



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

**For the Quarter Ended
December 31, 2016**

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

ASSETS	December 31, 2016	June 30, 2016
Cash and due from banks	\$ 1,433	\$ 1,595
Interest-bearing deposits in other financial institutions	<u>2,686</u>	<u>2,933</u>
Cash and cash equivalents	4,119	4,528
Available-for-sale securities	24,130	26,796
Loans held for sale	3,988	6,242
Loans receivable, net of allowance for loan losses	222,763	214,484
Premises and equipment	5,849	5,835
Federal Home Loan Bank stock (cost)	1,558	1,558
Interest receivable	794	820
Bank-owned life insurance	4,739	4,676
Goodwill	2,603	2,603
Core deposit intangible	9	10
Other real estate owned	207	352
Prepaid expenses and other assets	<u>1,176</u>	<u>1,420</u>
Total assets	\$ <u>271,935</u>	\$ <u>269,324</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$ 196,227	\$ 203,135
Short term borrowings	3,017	6,209
Advances from the Federal Home Loan Bank	40,103	28,884
Other borrowings	2,780	2,060
Deferred tax liability	85	114
Accrued interest payable and other liabilities	<u>2,058</u>	<u>1,641</u>
Total liabilities	244,270	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	17,469	16,872
Accumulated other comprehensive income	100	313
Treasury stock at cost		
Common; 264,392 shares	<u>(3,223)</u>	<u>(3,223)</u>
Total shareholders' equity	<u>27,665</u>	<u>27,281</u>
Total liabilities and shareholders' equity	\$ <u>271,935</u>	\$ <u>269,324</u>

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,	
	2016	2015	2016	2015
Interest and dividend income				
Loans	\$ 4,957	\$ 4,599	\$ 2,499	\$ 2,236
Securities	351	390	171	195
Dividends on Federal Home Loan Bank stock	31	31	16	16
Deposits with financial institutions and other	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total interest income	5,341	5,021	2,687	2,448
Interest expense				
Deposits	469	582	223	285
Borrowings	<u>323</u>	<u>287</u>	<u>170</u>	<u>144</u>
Total interest expense	<u>792</u>	<u>869</u>	<u>393</u>	<u>429</u>
Net interest income	4,549	4,152	2,294	2,019
Provision for losses on loans	<u>50</u>	<u>60</u>	<u>30</u>	<u>30</u>
Net interest income after provision for loan losses	4,499	4,092	2,264	1,989
Noninterest Income				
Customer service charges and other fees	914	783	440	428
Gain on sale of loans	2,050	1,107	994	522
Gain on sale of other assets	14	-	(1)	-
Gain (loss) on sale of REO	(7)	(9)	(14)	(9)
Other operating	<u>76</u>	<u>80</u>	<u>37</u>	<u>29</u>
Total noninterest income	3,047	1,961	1,456	970
Noninterest Expense				
Employee compensation and benefits	3,480	2,797	1,804	1,326
Occupancy and equipment	494	411	266	200
Data processing	189	324	98	137
Professional fees	149	239	63	125
Printing and office supplies	80	71	43	29
OREO expenses	42	31	22	17
Franchise taxes	141	100	71	50
Federal deposit insurance premiums	44	86	2	42
Other operating	<u>1,028</u>	<u>789</u>	<u>543</u>	<u>465</u>
Total noninterest expense	<u>5,647</u>	<u>4,848</u>	<u>2,912</u>	<u>2,391</u>
Income before income taxes	1,899	1,205	808	568
Provision for federal income taxes	<u>593</u>	<u>333</u>	<u>243</u>	<u>155</u>
NET INCOME	<u>\$ 1,306</u>	<u>\$ 872</u>	<u>\$ 565</u>	<u>\$ 413</u>
Basic Earnings per Share	<u>\$ 0.66</u>	<u>\$ 0.44</u>	<u>\$ 0.29</u>	<u>\$ 0.21</u>
Diluted Earnings per Share	<u>\$ 0.66</u>	<u>\$ 0.44</u>	<u>\$ 0.29</u>	<u>\$ 0.21</u>

