

**ASB
FINANCIAL
CORP.**

**2006
ANNUAL
REPORT
TO
SHAREHOLDERS**

Dear Fellow Shareholder:

We are pleased to present ASB Financial Corp.'s Annual Report to Shareholders covering the fiscal year ended June 30, 2006.

Net earnings for the fiscal year ended June 30, 2006, totaled \$1.67 million, or \$1.05 per diluted share, which represents a decrease of \$482,000, compared to the record net earnings reported for fiscal year 2005. Total assets amounted to \$198.5 million at June 30, 2006, an increase of \$13.7 million, or 7.4% over June 30, 2005. The loan portfolio grew by a record \$16.9 million or 11.6%, during fiscal 2006, while deposits increased by a record \$9.2 million, or 6.4%, during the year.

The record growth we have experienced has come, in large part, from our branch network. Our Waverly office continues to provide us with growth in both loans and deposits and our newer Wheelersburg location has gotten off to a great start, exceeding our expectations for growth of its customer base in a short period of time.

In 2007 and beyond, our focus is to remain committed to serving our local community with personalized service and the best financial products available. In that vein, we are in the process of purchasing the South Shore, Kentucky, branch of Peoples Bank, which gives us access to a larger market area. This expansion into Kentucky allows us to better serve our existing customer base there and to expand our presence, giving our bank an opportunity to offer our products and services to individuals and businesses in Greenup and Lewis Counties in Kentucky.

Your Corporation remains committed to the enhancement of shareholder value, as evidenced by our reverse stock split and resulting buy-back in July of 2005 which allowed us to terminate our registration with the SEC. Along with de-listing from NASDAQ, we estimate this transaction has saved us approximately \$200,000 per year and in so doing, you the shareholder will realize the savings as enhanced returns on your investment.

We wish to thank you as always for your continued support and patronage and look forward to continuing growth and increasing returns to our shareholders in 2007 and beyond.

Very truly yours,

ASB FINANCIAL CORP.

Robert M. Smith
President and Chief Executive Officer

BUSINESS OF ASB FINANCIAL CORP.

ASB Financial Corp. (“ASB” or the “Corporation”), a unitary savings and loan holding company incorporated under the laws of the State of Ohio, owns all of the issued and outstanding common shares of American Savings Bank, fsb (“American” or the “Savings Bank”), a federal savings bank. Other than investing excess funds, ASB’s activities have been limited primarily to holding the common shares of American.

Serving the Portsmouth, Ohio, area since 1892, American conducts business from its main office at 503 Chillicothe Street in Portsmouth, Ohio, and branch offices at 951 West Emmitt Avenue in Waverly, Ohio, 7920 Ohio River Road in Wheelersburg, Ohio and 347 James Hannah Drive in South Shore, Kentucky. The principal business of American is the origination of loans secured by one- to four-family residential real estate located in American’s primary market area, which consists of the contiguous areas of Scioto and Pike Counties in Ohio and Lewis and Greenup Counties in Kentucky. American also originates loans secured by multifamily residences (over four units) and nonresidential real estate and purchases interests in loans originated by other lenders secured by multifamily real estate and nonresidential real estate located outside of American’s primary market area. In addition to real estate lending, American invests in mortgage-backed securities, U.S. Government and agency obligations and other investments. Funds for lending and other investment activities are obtained primarily from deposits, which are insured up to applicable limits by the Federal Deposit Insurance Corporation (the “FDIC”), and from borrowings from the Federal Home Loan Bank (the “FHLB”) of Cincinnati.

ASB is subject to regulation, supervision and examination by the Office of Thrift Supervision of the United States Department of the Treasury (the “OTS”). American is subject to regulation, supervision and examination by the OTS and the FDIC. American is also a member of the FHLB of Cincinnati.

ASB’s office is located at 503 Chillicothe Street, Portsmouth, Ohio 45662. The telephone number is (740) 354-3177.

**MARKET PRICE OF ASB'S
COMMON SHARES AND RELATED SHAREHOLDER MATTERS**

There were 1,591,766 common shares of ASB outstanding on September 1, 2006, held of record by approximately 195 shareholders. Price information for ASB's common shares is quoted on the Pink Sheets Market under the symbol "ASBN."

The table below sets forth the high and low closing prices for the common shares of ASB, together with dividends declared per share, for each quarter of fiscal years ended June 30, 2006 and 2005.

