ASB FINANCIAL CORP.

2008 Annual Report

Dear Fellow Shareholder:

It is with a great deal of pleasure that we present out Annual Report to Shareholders, which reflects another year of solid earnings and growth for ASB Financial Corp.

As the industry coped with financial market disruptions, the housing slump, worsening economic conditions and the overall downturn in the credit cycle, your Corporation continued to grow and be profitable. Assets grew to $216 Million, at year's end, an increase of $4.4 Million over fiscal year 2007. Net earnings for the fiscal year ended June 30, 2008, totaled $1.5 million, or $0.96 per diluted share, which represents an increase of $5 thousand, compared to the net earnings reported for fiscal year 2007.

During the fiscal year we converted to a new service provider for our core data processing system in order to enhance the efficiency of our back office operations and to stay current with the most recent technology available. Our staff worked long and hard to ensure the conversion went smoothly. We are confident that this investment in time and technology will produce long-term benefits.

As always, we are dedicated to working hard to improve shareholder value while serving the financial needs of the communities we serve.

Thank you for your continued support, trust and investment in ASB Financial Corp.

Very truly yours,

Robert M. Smith
President & CEO
ASB Financial Corp.

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 1,594,958 common shares of ASB outstanding on September 1, 2008, 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, 2008 and 2007.

Quarter ended	High close	Low close	Cash dividends declared
Fiscal 2008			
September 30, 2007	$20.35	$18.05	$0.18
December 31, 2007	$18.50	$15.91	$0.18
March 31, 2008	$17.00	$14.00	$0.18
June 30, 2008	$17.00	$15.20	$0.18
Fiscal 2007			
September 30, 2006	$21.75	$20.40	$0.17
December 31, 2006	$22.00	$20.75	$0.17
March 31, 2007	$21.75	$19.65	$0.17
June 30, 2007	$20.35	$19.75	$0.18

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:	**At June 30,** 2008	2007	2006	2005	2004
	(In thousands)				
Total amount of:					
Assets	$216,033	$211,652	$198,499	$184,812	$166,371
Cash and cash equivalents	8,056	8,058	3,425	11,792	7,385
Certificates of deposit in other financial institutions	700	1,100	200	72	178
Available-for-sale securities - at market	31,288	22,589	22,364	18,594	24,255
Loans receivable - net	164,636	169,841	163,056	146,134	129,821
Deposits	173,453	169,979	152,495	143,278	136,761
Advances from the FHLB	21,870	21,405	27,496	20,284	10,899
Shareholders' equity, restricted	17,496	17,409	16,916	19,195	17,424

Selected consolidated operating data:	**Year ended June 30,** 2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Interest income	$13,093	$12,949	$10,997	$9,590	$8,954
Interest expense	7,158	7,226	5,342	3,497	3,051
Net interest income	5,935	5,723	5,655	6,093	5,903
Provision for losses on loans	185	240	269	313	111
Net interest income after provision losses on loans	5,750	5,483	5,386	5,780	5,792
Other income	1,396	1,195	1,046	1,357	705
General, administrative and other expense	5,313	4,811	4,325	4,096	3,743
Income before income taxes	1,833	1,867	2,107	3,041	2,754
Federal income taxes	305	344	434	886	744
Net income	$ 1,528	$ 1,523	$ 1,673	$2,155	$2,010
Earnings per share					
Basic	$.96	$.96	$1.05	$1.27	$1.22
Diluted	$.96	$.96	$1.05	$1.27	$1.18

Selected financial ratios:	Year ended June 30, 2008	2007	2006	2005	2004
Return on average assets	.71%	.74%	.88%	1.23%	1.26%
Average interest rate spread during period	2.84	2.79	2.98	3.51	3.68
Net interest margin	2.97	2.92	3.12	3.66	3.84
Return on average equity	8.75	8.87	10.03	11.77	12.99
Equity to total assets at end of period	8.10	8.23	8.52	10.42	10.47
Average interest-earning assets to average interest-bearing liabilities	102.76	102.22	104.79	107.59	108.11
Net interest income to general, administrative and other expense	111.71	118.96	130.75	148.29	157.71
General, administrative and other expense to average total assets	2.48	2.35	2.27	2.34	2.35
Nonperforming assets to total assets	.35	.46	.45	.40	.60
Loan loss allowance to nonperforming loans	215.92	158.05	149.33	170.79	99.90
Dividend payout ratio	75.07	72.16	61.90	47.56	46.72

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, 2007 TO JUNE 30, 2008

ASB's total assets amounted to $216.0 million at June 30, 2008, an increase of $4.4 million, or 2.0%, over 2007 levels. The increase in assets was comprised primarily of increases of $8.7 million in available-for-sale securities, which were partially offset by a $5.2 million decrease in loans receivable. The increase in assets was funded by an increase in deposits of $3.5 million.

Cash and interest-bearing deposits totaled $8.8 million at June 30, 2008, a decrease of $402,000, or 4.4%, from 2007 levels. Available-for-sale securities totaled $31.3 million at June 30, 2008, an increase of $8.7 million, or 38.5%, compared to the balance at June 30, 2007. During fiscal 2007, purchases of investment and mortgage-backed securities totaling $15.5 million were partially offset by maturities and principal repayments of securities totaling $6.3 million, and a decrease in the market value of investment and mortgage-backed securities totaling $511,000.

Loans receivable totaled $164.6 million at June 30, 2008, a decrease of $5.2 million, or 3.1%, compared to June 30, 2007. The decrease in loans secured by residential real estate, including construction loans, totaled $4.2 million, or 3.6%, the nonresidential real estate portfolio increased by $3.4 million, or 10.5%, and the consumer and commercial loan portfolio decreased by $5.1 million, or 20.6%, year to year.

