

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

**For the Quarter Ended  
March 31, 2006**

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**ASB Financial Corp.**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(In thousands, except share data)

<b>ASSETS</b>	<b>March 31, 2006 (Unaudited)</b>	<b>June 30, 2005</b>
Cash and due from banks	\$ 1,111	\$ 1,505
Interest-bearing deposits in other financial institutions	<u>4,604</u>	<u>10,287</u>
Cash and cash equivalents	5,715	11,792
Certificates of deposit in other financial institutions	-	72
Investment securities available for sale - at market	11,260	9,038
Mortgage-backed securities available for sale - at market	10,293	9,556
Loans receivable - net	160,519	146,134
Office premises and equipment - at depreciated cost	2,550	2,160
Federal Home Loan Bank stock - at cost	1,202	1,154
Accrued interest receivable on loans	603	501
Accrued interest receivable on mortgage-backed securities	41	38
Accrued interest receivable on investments and interest-bearing deposits	128	69
Prepaid expenses and other assets	413	274
Bank-owned life insurance	3,331	3,240
Prepaid federal income taxes	772	-
Deferred federal income taxes	<u>161</u>	<u>784</u>
Total assets	<b><u>\$196,988</u></b>	<b><u>\$184,812</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$150,688	\$143,278
Advances from the Federal Home Loan Bank	27,341	20,284
Advances by borrowers for taxes and insurance	118	193
Accrued interest payable	778	81
Accrued federal income taxes	-	580
Other liabilities	<u>1,113</u>	<u>1,201</u>
Total liabilities	180,038	165,617
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized, no par value; no shares issued	-	-
Common stock, 4,000,000 shares authorized, no par value; 1,968,480 and 1,967,676 shares issued at March 31, 2006 and June 30, 2005, respectively	-	-
Additional paid-in capital	10,258	10,823
Retained earnings, restricted	12,124	10,978
Shares acquired by stock benefit plans	-	(63)
Accumulated comprehensive income, unrealized gains on securities designated as available for sale, net of related tax effects	359	542
Less 378,592 and 261,271 shares of treasury stock at March 31, 2006 and June 30 2005, respectively - at cost	<u>(5,791)</u>	<u>(3,085)</u>
Total shareholders' equity	<u>16,950</u>	<u>19,195</u>
Total liabilities and shareholders' equity	<b><u>\$196,988</u></b>	<b><u>\$184,812</u></b>

ASB Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In thousands, except per share data)

	For the nine months ended March 31,		For the three months ended March 31,	
	2006	2005	2006	2005
Interest income				
Loans	\$7,319	\$6,474	\$2,577	\$2,223
Mortgage-backed securities	283	310	106	102
Investment securities	<u>421</u>	<u>322</u>	<u>130</u>	<u>91</u>
Total interest income	8,023	7,106	2,813	2,416
Interest expense				
Deposits	3,066	2,208	1,195	751
Borrowings	<u>733</u>	<u>314</u>	<u>290</u>	<u>122</u>
Total interest expense	<u>3,799</u>	<u>2,522</u>	<u>1,485</u>	<u>873</u>
Net interest income	4,224	4,584	1,328	1,543
Provision for losses on loans	<u>209</u>	<u>149</u>	<u>55</u>	<u>32</u>
Net interest income after provision for losses on loans	4,015	4,435	1,273	1,511
Other income				
Gain on sale of investment securities	34	-	-	-
Loss on sale of REO	(38)	-	-	-
Other operating	<u>812</u>	<u>566</u>	<u>229</u>	<u>226</u>
Total other income	808	566	229	226
General, administrative and other expense				
Employee compensation and benefits	1,728	1,621	575	575
Occupancy and equipment	199	179	66	65
Franchise taxes	146	124	49	42
Data processing	337	343	130	119
Other operating	<u>772</u>	<u>638</u>	<u>237</u>	<u>208</u>
Total general, administrative and other expense	<u>3,182</u>	<u>2,905</u>	<u>1,057</u>	<u>1,009</u>
Earnings before income taxes	1,641	2,096	445	728
Federal income taxes				
Current	357	388	117	52
Deferred	<u>-</u>	<u>180</u>	<u>-</u>	<u>169</u>
Total federal income taxes	<u>357</u>	<u>568</u>	<u>117</u>	<u>221</u>
NET EARNINGS	<u>\$1,284</u>	<u>\$1,528</u>	<u>\$ 328</u>	<u>\$ 507</u>
EARNINGS PER SHARE				
Basic	<u>\$.80</u>	<u>\$.90</u>	<u>\$.21</u>	<u>\$.30</u>
Diluted	<u>\$.80</u>	<u>\$.90</u>	<u>\$.21</u>	<u>\$.30</u>

