



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

**For the Quarter Ended  
December 31, 2015**

## INDEX

	<u>Page</u>
FINANCIAL INFORMATION	
Consolidated Balance Sheets	1
Consolidated Statements of Income	2
Consolidated Statements of Comprehensive Income (Loss)	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
Management's Discussion and Analysis of Financial Condition and Results of Operations	6

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

<b>ASSETS</b>	<b>December 31, 2015</b>	<b>June 30, 2015</b>
Cash and due from banks	\$ 1,199	\$ 1,361
Interest-bearing deposits in other financial institutions	<u>2,408</u>	<u>2,755</u>
Cash and cash equivalents	3,607	4,116
Available-for-sale securities	28,308	30,892
Loans held for sale	8,188	3,645
Loans receivable, net of allowance for loan losses	199,548	195,208
Premises and equipment	5,757	5,770
Federal Home Loan Bank stock (cost)	1,547	1,547
Interest receivable	775	833
Bank-owned life insurance	4,610	4,544
Goodwill	2,603	2,603
Core deposit intangible	11	12
Other real estate owned	431	163
Prepaid expenses and other assets	<u>996</u>	<u>1,161</u>
Total assets	<b>\$ <u>256,381</u></b>	<b>\$ <u>250,494</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$ 199,136	\$ 195,258
Short term borrowings	1,476	5,037
Advances from the Federal Home Loan Bank	25,832	20,773
Other borrowings	1,310	600
Deferred tax liability	9	40
Accrued interest payable and other liabilities	<u>1,684</u>	<u>2,442</u>
Total liabilities	229,447	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	16,646	16,129
Accumulated other comprehensive income	192	119
Treasury stock at cost		
Common; 264,392 shares	<u>(3,223)</u>	<u>(3,223)</u>
Total shareholders' equity	<u>26,934</u>	<u>26,344</u>
Total liabilities and shareholders' equity	<b>\$ <u>256,381</u></b>	<b>\$ <u>250,494</u></b>

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

	For the six months ended December 31,		For the three months ended December 31,	
	2015	2014	2015	2014
<b>Interest and dividend income</b>				
Loans	\$ 4,599	\$ 4,560	\$ 2,236	\$ 2,268
Securities	390	466	195	233
Dividends on Federal Home Loan Bank stock	31	31	16	16
Deposits with financial institutions and other	<u>1</u>	<u>3</u>	<u>1</u>	<u>1</u>
Total interest income	5,021	5,060	2,448	2,518
<b>Interest expense</b>				
Deposits	582	742	285	365
Borrowings	<u>287</u>	<u>291</u>	<u>144</u>	<u>146</u>
Total interest expense	<u>869</u>	<u>1,033</u>	<u>429</u>	<u>511</u>
<b>Net interest income</b>	4,152	4,027	2,019	2,007
<b>Provision for losses on loans</b>	<u>60</u>	<u>60</u>	<u>30</u>	<u>30</u>
<b>Net interest income after provision for loan losses</b>	4,092	3,967	1,989	1,977
<b>Noninterest Income</b>				
Customer service charges and other fees	783	552	428	245
Gain on sale of loans	1,107	617	522	298
Gain on sale of securities	-	-	-	-
Gain (loss) on sale of REO	(9)	(47)	(9)	(13)
Other operating	<u>80</u>	<u>174</u>	<u>29</u>	<u>125</u>
Total noninterest income	1,961	1,296	970	655
<b>Noninterest Expense</b>				
Employee compensation and benefits	2,797	2,272	1,326	1,137
Occupancy and equipment	411	382	200	186
Data processing	324	374	137	196
Professional fees	239	325	125	179
Printing and office supplies	71	52	29	28
OREO expenses	31	20	17	16
Franchise taxes	100	110	50	55
Federal deposit insurance premiums	86	94	42	46
Other operating	<u>789</u>	<u>698</u>	<u>465</u>	<u>383</u>
Total noninterest expense	<u>4,848</u>	<u>4,327</u>	<u>2,391</u>	<u>2,226</u>
<b>Income before income taxes</b>	1,205	936	568	406
<b>Provision for federal income taxes</b>	<u>333</u>	<u>230</u>	<u>155</u>	<u>94</u>
<b>NET INCOME</b>	<u>\$ 872</u>	<u>\$ 706</u>	<u>\$ 413</u>	<u>\$ 312</u>
<b>Basic Earnings per Share</b>	<u>\$ 0.44</u>	<u>\$ 0.36</u>	<u>\$ 0.21</u>	<u>\$ 0.16</u>
<b>Diluted Earnings per Share</b>	<u>\$ 0.44</u>	<u>\$ 0.36</u>	<u>\$ 0.21</u>	<u>\$ 0.16</u>