At June 30, 2008, American's allowance for loan losses was $1.6 million, representing 1.0% of total loans and 291.0% of nonperforming loans. At June 30, 2007, American's allowance for loan losses was $1.5 million, representing .89% of total loans and 158.1% of nonperforming loans. Nonperforming loans totaled $564,000 and $975,000 at June 30, 2008 and 2007, respectively. At June 30, 2008, nonperforming loans were comprised of $503,000 of loans secured by one- to four-family residential real estate, $24,000 of commercial loans and $37,000 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, 2008, have been recorded.

Deposits increased by $3.5 million, or 2.0%, to a total of $173.5 million at June 30, 2008. The increase in deposits consisted primarily of an increase of $12.5 million in demand deposits, which was partially offset by decreases of $769,000 in savings, NOW and money markets and $8.2 million in time deposits. Growth in deposits was generally used to fund new security purchases.

Shareholders' equity totaled $17.5 million at June 30, 2008, an increase of $87,000, or .50%, compared to June 30, 2007 levels. The increase resulted primarily from dividends declared of $1.1 million and a $337,000 decrease in net unrealized gains on available for sale securities, which were offset by net earnings of $1.5 million and proceeds from stock option exercises of $43,000. During fiscal 2008, the Corporation paid quarterly dividends totaling $.72 per share.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

General. Net earnings were $1.5 million for the fiscal year ended June 30, 2008, an increase of $5,000, or .3%, from fiscal 2007. The increase in earnings resulted primarily from increases of $212,000 in net interest income and $201,000 in noninterest income and decreases of $55,000 in provision for losses on loans and $39,000 in the provision for federal income taxes, which were partially offset by an increase of $502,000 in noninterest expense.

Net Interest Income. Total interest income was $13.1 million for the fiscal year ended June 30, 2008, an increase of $144,000, or 1.1%, from fiscal 2007. Interest income on loans totaled $11.6 million in fiscal 2008, a decrease of $171,000, or 1.4%. This decrease was due primarily to a 5 basis point decrease in the average yield, to 6.94% for the fiscal year ended June 30, 2008 and a $1.3 million, or .8%, decrease in the weighted-average balance of loans outstanding. Interest income on available-for-sale securities and other interest earning assets increased by $315,000, or 27.5%, as a result of a $5.5 million, or 20.6%, increase in the weighted-average balance outstanding year to year and a 30 basis point increase in the average yield.

Interest expense totaled $7.2 million for the fiscal year ended June 30, 2008, a decrease of $68,000, or .9%, from the $7.2 million total recorded in fiscal 2007. Interest expense on deposits increased by $113,000, or 1.9%, due to a 5 basis point decrease in the weighted-average cost of deposits, to 3.62%, for fiscal 2008 and a $5.3 million, or 3.2%, increase in the weighted-average balance outstanding year to year. Interest expense on borrowings decreased by $181,000, or 14.9%, due to a $1.2 million, or 4.7%, decrease in the weighted-average balance outstanding year to year and a 51 basis point decrease in the average cost of borrowings, to 4.28% in fiscal 2008. Decreases in the average yields on interest-earning assets and the average costs of interest-bearing liabilities were due primarily to the overall decrease in interest rates in the economy.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $212,000, or 3.7%, to a total of $6.0 million for the fiscal year ended June 30, 2008, compared to $5.7 million in fiscal 2007. The interest rate spread increased by 5 basis points to 2.84% in fiscal 2007 from 2.79% in fiscal 2007, and the net interest margin increased by 5 basis points to 2.97% in fiscal 2008 from 2.92% in fiscal 2007.

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 $185,000 provision for losses on loans during the fiscal year ended June 30, 2008, a decrease of $55,000, or 23.0%, from fiscal 2007. The decrease in the provision in fiscal 2008 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 $1.4 million for the fiscal year ended June 30, 2008, an increase of $201,000, or 16.8%, from the $1.2 million recorded in fiscal 2007. The increase resulted primarily from a $27,000 increase in net gains on sales of loans, a $189,000 increase in other income and a reduction of $8,000 in losses on sales of real estate acquired through foreclosure, which were partially offset by a decrease of $23,000 in customer service charges and fees. The increase in other operating income was comprised primarily of earnings from bank owned life insurance and revenue earned from the creation of a title company.

General, Administrative and Other Expense. General, administrative and other expense totaled $5.3 million for the fiscal year ended June 30, 2008, an increase of $502,000, or 10.4%, over the total recorded in fiscal 2007. The increase resulted primarily from increases of $237,000, or 9.1% in salaries and employee benefits, $28,000, or 7.8%, in occupancy and equipment, $78,000, or 14.1%, in data processing, $43,000, or 43.4% in printing and office supplies, $28,000, or 14.3%, in franchise tax and $114,000, or 14.2%, in other expense, which were partially offset by a decrease of $26,000, or 12.6% in professional fees. The increase in compensation was due to the addition of staff and normal merit raises and the increases in office supplies, data processing and other costs were due to additional costs associated with a data processing conversion completed during the fiscal year. 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 $305,000 for the fiscal year ended June 30, 2008, a decrease of $39,000, or 11.3%, from the $344,000 recorded in fiscal 2007. The decrease was due primarily to the $34,000, or 1.8%, decrease in pre-tax earnings and an increase in tax exempt interest income. ASB's effective tax rates were 16.6% and 18.4% for the fiscal years ended June 30, 2007 and 2006, 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.