ASB Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

	For the nine months ended March 31,		For the three months ended March 31,	
	2006	2005	2006	2005
Net earnings	\$1,284	\$1,528	\$328	\$507
Other comprehensive income (loss), net of taxes (benefits):				
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of \$(94), \$40, \$(31) and \$(111) during the respective periods	<u>(183)</u>	<u>78</u>	<u>(61)</u>	<u>(216)</u>
Comprehensive income	<u>\$1,101</u>	<u>\$1,606</u>	<u>\$267</u>	<u>\$291</u>
Accumulated comprehensive income	<u>\$ 359</u>	<u>\$ 455</u>	<u>\$359</u>	<u>\$455</u>

**ASB Financial Corp.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

For the nine months ended March 31,  
(In thousands)

	<b>2006</b>	<b>2005</b>
Cash flows from operating activities:		
Net earnings for the period	\$ 1,284	\$ 1,528
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of discounts and premiums on loans, investments and mortgage-backed securities - net	(47)	49
Amortization of deferred loan origination fees	(49)	(44)
Depreciation and amortization	117	123
Amortization of expense related to stock benefit plans	113	118
Provision for losses on loans	209	149
Gain on sale of investment securities	(34)	-
Loss on sale of REO	38	-
Federal Home Loan Bank stock dividends	(48)	(36)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	(164)	(185)
Prepaid expenses and other assets	(139)	450
Accrued interest payable	697	419
Other liabilities	(88)	80
Federal income taxes		
Current	(706)	(68)
Deferred	<u>71</u>	<u>180</u>
Net cash provided by operating activities	1,254	2,763
Cash flows used in investing activities:		
Proceeds of maturities of certificates of deposit	73	106
Proceeds from maturity of investment securities	1,300	5,301
Proceeds from sale of investment securities	34	-
Purchase of investment securities	(3,694)	(2,304)
Principal repayments on mortgage-backed securities	2,376	2,687
Purchase of mortgage-backed securities	(3,279)	(1,349)
Loan principal repayments	22,434	25,117
Loan disbursements	(36,939)	(36,787)
Proceeds from sale of REO	30	-
Purchase of bank owned life insurance	(91)	(3,205)
Purchase of office premises and equipment	(507)	(160)
Net cash used in investing activities	(18,263)	(10,594)
Cash flows provided by financing activities:		
Net increase in deposit accounts	7,410	3,071
Proceeds from Federal Home Loan Bank advances	21,700	15,100
Repayment of Federal Home Loan Bank advances	(14,643)	(9,742)
Advances by borrowers for taxes and insurance	(75)	(69)
Purchase of treasury stock	(2,706)	-
Proceeds from exercise of stock options	10	429
Dividends paid and declared on common stock	(763)	(771)
Net cash provided by financing activities	<u>10,933</u>	<u>8,018</u>
Net increase (decrease) in cash and cash equivalents	(6,076)	187
Cash and cash equivalents at beginning of period	<u>11,791</u>	<u>7,385</u>
Cash and cash equivalents at end of period	<b><u>\$ 5,715</u></b>	<b><u>\$ 7,572</u></b>

ASB Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the nine months ended December 31,  
(In thousands)

