

**ASB
FINANCIAL
CORP.**

**2009
ANNUAL
REPORT
TO
SHAREHOLDERS**

Dear Fellow Shareholder:

We are pleased to present our Annual Report to Shareholders, covering the fiscal year ending June 30, 2009.

As I write this, the economy is still struggling to gain its footing following many months of receding economic conditions, including near record levels of unemployment, foreclosures and extreme volatility in all financial markets.

During this period, your Corporation continued to be profitable, posting net income for the year of over \$2.08 million, an increase of \$557 thousand or 36% over fiscal year 2008.

Earnings per share totaled \$1.31 as compared to \$.96 last fiscal year.

How did we manage this? As a community bank, we stick to the basics. Our commitment to maintaining asset quality in loans and investments did not waiver. Our customers did not try to borrow more than their homes were worth and consequently, we have not experienced the losses other large and regional banks have experienced.

Going forward, we are dedicated to capitalizing on our strengths: Controlled growth of assets, combined with increasing profits which allows us to strengthen our capital position and build loss reserves while maintaining a payout of dividends to our shareholders at a consistently attractive yield.

We believe that there is no time like the present to build for the future. To this end, we are currently adding to our on-line banking capabilities. In the near future, our customers will be able to apply for and open mortgage and deposit accounts without stepping foot into a banking office. Also, we are working to become paperless, with all documentation in electronic format. It is our belief that investment in technology produces long-term benefits and we are confident that we will continue to be a viable financial intermediary to serve our communities even better in the future.

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

Sincerely,

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, 2009, 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, 2009 and 2008.

Quarter ended	High close	Low close	Cash dividends declared
Fiscal 2009			
September 30, 2008	\$16.50	\$14.50	\$0.18
December 31, 2008	\$15.00	\$12.00	\$0.18
March 31, 2009	\$12.50	\$10.00	\$0.18
June 30, 2009	\$11.95	\$10.50	\$0.18
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

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:	2009	2008	At June 30, 2007	2006	2005
			(In thousands)		
Total amount of:					
Assets	\$216,952	\$216,033	\$211,652	\$198,499	\$184,812
Cash and cash equivalents	6,716	8,056	8,058	3,425	11,792
Interest-bearing deposits	249	700	1,100	200	72
Available-for-sale securities - at market	35,333	31,288	22,589	22,364	18,594
Loans receivable - net	163,695	164,636	169,841	163,056	146,134
Deposits	173,864	173,453	171,023	152,495	143,278
Advances from the FHLB	21,062	21,870	21,405	27,496	20,284
Shareholders' equity, restricted	19,018	17,496	17,409	16,916	19,195

Selected consolidated operating data:	2009	2008	Year ended June 30, 2007	2006	2005
			(In thousands, except per share data)		
Interest income	\$12,328	\$13,093	\$12,949	\$10,997	\$9,590
Interest expense	<u>5,080</u>	<u>7,158</u>	<u>7,226</u>	<u>5,342</u>	<u>3,497</u>
Net interest income	7,248	5,935	5,723	5,655	6,093
Provision for losses on loans	<u>293</u>	<u>185</u>	<u>240</u>	<u>269</u>	<u>313</u>
Net interest income after provision losses on loans	6,955	5,750	5,483	5,386	5,780
Noninterest income	721	1,396	1,195	1,046	1,357
Noninterest expense	<u>4,903</u>	<u>5,313</u>	<u>4,811</u>	<u>4,325</u>	<u>4,096</u>
Income before income taxes	2,773	1,833	1,867	2,107	3,041
Federal income taxes	<u>688</u>	<u>305</u>	<u>344</u>	<u>434</u>	<u>886</u>
Net income	<u>\$ 2,085</u>	<u>\$ 1,528</u>	<u>\$1,523</u>	<u>\$1,673</u>	<u>\$2,155</u>
Earnings per share					
Basic	<u>\$1.31</u>	<u>\$.96</u>	<u>\$.96</u>	<u>\$1.05</u>	<u>\$1.27</u>
Diluted	<u>\$1.31</u>	<u>\$.96</u>	<u>\$.96</u>	<u>\$1.05</u>	<u>\$1.27</u>

Selected financial ratios:	Year ended June 30,				
	2009	2008	2007	2006	2005
Return on average assets	.96%	.71%	.74%	.88%	1.23%
Average interest rate spread during period	3.49	2.84	2.79	2.98	3.51
Net interest margin	3.57	2.97	2.92	3.12	3.66
Return on average equity	11.42	8.75	8.87	10.03	11.77
Equity to total assets at end of period	8.77	8.10	8.23	8.52	10.42
Average interest-earning assets to average interest-bearing liabilities	102.12	102.76	102.22	104.79	107.59
Net interest income to noninterest expense	147.83	111.71	118.96	130.75	148.29
Noninterest expense to average total assets	2.26	2.48	2.35	2.27	2.34
Nonperforming assets to total assets	.61	.35	.46	.45	.40
Loan loss allowance to nonperforming loans	135.45	215.92	158.05	149.33	170.79
Dividend payout ratio	55.06	75.07	72.16	61.90	47.56

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, 2008 TO JUNE 30, 2009

ASB’s total assets amounted to \$217.0 million at June 30, 2009, an increase of \$919,000, or .43%, over 2008 levels. The increase in assets was comprised primarily of increases of \$4.0 million in available-for-sale securities, which were partially offset by decreases of \$1.3 million in cash and cash equivalents and \$941,000 in loans receivable. The increase in assets was funded by increases in stockholders’ equity of \$1.5 million and an increase in deposits of \$411,000, which were partially offset by a decrease of \$808,000 in Federal Home Loan Bank advances.

