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

**For the Quarter Ended**
**December 31, 2005**

INDEX

| | | | Page |
|---|---|---|---|
| PART I | - | FINANCIAL INFORMATION | |
| | | Consolidated Statements of Financial Condition | 3 |
| | | Consolidated Statements of Earnings | 4 |
| | | Consolidated Statements of Comprehensive Income | 5 |
| | | Consolidated Statements of Cash Flows | 6 |
| | | Notes to Consolidated Financial Statements | 8 |
| | | Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 |

**ASB Financial Corp.**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(In thousands, except share data)

| **ASSETS** | **December 31, 2005** | **June 30, 2005** |
|---|---|---|
| Cash and due from banks | $ 1,399 | $ 1,505 |
| Interest-bearing deposits in other financial institutions | 4,754 | 10,287 |
| Cash and cash equivalents | 6,153 | 11,792 |
| Certificates of deposit in other financial institutions | 73 | 72 |
| Investment securities available for sale - at market | 11,245 | 9,038 |
| Mortgage-backed securities available for sale - at market | 10,186 | 9,556 |
| Loans receivable - net | 153,745 | 146,134 |
| Office premises and equipment - at depreciated cost | 2,479 | 2,160 |
| Federal Home Loan Bank stock - at cost | 1,185 | 1,154 |
| Accrued interest receivable on loans | 577 | 501 |
| Accrued interest receivable on mortgage-backed securities | 44 | 38 |
| Accrued interest receivable on investments and interest-bearing deposits | 74 | 69 |
| Prepaid expenses and other assets | 172 | 274 |
| Bank-owned life insurance | 3,317 | 3,240 |
| Prepaid federal income taxes | 143 | - |
| Deferred federal income taxes | 515 | 784 |
| Total assets | **$189,908** | **$184,812** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Deposits | $143,081 | $143,278 |
| Advances from the Federal Home Loan Bank | 28,389 | 20,284 |
| Advances by borrowers for taxes and insurance | 203 | 193 |
| Accrued interest payable | 104 | 81 |
| Accrued federal income taxes | - | 580 |
| Other liabilities | 1,194 | 1,201 |
| Total liabilities | 172,971 | 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; 1,968,260 and 1,967,676 shares issued at December 31, 2005 and June 30, 2005, respectively | - | - |
| Additional paid-in capital | 10,258 | 10,823 |
| Retained earnings, restricted | 12,050 | 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 | 420 | 542 |
| Less 378,592 and 261,271 shares of treasury stock at December 31, 2005 and June 30 2005, respectively - at cost | (5,791) | (3,085) |
| Total shareholders' equity | 16,937 | 19,195 |
| Total liabilities and shareholders' equity | **$189,908** | **$184,812** |

**ASB Financial Corp.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

(In thousands, except per share data)

| | For the six months ended December 31, 2005 | For the six months ended December 31, 2004 | For the three months ended December 31, 2005 | For the three months ended December 31, 2004 |
|---|---|---|---|---|
| Interest income | | | | |
| Loans | $4,742 | $4,278 | $2,431 | $2,184 |
| Mortgage-backed securities | 177 | 208 | 94 | 118 |
| Investment securities | 291 | 233 | 174 | 110 |
| Total interest income | 5,210 | 4,719 | 2,699 | 2,412 |
| Interest expense | | | | |
| Deposits | 1,871 | 1,456 | 947 | 737 |
| Borrowings | 443 | 193 | 241 | 103 |
| Total interest expense | 2,314 | 1,649 | 1,188 | 840 |
| Net interest income | 2,896 | 3,070 | 1,511 | 1,572 |
| Provision for losses on loans | 154 | 117 | 112 | 96 |
| Net interest income after provision for losses on loans | 2,742 | 2,953 | 1,399 | 1,476 |
| Other income | | | | |
| Loss on sale of REO | (38) | - | (38) | - |
| Gain on sale of investments | 34 | - | - | - |
| Other operating | 587 | 340 | 337 | 162 |
| Total other income | 583 | 340 | 299 | 162 |
| General, administrative and other expense | | | | |
| Employee compensation and benefits | 1,154 | 1,046 | 626 | 516 |
| Occupancy and equipment | 132 | 115 | 67 | 58 |
| Franchise taxes | 97 | 82 | 49 | 41 |
| Data processing | 208 | 224 | 88 | 105 |
| Other operating | 538 | 429 | 277 | 212 |
| Total general, administrative and other expense | 2,129 | 1,896 | 1,107 | 932 |
| Earnings before income taxes | 1,196 | 1,397 | 591 | 706 |
| Federal income taxes | | | | |
| Current | 182 | 365 | 107 | 88 |
| Deferred | 58 | 11 | 34 | 98 |
| Total federal income taxes | 240 | 376 | 141 | 186 |
| NET EARNINGS | **$956** | **$1,021** | **$450** | **$520** |
| EARNINGS PER SHARE | | | | |
| Basic | **$.60** | **$.60** | **$.28** | **$.31** |
| Diluted | **$.60** | **$.60** | **$.28** | **$.30** |