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

	<b>For the six months ended December 31,</b>		<b>For the three months ended December 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net Income	\$ 872	\$ 706	\$ 413	\$ 312
 Other comprehensive income (loss) net of taxes:				
Unrealized gains (losses) on available-for-sale securities	(1)	31	(4)	49
Unrealized gains (losses) on derivatives used for cash flow hedges	<u>74</u>	<u>89</u>	<u>83</u>	<u>6</u>
Other comprehensive income (loss) before tax effect	<u>73</u>	<u>120</u>	<u>79</u>	<u>55</u>
<b>Comprehensive Income</b>	<b>\$ <u>945</u></b>	<b>\$ <u>826</u></b>	<b>\$ <u>492</u></b>	<b>\$ <u>367</u></b>
 Tax expense (credit):				
Unrealized gains (losses) on available-for-sale securities	(1)	15	(3)	24
Unrealized gains (losses) on derivatives used for cash flow hedges	<u>38</u>	<u>45</u>	<u>42</u>	<u>3</u>
<b>Total tax effect</b>	<b>\$ <u>37</u></b>	<b>\$ <u>60</u></b>	<b>\$ <u>39</u></b>	<b>\$ <u>27</u></b>
 <b>Accumulated comprehensive income:</b>				
Available-for-sale securities	\$ 478	\$ 603	\$ 478	\$ 603
Derivative financial instruments	<u>(286)</u>	<u>(386)</u>	<u>(286)</u>	<u>(386)</u>
<b>Total accumulated comprehensive income</b>	<b>\$ <u>192</u></b>	<b>\$ <u>217</u></b>	<b>\$ <u>192</u></b>	<b>\$ <u>217</u></b>

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

	<b>For the six months ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating Activities</b>		
Net income	\$ 872	\$ 706
Items not requiring (providing) cash		
Depreciation and amortization	186	160
Provision for loan losses	60	60
Amortization of premiums and discounts on securities	93	128
Amortization of deferred loan fees, net	(51)	(82)
Amortization of core deposit intangible	1	1
Amortization of FHLB advances deferred prepayment penalties	59	74
Federal income taxes	(31)	9
Gain on sale of loans	(1,142)	(655)
Gain on sale of real estate acquired through foreclosure	9	20
Impairment of foreclosed assets held for sale	-	27
Cash surrender value of bank owned life insurance	(66)	(65)
Changes in:		
Loans held for sale	(4,543)	1,973
Interest receivable	58	12
Prepaid expenses and other assets	165	330
Interest payable and other liabilities	(682)	128
<b>Net cash provided by operating activities</b>	<u>(5,012)</u>	<u>2,826</u>
<b>Investing Activities</b>		
Purchases of available-for-sale securities	-	(459)
Proceeds from maturities and payments from of available-for-sale securities	2,489	2,767
(Increase) decrease in loans	(3,543)	(2,408)
Purchase of premises and equipment	(173)	(185)
Proceeds from sale of foreclosed assets	59	107
<b>Net cash provided by (used in) investing activities</b>	<u>(1,168)</u>	<u>(178)</u>
<b>Financing Activities</b>		
Net change in deposits	3,878	(5,214)
Net change in short term borrowings	(3,561)	1,569
Proceeds from Federal Home Loan Bank advances	5,710	-
Repayment of borrowings and Federal Home Loan Bank advances	-	(1,800)
Dividends paid	(356)	(712)
<b>Net cash provided by (used in) financing activities</b>	<u>5,671</u>	<u>(6,157)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(509)</u>	<u>(3,509)</u>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>4,116</u>	<u>8,184</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 3,607</u>	<u>\$ 4,675</u>
<b>Supplemental Cash Flows Information:</b>		
Interest Paid	\$ 1,149	\$ 1,080
Real estate acquired in settlement of loans	\$ 336	\$ 86
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, 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 six- and three-month periods ended December 31, 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 December 31, 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:

	<b>For the six months ended December 31,</b>		<b>For the three months ended December 31,</b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
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

**ASB FINANCIAL CORP.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the six- and three-month periods ended December 31, 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, 2014 to December 31, 2015**

At December 31, 2015, the Corporation's assets totaled \$256.4 million, an increase of \$5.9 million, or 2.4%, compared to total assets at June 30, 2015. Cash and cash equivalents decreased by \$0.5 million, or 12.2%, from June 30, 2015 levels, for a total of \$3.6 million at December 31, 2015

Available-for-sale securities totaled \$28.3 million at December 31, 2015, a decrease of \$2.6 million, or 8.4%, 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 December 31, 2015, including loans held for sale, increased \$8.9 million, or 4.5%, during the six-month period, resulting in total loans of \$207.7 million at December 31, 2015. The portfolio consisted of 70% secured by one- to four-family residential real estate, 28% 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 \$1.5 million at December 31, 2015, a decrease of \$0.2 million from June 30, 2015, representing 0.7% of total gross loans. Nonperforming and nonaccrual loans totaled \$1.9 million at December 31, 2015, a decrease of \$0.2 million, or 9.5%, from the balance at June 30, 2015. The allowance for loan losses represented 82.7% and 79.6% of nonperforming loans at December 31, 2015 and June 30, 2015, respectively. At December 31, 2015, nonperforming loans consisted of \$0.9 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 December 31, 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.

Total deposits increased \$3.8 million, or 1.9%, from June 30, 2015 levels, ending the quarter at \$199.1 million. Total borrowings increased \$2.2 million, or 8.3%

Shareholders' equity totaled \$26.9 million at December 31, 2015, an increase of \$0.6 million, or 2.3%, from the June 30, 2015 level. Dividends paid totaled \$0.36 per share for the six months ended December 31, 2015.

American is required to meet minimum regulatory capital requirements promulgated by the Office of the Comptroller of the Currency ("OCC"). At December 31, 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 six- and three-month periods ended December 31, 2015 and 2014**

**Comparison of Operating Results for the Six-Month Periods Ended December 31, 2015 and 2014**

General

Net income totaled \$872,000 for the six months ended December 31, 2015 compared to net income of \$706,000 in the same period in 2014. 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 \$665,000, or 51.3%, compared to six months ended December 31, 2014, primarily a result of the bank expanding its secondary market loan operations. Net interest income increased \$125,000, or 3.1%, with interest expenses declining \$164,000 and interest income decreasing \$39,000. Noninterest expenses increased \$521,000, or 12.0%, due to increased personnel costs with the growth of the secondary market loan operations. The provision for federal income tax increased by \$103,000, or 44.8%.

Net Interest Income

Total interest income at \$5.0 million for the six-month period ending December 31, 2015 represents an 0.8% decrease, or \$39,000, from the same period last year. Interest income on the loan portfolio totaled \$4.6 million for the six months ended December 31, 2015, remaining relatively the same as in 2014. The year-to-date average balance of the loan portfolio increased \$8.8 million at December 31, 2015 as compared to the same six-month period in 2014, while the weighted-average yield decreased 18 basis points. Interest income on cash and investments totaled \$422,000 for the six months ending December 31, 2015, down 15.6% compared to the 2014 total. The average balance of the interest-bearing deposits and security portfolio decreased \$9.1 million at December 31, 2015 as compared to the same six-month period in 2014; however, the weighted-average yield increased 17 basis points. The overall yield on interest earning assets decreased 3 basis points as compared to December 31, 2014.