Quarter ended	High close	Low close	Cash dividends declared
Fiscal 2006			
September 30, 2005	\$23.00	\$20.25	\$0.16
December 31, 2005	\$20.50	\$20.25	\$0.16
March 31, 2006	\$20.75	\$20.50	\$0.16
June 30, 2006	\$20.75	\$20.50	\$0.17
Fiscal 2005			
September 30, 2004	\$24.51	\$21.88	\$0.15
December 31, 2004	\$22.98	\$20.50	\$0.15
March 31, 2005	\$23.00	\$19.89	\$0.15
June 30, 2005	\$23.00	\$21.90	\$0.16

The income of ASB on an unconsolidated basis consists of interest and dividends on investment and mortgage-backed and related securities and dividends which may periodically be paid on the common shares of American held by ASB. In addition to certain federal income tax considerations, OTS regulations impose limitations on the payment of dividends and other capital distributions by savings associations.

**SELECTED CONSOLIDATED
FINANCIAL INFORMATION AND OTHER DATA**

The following tables set forth certain information concerning the consolidated financial condition, earnings and other data regarding ASB at the dates and for the periods indicated.

Selected consolidated financial condition data:	2006	2005	At June 30, 2004	2003	2002
	(In thousands)				
Total amount of:					
Assets	\$198,499	\$184,812	\$166,371	\$152,755	\$148,272
Cash and cash equivalents	3,425	11,792	7,385	7,610	7,704
Certificates of deposit in other financial institutions	200	72	178	173	100
Investment securities available for sale - at market	12,343	9,038	12,487	13,005	20,866
Mortgage-backed securities available for sale - at market	10,021	9,556	11,768	12,130	7,091
Loans receivable - net	163,056	146,134	129,821	114,919	109,015
Deposits	152,495	143,278	136,761	130,780	126,872
Advances from the FHLB	27,496	20,284	10,899	4,188	4,223
Shareholders' equity, restricted	16,916	19,195	17,424	16,359	14,454

Selected consolidated operating data:	2006	2005	Year ended June 30, 2004	2003	2002
	(In thousands, except per share data)				
Interest income	\$10,997	\$9,590	\$8,954	\$9,576	\$9,543
Interest expense	<u>5,342</u>	<u>3,497</u>	<u>3,051</u>	<u>3,888</u>	<u>5,050</u>
Net interest income	5,655	6,093	5,903	5,688	4,493
Provision for losses on loans	<u>269</u>	<u>313</u>	<u>111</u>	<u>249</u>	<u>70</u>
Net interest income after provision losses on loans	5,386	5,780	5,792	5,439	4,423
Other income	1,046	1,357	705	745	486
General, administrative and other expense	<u>4,325</u>	<u>4,096</u>	<u>3,743</u>	<u>3,277</u>	<u>3,077</u>
Earnings before income taxes and extraordinary item	2,107	3,041	2,754	2,907	1,832
Federal income taxes	<u>434</u>	<u>886</u>	<u>744</u>	<u>846</u>	<u>548</u>
Earnings before extraordinary item	1,673	2,155	2,010	2,061	1,284
Extraordinary item - negative goodwill arising from Waverly acquisition - net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>229</u>
Net earnings	<u>\$ 1,673</u>	<u>\$ 2,155</u>	<u>\$ 2,010</u>	<u>\$ 2,061</u>	<u>\$ 1,513</u>
Earnings per share					
Basic	<u>\$1.05</u>	<u>\$1.27</u>	<u>\$1.22</u>	<u>\$1.32</u>	<u>\$1.00</u>
Diluted	<u>\$1.05</u>	<u>\$1.27</u>	<u>\$1.18</u>	<u>\$1.30</u>	<u>\$.97</u>

Selected financial ratios:	Year ended June 30,				
	2006	2005	2004	2003	2002
Return on average assets	.88%	1.23%	1.26%	1.36%	1.06%
Average interest rate spread during period	2.98	3.51	3.68	3.50	2.84
Net interest margin	3.12	3.66	3.84	3.81	3.23
Return on average equity	10.03	11.77	12.99	12.61	11.48
Equity to total assets at end of period	8.52	10.42	10.47	10.71	10.42
Average interest-earning assets to average interest-bearing liabilities	104.79	107.59	108.11	112.16	110.90
Net interest income to general, administrative and other expense	130.75	148.29	157.71	173.57	146.02
General, administrative and other expense to average total assets	2.27	2.34	2.35	2.16	2.16
Nonperforming assets to total assets	.45	.40	.60	.80	.48
Loan loss allowance to nonperforming loans	149.33	170.79	99.90	82.77	120.93
Dividend payout ratio	61.90	47.56	46.72	115.91	49.00

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

GENERAL

ASB was incorporated for the purpose of owning the outstanding common shares of American. As a result, the discussion and analysis that follows focuses primarily on the financial condition and results of operations of American. The following discussion and analysis of the consolidated financial condition and results of operations of ASB and American should be read in conjunction with, and with reference to, the Consolidated Financial Statements and the Notes thereto presented in this Annual Report.