Cash and interest-bearing deposits totaled \$6.7 million at June 30, 2009, a decrease of \$1.3 million, or 16.6%, from 2008 levels. Available-for-sale securities totaled \$35.3 million at June 30, 2009, an increase of \$4.0 million, or 12.9%, compared to the balance at June 30, 2008. During fiscal 2009, purchases of investment and mortgage-backed securities totaling \$16.6 million were partially offset by maturities, sales and principal repayments of securities totaling \$12.9 million, and an increase in the market value of investment and mortgage-backed securities totaling \$326,000.

Loans receivable totaled \$163.7 million at June 30, 2009, a decrease of \$941,000, or .6%, compared to June 30, 2008. The decrease in loans secured by residential real estate, including construction loans, totaled \$2.3 million, or 2.0%, the nonresidential real estate portfolio increased by \$4.3 million, or 11.8%, and the consumer and commercial loan portfolio decreased by \$2.8 million, or 14.2%, year to year.

At June 30, 2009, American’s allowance for loan losses was \$1.8 million, representing 1.1% of total loans and 135.4% of nonperforming loans. 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. Nonperforming loans totaled \$1.3 million and \$564,000 at June 30, 2009 and 2008, respectively. At June 30, 2009, nonperforming loans were comprised of \$765,000 of loans secured by one- to four-family residential real estate, \$496,000 of commercial loans and \$39,000 of consumer loans. The allowance for loan losses is determined as outlined in the

forementioned “Critical Accounting Policy.” To the best of management’s knowledge, all known losses as of June 30, 2009, have been recorded.

Deposits increased by \$411,000, or .24%, to a total of \$173.9 million at June 30, 2009. The increase in deposits consisted primarily of increases of \$1.4 million in demand deposits and \$402,000 in savings, NOW and money markets, which were partially offset by a decrease of \$1.4 million in time deposits.

Shareholders’ equity totaled \$19.02 million at June 30, 2009, an increase of \$1.5 million, or 8.7%, compared to June 30, 2008 levels. The increase resulted primarily from net income of \$2.1 million, a \$370,000 increase in paid-in-capital related to the tax benefit of deferred directors fees and a \$215,000 increase in net unrealized gains on investments, which were partially offset by dividends declared of \$1.1 million. During fiscal 2009, the Corporation paid quarterly dividends totaling \$.72 per share.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

General. Net income was \$2.1 million for the fiscal year ended June 30, 2009, an increase of \$557,000, or 36.5%, from fiscal 2008. The increase in net income resulted primarily from increases of \$1.4 million in net interest income and a decrease of \$410,000, or 7.7% in noninterest expense, which were partially offset by a decrease of \$675,000 in noninterest income and an increase of \$383,000 in provision for federal income taxes.

Net Interest Income. Total interest income was \$12.3 million for the fiscal year ended June 30, 2009, a decrease of \$765,000, or 5.8%, from fiscal 2008. Interest income on loans totaled \$10.8 million in fiscal 2009, a decrease of \$829,000, or 7.1%. This decrease was due primarily to a 42 basis point decrease in the average yield, to 6.52% for the fiscal year ended June 30, 2009 and a \$1.8 million, or 1.1%, decrease in the weighted-average balance of loans outstanding. Interest income on available-for-sale securities and other interest earning assets increased by \$64,000, or 4.4%, as a result of a \$4.5 million, or 14.0%, increase in the weighted-average balance outstanding year to year, which was partially offset by an 18 basis point decrease in the average yield.

Interest expense totaled \$5.1 million for the fiscal year ended June 30, 2009, a decrease of \$2.1 million, or 29.0%, from the \$7.2 million total recorded in fiscal 2008. Interest expense on deposits decreased by \$1.9 million, or 31.8%, due to a 117 basis point decrease in the weighted-average cost of deposits, to 2.45%, for fiscal 2009, which was partially offset by a \$1.5 million, or .9%, increase in the weighted-average balance outstanding year to year. Interest expense on borrowings decreased by \$129,000, or 12.5%, due to a \$1.2 million, or 5.0%, increase in the weighted-average balance outstanding year to year, which was offset by a 71 basis point decrease in the average cost of borrowings, to 3.57% in fiscal 2009. 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 \$1.3 million, or 22.1%, to a total of \$7.2 million for the fiscal year ended June 30, 2009, compared to \$5.9 million in fiscal 2008. The interest rate spread increased by 65 basis points to 3.49% in fiscal 2009 from 2.84% in fiscal 2008, and the net interest margin increased by 60 basis points to 3.57% in fiscal 2009 from 2.97% in fiscal 2008.

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 \$293,000 provision for losses on loans during the fiscal year ended June 30, 2009, an increase of \$108,000, or 58.4%, from fiscal 2008. The increase in the provision in fiscal 2009 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.

Noninterest Income. Noninterest income totaled \$721,000 for the fiscal year ended June 30, 2009, a decrease of \$675,000, or 48.4%, from the \$1.4 million recorded in fiscal 2008. The decrease resulted primarily from losses on sale of securities of \$496,000 and decreases of \$36,000 in other income and \$171,000 in customer service charges and fees, which were partially offset by increases of \$20,000 in net gains on sales of loans and a decrease of \$8,000 in losses on real estate acquired through foreclosure.

Noninterest Expense. Noninterest expense totaled \$4.9 million for the fiscal year ended June 30, 2009, a decrease of \$410,000, or 7.7%, compared to the total recorded in fiscal 2008. The decrease resulted primarily from decreases of \$276,000, or 9.8% in salaries and employee benefits, \$171,000, or 27.0%, in data processing fees, \$22,000, or 15.5%, in printing and office supplies and \$8,000, or 3.6% in state franchise taxes, which were partially offset by an increase of \$66,000, or 17.1%, in occupancy and equipment expense. The decrease in compensation was due to the reduction of staff and a reduction in deferred compensation expense. The decreases in office supplies, data processing and other costs were due to the full implementation of new data processing systems.