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

	For the six months ended December 31,		For the three months ended December 31,	
	2016	2015	2016	2015
Net Income	\$ 1,306	\$ 872	\$ 565	\$ 413
Other comprehensive income (loss) net of taxes:				
Unrealized gains (losses) on available-for-sale securities	(323)	(1)	(291)	(4)
Unrealized gains (losses) on derivatives used for cash flow hedges	<u>110</u>	<u>74</u>	<u>54</u>	<u>83</u>
Other comprehensive income (loss) before tax effect	<u>(213)</u>	<u>73</u>	<u>(237)</u>	<u>79</u>
Comprehensive Income	\$ <u>1,093</u>	\$ <u>945</u>	\$ <u>328</u>	\$ <u>492</u>
Tax expense (credit):				
Unrealized gains (losses) on available-for-sale securities	(167)	(1)	(151)	(3)
Unrealized gains (losses) on derivatives used for cash flow hedges	<u>57</u>	<u>38</u>	<u>28</u>	<u>42</u>
Total tax effect	\$ <u>(110)</u>	\$ <u>37</u>	\$ <u>(123)</u>	\$ <u>39</u>
Accumulated comprehensive income:				
Available-for-sale securities	\$ 263	\$ 478	\$ 263	\$ 478
Derivative financial instruments	<u>(163)</u>	<u>(286)</u>	<u>(163)</u>	<u>(286)</u>
Total accumulated comprehensive income	\$ <u>100</u>	\$ <u>192</u>	\$ <u>100</u>	\$ <u>192</u>

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

	For the six months ended December 31,	
	2016	2015
Operating Activities		
Net income	\$ 1,306	\$ 872
Items not requiring (providing) cash		
Depreciation and amortization	216	186
Provision for loan losses	50	60
Amortization of premiums and discounts on securities	63	93
Amortization of deferred loan fees, net	1	(51)
Amortization of core deposit intangible	1	1
Amortization of FHLB advances deferred prepayment penalties	34	59
Federal income taxes	(110)	(31)
Gain on sale of loans	(2,099)	(1,142)
Loss on sale of real estate acquired through foreclosure	(7)	9
Impairment of foreclosed assets held for sale	15	-
Gain on sale of premises and equipment	(14)	-
Cash surrender value of bank owned life insurance	(63)	(66)
Changes in:		
Loans held for sale	2,254	(4,543)
Interest receivable	26	58
Prepaid expenses and other assets	244	165
Interest payable and other liabilities	778	(682)
Net cash provided by operating activities	2,695	(5,012)
Investing Activities		
Proceeds from maturities and payments from of available-for-sale securities	2,113	2,489
(Increase) decrease in loans	(6,315)	(3,543)
Purchase of premises and equipment	(241)	(173)
Proceeds from sale of premises and equipment	25	-
Proceeds from sale of foreclosed assets	221	59
Net cash provided by (used in) investing activities	(4,197)	(1,168)
Financing Activities		
Net change in deposits	(6,908)	3,878
Net change in short term borrowings	(3,192)	(3,561)
Proceeds from Federal Home Loan Bank advances	12,720	5,710
Repayment of borrowings and Federal Home Loan Bank advances	(815)	-
Dividends paid	(712)	(356)
Net cash provided by (used in) financing activities	1,093	5,671
Increase (Decrease) in Cash and Cash Equivalents	(409)	(509)
Cash and Cash Equivalents, Beginning of Period	4,528	4,116
Cash and Cash Equivalents, End of Period	\$ 4,119	\$ 3,607
Supplemental Cash Flows Information:		
Interest Paid	\$ 805	\$ 1,149
Real estate acquired in settlement of loans	\$ 84	\$ 336
Dividends payable	\$ -	\$ -

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 six- and three-month periods ended December 31, 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 December 31, 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:

	For the six months ended December 31,		For the three months ended December 31,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
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)	<u>1,979,034</u>	<u>1,979,034</u>	<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 six- and three-month periods ended December 31, 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 December 31, 2016

At December 31, 2016, the Corporation's assets totaled \$271.9 million, an increase of \$2.6 million, or 1.0%, compared to total assets at June 30, 2016. Cash and cash equivalents decreased by \$0.4 million, or 8.9%, from June 30, 2016 levels, for a total of \$4.1 million at December 31, 2016.