Interest expense on liabilities decreased \$164,000, or 15.9%, for the six months ended December 31, 2015 compared to the same period in 2014. The Corporation experienced a \$2.4 million, or 1.1%, increase in the average balance of deposits and interest-cost liabilities, and a 16 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased \$7.7 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 \$125,000, or 3.1%, to a total of \$4.2 million for the six months ended December 31, 2015. The interest rate spread increased to 3.54% for the six months ended December 31, 2015, from 3.41% for the 2014 period, while the net interest margin increased to 3.56% in the 2015 period compared to 3.45% in the 2014 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 \$60,000 during the six-month periods ended December 31, 2015 and December 31, 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 \$2.0 million for the six months ended December 31, 2015, an increase of \$0.7 million, or 51.3%, from the same period in 2014. The increase was due to gain on sales of loans totaling \$1.1 million in the six months in 2015 created by the expansion of its mortgage origination division in 2015, as compared to \$0.6 million in 2014. Customer service charges and other fees increased by \$231,000, or 41.8%. These combined increases were partially offset by lower other operating income.

**ASB FINANCIAL CORP.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the six- and three-month periods ended December 31, 2015 and 2014**

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2015 and 2014 (continued)

Noninterest Expense

Noninterest expense totaled \$4.8 million for the six months ended December 31, 2015, an increase of \$0.5 million, or 12.0%, over the same period in 2014. The higher expenses were primarily due to the cost of expanding its southwestern Ohio presence.

Federal Income Taxes

The provision for federal income taxes totaled \$333,000 for the six months ended December 31, 2015 as compared to \$230,000 for the same period in 2014, an increase of \$103,000, or 44.8.5%. The effective tax rates were 27.6% and 24.6% for the six-month periods ended December 31, 2015 and 2014, respectively.

**Comparison of Operating Results for the Three-month Periods Ended December 31, 2015 and 2014**

General

Net income totaled \$413,000 for the three months ended December 31, 2015 compared to net income of \$312,000 in the same period in 2014. The increase in net earnings for the period is primarily a result of improved noninterest income.

Net Interest Income

Total interest income at \$2.4 million for the three-month period ended December 31, 2015 represents a 2.8% decrease from the same period last year. Interest income on the loan portfolio totaled \$2.2 million for the three months ended December 31, 2015, a 1.4% decrease from the same three-month period in 2014. The quarterly average balance of the loan portfolio increased \$9.4 million at December 31, 2015 as compared to the same three-month period in 2014; however, the weighted-average yield decreased 28 basis points. Interest income on cash and investments totaled \$212,000 for the three months ending December 31, 2015, down \$38,000, or 15.2%, from the 2014 total. The average balance of the interest-bearing deposits and security portfolio decreased \$9.5 million at December 31, 2015 as compared to the same three-month period in 2014; but the weighted-average yield increased 24 basis points. The overall yield on interest earning assets decreased 12 basis points as compared to December 31, 2014.

Interest expense on liabilities decreased \$82,000, or 16.0%, for the three months ended December 31, 2015 compared to the same period in 2014. The Corporation experienced a \$5.0 million decrease in the average balance of deposits and interest-cost liabilities, and a 16 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased \$5.7 million from the same period in the prior year and borrowings increased \$10.7 million.

As a result of the foregoing changes in interest income and interest expense, net interest income increased \$12,000, or 0.6%, to a total of \$2.0 million for the three months ended December 31, 2015. The interest rate spread increased to 3.44% for the three months ended December 31, 2015, from 3.40% for the 2014 period, while the net interest margin increased to 3.46% in the 2015 period compared to 3.44% 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 December 31, 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.

**ASB FINANCIAL CORP.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the six- and three-month periods ended December 31, 2015 and 2014**

Comparison of Operating Results for the Three-month Periods Ended December 31, 2015 and 2014 (continued)

Noninterest Income

Noninterest income totaled \$970,000 for the three months ended December 31, 2015, an increase of \$315,000, or 48.1%, from the same period in 2014. The increase was due to the increase in gain on sale of loans and customer service charges and fees; however, these increases were partially offset by declines in other operating income.

Noninterest Expense

Noninterest expense totaled \$2.4 million for the three months ended December 31, 2015, an increase of 7.4%, from the same period in 2014. Higher employee and benefit costs, an increase of \$189,000, or 16.6%, 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 \$155,000 for the three months ended December 31, 2015 as compared to \$94,000 for the same period in 2014, an increase of \$61,000. The effective tax rates were 27.3% and 23.2% for the three-month periods ended December 31, 2015 and 2014, respectively.