	Year ended June 30, 2008			2007		
	Average outstanding balance	Interest earned/ paid	Yield/ rate	Average outstanding balance	Interest earned/ paid	Yield/ rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable	$167,624	$11,634	6.94%	$168,963	$11,805	6.99%
Available-for-sale securities and interest bearing assets	32,489	1,459	4.25	26,945	1,144	3.98
Total interest-earning assets	200,113	13,093	6.54	195,908	12,949	6.61
Non-interest-earning assets	12,207			13,139		
Total assets	$212,320			$209,047		
Interest-bearing liabilities:						
Deposits	$169,075	6,125	3.62	$163,776	6,012	3.67
Borrowings	24,141	1,033	4.28	25,329	1,214	4.79
Total interest-bearing liabilities	193,216	7,158	3.70	189,105	7,226	3.82
Non-interest-bearing liabilities	1,520			2,556		
Total liabilities	194,736			191,661		
Shareholders' equity	17,584			17,386		
Total liabilities and shareholders' equity	$212,320			$209,047		
Net interest income		$ 5,935			$ 5,723	
Interest rate spread			2.84%			2.79%
Net interest margin (net interest income as a percent of average interest-earning assets)			2.97%			2.92%
Average interest-earning assets to average interest-bearing liabilities			102.76%			102.22%

The table below describes the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected ASB's interest income and expense during the years indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior year rate), (ii) changes in rate (change in rate multiplied by prior year volume) and (iii) total changes in rate and volume. The combined effects of changes in both volume and rate, which cannot be separately identified, have been allocated proportionately to the change due to volume and the change due to rate.

	Year ended June 30, 2008 vs. 2007		
	Increase (decrease) due to		
	Volume	Rate	Total
		(In thousands)	
Interest-earnings assets:			
Loans receivable	$(136)	$ (35)	$(171)
Available-for-sale securities and interest-bearing assets	221	94	315
Total interest-earnings assets	85	59	144
Interest-bearing liabilities:			
Deposits	194	(81)	113
Borrowings	(56)	(125)	(181)
Total interest-bearing liabilities	138	(206)	(68)
Increase (decrease) in net interest income	$ (53)	$ 265	$ 212

ASSET AND LIABILITY MANAGEMENT

American, like other financial institutions, is subject to interest rate risk to the extent that its interest-earning assets reprice differently than its interest-bearing liabilities. As a part of its effort to monitor its interest rate risk, American reviews the reports of the OTS which set forth the application of the "net portfolio value" ("NPV") methodology used by the OTS.

Generally, NPV is the discounted present value of the difference between incoming cash flows on interest-earning and other assets and outgoing cash flows on interest-bearing liabilities. The methodology attempts to quantify interest rate risk as the change in the NPV which would result from theoretical changes in market interest rates.

The following table presents, at June 30, 2008 and 2007, an analysis of the interest rate risk of American, as measured by changes in NPV for instantaneous and sustained parallel shifts of 100 basis point movements in market interest rates. Due to the low interest rate environment NPV for shifts of -300 basis points are not shown for 2008 and 2007.

		At June 30, 2008		At June 30, 2007	
Changes in interest rate (basis points)	Board limit % changes	NPV as a % of PV of Assets Ratio	Change in NPV	NPV as a % of PV of Assets Ratio	Change in NPV
+300	(6)%	6.63%	(389)bp	6.12%	(421bp
+200	(6)	8.12	(239)	7.71	(262)
+100	(6)	9.51	(100)	9.11	(122)
-	-	10.51	-	10.33	-
-100	6	10.90	38	11.34	101
-200	6	11.19	67	11.83	149

The model reflects that American's NPV is more sensitive to an increase in interest rates than a decrease in interest rates. This occurs principally because, as rates rise, the market values of the Savings Bank's investments, adjustable-rate mortgage loans, fixed-rate loans and mortgage-backed securities decline due to the rate increases. The values of the Savings Bank's deposits and borrowings change in approximately the same proportion in rising or falling rate scenarios.

If interest rates rise from current levels, American's net interest income could be negatively affected. Moreover, rising interest rates could negatively affect American's earnings due to diminished loan demand.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they do not all reprice simultaneously and they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind such changes. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates on a short-term basis and over the life of the assets. Further, in the event of a change in interest rates, expected rates of prepayment on loans and early withdrawal from certificates could deviate significantly from those assumed in calculating the table.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to the ability of an institution to generate sufficient cash to fund current loan demand, meet deposit withdrawals and pay operating expenses. Liquidity is influenced by financial market conditions, fluctuations in interest rates, general economic conditions and regulatory requirements. ASB's liquidity, primarily represented by cash and cash equivalents and investment securities available for sale, is a result of the operating, investing and financing activities of American. These activities are summarized below on a consolidated basis for the fiscal years ended June 30, 2008 and 2007:

	Year ended June 30,	
	2008	2007
Net cash from operating activities	$ 1,133	$ 1,521
Net cash from investing activities	(3,882)	(4,277)
Net cash from financing activities	2,747	7,389
Net change in cash and cash equivalents	(2)	4,633
Cash and cash equivalents at the beginning of the year	8,058	3,425
Cash and cash equivalents at the end of the year	$ 8,056	$ 8,058

The following table sets forth information regarding the Bank's obligations and commitments to make future payments under contract as of June 30, 2008, at market rates:

	Payments due by period				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
			(In thousands)		
Contractual obligations:					
Advances from the Federal Home Loan Bank	$ 5,628	$ 7,628	$3,300	$5,314	$ 21,870
Certificates of deposit	86,019	18,413	2,055	-	106,487
	91,647	26,041	5,355	5,314	128,357
Amount of commitments expiration per period					
Commitments to originate mortgage loans:					
One- to four-family loans	691	-	-	-	691
Home equity lines of credit	624	875	208	1,197	2,904
Commercial lines of credit	3,325	-	-	-	3,325
Commercial letters of credit	371	-	-	-	371
Total contractual obligations	$96,658	$26,916	$5,563	$6,511	$135,648

It is management's belief that there are no known trends, known demands, commitments or events that are likely to result in a material change in the Corporation's liquidity position.

American is required by OTS regulations to maintain specified minimum amounts of capital. The following table sets forth the amount and percentage level of American's regulatory capital at June 30, 2008, and the minimum requirement amounts. Tangible and core capital are reflected as a percentage of adjusted total assets. Risk-based (or total) capital, which consists of core and supplementary capital, is reflected as a percentage of risk-weighted assets. At June 30, 2008, American met the definition of a "well capitalized" institution under OTS regulations.