	2006	2005
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$ <u>534</u>	\$ <u>415</u>
Interest on deposits and borrowings	\$ <u>3,102</u>	\$ <u>2,103</u>
Supplemental disclosure of noncash investing activities:		
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	\$ <u>(183)</u>	\$ <u>78</u>
Transfer from loans to real estate acquired through foreclosure	\$ <u>-</u>	\$ <u>-</u>

## ASB Financial Corp.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine- and three-month periods ended March 31, 2006 and 2005

#### 1. Basis of Presentation

The accompanying unaudited consolidated financial statements do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of ASB Financial Corp. (the "Corporation") included in the Annual Report for the year ended June 30, 2005. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the financial statements have been included. The results of operations for the nine- and three-month periods ended March 31, 2006, are not necessarily indicative of the results which may be expected for the entire fiscal year.

#### 2. Principles of Consolidation

The accompanying consolidated financial statements include all of the accounts of the Corporation, American Savings Bank, fsb ("American") and American's wholly-owned subsidiaries, ASB Community Development Corp. and A.S.L. Services, Inc. All significant intercompany items have been eliminated.

#### 3. Critical Accounting Policies

Certain of the Corporation's accounting policies are important to the portrayal of the Corporation's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, without limitation, changes in interest rates, changes in the performance of the economy or changes in the financial condition of borrowers. Management believes that its critical accounting policy focuses primarily on determining the allowance for loan losses. This critical accounting policy is discussed in detail in the Annual Report to Shareholders for the year ended June 30, 2005 in Note A of the Notes to Consolidated Financial Statements under "Allowance for Loan Losses." If management were to underestimate the allowance for loan losses, earnings could be reduced in the future as a result of greater than expected net loan losses. Overestimation of the required allowance could result in future increases in income, as loan loss recoveries increase or provisions for losses on loans decrease.

**ASB Financial Corp.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the nine- and three-month periods ended March 31, 2006 and 2005

4. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of all additional potential common shares issuable under the Corporation's stock option plan. The computations are as follows:

	For the nine months ended March 31,		For the three months ended March 31,	
	2006	2005	2006	2005
Weighted-average common shares outstanding (basic)	1,594,198	1,699,019	1,589,888	1,715,458
Dilutive effect of assumed exercise of stock options	<u>6,823</u>	<u>6,526</u>	<u>6,823</u>	<u>5,869</u>
Weighted-average common shares outstanding (diluted)	<b><u>1,601,021</u></b>	<b><u>1,705,545</u></b>	<b><u>1,596,711</u></b>	<b><u>1,721,326</u></b>

5. Stock Option Plan

During fiscal 1996 the Board of Directors and shareholders adopted the ASB Financial Corp. 1995 Stock Option and Incentive Plan (the "Plan") that provided for the issuance of 225,423 shares, as adjusted, of authorized but unissued common stock at fair value on the date of grant. In fiscal 1996, the Corporation granted 197,521 options which currently have an adjusted exercise price per share of \$7.64. The number of options granted and the exercise price have been adjusted to give effect to the return of capital and special dividend distributions paid by the Corporation.

The Corporation accounts for the Plan in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue to account for stock options and similar equity instruments under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of net earnings and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

**ASB Financial Corp.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the nine- and three-month periods ended March 31, 2006 and 2005

5. Stock Option Plan (continued)

The Corporation applies APB Opinion No. 25 and related Interpretations in accounting for the Plan. Accordingly, no compensation cost has been recognized for the Plan. Had compensation cost for the Plan been determined based on the fair value at the grant dates for awards under the Plan consistent with the accounting method utilized in SFAS No. 123, the Corporation's net earnings and earnings per share for the nine- and three-month periods ended March 31, 2006 and 2005, would have been reported as the pro forma amounts indicated below:

		Nine months ended March 31,		Three months ended March,	
		2006	2005	2006	2005
Net earnings (In thousands)	As reported	\$1,284	\$1,528	\$328	\$507
	Stock-based compensation, net of tax	<u>-</u>	<u>(13)</u>	<u>-</u>	<u>(4)</u>
	Pro-forma	<b><u>\$1,515</u></b>	<b><u>\$1,515</u></b>	<b><u>\$328</u></b>	<b><u>\$503</u></b>
Earnings per share					
Basic	As reported	\$.80	\$.90	\$.21	\$.30
	Stock-based compensation, net of tax	<u>-</u>	<u>(.01)</u>	<u>-</u>	<u>(.01)</u>
	Pro-forma	<b><u>\$.80</u></b>	<b><u>\$.89</u></b>	<b><u>\$.21</u></b>	<b><u>\$.29</u></b>
Diluted	As reported	\$.80	\$.90	\$.21	\$.30
	Stock-based compensation, net of tax	<u>-</u>	<u>(.01)</u>	<u>-</u>	<u>(.01)</u>
	Pro-forma	<b><u>\$.80</u></b>	<b><u>\$.89</u></b>	<b><u>\$.21</u></b>	<b><u>\$.29</u></b>

The fair value of each option grant is estimated on the date of grant using the modified Black-Scholes options-pricing model with the following assumptions used for grants during fiscal 2004: dividend yields of 2.3%; expected volatility of 20%; risk-free interest rate of 4.3%; and an expected life of ten years for all grants.

A summary of the status of the Plan as of March 31, 2006 and June 30, 2005 and 2004, and changes during the periods ending on those dates is presented below:

	Nine months ended March 31, 2006		Year ended June 30, 2005		2004	
	Shares	Weighted- average exercise price	Shares	Weighted- average exercise price	Shares	Weighted- average exercise price
Outstanding at beginning of period	21,632	\$15.83	78,128	\$10.15	77,694	\$ 7.69
Forfeited	(6,000)	26.00				
Granted	-	-	-	-	6,000	16.50
Exercised	<u>(804)</u>	<u>14.38</u>	<u>(56,496)</u>	<u>7.98</u>	<u>(5,566)</u>	<u>9.57</u>
Outstanding at end of period	<b><u>14,828</u></b>	<b><u>\$15.87</u></b>	<b><u>21,632</u></b>	<b><u>\$15.83</u></b>	<b><u>78,128</u></b>	<b><u>\$ 10.15</u></b>
Options exercisable at period-end	<b><u>9,742</u></b>	<b><u>\$9.34</u></b>	<b><u>9,004</u></b>	<b><u>\$11.55</u></b>	<b><u>61,982</u></b>	<b><u>\$ 7.87</u></b>
Weighted-average fair value of options granted during the period		<b><u>\$ -</u></b>		<b><u>\$ -</u></b>		<b><u>\$ 11.41</u></b>

**ASB Financial Corp.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the nine- and three-month periods ended March 31, 2006 and 2005

5. Stock Option Plan (continued)

The following information applies to options outstanding at March 31, 2005:

Number outstanding	14,828
Exercise price	\$11.80
Range of exercise prices	\$8.75-\$16.50
Weighted-average remaining contractual life	6.1 years

6. Effects of Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (the "FASB") issued a revision to Statement of Financial Accounting Standards ("SFAS") No. 123 which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. SFAS 123R, "Share-Based Payment," requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with limited exceptions. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award – the requisite service period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met.

Initially, the cost of employee services received in exchange for an award of liability instruments will be measured based on current fair value; the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

Excess tax benefits, as defined by SFAS 123R, will be recognized as an addition to additional paid in capital. Cash retained as a result of those excess tax benefits will be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost will be recognized as income tax expense unless there are excess tax benefits from previous awards remaining in additional paid in capital to which it can be offset.

Compensation cost is required to be recognized in beginning of the first annual period that begins after December 15, 2005, or July 1, 2006 as to the Corporation. Management believes the effect of SFAS No. 123 on interim operations will approximate the amounts disclosed in the stock option plan pro-forma disclosures in Note 5 above.

## ASB Financial Corp.

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

#### Forward Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties. When used herein, the terms "anticipates," "plans," "expects," "believes," and similar expressions as they relate to 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.