**ASB Financial Corp.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

| | For the six months ended December 31, | | For the three months ended December 31, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net earnings | $956 | $1,021 | $450 | $520 |
| Other comprehensive income (loss), net of taxes (benefits): Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of $(63), $151, $6 and $26 during the respective periods | (122) | 294 | 11 | 51 |
| Reclassification adjustment for realized gains included in earnings, net of taxes of - during both the six-month and three-month periods ended December 31, 2005 | - | - | - | - |
| Comprehensive income | **$834** | **$ 1,315** | **$461** | **$571** |
| Accumulated comprehensive income | **$420** | **$671** | **$420** | **$671** |

**ASB Financial Corp.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

| | 2005 | 2004 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings for the period | $ 956 | $ 1,021 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | |
| Amortization of discounts and premiums on loans, investments and mortgage-backed securities - net | (27) | 44 |
| Amortization of deferred loan origination fees | (33) | (31) |
| Depreciation and amortization | 78 | 81 |
| Amortization of expense related to stock benefit plans | 113 | 118 |
| Provision for losses on loans | 154 | 117 |
| Federal Home Loan Bank stock dividends | (31) | (24) |
| Gain on sale of investment securities | (34) | - |
| Loss on sale of REO | 38 | - |
| Increase (decrease) in cash due to changes in: | | |
| Accrued interest receivable | (87) | 59 |
| Prepaid expenses and other assets | 102 | 548 |
| Accrued interest payable | 23 | (8) |
| Other liabilities | (8) | 29 |
| Federal income taxes | | |
| Current | (449) | 11 |
| Deferred | 58 | 11 |
| Net cash provided by operating activities | 853 | 1,976 |
| Cash flows provided by (used in) investing activities: | | |
| Purchase of investment securities | (3,452) | (1,240) |
| Proceeds from maturities of certificates of deposit | - | 107 |
| Proceeds from sale of REO | 30 | - |
| Proceeds from maturity of investment securities | 1,150 | 3,000 |
| Proceeds from sale of investment securities | 34 | - |
| Purchase of mortgage-backed securities | (2,524) | (1,349) |
| Principal repayments on mortgage-backed securities | 1,759 | 1,952 |
| Loan principal repayments | 20,019 | 18,252 |
| Loan disbursements | (27,747) | (26,361) |
| Purchase of bank-owned life insurance | (77) | (3,137) |
| Purchase of office equipment | (397) | (154) |
| Net cash used in investing activities | (11,205) | (8,930) |
| Cash flows provided by (used in) financing activities: | | |
| Net increase (decrease) in deposit accounts | (197) | 1,274 |
| Proceeds from Federal Home Loan Bank advances | 13,100 | 7,900 |
| Repayment of Federal Home Loan Bank advances | (4,994) | (3,847) |
| Advances by borrowers for taxes and insurance | 10 | 5 |
| Proceeds from issuance of shares under stock option plan | 10 | 320 |
| Purchase of treasury stock | (2,706) | - |
| Dividends paid on common stock | (509) | (516) |
| Net cash provided by financing activities | 4,714 | 5,136 |
| Net decrease in cash and cash equivalents | (5,638) | (1,818) |
| Cash and cash equivalents at beginning of period | 11,864 | 7,385 |
| Cash and cash equivalents at end of period | **$ 6,226** | **$ 5,567** |

**ASB Financial Corp.**

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

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

| | **2005** | **2004** |
|---|---|---|
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Federal income taxes | **$ 637** | **$ 354** |
| Interest on deposits and borrowings | **$2,291** | **$1,657** |
| Supplemental disclosure of noncash investing activities: | | |
| Unrealized gains (losses) on securities designated as available for sale, net of related tax effects | **$ (122)** | **$ 294** |

**ASB Financial Corp.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the six- and three-month periods ended December 31, 2005 and 2004

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 six- and three-month periods ended December 31, 2005, 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.