Federal Income Taxes. The provision for federal income taxes totaled \$688,000 for the fiscal year ended June 30, 2009, an increase of \$383,000, or 125.6%, from the \$305,000 recorded in fiscal 2008. The increase was due primarily to the \$940,000, or 51.3%, increase in pre-tax earnings and the expiration of tax credits. ASB's effective tax rates were 24.8% and 16.6% for the fiscal years ended June 30, 2009 and 2008, 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	2009 Interest earned/ paid	Year ended June 30,		2008 Interest earned/ paid	Yield/ rate
			Yield/ rate	Average outstanding balance		
(Dollars in thousands)						
Interest-earning assets:						
Loans receivable	\$165,807	\$ 10,805	6.52%	\$167,624	\$11,634	6.94%
Available-for-sale securities and interest bearing assets	<u>37,038</u>	<u>1,523</u>	<u>4.11</u>	<u>32,489</u>	<u>1,459</u>	<u>4.25</u>
Total interest-earning assets	202,845	12,328	6.08	200,113	13,093	6.54
Non-interest-earning assets	<u>13,714</u>			<u>12,207</u>		
Total assets	<u>\$216,559</u>			<u>\$212,320</u>		
Interest-bearing liabilities:						
Deposits	\$170,673	4,176	2.45	\$169,075	6,125	3.62
Borrowings	<u>25,340</u>	<u>904</u>	<u>3.57</u>	<u>24,141</u>	<u>1,033</u>	<u>4.28</u>
Total interest-bearing liabilities	196,013	<u>5,080</u>	<u>2.59</u>	193,216	<u>7,158</u>	<u>3.70</u>
Non-interest-bearing liabilities	<u>2,614</u>			<u>1,520</u>		
Total liabilities	198,627			194,736		
Shareholders' equity	<u>17,932</u>			<u>17,584</u>		
Total liabilities and shareholders' equity	<u>\$216,559</u>			<u>\$212,320</u>		
Net interest income		<u>\$ 7,248</u>			<u>\$5,935</u>	
Interest rate spread			<u>3.49%</u>			<u>2.84%</u>
Net interest margin (net interest income as a percent of average interest-earning assets)			<u>3.57%</u>			<u>2.97%</u>
Average interest-earning assets to average interest- bearing liabilities			<u>102.12%</u>			<u>102.76%</u>

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, 2009 vs. 2008		
	Increase (decrease) due to		
	Volume	Rate	Total
	(In thousands)		
Interest-earnings assets:			
Loans receivable	\$(126)	\$ (703)	\$(829)
Available-for-sale securities and interest-bearing assets	<u>193</u>	<u>(129)</u>	<u>64</u>
Total interest-earnings assets	67	(832)	(765)
Interest-bearing liabilities:			
Deposits	60	(2,009)	(1,949)
Borrowings	<u>51</u>	<u>(180)</u>	<u>(129)</u>
Total interest-bearing liabilities	<u>111</u>	<u>(2,189)</u>	<u>(2,078)</u>
Increase (decrease) in net interest income	<u>\$ (44)</u>	<u>\$ 1,357</u>	<u>\$ 1,313</u>

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, 2009 and 2008, 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 2009 and 2008 and shifts of -200 basis points are not shown for 2009.

Changes in interest rate (basis points)	Board limit % changes	At June 30, 2009		At June 30, 2008	
		NPV as a % of PV of Assets Ratio	Change in NPV	NPV as a % of PV of Assets Ratio	Change in NPV
+300	(6)%	8.47%	(262)bp	6.63%	(388)bp
+200	(6)	9.68	(141)	8.12	(239)
+100	(6)	10.60	(49)	9.51	(100)
-	-	11.09	-	10.51	-
-100	6	11.01	(8)	10.90	39
-200	6			11.19	68

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, 2009 and 2008:

	Year ended June 30, 2009 2008 (In thousands)	
Net cash from operating activities	\$ 3,323	\$ 1,133
Net cash from investing activities	(3,047)	(3,882)
Net cash from financing activities	<u>(1,616)</u>	<u>2,747</u>
Net change in cash and cash equivalents	(1,340)	(2)
Cash and cash equivalents at the beginning of the year	<u>8,056</u>	<u>8,058</u>
Cash and cash equivalents at the end of the year	<u>\$ 6,716</u>	<u>\$ 8,056</u>

The following table sets forth information regarding the Bank's obligations and commitments to make future payments under contract as of June 30, 2009, at market rates:

	Less than 1 year	Payments due by period			Total
		1-3 years	3-5 years	More than 5 years	
		(In thousands)			
Contractual obligations:					
Advances from the Federal Home Loan Bank	\$ 2,628	\$8,800	\$ 6,119	\$3,515	\$ 21,062
Certificates of deposit	<u>69,565</u>	<u>29,613</u>	<u>5,938</u>	<u>-</u>	<u>105,116</u>
	72,193	38,413	12,057	3,515	126,178
Amount of commitments expiration per period					
Commitments to originate mortgage loans:					
One- to four-family loans	2,858	-	-	-	2,858
Home equity lines of credit	2,986	637	798	1,324	5,745
Commercial lines of credit	3,772	-	-	-	3,772
Consumer lines of credit	2,238	-	-	-	2,238
Commercial letters of credit	<u>183</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183</u>
Total contractual obligations	<u>\$84,230</u>	<u>\$39,050</u>	<u>\$12,855</u>	<u>\$4,839</u>	<u>\$140,974</u>

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, 2009, 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, 2009, American met the definition of a "well capitalized" institution under OTS regulations.

