at end of period	<u>2,684</u>	<u>\$ 16.50</u>	<u>2,684</u>	<u>\$16.50</u>
Options exercisable at period-end	<u>2,684</u>	<u>\$ 16.50</u>	<u>2,684</u>	<u>\$ 16.50</u>
Weighted-average fair value of options granted during the period		<u>\$ -</u>		<u>\$ -</u>

5. Stock Option Plan (continued)

The following information applies to options outstanding at December 31, 2010:

Number outstanding	2,684
Range of exercise prices	\$16.50
Weighted-average exercise price	\$16.50
Weighted-average remaining contractual life	2.4 years

ASB Financial Corp.

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

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 ASB or its management are intended to identify such forward looking statements. ASB'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, 2011 to December 31, 2011

At December 31, 2011, the Corporation's assets totaled \$226.7 million, a decrease of \$2.6 million, or 1.1%, over total assets at June 30, 2011.

Cash and cash equivalents decreased by \$7.0 million, or 72.3%, from June 30, 2011 levels, to a total of \$2.7 million at December 31, 2011. Available for sale securities totaled \$44.5 million at December 31, 2011, an increase of \$3.4 million, or 8.4%, from June 30, 2011 levels. Maturities and discount accretion related to investment securities totaling approximately \$7.0 million were offset by purchases of \$10.4 million. Purchases of investment securities consisted primarily of fixed-rate medium-term callable U.S. Government agency obligations, SBA Pools, FNMA and FHLMC issued mortgage-backed securities.

Loans receivable increased by \$658,000, or .39%, during the six-month period ended December 31, 2011, to a total of \$167.7 million. Loan disbursements amounted to \$27.7 million for the six months ended December 31, 2011, which were offset by principal repayments and sales of \$26.6 million. During the six months ended December 31, 2011, loans originated consisted of \$20.0 million of loans secured by one- to four-family residential real estate, \$5.2 million of loans secured by nonresidential real estate, \$1.2 million of commercial loans and \$1.3 million of consumer and other loans.

The allowance for loan losses decreased by \$858,000, or 31.7%, during the six month period ended December 31, 2011, to a total of \$1.9 million. Nonperforming and nonaccrual loans totaled \$8.1 million at December 31, 2011, an increase of \$676,000, or 8.2% from the balance at June 30, 2011. The allowance for loan losses represented 23.4% and 32.8% of nonperforming loans at December 31, 2011 and June 30, 2011, respectively. At December 31, 2011, nonperforming loans consisted of \$1.9 million in one- to four-family residential real estate loans and \$6.2 million in nonresidential real estate, consumer and other loans. Management believes such loans are adequately collateralized and does not expect to incur any losses on such loans. Although management believes that its allowance for loan losses at December 31, 2011, 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.

Deposits totaled \$189.4 million at December 31, 2011, a decrease of \$4.0 million, or 2.1%, from June 30, 2011 levels. The decrease in deposits was due primarily to decreases in money market and time deposit accounts.

ASB Financial Corp.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)**

Discussion of Financial Condition Changes from June 30, 2011 to December 31, 2011 (continued)

Federal Home Loan Bank advances increased by \$63,000, or .48%, during the six-month period ended December 31, 2011. New borrowings of \$119,000 were partially offset by principal repayments for the period totaling \$56,000.

Shareholders' equity totaled \$21.0 million at December 31, 2011, an increase of \$49,000, or .23%, from the June 30, 2011 level. The increase was due to a \$160,000 decrease in unrealized gains on investments and dividends on common shares totaling \$572,000, which were offset by net earnings of \$781,000. Dividends totaled \$.36 per share for the six months ended December 31, 2011.

American is required to meet minimum regulatory capital requirements promulgated by the Office of Thrift Supervision ("OTS"). At December 31, 2011, American's regulatory capital exceeded the minimum capital requirements.

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2011 and 2010

General

Net earnings totaled \$781,000 for the six months ended December 31, 2011, a decrease of \$184,000 from the same period in 2010. The decrease in net earnings resulted primarily from a \$250,000, or 90.9%, increase in provision for losses on loans and a \$65,000, or 10.4%, decrease in other income. These were partially offset by a \$73,000, or 1.8%, increase in the net interest income and decreases of \$5,000, or .16%, in general, administrative and other expense and \$53,000, or 15.5%, in provision for income taxes.

Net Interest Income

Interest income on loans decreased by \$378,000, or 7.5%, for the six months ended December 31, 2011, compared to the 2010 period. This decrease was due primarily to a \$1.7 million, or 1.1%, decrease in the average portfolio balance outstanding period to period and a 39 basis point decrease in the weighted-average yield, to 5.63% for the 2011 six-month period. Interest income on cash and available for sale securities decreased by \$54,000, or 8.1%, due primarily to a \$4.8 million, or 9.3% decrease in the average portfolio balance outstanding period to period which was partially offset by a 4 basis point increase in the weighted-average yield, to 2.58% for the 2011 period.

Interest expense on deposits decreased by \$293,000, or 21.7%, for the six months ended December 31, 2011, compared to the same period in 2010. This decrease was due primarily to a 30 basis point decrease in the weighted-average cost of deposits, to 1.09% for the six months ended December 31, 2011 and a \$592,000 decrease in the average balance of deposits outstanding period to period. Interest expense on borrowings decreased by \$212,000, or 60.9%, due to a 175 basis point decrease in the average cost of borrowings during the period and a \$5.1 million, or 28.2%, decrease in the average balance outstanding.