	June 30, 2008					
	Regulatory capital		Current requirement		Excess of regulatory capital over current requirement	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Tangible capital	$17,525	8.0%	$ 3,270	1.5%	$14,255	6.5%
Core capital	$17,525	8.0%	$ 8,721	4.0%	$ 8,804	4.0%
Risk-based capital	$19,239	14.6%	$10,553	8.0%	$ 8,686	6.6%

Independent Accountants' Report

Board of Directors
ASB Financial Corp.
Portsmouth, Ohio

We have audited the accompanying consolidated balance sheets of ASB Financial Corp. as of June 30, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ASB Financial Corp. as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

August 21, 2008

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Beyond Your Numbers
Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

ASB Financial Corp.

Consolidated Balance Sheets

June 30, 2008 and 2007

(Dollar amounts in thousands)

Assets

	2008	2007
Cash and due from banks	$ 1,541	$ 1,038
Interest-bearing demand deposits	6,515	7,020
Cash and cash equivalents	8,056	8,058
Interest-bearing deposits	700	1,100
Available-for-sale securities	31,288	22,589
Loans, net of allowance for loan losses of $1,641 and $1,541 at June 30, 2008 and 2007, respectively	164,636	169,841
Premises and equipment	2,551	2,648
Federal Home Loan Bank stock	1,309	1,275
Interest receivable	1,115	953
Prepaid federal income taxes	637	156
Deferred federal income taxes	785	1,062
Bank owned life insurance	3,608	3,475
Core deposits intangible	174	208
Other	1,174	287
Total assets	$ 216,033	$ 211,652

Liabilities and Stockholders' Equity

	2008	2007
Liabilities		
Deposits		
Demand	$ 19,544	$ 7,067
Savings, NOW and money market	47,422	48,191
Time	106,487	114,721
Total deposits	173,453	169,979
Short term borrowings	979	1,044
Federal Home Loan Bank advances	21,870	21,405
Advances from borrowers for taxes and insurance	192	216
Interest payable and other liabilities	2,043	1,599
Total liabilities	198,537	194,243
Stockholders' Equity		
Preferred stock, no par value, authorized 1,000,000 shares; none issued	-	-
Common stock, no par value; authorized 4,000,000 shares; issued 2008 - 1,858,426 shares, 2007 - 1,853,476 shares	-	-
Additional paid-in capital	8,313	8,270
Retained earnings	12,422	12,041
Accumulated other comprehensive (loss) income	(23)	314
Treasury stock, at cost		
Common; 263,468 shares	(3,216)	(3,216)
Total stockholders' equity	17,496	17,409
Total liabilities and stockholders' equity	$ 216,033	$ 211,652

See Notes to Consolidated Financial Statements

ASB Financial Corp.

Consolidated Statements of Income

Years Ended June 30, 2008 and 2007

(Dollar amounts in thousands, except per share data)

	2008	2007
Interest and Dividend Income		
Loans	$ 11,634	$ 11,805
Securities		
Taxable	969	829
Tax-exempt	239	132
Dividends on Federal Home Loan Bank stock	77	72
Deposits with financial institutions and other	174	111
Total interest and dividend income	13,093	12,949
Interest Expense		
Deposits	6,125	6,012
Borrowings	1,033	1,214
Total interest expense	7,158	7,226
Net Interest Income	5,935	5,723
Provision for Loan Losses	185	240
Net Interest Income After Provision for Loan Losses	5,750	5,483
Noninterest Income		
Customer service charges and other fees	1,069	1,092
Net realized gains on sales of loans	27	-
Loss on sale of real estate acquired through foreclosure	(8)	(16)
Other	308	119
Total noninterest income	1,396	1,195
Noninterest Expense		
Salaries and employee benefits	2,830	2,593
Net occupancy and equipment expense	385	357
Data processing fees	633	555
Professional fees	180	206
Printing and office supplies	142	99
State franchise taxes	224	196
Other	919	805
Total noninterest expense	5,313	4,811
Income Before Income Tax	1,833	1,867
Provision for Federal Income Taxes	305	344
Net Income	$ 1,528	$ 1,523
Basic Earnings Per Share	$ 0.96	$ 0.96
Diluted Earnings Per Share	$ 0.96	$ 0.96

See Notes to Consolidated Financial Statements

ASB Financial Corp.

Consolidated Statements of Stockholders' Equity

Years Ended June 30, 2008 and 2007

(Dollar amounts in thousands, except per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, July 1, 2006	1,848,004	$ -	$ 8,205	$ 11,617	$ 179	$ (3,085)	$ 16,916
Comprehensive income							
Net income				1,523			1,523
Change in unrealized appreciation on available-for-sale securities, net of taxes of $70					135		135
Total comprehensive income							1,658
Dividends on common stock, $.69 per share				(1,099)			(1,099)
Stock options exercised	5,472		63				63
Tax benefit related to stock options exercised			2				2
Purchase of stock (6,488 shares)						(131)	(131)
Balance, June 30, 2007	1,853,476		8,270	12,041	314	(3,216)	17,409
Comprehensive income							
Net income				1,528			1,528
Change in unrealized (depreciation) on available-for-sale securities, net of taxes of $174					(337)		(337)
Total comprehensive income							1,191
Dividends on common stock, $.72 per share				(1,147)			(1,147)
Stock options exercised	4,950		43				43
Balance, June 30, 2008	1,858,426	$ -	$ 8,313	$ 12,422	$ (23)	$ (3,216)	$ 17,496

See Notes to Consolidated Financial Statements

ASB Financial Corp.