	June 30, 2009					
	Regulatory capital		Current requirement		Excess of regulatory capital over current requirement	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Tangible capital	\$18,726	8.6%	\$ 3,260	1.5%	\$15,466	7.1%
Core capital	\$18,726	8.6%	\$ 8,694	4.0%	\$ 10,032	4.6%
Risk-based capital	\$20,394	15.3%	\$10,663	8.0%	\$ 9,731	7.3%

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, 2009 and 2008, 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, 2009 and 2008, 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.

As discussed in Note 16, the Company changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

BKD, LLP

September 2, 2009

ASB Financial Corp.
Consolidated Balance Sheets
June 30, 2009 and 2008
(Dollar amounts in thousands)

Assets	2009	2008
Cash and due from banks	\$ 1,415	\$ 1,541
Interest-bearing demand deposits	3,538	6,515
Federal funds sold	1,763	-
Cash and cash equivalents	<u>6,716</u>	<u>8,056</u>
Interest-bearing deposits	249	700
Available-for-sale securities	35,333	31,288
Loans, net of allowance for loan losses of \$1,792 and \$1,641 at June 30, 2009 and 2008, respectively	163,695	164,636
Premises and equipment	2,400	2,551
Federal Home Loan Bank stock	1,327	1,309
Interest receivable	1,142	1,115
Prepaid federal income taxes	39	637
Deferred federal income taxes	904	785
Bank owned life insurance	3,747	3,608
Core deposits intangible	141	174
Other	<u>1,259</u>	<u>1,174</u>
Total assets	<u><u>\$ 216,952</u></u>	<u><u>\$ 216,033</u></u>
 Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 20,924	\$ 19,544
Savings, NOW and money market	47,824	47,422
Time	105,116	106,487
Total deposits	<u>173,864</u>	<u>173,453</u>
Short term borrowings	896	979
Federal Home Loan Bank advances	21,062	21,870
Advances from borrowers for taxes and insurance	204	192
Interest payable and other liabilities	1,908	2,043
Total liabilities	<u>197,934</u>	<u>198,537</u>
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 2009 and 2008 - 1,858,426 shares	-	-
Additional paid-in capital	8,683	8,313
Retained earnings	13,359	12,422
Accumulated other comprehensive income (loss)	192	(23)
Treasury stock, at cost		
Common; 263,468 shares	(3,216)	(3,216)
Total stockholders' equity	<u>19,018</u>	<u>17,496</u>
Total liabilities and stockholders' equity	<u><u>\$ 216,952</u></u>	<u><u>\$ 216,033</u></u>

See Notes to Consolidated Financial Statements

ASB Financial Corp.
Consolidated Statements of Income
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	<u>2009</u>	<u>2008</u>
Interest and Dividend Income		
Loans	\$ 10,805	\$ 11,634
Securities		
Taxable	1,109	969
Tax-exempt	291	239
Dividends on Federal Home Loan Bank stock	64	77
Deposits with financial institutions and other	59	174
Total interest and dividend income	<u>12,328</u>	<u>13,093</u>
Interest Expense		
Deposits	4,176	6,125
Borrowings	904	1,033
Total interest expense	<u>5,080</u>	<u>7,158</u>
Net Interest Income	7,248	5,935
Provision for Loan Losses	<u>293</u>	<u>185</u>
Net Interest Income After Provision for Loan Losses	<u>6,955</u>	<u>5,750</u>
Noninterest Income		
Customer service charges and other fees	898	1,069
Net realized gains on sales of loans	47	27
Net realized losses on sales of securities	(496)	-
Loss on sale of real estate acquired through foreclosure	-	(8)
Other	272	308
Total noninterest income	<u>721</u>	<u>1,396</u>
Noninterest Expense		
Salaries and employee benefits	2,554	2,830
Net occupancy and equipment expense	451	385
Data processing fees	462	633
Professional fees	183	180
Printing and office supplies	120	142
State franchise taxes	216	224
Other	917	919
Total noninterest expense	<u>4,903</u>	<u>5,313</u>
Income Before Income Tax	2,773	1,833
Provision for Federal Income Taxes	<u>688</u>	<u>305</u>
Net Income	<u>\$ 2,085</u>	<u>\$ 1,528</u>
Basic Earnings Per Share	<u>\$ 1.31</u>	<u>\$ 0.96</u>
Diluted Earnings Per Share	<u>\$ 1.31</u>	<u>\$ 0.96</u>

See Notes to Consolidated Financial Statements

ASB Financial Corp.
Consolidated Statements of Stockholders' Equity
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance, July 1, 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
Comprehensive income							
Net income				2,085			2,085
Change in unrealized appreciation on available-for-sale securities, net of taxes of \$111					215		215
Total comprehensive income							2,300
Dividends on common stock, \$.72 per share				(1,148)			(1,148)
Tax benefit related to director deferred fees			370				370
Balance, June 30, 2009	1,858,426	\$ -	\$ 8,683	\$ 13,359	\$ 192	\$ (3,216)	\$ 19,018

See Notes to Consolidated Financial Statements

ASB Financial Corp.
Consolidated Statements of Cash Flows
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