#### Discussion of Financial Condition Changes from June 30, 2005 to March 31, 2006

At March 31, 2006, the Corporation's assets totaled \$197.0 million, an increase of \$12.2 million, or 6.6%, over total assets at June 30, 2005.

Cash and cash equivalents decreased by \$6.1 million, or 515.3%, from June 30, 2005 levels, to a total of \$5.7 million at March 31, 2006. Investment securities and certificates of deposit totaled \$11.3 million at March 31, 2006, an increase of \$2.2 million, or 23.6%, from June 30, 2005 levels. Maturities and discount accretion related to investment securities totaling approximately \$1.5 million, were offset by purchases of \$3.7 million. Purchases of investment securities consisted primarily of fixed-rate medium-term callable U.S. Government agency obligations. Mortgage-backed securities totaled \$10.3 million at March 31, 2006, an increase of \$737,000, or 7.7%, from the total at June 30, 2005, due primarily to purchases totaling \$3.3 million, which were partially offset by \$2.6 million in principal repayments, a pre-tax decrease in unrealized gains and premium amortization.

Loans receivable increased by \$14.4 million, or 9.8%, during the nine-month period ended March 31, 2006, to a total of \$160.5 million. Loan disbursements amounted to \$37.0 million for the nine months ended March 31, 2006, and were partially offset by principal repayments of \$22.4 million. During the nine months ended March 31, 2006, loans originated consisted of \$17.2 million of loans secured by one- to four-family residential real estate, \$3.9 million of loans secured by nonresidential real estate, \$12.0 million of commercial loans and \$3.9 million of consumer loans.

The allowance for loan losses increased by \$19,000, or 1.5%, during the nine-month period ended March 31, 2006, to a total of \$1.3 million. Nonperforming and nonaccrual loans totaled \$959,000 at March 31, 2006, a decrease of \$900,000, or 50.0%, from the balance at June 30, 2005. The allowance for loan losses represented 134.3% and 170.8% of nonperforming loans at March 31, 2006 and June 30, 2005, respectively. At March 31, 2006, nonperforming loans consisted of \$796,000 in one- to four-family residential real estate loans and \$504,000 in nonresidential real estate, consumer and other loans. Management believes such loans are adequately collateralized and does not expect to incur any losses on such loans. Although management believes that its allowance for loan losses at March 31, 2006, was adequate based upon the available facts and circumstances, there can be no assurance that additions to the allowance will not be necessary in future periods, which could adversely affect the Corporation's results of operations.

Deposits totaled \$150.7 million at March 31, 2006, an increase of \$7.4 million, or 5.2%, from June 30, 2005 levels. The increase in deposits was due primarily to growth in market share in the communities served by American and the opening of a new branch office in Wheelersburg, Ohio.

## ASB Financial Corp.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### Discussion of Financial Condition Changes from June 30, 2005 to March 31, 2006 (continued)

Federal Home Loan Bank advances increased by \$7.0 million, or 34.5%, during the nine-month period ended March 31, 2006. New borrowings amounted to \$21.7 million for the nine months ended March 31, 2006, and were partially offset by repayments of \$14.7 million. The proceeds from the advances were primarily used to fund new loan originations.

Shareholders' equity totaled \$17.0 million at March 31, 2006, a decrease of \$2.2 million, or 11.5%, from the June 30, 2005 level. The decrease was due to net earnings of \$1.3 million, \$10,000 in proceeds from the exercise of stock options, and \$113,000 from the amortization of stock benefit plans which were offset by a \$183,000 net decrease in unrealized gains on securities, \$2.7 million repurchase of treasury stock and dividends on common shares totaling \$763,000. Dividends totaled \$.16 per share for the nine months ended March 31, 2006.

American is required to meet minimum regulatory capital requirements promulgated by the Office of Thrift Supervision ("OTS"). At March 31, 2006, American's regulatory capital exceeded the minimum capital requirements.