4. Earnings Per Share

Basic earnings per common share is computed based upon the weighted-average number of common shares outstanding during the period less shares in the ASB Financial Corp. Employee Stock Ownership Plan ("ESOP") that are unallocated and not committed to be released. At December 31, 2005 and 2004 all ESOP shares were allocated. Diluted earnings per common share include the dilutive effect of all additional potential common shares issuable under the Corporation's stock option plan. The computations are as follows:

| | For the six months ended December 31, | | For the three months ended December 31, | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Weighted-average common shares outstanding (basic) | 1,596,295 | 1,690,979 | 1,589,478 | 1,696,883 |
| Dilutive effect of assumed exercise of stock options | 6,777 | 16,240 | 6,777 | 15,467 |
| Weighted-average common shares outstanding (diluted) | **1,603,072** | **1,707,219** | **1,596,255** | **1,712,350** |

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 shares of 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 six- and three-month periods ended December 31, 2005 and 2004

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 six- and three-month periods ended December 31, 2005 and 2004, would have been reported as the pro forma amounts indicated below:

| | | **Six months ended December 31,** | | **Three months ended December,** | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| Net earnings (In thousands) | As reported | $956 | $1,021 | $450 | $520 |
| | Stock-based compensation, net of tax | - | (14) | - | (8) |
| | Pro-forma | **$956** | **$ 1,007** | **$450** | **$512** |
| Earnings per share | | | | | |
| Basic | As reported | $.60 | $.61 | $.28 | $.31 |
| | Stock-based compensation, net of tax | - | - | - | (.01) |
| | Pro-forma | **$.60** | **$.61** | **$.28** | **$.30** |
| Diluted | As reported | $.60 | $.60 | $.28 | $.30 |
| | Stock-based compensation, net of tax | - | (.01) | - | - |
| | Pro-forma | **$.60** | **$.59** | **$.28** | **$.30** |

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 yield 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 Corporation's Plan as of December 31, 2005 and June 30, 2005 and 2004, and changes during the periods ending on those dates is presented below:

| | **Six months ended December 31, 2005** | | **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 | $10.15 | 77,694 | 7.69 |
| Forfieted | (6,000) | 26.00 | | | | |
| Granted | - | - | - | - | 6,000 | 16.50 |
| Exercised | (584) | 16.50 | (56,496) | 7.98 | (5,566) | 9.57 |
| Outstanding at end of period | **15,048** | **$ 11.75** | **21,632** | **$15.83** | **77,694** | **$ 10.15** |
| Options exercisable at period-end | **9,962** | **$ 9.36** | **9,004** | **$11.55** | **61,982** | **$ 7.87** |
| Weighted-average fair value of options granted during the period | | **$ -** | | **$ -** | | **$ 11.41** |

5. Stock Option Plan (continued)

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

| | |
|---|---|
| Number outstanding | 15,048 |
| Range of exercise prices | \$8.75 - \$16.50 |
| Weighted-average exercise price | \$11.75 |
| Weighted-average remaining contractual life | 6.4 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. This Statement 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 interim or annual period that begins after June 15, 2005, or July 1, 2005 as to the Corporation. Management believes the effect on operations will be as disclosed in the stock option plan pro-forma disclosures.

**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 December 31, 2005

At December 31, 2005, the Corporation's assets totaled $189.9 million, an increase of $5.1 million, or 2.8%, over total assets at June 30, 2005.

Cash and cash equivalents decreased by $5.6 million, or 47.8%, from June 30, 2005 levels, to a total of $6.2 million at December 31, 2005. Investment securities and certificates of deposit totaled $11.3 million at December 31, 2005, an increase of $2.2 million, or 24.2%, from June 30, 2005 levels. Maturities and discount accretion related to investment securities totaling approximately $1.2 million, which were offset by purchases of $3.4 million. Purchases of investment securities consisted primarily of fixed-rate medium-term callable U.S. Government agency obligations. Mortgage-backed securities totaled $10.2 million at December 31, 2005, an increase of $630,000, or 6.6%, from the total at June 30, 2005, due primarily to purchases totaling $2.5 million, which were partially offset by principal repayments of $1.8 million, a pre-tax decrease in unrealized gains totaling $105,000 and premium amortization of $30,000.

Loans receivable increased by $7.6 million, or 5.2%, during the six-month period ended December 31, 2005, to a total of $153.7 million. Loan disbursements amounted to $27.7 million for the six months ended December 31, 2005, and were partially offset by principal repayments of $20.0 million. During the six months ended December 31, 2005, loans originated consisted of $12.7 million of loans secured by one- to four-family residential real estate, $2.5 million of loans secured by nonresidential real estate, $9.8 million of commercial loans and $2.7 million of consumer loans.