Available-for-sale securities totaled \$24.1 million at December 31, 2016, a decrease of \$2.7 million, or 10.1%, from June 30, 2016 levels. The security portfolio consists of U.S. government agencies, mortgage-backed securities (MBS) and collateralized mortgage obligations (CMO) of U.S. government-sponsored entities, and state and political subdivision issues. The decrease for the quarter was primarily the result of the monthly principal payments on MBS and CMO securities and the decrease in market value.

The loan portfolio at December 31, 2016, including loans held for sale, increased \$6.1 million, or 2.8%, during the six-month period, resulting in total loans of \$226.8 million at December 31, 2016. The portfolio consisted of 73% secured by one- to four-family residential real estate, 26% for commercial loans (including those secured by multifamily and nonresidential real estate) and 1% for consumer and other loans.

The allowance for loan losses, included in net loans receivable, totaled \$1.5 million at December 31, 2016, consistent with June 30, 2016, representing 0.7% of total gross loans. Nonperforming and nonaccrual loans totaled \$1.0 million at December 31, 2016, an increase of \$0.2 million, or 30.5%, from the balance at June 30, 2016. The allowance for loan losses represented 154.5% and 200.7% of nonperforming loans at December 31, 2016 and June 30, 2016, respectively. At December 31, 2016, nonperforming loans consisted of \$0.4 million in one- to four-family residential real estate loans and \$0.6 million in nonresidential real estate, consumer and other loans. Management believes such loans are adequately collateralized and does not expect to incur material losses on such loans. Although management believes that its allowance for loan losses at December 31, 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.

Total deposits decreased \$6.9 million, or 3.4%, from June 30, 2016 levels, ending the quarter at \$196.2 million. Total borrowings, including FHLB Advances, increased \$8.7 million, or 23.4%

Shareholders' equity totaled \$27.7 million at December 31, 2016, an increase of \$0.4 million, or 1.5%, from the June 30, 2016 level. Dividends paid totaled \$0.36 per share for the six months ended December 31, 2016.

American is required to meet minimum regulatory capital requirements promulgated by the Office of the Comptroller of the Currency ("OCC"). At December 31, 2016, American's regulatory capital exceeded the minimum capital requirements.

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Management's Discussion and Analysis of Financial Condition and Results of Operations
For the six- and three-month periods ended December 31, 2016 and 2015

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2016 and 2015

General

Net income totaled \$1.3 million for the six months ended December 31, 2016 compared to net income of \$0.9 million in the same period in 2015. The increase in net earnings was the result of increased noninterest income and net interest income, partially offset by increased noninterest expenses.

Net Interest Income

Total interest income at \$5.3 million for the six-month period ending December 31, 2016 represents an increase of 6.4%, or \$0.3 million from the same period last year. Interest income on the loan portfolio totaled \$5.0 million for the six months ended December 31, 2016, an increase of 7.8% over the same six months in 2015. The year-to-date average balance of the loan portfolio increased \$25.3 million, or 11.3%, at December 31, 2016 as compared to the same six-month period in 2015, while the weighted-average yield decreased 20 basis points. Interest income on cash and investments totaled \$0.4 million for the six months ending December 31, 2016, representing no substantial change compared to the 2015 total. The average balance of the interest-bearing deposits and security portfolio decreased \$5.6 million, or 20.1%, at December 31, 2016 as compared to the same six-month period in 2015; however, the weighted-average yield increased 23 basis points. The overall yield on interest earning assets decreased 8 basis points as compared to December 31, 2015.

Interest expense on liabilities decreased \$0.1 million, or 8.9%, for the six months ended December 31, 2016 compared to the same period in 2015. The Corporation experienced a \$2.2 million, or 1.0%, increase in the average balance of deposits and interest-cost liabilities, and a 7 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased \$13.3 million from the same period in the prior year and borrowings increased \$15.5 million.

As a result of the foregoing changes in interest income and interest expense, net interest income increased \$0.4 million, or 9.6%, to a total of \$4.5 million for the six months ended December 31, 2016. The interest rate spread decreased to 3.53% for the six months ended December 31, 2016, from 3.54% for the 2015 period, while the net interest margin increased to 3.60% in the 2016 period compared to 3.56% in the 2015 period.