ASB Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2011 and 2010 (continued)

Net Interest Income (continued)

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$73,000, or 1.8%, to a total of \$4.1 million for the six months ended December 31, 2011. The interest rate spread increased to 3.80% for the six months ended December 31, 2011, from 3.60% for the 2010 period, while the net interest margin increased to 3.84% in the 2011 period, compared to 3.66% in the 2010 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 collectibility of American's loan portfolio. The Corporation recorded a provision for losses on loans totaling \$525,000 during the six months ended December 31, 2011, an increase of \$250,000, or 90.9%, from the comparable six-month period in 2010. The provision for loan loss is determined based upon managements 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.

Other Income

Other income totaled \$558,000 for the six months ended December 31, 2011, a decrease of \$65,000, or 10.4%, from the same period in 2010. The decrease was due to decreases of \$38,000, or 46.9%, in gain on sale of investment securities and \$15,000, or 2.7%, in other operating income and an increase of of \$12,000, or 54.5%, in loss on sale of foreclosed real estate. The decrease in other income was primarily due to reduced customer service charges and fees and the decrease in the gain on sale of investments was primarily due to fewer sales of investment securities as compared to the same period in 2010.

General, Administrative and Other Expense

General, administrative and other expense totaled \$3.1 million for the six months ended December 31, 2011, a decrease of \$5,000, or .16%, over the same period in 2010. This decrease was comprised of decreases of \$61,000, or 3.9%, in employee compensation and benefits, \$1,000, or .39%, in occupancy and equipment and \$46,000, or 5.5% in other operating expense, which were partially offset by increases of \$58,000, or 51.3%, increase in franchise taxes and \$45,000, or 14.7% in data processing. The decrease in employee compensation and benefits was due primarily to reduced staffing levels. The decrease in other operating expenses was primarily due to decreases in FDIC premiums.

Federal Income Taxes

The provision for federal income taxes totaled \$290,000 for the six months ended December 31, 2011, a decrease of \$53,000, or 15.5%, compared to the same period in 2010. This decrease was due to a reduction in taxable income. The effective tax rates were 27.1% and 26.2% for the six-month periods ended December 31, 2011 and 2010, respectively.

ASB Financial Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Comparison of Operating Results for the Three-Month Periods Ended December 31, 2011 and 2010

General

Net earnings totaled \$350,000 for the three months ended December 31, 2011, a decrease of \$186,000, or 34.7% from the \$536,000 in earnings reported for the same quarter in 2010. Increases of \$195,000 in provision for losses on loans and \$43,000 in general, administrative and other expense and a decrease of \$107,000 in other income were partially offset by an increase of \$108,000 in net interest income and a decrease of \$51,000 in provision for federal income taxes.

Net Interest Income

Interest income on loans decreased by \$72,000, or 2.9%, for the three months ended December 31, 2011, compared to the 2010 period. This decrease was due primarily to a 21 basis point decrease in the weighted-average yield, to 5.81%, for the 2011 three month period and a \$1.9 million, or 1.2%, decrease in the average portfolio balance outstanding period to period. Interest income on cash and available for sale securities decreased by \$20,000, or 6.0%, due primarily to a 12 basis point increase in the weighted-average yield, to 2.64% for the 2011 period, which was offset by a \$6.7 million, or 12.4%, decrease in the average balance of the related assets outstanding period to period.

Interest expense on deposits decreased by \$127,000, or 19.7%, for the three months ended December 31, 2011, compared to the same period in 2010. This decrease was due primarily to a \$1.2 million, or .61%, decrease in the average balance of deposits outstanding period to period and a 25 basis point decrease in the average cost to 1.08% for 2011. Interest expense on borrowings decreased by \$73,000, or 42.2%, due to a 74 basis point decrease in the average cost of borrowings, to 3.06% for the period and a \$5.1 million, or 28.2%, decrease in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$108,000, or 5.4%, to a total of \$2.1 million for the three months ended December 31, 2011. The interest rate spread increased to 3.90% for the three months ended December 31, 2011, from 3.56% for the 2010 period, while the net interest margin increased to 3.94% from 3.62%.

Provision for Losses on Loans

The Corporation recorded a provision for losses on loans totaling \$375,000 during the three months ended December 31, 2011, an increase of \$195,000, or 108.3% from the comparable three-month period in 2010. 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.

Other Income

Other income totaled \$269,000 for the three months ended December 31, 2011, a decrease of \$107,000, or 28.5%, from the same period in 2010. The decrease was due to an increase of \$19,000 in loss on sale of real estate owned and decreases of \$36,000 in other gain on sale of investments and loans and \$52,000 in other operating income.

ASB Financial Corp.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (CONTINUED)**

Comparison of Operating Results for the Three-Month Periods Ended December 31, 2011 and 2010 (continued)

General, Administrative and Other Expense

General, administrative and other expense totaled \$1.5 million for the three months ended December 31, 2011, an increase of \$43,000, or 2.9%, over the same period in 2010. This increase was comprised of increases of \$7,000, or 5.7%, in occupancy and equipment, \$1,000, or .62%, in data processing and \$76,000, or 18.9%, in other operating expense which were partially offset by decreases of \$34,000, or 4.6% in employee compensation and benefits and \$7,000, or 12.3%, in franchise taxes.

Federal Income Taxes

The provision for federal income taxes totaled \$128,000 for the three months ended December 31, 2011, a decrease of \$51,000, or 28.5% from the same period in 2010. The effective tax rates were 26.8% and 25.1% for the three-month periods ended December 31, 2011 and 2010, respectively.