The allowance for loan losses increased by $131,000, or 10.3%, during the six month period ended December 31, 2005, to a total of $1.4 million. Nonperforming and nonaccrual loans totaled $1.3 million at December 31, 2005, an increase of $557,000, or 75.0% from the balance at June 30, 2005. The allowance for loan losses represented 107.7% and 170.8% of nonperforming loans at December 31, 2005 and June 30, 2005, respectively. At December 31, 2005, nonperforming loans consisted of $886,000 in one- to four-family residential real estate loans and $414,000 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 December 31, 2005, was adequate based upon the available facts and circumstances, there can be no assurance that additions to such allowance will not be necessary in future periods, which could adversely affect the Corporation's results of operations.

Deposits totaled $143.1 million at December 31, 2005, an decrease of $197,000, or .14%, from June 30, 2005 levels. The decrease in deposits was due primarily to the payout of Christmas Club deposits.

Discussion of Financial Condition Changes from June 30, 2005 to December 31, 2005 (continued)

Federal Home Loan Bank advances increased by $8.1 million, or 40.0%, during the six-month period ended December 31, 2005. New borrowings amounted to $13.1 million for the six months ended December 31, 2005, and were partially offset by repayments of $5.0 million. The proceeds from the advances were primarily used to fund new loan originations.

Shareholders' equity totaled $16.9 million at December 31, 2005, a decrease of $2.3 million, or 11.8%, from the June 30, 2005 level. The decrease was due to net earnings of $956,000, $10,000 in proceeds from the exercise of stock options and $113,000 amoritazation of stock benefit plans, which were offset by dividends on common shares totaling $509,000, purchases of treasury stock totaling $2.7 million and decreases in unrealized gains on investment securities totaling $122,000. Dividends totaled $.32 per share for the six months ended December 31, 2005.

American is required to meet minimum regulatory capital requirements promulgated by the Office of Thrift Supervision ("OTS"). At December 31, 2005, American's regulatory capital exceeded the minimum capital requirements.

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2005 and 2004

General

Net earnings totaled $956,000 for the six months ended December 31, 2005, a decrease of $65,000 from the same period in 2004. A decrease of $136,000 in provision for income taxes and an increase of $243,000 in other operating income were offset by a $37,000 increase in the provision for losses on loans, an increase of $233,000 in operating expenses and a decrease of $174,000 in net interest income.

Net Interest Income

Interest income on loans increased by $464,000, or 10.8%, for the six months ended December 31, 2005, compared to the 2004 period. This increase was due primarily to a $14.4 million, or 10.6%, increase in the average portfolio balance outstanding period to period and a 2 basis point increase in the weighted-average yield, to 6.30% for the 2005 six-month period. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits increased by $27,000, or 6.1%, due primarily to a 79 basis point increase in the weighted-average yield, to 3.72% for the 2005 period, which was partially offset by a $5.0 million, or 16.6%, decrease in the average balance of the related earning assets outstanding period to period.

Interest expense on deposits increased by $415,000, or 28.5%, for the six months ended December 31, 2005, compared to the same period in 2004. This increase was due primarily to a $6.9 million, or 5.0%, increase in the average balance of deposits outstanding period to period and a 47 basis point increase in the weighted-average cost of deposits, to 2.58% for the six months ended December 31, 2005. Interest expense on borrowings increased by $250,000, or 129.5%, due to a 111 basis point increase in the average cost of borrowings during the period and a $8.8 million, or 66.1%, increase in the average balance outstanding.

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2005 and 2004 (continued)

Net Interest Income (continued)

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $174,000, or 5.7%, to a total of $2.9 million for the six months ended December 31, 2005. The interest rate spread decreased to 3.16% for the six months ended December 31, 2005, from 3.50% for the 2004 period, while the net interest margin decreased to 3.30% in the 2005 period, compared to 3.69% in the 2004 period.

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 $154,000 during the six months ended December 31, 2005, an increase of $37,000, or 31.6%, from the comparable six-month period in 2004. The increase in the provision during the 2005 period was primarily influenced by an increase in the balance of commercial loans outstanding and an 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 $583,000 for the six months ended December 31, 2005, an increase of $243,000, or 71.5%, from the same period in 2004. The increase was due to increases of $34,000 in gain on sale of investment securities and $247,000, or 72.6%, in other operating income, which were partially offset by a $38,000 increase in loss on real estate owned. The increase in other operating income was primarily due to income from BOLI.

General, Administrative and Other Expense

General, administrative and other expense totaled $2.1 million for the six months ended December 31, 2005, an increase of $233,000, or 12.3%, over the same period in 2004. This increase was comprised of increases of $108,000, or 10.3%, in employee compensation and benefits, $17,000, or 14.8%, in occupancy and equipment, $15,000, or 18.3%, in franchise taxes, and $109,000, or 25.4% in other operating expense, which were partially offset by a decrease of $16,000, or 7.1%, in data processing costs. The increase in employee compensation and benefits was due primarily to normal merit increases and incentives for employees as well as additional staffing related to the Wheelersburg Branch. The increase in other operating expenses and occupancy and equipment were due to increases related to the opening of the new Wheelersburg Branch.