#### Comparison of Operating Results for the Nine-Month Periods Ended March 31, 2006 and 2005

##### General

Net earnings totaled \$1.3 million for the nine months ended March 31, 2006, a decrease of \$244,000, or 16.0% from the same period in 2005. Increases of \$242,000 in other income and a decrease of \$211,000 in provision for income taxes were offset by a decrease of \$360,000 in net interest income and increases of \$60,000 in provision for loan losses and \$277,000 in general, administrative and other expense.

##### Net Interest Income

Interest income on loans increased by \$845,000, or 13.1%, for the nine months ended March 31, 2006, compared to the 2005 period. This increase was due primarily to a \$15.6 million, or 11.3%, increase in the average portfolio balance outstanding period to period and a 9 basis point increase in the weighted-average yield, to 6.36% for the 2006 nine-month period. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits increased by \$72,000, or 11.4%, due primarily to a 91 basis point increase in the weighted-average yield, to 3.69% for the 2006 period which was partially offset by a \$4.8 million, or 16.0%, decrease in the average balance of the related earning assets outstanding period to period.

Interest expense on deposits increased by \$858,000, or 38.9%, for the nine months ended March 31, 2006, compared to the same period in 2005. This increase was due primarily to a \$7.6 million, or 5.5%, increase in the average balance of deposits outstanding period to period and a 67 basis point increase in the weighted-average cost of deposits, to 2.79% for the nine months ended March 31, 2006. Interest expense on borrowings increased by \$419,000, or 133.4%, due to a 115 basis point increase in the average cost of borrowings during the period and a \$9.6 million, or 69.0%, increase in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by \$360,000, or 7.9%, to a total of \$4.2 million for the nine months ended March 31, 2006. The interest rate spread decreased to 3.00% for the nine months ended March 31, 2006, from 3.44% for the 2005 period, while the net interest margin decreased to 3.15% in the 2006 period, compared to 3.64% in the 2005 period.

## ASB Financial Corp.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

#### Comparison of Operating Results for the Nine-Month Periods Ended March 31, 2006 and 2005 (continued)

##### 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. The Corporation recorded a provision for losses on loans totaling \$209,000 during the nine months ended March 31, 2006, an increase of \$60,000, or 40.3%, from the comparable nine-month period in 2005. The increase in the provision during the 2006 period was primarily due to an increase in the balance of commercial loans outstanding with a corresponding adjustment of the provision for losses on loans to reflect increased risk associated with commercial loans. There can be no assurance that the loan loss allowance will be adequate to absorb losses on known nonperforming loans or that the allowance will be adequate to cover losses on nonperforming assets in the future, which could adversely affect the Corporation's results of operations.

##### Other Income

Other income totaled \$812,000 for the nine months ended March 31, 2006, a increase of \$242,000, or 42.8%, from the same period in 2005. The increase was due to a \$246,000, or 43.5%, increase in other operating income, primarily derived from income received from bank owned life insurance, which was partially offset by a \$34,000 in gain on sale of investment securities and a \$38,000 loss on real estate owned.

##### General, Administrative and Other Expense

General, administrative and other expense totaled \$3.2 million for the nine months ended March 31, 2006, an increase of \$277,000, or 9.5%, over the same period in 2005. This increase was comprised of increases of \$107,000, or 6.6% in employee compensation and benefits, \$20,000, or 11.2% in occupancy and equipment, \$22,000, or 17.7% in franchise taxes and \$134,000, or 21.0% in other operating expense which were partially offset by a \$6,000, or 1.7% decrease in data processing. The increase in employee compensation and benefits was due primarily to normal merit increases and incentives for employees and the opening of a new branch office. The increase in other operating expenses and occupancy and equipment was due to increases costs associated with the opening of a new branch office.

##### Federal Income Taxes

The provision for federal income taxes totaled \$357,000 for the nine months ended March 31, 2006, a decrease of \$211,000, or 37.1%, compared to the same period in 2005. This decrease was due to a decrease in earnings before taxes of \$455,000, or 21.7%, and the effects of New Markets Tax Credits which were awarded to ASB Community Development Corp. in fiscal 2004. The effective tax rates were 21.8% and 27.1% for the six-month periods ended March 31, 2006 and 2005, respectively.