	2009	2008
Operating Activities		
Net income	\$ 2,085	\$ 1,528
Items not requiring (providing) cash		
Depreciation and amortization	221	222
Provision for loan losses	293	185
Amortization of premiums and discounts on securities	19	24
Amortization of deferred loan fees, net	(269)	(103)
Deferred income taxes	(230)	428
Net realized losses on available-for-sale securities	496	-
Federal Home Loan Bank stock dividends	(18)	(34)
Gain on sale of loans	(47)	(27)
Loss on sale of real estate acquired through foreclosure	-	8
Cash surrender value of bank owned life insurance	(139)	(133)
Changes in		
Interest receivable	(27)	(162)
Other assets	1,074	(1,246)
Interest payable and other liabilities	(135)	443
Net cash provided by operating activities	3,323	1,133
Investing Activities		
Net change in interest-bearing deposits	451	400
Purchases of available-for-sale securities	(16,599)	(15,555)
Proceeds from maturities and paydowns of available-for-sale securities	9,050	6,321
Proceeds from sale of available-for-sale securities	3,315	-
Net change in loans	773	4,983
Purchase of premises and equipment	(70)	(125)
Proceeds from the sale of foreclosed assets	33	94
Net cash used in investing activities	(3,047)	(3,882)
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	1,699	11,643
Net decrease in certificates of deposit	(1,371)	(8,234)
Proceeds from Federal Home Loan Bank advances	29,900	26,900
Repayment of Federal Home Loan Bank advances	(30,708)	(26,435)
Proceeds from stock options exercised	-	43
Dividends paid	(1,148)	(1,146)
Net increase (decrease) in advances from borrowers for taxes and insurance	12	(24)
Net cash (used in) provided by financing activities	(1,616)	2,747
Decrease in Cash and Cash Equivalents	(1,340)	(2)
Cash and Cash Equivalents, Beginning of Year	8,056	8,058
Cash and Cash Equivalents, End of Year	\$ 6,716	\$ 8,056
Supplemental Cash Flows Information		
Interest paid	\$ 4,711	\$ 7,493
Income taxes paid (net of refunds)	\$ (50)	\$ 515
Sale and financing of foreclosed assets	\$ -	\$ 100
Real estate acquired in settlement of loans	\$ 191	\$ 167
Dividends payable	\$ 287	\$ 287

See Notes to Consolidated Financial Statements

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(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.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

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, 2009 and 2008, 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

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

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, 2008, 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, 2009, the Company had approximately \$17,232 in loans sold to the secondary market with mortgage servicing rights of approximately \$105 included in other assets.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

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, 2009, the Company has a share-based employee compensation plan, which is described more fully in Note 14. 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.

Uncertain Tax Positions

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Company has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ended June 30, 2010. The Company has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as SFAS No. 109, *Accounting for Income Taxes*, and SFAS No. 5, *Accounting for Contingencies*.

Current Economic Conditions

The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Earnings Per Share

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

Subsequent Events

Subsequent events have been evaluated through September 2, 2009, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on net income.

Recent Accounting Pronouncements

In May of 2009 the FASB issued Statement 165, *Subsequent Events*. Statement 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, Statement 165 provides:

- The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;
- The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and
- The disclosure that an entity should make about events or transactions that occurred after the balance sheet date.

Statement 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. Adoption of statement 165 did not have a material effect on the Company's financial position or results of operations.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

On April 9, 2009, the FASB finalized three FASB Staff Positions (“FSPs”) regarding the accounting treatment for investments including mortgage-backed securities. These FSPs changed the method for determining if an Other-Than-Temporary Impairment (“OTTI”) exists and the amount of OTTI to be recorded through an entity’s income statement. The changes brought about by the FSPs provide greater clarity and reflect a more accurate representation of the credit and noncredit components of an OTTI event. The three FSPs are as follows:

- FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Assets or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* addresses the criteria to be used in the determination of an active market in determining whether observable transactions are Level 1 or Level 2 under the framework established by SFAS 157, “*Fair Value Measurements*.” The FSP reiterates that fair value is based on the notion of exit price in an orderly transaction between willing market participants at the valuation date.
- FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-than-Temporary Impairments* provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on debt securities.
- FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

These staff positions are effective for financial statements issued for periods ending after June 15, 2009. Adoption of these staff positions did not have a material effect on the Company’s financial position or results of operations.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(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, 2009				
U.S. government agencies	\$ 9,146	\$ 32	\$ (19)	\$ 9,159
Mortgage-backed securities and collateralized mortgage obligations	18,522	467	(121)	18,868
State and political subdivisions	7,374	79	(147)	7,306
	<u>\$ 35,042</u>	<u>\$ 578</u>	<u>\$ (287)</u>	<u>\$ 35,333</u>
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
	<u>\$ 31,323</u>	<u>\$ 350</u>	<u>\$ (385)</u>	<u>\$ 31,288</u>

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

The amortized cost and fair value of available-for-sale securities at June 30, 2009, 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	
	Amortized Cost	Fair Value
One to five years	\$ 8,111	\$ 8,178
Five to ten years	2,846	2,874
After ten years	5,563	5,413
	16,520	16,465
Mortgage-backed securities and collateralized mortgage obligations	18,522	18,868
Totals	\$ 35,042	\$ 35,333

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$1.7 million at June 30, 2009 and \$3.0 million at June 30, 2008.

Gross gains of \$109 and gross losses of \$605 resulting from sales of available-for-sale securities were realized for 2009. There were no sales of securities for 2008.

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, 2009 and 2008, was \$8,917 and \$17,788, which is approximately 25% and 57%, respectively, of the Company's available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates.

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.