Federal Income Taxes

The provision for federal income taxes totaled $240,000 for the six months ended December 31, 2005, a decrease of $136,000, or 36.2%, compared to the same period in 2004. This decrease was due to a decrease in earnings before taxes of $201,000, or 14.4%, and the effects of New Markets Tax Credits which were awarded to ASB Community Development Corp. in fiscal 2003. The effective tax rates were 20.1% and 26.9% for the six-month periods ended December 31, 2005 and 2004, respectively.

## Comparison of Operating Results for the Three-Month Periods Ended December 31, 2005 and 2004

### General

Net earnings totaled $450,000 for the three months ended December 31, 2005, a decrease of $70,000, or 13.5% from the $520,000 in earnings reported for the same quarter in 2004. Increases of $175,000 in general administrative and other expense, $16,000 in provision for losses on loans and a decrease of $61,000 in net interest income were partially offset by an increase of $137,000 in other income and a decrease of $45,000 in provision for income taxes.

### Net Interest Income

Interest income on loans increased by $247,000, or 11.3%, for the three months ended December 31, 2005, compared to the 2004 period. This increase was due primarily to a $13.4 million, or 9.7%, increase in the average portfolio balance outstanding period to period and a 10 basis point increase in the weighted-average yield, to 6.41% for the 2005 three-month period. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits increased by $40,000, or 17.5%, due primarily to a $6.1 million, or 19.8%, decrease in the average balance of the related assets outstanding period to period, which was offset by a 137 basis point increase in the weighted-average yield, to 4.3% for the 2005 period.

Interest expense on deposits increased by $210,000, or 28.5%, for the three months ended December 31, 2005, compared to the same period in 2004. This increase was due primarily to a $5.1 million, or 3.7%, increase in the average balance of deposits outstanding period to period. The weighted average cost of deposits was 2.62% for 2005, a 50 point increase from the 2.12% for the same period in 2004. Interest expense on borrowings increased by $138,000, or 134.0%, due to a 113 basis point increase in the average cost of borrowings during the period and a $9.7 million, or 68.3%, increase in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income decreased by $61,000, or 3.9%, to a total of $1.5 million for the three months ended December 31, 2005. The interest rate spread decreased to 3.28% for the three months ended December 31, 2005, from 3.50% for the 2004 period, while the net interest margin decreased to 3.42% in the 2005 period, compared to 3.71% in the 2004 period.

### Provision for Losses on Loans

The Corporation recorded a provision for losses on loans totaling $112,000 during the three months ended December 31, 2005, an increase of $16,000, or 16.7%, from the comparable three-month period in 2004. The increase in the provision during the 2005 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 $299,000 for the three months ended December 31, 2005, an increase of $137,000, or 84.6%, from the same period in 2004. The increase was due to an increase of $175,000 in other operating income which was partially offset by a $38,000 increase in loss on real estate owned. The increase in other operating income was due primarily to income related to BOLI and ATM transaction fees and other charges.

Comparison of Operating Results for the Three-Month Periods Ended December 31, 2005 and 2004 (continued)

General, Administrative and Other Expense

General, administrative and other expense totaled $1.1 million for the three months ended December 31, 2005, an increase of $175,000, or 18.8%, over the same period in 2004. This increase was comprised of increases of $110,000, or 21.3, in employee compensation and benefits, $9,000, or 15.5% in occupancy and equipment, $8,000, or 19.5%, in franchise taxes and $65,000, or 30.7%, in other operating expense which was partially offset by a decrease of $17,000, or 16.2%, in data processing costs. The increase in employee compensation and benefits was due primarily to normal merit increases and incentives for employees as well as increased staffing related to the Wheelersburg Branch. The increase in other operating expense, franchise taxes and occupancy and equipment were due primarily to rising vendor costs and costs associated with the opening of the new Wheelersburg Branch.

Federal Income Taxes

The provision for federal income taxes totaled $141,000 for the three months ended December 31, 2005, a decrease of $45,000, or 24.2%, compared to the same period in 2004. This decrease was due to a decrease in earnings before taxes of $115,000, or 16.3% and the effects of New Markets Tax Credits which were awarded to ASB Community Development Corp. in fiscal 2003. The effective tax rates were 23.9% and 26.3% for the three-month periods ended December 31, 2005 and 2004, respectively.