Consolidated Statements of Cash Flows

Years Ended June 30, 2008 and 2007

(Dollar amounts in thousands)

	2008	2007
Operating Activities		
Net income	$ 1,528	$ 1,523
Items not requiring (providing) cash		
Depreciation and amortization	222	189
Provision for loan losses	185	240
Amortization of premiums and discounts on securities	24	(64)
Amortization of loan fees, net	(103)	(115)
Deferred income taxes	428	(145)
Federal Home Loan Bank stock dividends	(34)	(56)
Gain on sale of loans	(27)	-
Loss on sale of real estate acquired through foreclosure	8	16
Cash surrender value of bank owned life insurance	(133)	(113)
Changes in		
Interest receivable	(162)	(192)
Other assets	(1,246)	38
Interest payable and other liabilities	443	200
Net cash provided by operating activities	1,133	1,521
Investing Activities		
Net change in interest-bearing deposits	400	(900)
Purchases of available-for-sale securities	(15,555)	(9,916)
Proceeds from maturities of available-for-sale securities	6,321	9,852
Net change in loans	4,983	(7,380)
Purchase of premises and equipment	(125)	(224)
Proceeds from the assumption of net liabilities in branch acquisition	-	3,671
Proceeds from the sale of foreclosed assets	94	620
Net cash used in investing activities	(3,882)	(4,277)
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	11,643	7,538
Net (decrease) increase in certificates of deposit	(8,234)	7,086
Proceeds from Federal Home Loan Bank advances	26,900	26,525
Repayment of Federal Home Loan Bank advances	(26,435)	(32,616)
Proceeds from stock options exercised	43	63
Purchase of treasury stock	-	(131)
Dividends paid	(1,146)	(1,084)
Net (decrease) increase in advances from borrowers for taxes and insurance	(24)	8
Net cash provided by financing activities	2,747	7,389
(Decrease) Increase in Cash and Cash Equivalents	(2)	4,633
Cash and Cash Equivalents, Beginning of Year	8,058	3,425
Cash and Cash Equivalents, End of Year	$ 8,056	$ 8,058
Supplemental Cash Flows Information		
Interest paid	$ 7,493	$ 7,216
Income taxes paid (net of refunds)	$ 515	$ 269
Sale and financing of foreclosed assets	$ 100	$ 550
Real estate acquired in settlement of loans	$ 167	$ 591
Dividends payable	$ 287	$ 286

See Notes to Consolidated Financial Statements

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2008 and 2007
(Dollar amounts in thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ASB Financial Corp. (“Company”) is a thrift holding company whose principal activity is the ownership and management of its wholly-owned subsidiary American Savings Bank, fsb (the “Bank”). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Southern Ohio and Northeastern Kentucky. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, ASB Community Development Corporation, and A.S.L. Services, Inc., the Bank’s wholly-owned subsidiaries. ASB Community Development Corporation was formed in fiscal 2003 for the purpose of participating in a federal program to promote lending in new markets, which in turn provides federal income tax credits to the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. At June 30, 2008 and 2007, the Company did not have any loans originated and held for sale.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on non-accrual status at ninety days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Intangible Assets

Intangible assets are being amortized on the straight-line basis over seven years. Such assets are periodically evaluated as to the recoverability of their carrying value.

Mortgage Servicing Rights

Beginning July 1, 2007, mortgage servicing rights on originated loans that have been sold are initially recorded at fair value. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value. As of June 30, 2008, the Company had approximately $6.4 million in loans sold to the secondary market with mortgage servicing rights of approximately $24 thousand included in other assets.

Investment in Limited Partnership

The investment in a limited partnership is recorded using the equity method of accounting. Losses due to impairment are recorded when it is determined that the investment no longer has the ability to recover its carrying amount. The benefits of low income housing tax credits associated with the investment are accrued when earned.

Treasury Stock

Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

Stock Options

At June 30, 2008, the Company has a share-based employee compensation plan, which is described more fully in Note 13. The Company accounts for this plan under the recognition and measurement principles of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The Company files consolidated income tax returns with its subsidiaries.

Earnings Per Share

Earnings per share have been computed based upon the weighted-average common shares outstanding during each year.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on net income.

(Dollar amounts in thousands)

Note 2: Securities

The amortized cost and approximate fair values of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale Securities:				
June 30, 2008				
U.S. government agencies	$ 5,500	$ 22	$ (85)	$ 5,437
Mortgage-backed securities and collateralized mortgage obligations	17,912	89	(145)	17,856
State and political subdivisions	7,156	37	(114)	7,079
Equity securities	755	202	(41)	916
	$ 31,323	$ 350	$ (385)	$ 31,288
June 30, 2007				
U.S. government agencies	$ 6,128	$ -	$ (113)	$ 6,015
Mortgage-backed securities and collateralized mortgage obligations	11,278	16	(237)	11,057
State and political subdivisions	4,692	1	(87)	4,606
Equity securities	15	896	-	911
	$ 22,113	$ 913	$ (437)	$ 22,589

(Dollar amounts in thousands)

The amortized cost and fair value of available-for-sale securities at June 30, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale	
	Amoritzed Cost	Fair Value
Within one year	$ 250	$ 251
One to five years	3,660	3,686
Five to ten years	2,044	2,028
After ten years	6,702	6,551
	12,656	12,516
Mortgage-backed securities and collaterized mortgage obligations	17,912	17,856
Equity securities	755	916
Totals	$ 31,323	$ 31,288

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $3.0 million at June 30, 2008, and $2.6 million at June 30, 2007.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2008 and 2007, was $17,788 and $18,122, which is approximately 57% and 80%, respectively, of the Company’s available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates.

Management has the ability and intent to hold these securities for the foreseeable future. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

The Company owns 15,000 shares of Freddie Mac common stock and 29,600 shares of Fannie Mae preferred stock at June 30, 2008. Management is in the process of determining whether an other than temporary impairment loss should be recorded in fiscal year 2009.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

(Dollar amounts in thousands)

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2008 and 2007:

	June 30, 2008					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ 3,665	$ (85)	$ -	$ -	$ 3,665	$ (85)
Mortgage-backed securities and collateralized mortgage obligations	8,758	(132)	597	(13)	9,355	(145)
Equity securities	740	(41)			740	(41)
State and political subdivisions	4,028	(114)	-	-	4,028	(114)
Total temporarily impaired securities	$ 17,191	$ (372)	$ 597	$ (13)	$ 17,788	$ (385)