**ASB Financial Corp.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (CONTINUED)**

Comparison of Operating Results for the Three-Month Periods Ended March 31, 2006 and 2005

General

Net earnings totaled \$328,000 for the three months ended March 31, 2006, a decrease of \$179,000, or 35.3%, from the \$507,000 in earnings reported for the same quarter in 2005. Increases of \$3,000 in other income and a decrease of \$104,000 in provision for income taxes were offset by a decrease of \$215,000 in net interest income and increases of \$23,000 in provision for losses on loans and \$48,000 in general, administrative and other expenses.

Net Interest Income

Interest income on loans increased by \$354,000, or 14.7%, for the three months ended March 31, 2006, compared to the 2005 period. This increase was due primarily to a \$18.7 million, or 13.4%, increase in the average portfolio balance outstanding period to period. The weighted average yield was unchanged at 6.48% for each period. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits increased by \$43,000, or 22.3%, due primarily to a \$4.5 million, or 14.7%, decrease in the average balance of the related assets outstanding period to period and a 70 basis point increase in the weighted-average yield, to 2.28% for the 2005 period.

Interest expense on deposits increased by \$444,000, or 59.1%, for the three months ended March 31, 2006, compared to the same period in 2005. This increase was due primarily to a \$8.9 million, or 6.3%, increase in the average balance of deposits outstanding period to period. The weighted average cost of deposits was 3.21%, a 106 basis point increase from 2005. Interest expense on borrowings increased by \$168,000, or 137.7%, due to a 116 basis point increase in the average cost of borrowings during the period and a \$11.4 million, or 74.6%, increase in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by \$215,000, or 14.2%, to a total of \$1.3 million for the three months ended March 31, 2006. The interest rate spread decreased to 2.70% for the three months ended March 31, 2006, from 3.53% for the 2005 period, while the net interest margin decreased to 2.87% in the 2006 period, compared to 3.73% in the 2005 period.

Provision for Losses on Loans

The Corporation recorded a provision for losses on loans totaling \$55,000 during the three months ended March 31, 2006, an increase of \$23,000, or 71.9%, from the comparable three-month period in 2005. The increase in the provision during the 2006 period was primarily influenced by an increase in the balance of commercial loans outstanding. There can be no assurance that the loan loss allowance will be adequate to absorb losses on known nonperforming loans or that the allowance will be adequate to cover losses on nonperforming assets in the future, which could adversely affect the Corporation's results of operations.

Other Income

Other income totaled \$229,000 for the three months ended March 31, 2005, a increase of \$3,000, or 1.3%, from the same period in 2005. The increase was due primarily to earnings from bank owned life insurance.

**ASB Financial Corp.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (CONTINUED)**

Comparison of Operating Results for the Three-Month Periods Ended March 31, 2006 and 2005 (continued)

General, Administrative and Other Expense

General, administrative and other expense totaled \$1.1 million for the three months ended March 31, 2006, an increase of \$48,000, or 4.8%, over the same period in 2005. This increase was comprised of increases of \$29,000, or 13.9%, in other operating expense, \$1,000, or 1.5%, in occupancy and equipment, \$11,000, or 9.2% in data processing costs, and 7,000 or 16.7% in franchise tax expense. The increases in data processing and other operating expenses were due primarily to rising vendor costs and the opening of a new branch office.

Federal Income Taxes

The provision for federal income taxes totaled \$117,000 for the three months ended March 31, 2006, a decrease of \$104,000, or 47.1%, compared to the same period in 2005. This decrease was due to a decrease in earnings before taxes of \$283,000, or 38.9% and the effects of New Markets Tax Credits which were awarded to ASB Community Development Corp. in fiscal 2004. The effective tax rates were 26.3% and 30.4% for the three-month periods ended March 31, 2006 and 2005, respectively.