Forward-Looking Statements are Subject to Change

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.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use judgments in making estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following critical accounting policy is based upon judgments and assumptions by management that includes inherent risks and uncertainties.

The allowance for loan losses is an accounting estimate of probable but unconfirmed asset impairment that has occurred in the Corporation’s loan portfolio as of the date of the consolidated financial statements before losses have been confirmed resulting in a subsequent charge-off or write-down. It is the Corporation’s policy to provide valuation allowances for estimated losses on loans based upon past loss experience, adjusted for changes in trends and conditions of certain items, including:

- Local market areas and national economic developments;
- Levels of and trends in delinquencies and impaired loans;
- Levels of and trends in recoveries of prior charge-offs;
- Adverse situations that may affect specific borrowers’ ability to repay;
- Effects of any changes in lending policies and procedures;
- Credit concentrations;
- Volume and terms of loans; and
- Current collateral values, where appropriate.

When the collection of a loan becomes doubtful, or otherwise troubled, the Corporation records a loan loss provision equal to the difference between the fair value of the property securing the loan and the loan’s carrying value. Major loans and major lending areas are reviewed periodically to determine potential problems at an early date. The allowance for loan losses is increased by charges to earnings and decreased by charge-offs (net of recoveries).

The Corporation accounts for its allowance for loan losses in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies," and SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." Both Statements require the Corporation to evaluate the collectibility of both contractual interest and principal loan payments. SFAS No. 5 requires the accrual of a loss when it is probable that a loan has been impaired and the amount of the loss can be reasonably estimated. SFAS No. 114 requires that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loans' observable market price or fair value of the collateral.

A loan is defined as impaired under SFAS No. 114 when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of SFAS No. 114, the Corporation considers its investment in one- to four-family residential loans and consumer loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment in accordance with SFAS No. 5. With respect to the Corporation's investment in nonresidential real estate and other loans, and its evaluation of impairment thereof, management believes such loans are adequately collateralized and as a result impaired loans are carried as a practical expedient at the lower of cost or fair value.

It is the Corporation's policy to charge off unsecured credits that are more than ninety days delinquent. Similarly, once a collateral dependent loan becomes more than ninety days delinquent, it is considered to constitute more than a minimum delay in repayment and is evaluated for impairment under SFAS No. 114 at that time.

CHANGES IN FINANCIAL CONDITION FROM JUNE 30, 2005 TO JUNE 30, 2006

ASB's total assets amounted to \$198.5 million at June 30, 2006, an increase of \$13.7 million, or 7.4%, over 2005 levels. The increase in assets was comprised primarily of increases of \$16.9 million in loans, \$3.3 million in investment securities and \$465,000 in mortgage backed securities, which were partially offset by a decrease of \$8.4 million in cash and cash equivalents. The increase in assets was funded by increases in deposits of \$9.2 million and advances from the Federal Home Loan Bank of \$7.2 million.

Cash and interest-bearing deposits totaled \$3.4 million at June 30, 2006, a decrease of \$8.4 million, or 71.0%, from 2005 levels. Investment securities totaled \$12.3 million at June 30, 2006, an increase of \$3.3 million, or 36.6%, compared to the balance at June 30, 2005. Mortgage-backed securities totaled \$10.0 million at June 30, 2006, an increase of \$465,000, or 4.9%, year to year. During fiscal 2006, purchases of investment and mortgage-backed securities totaling \$8.7 million were partially offset by maturities and principal repayments of securities totaling \$4.3 million, and a decrease in the market value of investment and mortgage-backed securities totaling \$550,000.

Loans receivable totaled \$163.1 million at June 30, 2006, an increase of \$16.9 million, or 11.6%, compared to June 30, 2005. Growth in loans secured by residential real estate, including construction loans, totaled \$5.0 million, or 4.8%, growth in loans secured by nonresidential real estate totaled \$10.2 million, or 41.8%, and the consumer loan portfolio grew by \$1.2 million, or 25.2%, year to year.