	June 30, 2007					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	$ 2,054	$ (18)	$ 2,811	$ (95)	$ 4,865	$ (113)
Mortgage-backed securities and collateralized mortgage obligations	3,769	(69)	5,621	(168)	9,390	(237)
State and political subdivisions	3,257	(79)	610	(8)	3,867	(87)
Total temporarily impaired securities	$ 9,080	$ (166)	$ 9,042	$ (271)	$ 18,122	$ (437)

(Dollar amounts in thousands)

Note 3: Loans and Allowance for Loan Losses

Categories of loans at June 30 include:

	2008	2007
Residential real estate		
One-to-four family residential	$ 105,768	$ 105,824
Multi-family residential	3,518	7,248
Construction	1,658	2,034
Nonresidential real estate and land	36,036	32,603
Commercial	12,300	16,734
Consumer and other	7,256	7,899
Total loans	166,536	172,342
Less		
Net deferred loan fees	259	249
Undisbursed portion of loans	-	711
Allowance for loan losses	1,641	1,541
Net loans	$ 164,636	$ 169,841

Activity in the allowance for loan losses was as follows:

	2008	2007
Balance, beginning of year	$ 1,541	$ 1,338
Provision charged to expense	185	240
Charge-offs of loans	(86)	(40)
Recoveries	1	3
Balance, end of year	$ 1,641	$ 1,541

Impaired loans totaled $760 and $409 at June 30, 2008 and 2007, respectively. An allowance for loan losses of $68 and $49 relates to impaired loans of $247 and $317, at June 30, 2008 and 2007, respectively. At June 30, 2008 and 2007, impaired loans of $513 and $92, respectively, had no related allowance for loan losses.

Interest of $12 and $7 was recognized on average impaired loans of $485 and $420 for 2008 and 2007, respectively. Interest of $3 and $1 was recognized on impaired loans on a cash basis during 2008 and 2007, respectively.

(Dollar amounts in thousands)

At June 30, 2008 and 2007, accruing loans delinquent 90 days or more totaled $0 and $975, respectively. Non-accruing loans at June 30, 2008 and 2007 were $564 and $0, respectively.

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2008	2007
Land	$ 950	$ 950
Buildings and improvements	2,334	2,334
Leasehold improvements	10	10
Equipment	1,111	986
	4,405	4,280
Less accumulated depreciation	1,854	1,632
Net premises and equipment	$ 2,551	$ 2,648

Note 5: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at June 30, 2008 and 2007, were:

	2008		2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposits	$ 233	$ 59	$ 233	$ 25

Amortization expense for the years ended June 30, 2008 and 2007, was $34 and $25, respectively. Estimated amortization expense for each of the following five years is:

2009	$ 33
2010	33
2011	33
2012	33
2013	33

(Dollar amounts in thousands)

Note 6: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of $100,000 or more were $29.9 million on June 30, 2008, and $29.8 million on June 30, 2007.

At June 30, 2008, the scheduled maturities of time deposits are as follows:

2009	$ 86,019
2010	15,243
2011	3,170
2012	775
2013	1,280
	$ 106,487

Note 7: Short-term Borrowings

Short-term borrowings consist of securities sold under agreements to repurchase. The repurchase agreements consist of obligations of the Company to other parties. The obligations are secured by U.S. government agencies and such collateral is held by the Company. The maximum amount of outstanding agreements at any month end during 2008 and 2007 totaled $2,035 and $1,127, respectively, and the monthly average of such agreements totaled $1,086 and $1,036 for 2008 and 2007, respectively.

Note 8: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances are secured by mortgage loans totaling $29,525 at June 30, 2008 and the Company's investment in Federal Home Loan Bank stock. Advances, at interest rates from 2.28% to 5.11% percent are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities of Federal Home Loan Bank advances at June 30, 2008 are as follows:

2009	$ 5,628
2010	2,628
2011	5,000
2013	1,000
2013	2,300
Thereafter	5,314
	$ 21,870

(Dollar amounts in thousands)

Note 9: Income Taxes

The provision (credit) for income taxes includes these components:

	2008	2007
Taxes currently payable	$ (123)	$ 489
Deferred income taxes	428	(145)
Income tax expense	$ 305	$ 344

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2008	2007
Computed at the statutory rate (35%)	$ 623	$ 653
Decrease resulting from		
Tax exempt interest	(68)	(38)
Tax credits	(121)	(167)
Other	(129)	(104)
Actual tax expense	$ 305	$ 344

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2008	2007
Deferred tax assets		
Allowance for loan losses	$ 563	$ 528
Net operating losses of parent	30	566
Deferred compensation	619	550
Unrealized losses on available-for-sale securities	12	-
Other	-	6
	1,224	1,650
Deferred tax liabilities		
Deferred loan origination costs	(70)	(75)
Federal Home Loan Bank stock dividends	(345)	(334)
Depreciation	(12)	(17)
Unrealized gains on available-for-sale securities	-	(162)
Other	(12)	-
	(439)	(588)
Net deferred tax asset	$ 785	$ 1,062

Retained earnings at June 30, 2008 and 2007, include approximately $2.1 million, for which no deferred federal income tax liability has been recognized. These amounts represent an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The deferred income tax liabilities on the preceding amounts that would have been recorded if they were expected to reverse into taxable income in the foreseeable future were approximately $700 at June 30, 2008 and 2007.

Note 10: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of June 30, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2008, the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(Dollar amounts in thousands)

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2008						
Total risk-based capital (to risk-weighted assets)	$ 19,239	14.6%	$ 10,553	8.0%	$ 13,193	10.0%
Tier I capital (to risk-weighted assets)	17,525	13.3%	5,277	4.0%	7,915	6.0%
Tier I capital (to adjusted total assets)	17,525	8.0%	8,721	4.0%	10,901	5.0%
Tangible capital (to adjusted tangible assets)	17,525	8.0%	3,270	1.5%		N/A
As of June 30, 2007						
Total risk-based capital (to risk-weighted assets)	$ 18,838	14.0%	$ 10,738	8.0%	$ 13,422	10.0%
Tier I capital (to risk-weighted assets)	16,894	12.6%	5,369	4.0%	8,053	6.0%
Tier I capital (to adjusted total assets)	16,894	8.0%	8,457	4.0%	10,571	5.0%
Tangible capital (to adjusted tangible assets)	16,894	8.0%	3,171	1.5%		N/A

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Generally, the Bank's payment of dividends is limited to net income for the current year plus the two preceding calendar years, less capital distributions paid over the comparable time period.