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.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(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, 2009 and 2008:

Description of Securities	June 30, 2009					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 2,510	\$ (19)	\$ -	\$ -	\$ 2,510	\$ (19)
Mortgage-backed securities and collateralized mortgage obligations	2,164	(11)	481	(110)	2,645	(121)
State and political subdivisions	2,852	(102)	910	(45)	3,762	(147)
Total temporarily impaired securities	<u>\$ 7,526</u>	<u>\$ (132)</u>	<u>\$ 1,391</u>	<u>\$ (155)</u>	<u>\$ 8,917</u>	<u>\$ (287)</u>

Description of Securities	June 30, 2008					
	Less than 12 Months		12 Months or More		Total	
	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	<u>\$ 17,191</u>	<u>\$ (372)</u>	<u>\$ 597</u>	<u>\$ (13)</u>	<u>\$ 17,788</u>	<u>\$ (385)</u>

U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were primarily caused by changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2009.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Mortgage-backed Securities and Collateralized Mortgage Obligations

The unrealized losses on the Company's investment in mortgage-backed securities and collateralized mortgage obligations were primarily caused by changes in interest rates. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2009. The unrealized losses of \$121 includes an unrealized loss of \$109 on one private-label collateralized mortgage obligation, which was investment grade at June 30, 2009. The security continues to pay as expected, and the unrealized loss is not deemed by management to be other-than-temporary.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were primarily caused by changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2009.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 3: Loans and Allowance for Loan Losses

Categories of loans at June 30 include:

	<u>2009</u>	<u>2008</u>
Residential real estate		
One-to-four family residential	\$ 104,827	\$ 105,768
Multi-family residential	2,722	3,518
Construction	1,127	1,658
Nonresidential real estate and land	40,301	36,036
Commercial	10,564	12,300
Consumer and other	6,208	7,256
	<u>165,749</u>	<u>166,536</u>
Less		
Net deferred loan fees	262	259
Allowance for loan losses	1,792	1,641
	<u>163,695</u>	<u>\$ 164,636</u>

Activity in the allowance for loan losses was as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 1,641	\$ 1,541
Provision charged to expense	293	185
Charge-offs of loans	(175)	(86)
Recoveries	33	1
	<u>1,792</u>	<u>\$ 1,641</u>

Impaired loans totaled \$2,164 and \$760 at June 30, 2009 and 2008, respectively. An allowance for loan losses of \$939 and \$68 relates to impaired loans of \$1,659 and \$247, at June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, impaired loans of \$505 and \$513, respectively, had no related allowance for loan losses.

Interest income of \$68 and \$12 was recognized on average impaired loans of \$2,242 and \$485 for 2009 and 2008, respectively. Interest of \$70 and \$3 was recognized on impaired loans on a cash basis during 2009 and 2008, respectively.

At June 30, 2009 and 2008, accruing loans delinquent 90 days or more totaled \$307 and \$0, respectively. Non-accruing loans at June 30, 2009 and 2008 were \$1,323 and \$564, respectively.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 4: Premises and Equipment

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

	<u>2009</u>	<u>2008</u>
Land	\$ 970	\$ 950
Buildings and improvements	2,338	2,334
Leasehold improvements	10	10
Equipment	<u>1,157</u>	<u>1,111</u>
	4,475	4,405
Less accumulated depreciation	<u>2,075</u>	<u>1,854</u>
Net premises and equipment	<u>\$ 2,400</u>	<u>\$ 2,551</u>

Note 5: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at June 30, 2009 and 2008, were:

	2009		2008	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Core Deposits	<u>\$ 233</u>	<u>\$ 92</u>	<u>\$ 233</u>	<u>\$ 59</u>

Amortization expense for the years ended June 30, 2009 and 2008, was \$33 and \$34, respectively. Estimated amortization expense for each of the following five years is:

2010	\$ 33
2011	33
2012	33
2013	33
2014	<u>9</u>
	<u>\$ 141</u>

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 6: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of \$100,000 or more were \$31.8 million on June 30, 2009, and \$29.9 million on June 30, 2008.

At June 30, 2009, the scheduled maturities of time deposits are as follows:

2010	\$	69,565
2011		28,248
2012		1,365
2013		1,744
2014		4,194
	\$	105,116

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 2009 and 2008 totaled \$993 and \$2,035, respectively, and the monthly average of such agreements totaled \$909 and \$1,086 for 2009 and 2008, respectively.

Note 8: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances are secured by mortgage loans totaling \$28,434 at June 30, 2009 and the Company's investment in Federal Home Loan Bank stock. Advances, at interest rates from 2.46% 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, 2009 are as follows:

2010	\$	2,628
2011		6,000
2012		2,800
2013		5,500
2014		619
Thereafter		3,515
	\$	21,062

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 9: Income Taxes

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

	<u>2009</u>	<u>2008</u>
Taxes currently payable	\$ 918	\$ (123)
Deferred income taxes	(230)	428
Income tax expense	<u>\$ 688</u>	<u>\$ 305</u>

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

	<u>2009</u>	<u>2008</u>
Computed at the statutory rate (34%)	\$ 943	\$ 623
Decrease resulting from		
Tax exempt interest	(87)	(68)
Tax credits	(125)	(121)
Other	(43)	(129)
Actual tax expense	<u>\$ 688</u>	<u>\$ 305</u>

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

	<u>2009</u>	<u>2008</u>
Deferred tax assets		
Allowance for loan losses	\$ 451	\$ 563
Net operating losses of parent	13	30
Deferred compensation	869	619
Depreciation	16	-
Unrealized losses on available-for-sale securities	-	12
Other	75	-
	<u>1,424</u>	<u>1,224</u>
Deferred tax liabilities		
Deferred loan origination costs	(34)	(70)
Federal Home Loan Bank stock dividends	(351)	(345)
Depreciation	-	(12)
Unrealized gains on available-for-sale securities	(99)	-
Other	(36)	(12)
	<u>(520)</u>	<u>(439)</u>
Net deferred tax asset	<u>\$ 904</u>	<u>\$ 785</u>

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Retained earnings at both June 30, 2009 and 2008, 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, 2009 and 2008.