At June 30, 2006, American's allowance for loan losses was \$1.3 million, representing .82% of total loans and 149.3% of nonperforming loans. At June 30, 2005, American's allowance for loan losses was \$1.3 million, representing .87% of total loans and 170.8% of nonperforming loans. Nonperforming loans totaled \$896,000 and \$743,000 at June 30, 2006 and 2005, respectively. At June 30, 2006, nonperforming loans were comprised of \$410,000 of loans secured by one- to four-family residential real estate, \$425,000 of commercial loans and \$61,000 of consumer loans. The allowance for loan losses is determined as outlined in the

aforementioned "Critical Accounting Policy." To the best of management's knowledge, all known losses as of June 30, 2006, have been recorded.

Deposits increased by \$9.2 million, or 6.4%, to a total of \$152.5 million at June 30, 2006. The increase in deposits consisted primarily of an increase of \$11.7 million in certificates of deposit, which was partially offset by decreases of \$307,000 in NOW accounts, \$2.0 million in passbook accounts and \$194,000 in money market deposit accounts. Growth in deposits was generally used to fund new loan originations.

Shareholders' equity totaled \$16.9 million at June 30, 2006, a decrease of \$2.3 million, or 11.9%, compared to June 30, 2005 levels. The decrease resulted primarily from dividends declared of \$1.0 million, cash paid in lieu of fractional shares in the Corporation's reverse stock split of \$2.7 million and a \$363,000 decrease in net unrealized gains on available for sale securities, which were partially offset by net earnings of \$1.7 million, proceeds from stock option exercises of \$37,000, and the effects of \$114,000 of amortization related to stock benefit plans. During fiscal 2006, the Corporation paid quarterly dividends totaling \$.65 per share.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

General. Net earnings were \$1.7 million for the fiscal year ended June 30, 2006, a decrease of \$482,000, or 22.4%, from fiscal 2005. The decrease in earnings resulted primarily from decreases of \$311,000 in other income and \$438,000 in net interest income and an increase of \$229,000 in general, administrative and other expense, which were partially offset by decreases of \$44,000 in provision for losses on loans, and \$452,000 in the provision for federal income taxes.

Net Interest Income. Total interest income was \$11.0 million for the fiscal year ended June 30, 2006, an increase of \$1.4 million, or 14.7%, from fiscal 2005. Interest income on loans totaled \$10.0 million in fiscal 2006, an increase of \$1.3 million, or 14.6%. This increase was due primarily to a 16 basis point increase in the average yield, to 6.41% for the fiscal year ended June 30, 2006 and a \$16.4 million, or 11.8%, increase in the weighted-average balance of loans outstanding. Interest income on mortgage-backed securities decreased by \$3,000, or .8%, as a result of a \$1.2 million, or 11.3%, decrease in the weighted-average balance outstanding year to year, which was offset by a 43 basis point increase in the average yield. Interest income on investment securities and interest-bearing deposits increased by \$136,000, or 28.8%, due primarily to a 98 basis point increase in the average yield, to 3.94%, which was partially offset by a \$531,000, or 3.3%, decrease in the weighted average balance outstanding year to year.

Interest expense totaled \$5.3 million for the fiscal year ended June 30, 2006, an increase of \$1.8 million, or 52.8%, from the \$3.5 million total recorded in fiscal 2005. Interest expense on deposits increased by \$1.3 million, or 42.8%, due primarily to a 75 basis point increase in the weighted-average cost of deposits, to 2.91% for fiscal 2006 and an \$8.4 million, or 6.0%, increase in the weighted-average balance outstanding year to year. Interest expense on borrowings increased by \$556,000, or 113.9%, due primarily to a \$9.2 million, or 60.7%, increase in the weighted-average balance outstanding year to year and a 106 basis point increase in the average cost of borrowings, to 4.27% in fiscal 2006. Increases in the average yields on interest-earning assets and the average costs of interest-bearing liabilities were due primarily to the overall increase in interest rates in the economy.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by \$438,000, or 7.2%, to a total of \$5.7 million for the fiscal year ended June 30, 2006, compared to \$6.1 million in fiscal 2005. The interest rate spread decreased by 53 basis points to 2.98% in fiscal 2006 from 3.51% in fiscal 2005, and the net interest margin decreased by 54 basis points to 3.12% in fiscal 2006 from 3.66% in fiscal 2005.