Note 11: Related Party Transactions

At June 30, 2008 and 2007, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $1.2 million and $950,000, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Deposits from related parties held by the Company at June 30, 2008 and 2007 totaled $701,000 and $325,000, respectively.

Note 12: Employee Benefits

The Company has a defined contribution 401(k) plan covering substantially all employees. The Company matches 100% of the employee's contribution on the first 6% of the employee's compensation. Employer contributions charged to expense for 2008 and 2007, were $94,000 and $91,000, respectively.

Also, the Company has a deferred compensation agreement with certain active and retired officers. The agreement provides monthly payments that equal 70% of average compensation prior to retirement or death. The charge to expense for the agreement was $215,000 for 2008 and $149,000 for 2007. Such charges reflect the straight-line accrual over the period until full eligibility of the present value of benefits due each participant on the full eligibility date, using a 5.5% discount factor. As of June 30, 2008, the Company has an accrued liability of approximately $1.1 million.

The Company sponsors an employee stock ownership plan (ESOP) that covers substantially all full-time employees who have completed one year of service and have attained the age of 21. The Company records compensation expense equal to the fair value of ESOP shares allocated to participants during a given fiscal year. Expense related to the ESOP totaled approximately $111,000 and $94,000 for the fiscal years ended June 30, 2008 and 2007, respectively. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings.

The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP upon the beneficiary's termination or after retirement. At June 30, 2008, the fair value of the 147,284 allocated shares held by the ESOP is estimated at $2.2 million based on market transactions. In addition, there are 7,648 outstanding shares held by former employees that are subject to a repurchase obligation. The fair value of all shares subject to the repurchase obligation is approximately $2.2 million.

Note 13: Share-Based Compensation Plans

On June 30, 2008, the Company has one share-based compensation plan, which is described below. The Company's stock option plan (SOP), which is shareholder approved, permits the grant of share options to its employees and directors for up to 225,423 shares of common stock. At June 30, 2008, all options under this plan have been granted.

(Dollar amounts in thousands)

The Company believes that such share-based awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on five years of continuous service and have ten-year contractual terms. Share awards generally vest over five years.

The fair value of each option award is estimated on the date of grant using a closed-form option valuation model that uses certain assumptions. Expected volatility is based on historical volatility of an appropriate industry pricing index and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. During 2008 and 2007, 1,942 options vested from previous grants. Management has concluded that the compensation expense relating to the options vesting in 2008 and 2007 is immaterial to the financial statements and therefore no compensation expense has been reflected in the 2008 and 2007 net income. There were no stock option grants in fiscal years 2008 and 2007.

A summary of option activity under the SOP as of June 30, 2008 and changes during the year then ended, is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	7,634	$ 11.47		
Granted	-	-		
Exercised	(4,950)	8.75		
Forfeited or expired	-	-		
Outstanding, end of year	2,684	$ 16.50	6.0 yrs	$ -
Exercisable, end of year	1,942	$ 16.50	5.9 yrs	

The total intrinsic value of options exercised during the years ended June 30, 2008 and 2007 was $34 and $38 respectively.

(Dollar amounts in thousands)

Note 14: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	June 30, 2008		
	Income	Weighted-Average Shares	Per Share Amount
Net income	$ 1,528		
Basic earnings per share Income available to common stockholders	1,528	1,591,878	$ 0.96
Effect of dilutive securities			
Stock Options	-	1,413	
Diluted earnings per share Inocome available to common stockholders and assumed conversions	$ 1,528	$ 1,593,291	$ 0.96

	June 30, 2007		
	Income	Weighted-Average Shares	Per Share Amount
Net income	$ 1,523		
Basic earnings per share Income available to common stockholders	1,523	1,591,960	$ 0.96
Effect of dilutive securities			
Stock Options	-	3,464	
Diluted earnings per share Income available to common stockholders and assumed conversions	$ 1,523	$ 1,595,424	$ 0.96

(Dollar amounts in thousands)

Note 15: Business Acquisitions

In 2007, the Company acquired a bank branch located in South Shore, Kentucky. The Company paid a net premium of approximately $232. Assets acquired in the transaction consisted of loans valued at $618, core deposits intangible valued at $232, and other assets valued at $168. Liabilities assumed in the transaction consisted of deposits valued at $4.6 million.

Note 16: Disclosures about Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	June 30, 2008		June 30, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 8,056	$ 8,056	$ 8,058	$ 8,058
Interest-bearing time deposits	700	700	1,100	1,100
Available-for-sale securities	31,288	31,288	22,589	22,589
Loans, net of allowance for loan losses	164,636	161,245	169,841	163,702
Federal Home Loan Bank stock	1,309	1,309	1,275	1,275
Interest receivable	1,115	1,115	953	953
Financial liabilities				
Deposits	$ 173,453	$ 175,960	$ 169,979	$ 169,793
Short term borrowings	979	979	1,044	1,044
Federal Home Loan Bank advances	21,870	22,762	21,405	20,845
Advances from borrowers for taxes and insurance	192	192	216	216
Interest payable	170	170	165	165

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents, Interest-bearing Time Deposits, Federal Home Loan Bank Stock, and Interest Receivable

The carrying amount approximates fair value.

Available-for-Sale Securities

Fair values equal quoted market prices, if available. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Interest Payable and Advances From Borrowers for Taxes and Insurance

The carrying amount approximates fair value.