Note 10: Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related taxes were as follows:

	2009	2008
Unrealized losses on available-for-sale securities	\$ (170)	\$ (511)
Reclassification adjustment for realized losses included in net income	496	-
Other comprehensive loss, before tax effect	326	(511)
Tax expense	111	174
Other comprehensive income (loss)	\$ 215	\$ (337)

Note 11: 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.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

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, 2009 and 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2009, 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.

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, 2009						
Total risk-based capital (to risk-weighted assets)	\$ 20,394	15.3%	\$ 10,663	8.0%	\$ 13,329	10.0%
Tier I capital (to risk-weighted assets)	18,726	14.0%	5,332	4.0%	7,998	6.0%
Tier I capital (to adjusted total assets)	18,726	8.6%	8,694	4.0%	10,868	5.0%
Tangible capital (to adjusted tangible assets)	18,726	8.6%	3,260	1.5%		N/A
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

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.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 12: Related Party Transactions

At June 30, 2009 and 2008, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of \$1,400 and \$950, 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, 2009 and 2008 totaled \$264 and \$325, respectively.

Note 13: 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 2009 and 2008, were \$104 and \$94, 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 \$83 for 2009 and \$215 for 2008. 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, 2009, the Company has an accrued liability of approximately \$490.

The Bank maintained a deferred directors fees plan under which members of the Board of Directors had the option to defer receipt of fees earned. Such deferred fees were placed in a trust and invested primarily in the stock of the Corporation. During fiscal 2009, all deferred fees were paid from the trust to the directors and the plan was terminated. The Corporation received a tax benefit on the fair value increase of the investment, which was recorded as an increase to shareholders' equity in fiscal 2009.

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 \$185 and \$111 for the fiscal years ended June 30, 2009 and 2008, respectively. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings.

For companies not listed on NASDAQ, government regulations require an employer with an ESOP to provide a put option to the plan's participants for repurchase of their investments in the Company's stock at the fair value price. This regulation was enacted to provide a ready market for the participant when a market may not otherwise readily exist. At June 30, 2009 and 2008, the ESOP held 146,551 and 147,284 shares, respectively, of the Company's stock with a total estimated value of approximately \$1.6 million and \$2.2 million, respectively, based on recent market transactions.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 14: Share-Based Compensation Plans

On June 30, 2009, 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, 2009, all options under this plan have been granted.

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 2009 and 2008, 742 and 1,942 options vested from previous grants, respectively. Management has concluded that the compensation expense relating to the options vesting in 2009 and 2008 is immaterial to the financial statements and therefore no compensation expense has been reflected in the 2009 and 2008 net income. There were no stock option grants in fiscal years 2009 and 2008.

A summary of option activity under the SOP as of June 30, 2009 and changes during the year then ended, is presented below:

	2009		
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding, beginning of year	2,684	\$ 16.50	
Granted	-	-	
Exercised	-	-	
Forfeited or expired	-	-	
Outstanding, end of year	<u>2,684</u>	<u>\$ 16.50</u>	<u>5 yrs</u>
Exercisable, end of year	<u>2,684</u>	<u>\$ 16.50</u>	<u>5 yrs</u>

The total intrinsic value of options exercised during the years ended June 30, 2009 and 2008 was \$0 and \$34, respectively.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 15: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Income	June 30, 2009 Weighted- Average Shares	Per Share Amount
Net income	\$ 2,085		
Basic earnings per share			
Income available to common stockholders	2,085	1,594,958	<u>\$ 1.31</u>
Effect of dilutive securities			
Stock Options	<u>-</u>	<u>-</u>	
Income available to common stockholders and assumed conversions	<u>\$ 2,085</u>	<u>\$ 1,594,958</u>	<u>\$ 1.31</u>
	Income	June 30, 2008 Weighted- Average Shares	Per Share Amount
Net income	\$ 1,528		
Basic earnings per share			
Income available to common stockholders	1,528	1,591,878	<u>\$ 0.96</u>
Effect of dilutive securities			
Stock Options	<u>-</u>	<u>1,413</u>	
Income available to common stockholders and assumed conversions	<u>\$ 1,528</u>	<u>\$ 1,593,291</u>	<u>\$ 0.96</u>

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 16: Disclosures about Fair Value of Financial Instruments

Effective July 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Company currently holds no securities classified within Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include: U.S. government agency bonds, state and political subdivisions, mortgage-backed securities and collateralized mortgage obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Company currently holds no securities classified within Level 3.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government agencies	\$ 9,159	\$ -	\$ 9,159	\$ -
Mortgage-backed securities and CMO's	\$ 18,868	-	18,868	-
State and political subdivisions	\$ 7,306	-	7,306	-

The following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of Financial Accounting Standard No. 114 (FAS 114), *Accounting by Creditors for Impairment of a Loan*. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loan's effective interest rate. The effective interest rate of a loan is the contractual interest rate adjusted for any net deferred loan fees or costs, premiums or discount existing at origination or acquisition of the loan.

Impaired loans are classified within Level 3 of the fair value hierarchy.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 720	\$ -	\$ -	\$ 720

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

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

The carrying amount approximates fair value.

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.

Short-term borrowings, Interest Payable and Advances From Borrowers for Taxes and Insurance

The carrying amount approximates fair value.

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

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.

Commitments to Originate Loans, Forward Sale Commitments, Letters of Credit, and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. At June 30, 2009 and 2008, the fair value of commitments was not material.

The following table presents estimated fair values of the Company's financial instruments in accordance with FAS 107 at June 30, 2009 and 2008.