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. As a result of such analysis, management recorded a \$269,000 provision for losses on loans during the fiscal year ended June 30, 2006, a decrease of \$44,000, or 14.1%, from fiscal 2005. The decrease in the provision in fiscal 2006 was based upon management's analysis of the loan portfolio including nonperforming assets, as outlined in the "Critical Accounting Policies." There can be no assurance that the loan loss allowance will be adequate to absorb losses on known nonperforming assets or that the allowance will be adequate to cover losses on nonperforming assets in the future.

Other Income. Other income totaled \$1.0 million for the fiscal year ended June 30, 2006, a decrease of \$311,000, or 22.9%, from the \$1.4 million recorded in fiscal 2005. The decrease resulted primarily from a \$537,000 reduction in gain on redemption of investment securities, which was partially offset by a \$264,000 increase in other operating income. The increase in other operating income was comprised primarily of increases in fees on loans and deposits transactions and earnings from bank owned life insurance.

General, Administrative and Other Expense. General, administrative and other expense totaled \$4.3 million for the fiscal year ended June 30, 2006, an increase of \$229,000, or 5.6%, over the total recorded in fiscal 2005. The increase resulted primarily from increases of \$39,000, or 1.7%, in employee compensation and benefits, \$12,000, or 6.7%, in franchise taxes and \$186,000, or 21.2%, in other operating expenses. The increases in compensation and other operating expenses were due primarily to the opening of a new branch office. The increase in franchise taxes was due primarily to growth in ASB's equity year to year.

Federal Income Taxes. The provision for federal income taxes totaled \$434,000 for the fiscal year ended June 30, 2006, a decrease of \$452,000, or 51.0%, from the \$886,000 recorded in fiscal 2005. The decrease was due primarily to the \$934,000, or 30.7%, decrease in pre-tax earnings and the effect of available tax credits. ASB's effective tax rates were 20.6% and 29.1% for the fiscal years ended June 30, 2006 and 2005, respectively.

AVERAGE BALANCE, YIELD, RATE AND VOLUME DATA

The following table sets forth certain information relating to ASB's average balance sheet and reflects the average yield on interest-earning assets and the average cost of interest-bearing liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average monthly balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods presented. Average balances are derived from average monthly balances, which include nonaccruing loans in the loan portfolio, net of the allowance for loan losses.

	Average outstanding balance	2006 Interest earned/ paid	Year ended June 30,		2005 Interest earned/ paid	Yield/ rate
			Yield/ rate	Average outstanding balance		
(Dollars in thousands)						
Interest-earning assets:						
Loans receivable	\$155,864	\$ 9,990	6.41%	\$139,432	\$8,716	6.25%
Mortgage-backed securities	9,702	399	4.11	10,937	402	3.68
Investment securities and other interest-earning assets	<u>15,431</u>	<u>608</u>	<u>3.94</u>	<u>15,962</u>	<u>472</u>	<u>2.96</u>
Total interest-earning assets	180,997	10,997	6.08	166,331	9,590	5.77
Non-interest-earning assets	<u>9,640</u>			<u>8,517</u>		
Total assets	<u>\$190,637</u>			<u>\$174,848</u>		
Interest-bearing liabilities:						
Deposits	\$147,752	4,298	2.91	\$139,367	3,009	2.16
Borrowings	<u>24,461</u>	<u>1,044</u>	<u>4.27</u>	<u>15,224</u>	<u>488</u>	<u>3.21</u>
Total interest-bearing liabilities	172,213	<u>5,342</u>	<u>3.10</u>	154,591	<u>3,497</u>	<u>2.26</u>
Non-interest-bearing liabilities	<u>1,738</u>			<u>2,094</u>		
Total liabilities	173,951			156,685		
Shareholders' equity	<u>16,686</u>			<u>18,163</u>		
Total liabilities and shareholders' equity	<u>\$190,637</u>			<u>\$174,848</u>		
Net interest income		<u>\$ 5,655</u>			<u>\$6,093</u>	
Interest rate spread			<u>2.98%</u>			<u>3.51%</u>
Net interest margin (net interest income as a percent of average interest-earning assets)			<u>3.12%</u>			<u>3.66%</u>
Average interest-earning assets to average interest- bearing liabilities			<u>104.79%</u>			<u>107.59%</u>