Federal Home Loan Bank Advances

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Note 17: Commitments and Credit Risk

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

(Dollar amounts in thousands)

Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

	2008	2007
Commitments to originate loans	$ 343	$ 539
Unused home equity lines of credit	5,996	3,020
Unused commercial lines of credit	2,295	2,373
Unused consumer lines of credit	56	-
Undisbursed balance of loans closed	976	3,657
Commercial letters of credit	100	453
Total	$ 9,766	$ 10,042

And from time to time certain due from bank accounts are in excess of federally insured limits.

(Dollar amounts in thousands)

Note 18: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	June 30, 2008	June 30, 2007
Assets		
Cash and due from banks	$ 5	$ 5
Interest-bearing deposits	378	424
Total cash and cash equivalents	383	429
Investment in common stock of subsidiary	17,676	17,416
Other assets	110	75
Total assets	$ 18,169	$ 17,920
Liabilities		
Checks issued in excess of bank balance	$ 387	$ 225
Dividends payable	287	286
Total liabilities	674	511
Stockholders' Equity	17,495	17,409
Total liabilities and stockholders' equity	$ 18,169	$ 17,920

ASB Financial Corp.
Notes to Consolidated Financial Statements
June 30, 2008 and 2007
(Dollar amounts in thousands)

Condensed Statements of Income

	June 30,	
	2008	2007
Income		
Other income	$ 9	$ 13
Total income	9	13
Expenses		
Other expenses	115	107
Total expenses	115	107
Loss Before Income Tax and Equity in Earnings of Subsidiary	(106)	(94)
Income Tax Benefit	(36)	(32)
Loss Before Equity in Earnings of Subsidiary	(70)	(62)
Equity in Earnings of Subsidiary	1,598	1,585
Net Income	$ 1,528	$ 1,523

(Dollar amounts in thousands)

Condensed Statements of Cash Flows

	June 30, 2008	June 30, 2007
Operating Activities		
Net income	$ 1,528	$ 1,523
Items not providing cash	(308)	(41)
Net cash provided by operating activities	1,220	1,482
Investing Activities		
Loan principle payments	-	139
Net cash provided by investing activities	-	139
Financing Activities		
Checks issued in excess of bank balance	(162)	(616)
Proceeds from exercise of stock options	43	63
Payment of dividends	(1,147)	(1,099)
Net cash used in financing activities	(1,266)	(1,652)
Net Change in Cash and Cash Equivalents	(46)	(31)
Cash and Cash Equivalents at Beginning of Year	429	460
Cash and Cash Equivalents at End of Year	$ 383	$ 429

(Dollar amounts in thousands)

Note 19: Condensed Financial Statements of ASB Community Development Corp.

The following condensed financial statements summarize the financial position of the ASB Community Development Corp. as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the fiscal years ended June 30, 2008 and 2007.

ASB Community Development Corp.
Statements of Financial Condition
June 30, 2008 and 2007

	2008	2007
Assets		
Interest-bearing deposits in American Savings Bank, fsb	$ 861	$ 262
Loans receivable	1,514	2,023
Total assets	$ 2,375	$ 2,285
Liabilities		
Total liabilities	$ 48	$ 27
Shareholders' equity		
Common stock and additional paid-in capital	2,000	2,000
Retained earnings	327	258
Total shareholders' equity	2,327	2,258
Total liabilities and shareholders' equity	$ 2,375	$ 2,285

ASB Community Development Corp.
Statements of Earnings
June 30, 2008 and 2007

	2008	2007
Interest income	$ 105	$ 139
General and administrative expenses	-	1
Income before income taxes	105	138
Federal income taxes	36	47
Net income	$ 69	$ 91

(Dollar amounts in thousands)

ASB Community Development Corp.
Statements of Cash Flows
June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Net income	$ 69	$ 91
Adjustment to reconcile net income to net cash provided by operating activities:		
Increase in cash due to changes in:		
Other liabilities	21	16
Net cash provided by operating activities	90	107
Cash flows provided by (used in) investing activities:		
Net change in loans	509	(134)
Net cash provided by (used in) investing activities	509	(134)
Net change in cash and cash equivalents	599	(27)
Cash and cash equivalents at beginning of year	262	289
Cash and cash equivalents at end of year	$ 861	$ 262

ASB FINANCIAL CORP.
DIRECTORS AND OFFICERS

Robert M. Smith President and Chief Executive Officer American Savings Bank, fsb	Director and President
Gerald R. Jenkins Retired President and Chief Executive Officer American Savings Bank, fsb	Director
William J. Burke Director and Chief Executive Officer OSCO Industries, Inc.	Director
Larry F. Meredith Retired School Administrator	Director
Christopher H. Lute Director and Chief Executive Officer Lute Supply, Inc.	Director
Jack A. Stephenson Vice President American Savings Bank, fsb	Vice President
Michael L. Gampp Chief Financial Officer and Vice President American Savings Bank, fsb	Chief Financial Officer and Vice President
Carlisa R. Baker Vice President of Operations American Savings Bank, fsb	Vice President of Operations and Secretary

AMERICAN SAVINGS BANK, fsb
DIRECTORS AND OFFICERS

Robert M. Smith	Director, President and CEO
Gerald R. Jenkins	Director
William J. Burke	Director
Larry F. Meredith	Director
Christopher Lute	Director
Jack A. Stephenson	Vice President
Michael L. Gampp	Chief Financial Officer and Vice President
Carlisa R. Baker	Vice President of Operations and Secretary

SHAREHOLDER SERVICES

Illinois Stock Transfer Company serves as transfer agent and dividend distributing agent for ASB's shares. Communications regarding change of address, transfer of shares, lost certificates and dividends should be sent to:

Illinois Stock Transfer Company
209 West Jackson Boulevard
Suite 903
Chicago, Illinois 60606-6905
(312) 427-2953

ANNUAL MEETING

The Annual Meeting of Shareholders of ASB Financial Corp. will be held on October 22, 2008, at 10:00 a.m., local time, at the Scioto County Welcome Center, 342 Second Street, Portsmouth, Ohio 45662. Shareholders are cordially invited to attend.