Provision for Losses on Loans

American recorded a provision for losses on loans totaling \$50,000 during the six months ended December 31, 2016, a decrease of \$10,000 in the comparable six-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 \$3.0 million for the six months ended December 31, 2016, an increase of \$1.1 million, or 55.4%, from the same period in 2015. The increase was due to gain on sales of loans totaling \$2.1 million in the six months in 2016 created by the mortgage origination division in 2016, as compared to \$1.1 million in 2015. Customer service charges and other fees increased by \$131,000, or 16.7%.

Noninterest Expense

Noninterest expense totaled \$5.6 million for the six months ended December 31, 2016, an increase of \$0.8 million, or 16.5%, over the same period in 2015. The higher expenses were primarily due to the cost of expanding its southwestern Ohio presence. Higher employee and benefit costs, an increase of \$0.7 million, or 24.4%, are a result of expansion of lending operations in that market.

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, 2016 and 2015

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2016 and 2015 (continued)

Federal Income Taxes

The provision for federal income taxes totaled \$593,000 for the six months ended December 31, 2016 as compared to \$333,000 for the same period in 2015, an increase of \$260,000, or 78.1%. The effective tax rates were 31.2% and 27.6% for the six-month periods ended December 31, 2016 and 2015, respectively.

Comparison of Operating Results for the Three-month Periods Ended December 31, 2016 and 2015

General

Net income totaled \$565,000 for the three months ended December 31, 2016 compared to net income of \$413,000 in the same period in 2015. The increase in net earnings for the period is primarily a result of improved noninterest income.

Net Interest Income

Total interest income at \$2.7 million for the three-month period ended December 31, 2016 represents a 9.8% increase from the same period last year. Interest income on the loan portfolio totaled \$2.5 million for the three months ended December 31, 2016, an 11.9% increase from the same three-month period in 2015. The quarterly average balance of the loan portfolio increased \$27.7 million, or 12.1%, at December 31, 2016 as compared to the same three-month period in 2015; however, the weighted-average yield decreased 8 basis points. Interest income on cash and investments totaled \$188,000 for the three months ending December 31, 2016, down \$24,000, or 11.3%, from the 2015 total. The average balance of the interest-bearing deposits and security portfolio decreased \$3.1 million, or 10.6%, at December 31, 2016 as compared to the same three-month period in 2015; and the weighted-average yield decreased 5 basis points. The overall yield on interest earning assets decreased 3 basis points as compared to December 31, 2015.

Interest expense on liabilities decreased \$36,000, or 8.4%, for the three months ended December 31, 2016 compared to the same period in 2015. The Corporation experienced a \$17.6 million increase, or 7.2%, in the average balance of deposits and interest-cost liabilities, and a 12 basis point decrease in the weighted average cost. The average balance of deposits outstanding decreased \$1.2 million from the same period in the prior year and borrowings increased \$18.8 million.

As a result of the foregoing changes in interest income and interest expense, net interest income increased \$0.3 million, or 13.6%, to a total of \$2.3 million for the three months ended December 31, 2016. The interest rate spread increased to 3.53% for the three months ended December 31, 2016, from 3.44% for the 2015 period, while the net interest margin increased to 3.56% in the 2016 period compared to 3.46% in the 2015 period.

Provision for Losses on Loans

American recorded a provision for losses on loans totaling \$30,000 during the three months ended December 31, 2016, same as recorded 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.

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, 2016 and 2015

Comparison of Operating Results for the Three-month Periods Ended December 31, 2016 and 2015 (continued)

Noninterest Income

Noninterest income totaled \$1.5 million for the three months ended December 31, 2016, an increase of \$0.5 million, or 50.1%, from the same period in 2015. 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 \$2.9 million for the three months ended December 31, 2016, an increase of 21.8%, from the same period in 2015. Higher employee and benefit costs, an increase of \$0.5 million, or 36.0%, 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 \$243,000 for the three months ended December 31, 2016 as compared to \$155,000 for the same period in 2015, an increase of \$88,000. The effective tax rates were 30.1% and 27.3% for the three-month periods ended December 31, 2016 and 2015, respectively.