	June 30, 2009		June 30, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 6,716	\$ 6,716	\$ 8,056	\$ 8,056
Interest-bearing time deposits	249	249	700	700
Available-for-sale securities	35,333	35,333	31,288	31,288
Loans, net of allowance for loan losses	163,695	165,523	164,636	161,245
Federal Home Loan Bank stock	1,327	1,327	1,309	1,309
Interest receivable	1,142	1,142	1,115	1,115
Financial liabilities				
Deposits	\$ 173,864	\$ 174,419	\$ 173,453	\$ 175,960
Short term borrowings	896	896	979	979
Federal Home Loan Bank advances	21,062	21,618	21,870	22,762
Advances from borrowers for taxes and insurance	204	204	192	192
Interest payable	539	539	170	170

ASB Financial Corp.
Notes to Financial Statements
Years Ended June 30, 2009 and 2008
(Dollar amounts in thousands)

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.

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.

ASB Financial Corp.
Notes to Consolidated Financial Statements
June 30, 2009 and 2008
(Dollar amounts in thousands)

	2009	2008
Commitments to originate loans	\$ 2,290	\$ 343
Unused home equity lines of credit	5,745	5,996
Unused commercial lines of credit	3,772	2,295
Unused consumer lines of credit	2,238	56
Undisbursed balance of loans closed	568	976
Commercial letters of credit	183	100
Total	\$ 14,796	\$ 9,766

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

Note 18: FDIC Special Assessment

On May 22, 2009, the Board of the FDIC adopted a rule imposing a 5 basis point special assessment on insured institutions as of June 30, 2009 which will be payable on September 30, 2009. The rule also allows the assessment of additional special assessments of up to 5 basis points during each of the two quarters after June 30, 2009 as deemed necessary.

As of June 30, 2009, the Company had \$95 accrued for the special assessment.

ASB Financial Corp.
Notes to Consolidated Financial Statements
June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 19: 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,	
	2009	2008
Assets		
Cash and due from banks	\$ 5	\$ 5
Interest-bearing deposits	268	378
	273	383
Investment in common stock of subsidiary	19,060	17,676
Other assets	524	110
	\$ 19,857	\$ 18,169
Liabilities		
Checks issued in excess of bank balance	\$ 552	\$ 386
Dividends payable	287	287
	839	673
Stockholders' Equity	19,018	17,496
Total liabilities and stockholders' equity	\$ 19,857	\$ 18,169

ASB Financial Corp.
Notes to Consolidated Financial Statements
June 30, 2009 and 2008
(Dollar amounts in thousands)

Condensed Statements of Income

	June 30,	
	2009	2008
Income		
Other income	\$ 5	\$ 9
Total income	5	9
Expenses		
Other expenses	131	115
Total expenses	131	115
Loss Before Income Tax and Equity in Earnings of Subsidiary	(126)	(106)
Income Tax Benefit	(43)	(36)
Loss Before Equity in Earnings of Subsidiary	(83)	(70)
Equity in Earnings of Subsidiary	2,168	1,598
Net Income	\$ 2,085	\$ 1,528

ASB Financial Corp.
Notes to Consolidated Financial Statements
June 30, 2009 and 2008
(Dollar amounts in thousands)

Condensed Statements of Cash Flows

	June 30,	
	2009	2008
Operating Activities		
Net income	\$ 2,085	\$ 1,528
Items not providing cash	(882)	(308)
	1,203	1,220
Investing Activities		
Net cash provided by investing activities	-	-
Financing Activities		
Checks issued in excess of bank balance	(166)	(162)
Proceeds from exercise of stock options	-	43
Payment of dividends	(1,148)	(1,147)
	(1,314)	(1,266)
Net Change in Cash and Cash Equivalents	(111)	(46)
Cash and Cash Equivalents at Beginning of Year	383	429
Cash and Cash Equivalents at End of Year	\$ 272	\$ 383

ASB Financial Corp.
Notes to Consolidated Financial Statements
June 30, 2009 and 2008
(Dollar amounts in thousands)

Note 20: 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, 2009 and 2008, and the results of its operations and its cash flows for the fiscal years ended June 30, 2009 and 2008.

ASB Community Development Corp.
Balance Sheets
June 30, 2009 and 2008

	2009	2008
Assets		
Interest-bearing deposits in American Savings Bank, fsb	\$ 872	\$ 861
Loans receivable	1,587	1,514
	\$ 2,459	\$ 2,375
Liabilities		
Total liabilities	\$ 77	\$ 48
Shareholders' equity		
Common stock and additional paid-in capital	2,000	2,000
Retained earnings	382	327
Total shareholders' equity	2,382	2,327
Total liabilities and shareholders' equity	\$ 2,459	\$ 2,375

ASB Community Development Corp.
Statements of Income
June 30, 2009 and 2008

	2009	2008
Interest income	\$ 83	\$ 105
Income before income taxes	83	105
Federal income taxes	28	36
	\$ 55	\$ 69

ASB Community Development Corp.
Statements of Cash Flows
June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Net income	\$ 55	\$ 69
Adjustment to reconcile net income to net cash provided by operating activities	57	42
Decrease in cash due to changes in:		
Other liabilities	(29)	(21)
Net cash provided by operating activities	83	90
Cash flows provided by (used in) investing activities:		
Net change in loans	(73)	509
Net cash (used in) provided by investing activities	(73)	509
Net change in cash and cash equivalents	10	599
Cash and cash equivalents at beginning of year	861	262
Cash and cash equivalents at end of year	\$ 871	\$ 861

**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
Richard M. Morgan Co-Owner and President Morgan Brothers Jewelers	Director
Jack A. Stephenson Vice President American Savings Bank, fsb	Vice President
Michael L. Gampg 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
Richard M. Morgan	Director
Jack A. Stephenson	Vice President
Michael L. Gampg	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 28, 2009, 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.