

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

**For the Quarter Ended  
March 31, 2007**

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**ASB Financial Corp.**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(In thousands, except share data)

<b>ASSETS</b>	<b>March 31, 2007 (Unaudited)</b>	<b>June 30, 2006</b>
Cash and due from banks	\$ 608	\$ 662
Interest-bearing deposits in other financial institutions	<u>6,619</u>	<u>2,763</u>
Cash and cash equivalents	7,227	3,425
Certificates of deposit in other financial institutions	200	200
Investment securities available for sale - at market	11,007	12,343
Mortgage-backed securities available for sale - at market	10,797	10,021
Loans receivable - net	172,021	163,056
Office premises and equipment - at depreciated cost	2,688	2,646
Federal Home Loan Bank stock - at cost	1,264	1,219
Accrued interest receivable on loans	899	626
Accrued interest receivable on mortgage-backed securities	48	45
Accrued interest receivable on investments and interest-bearing deposits	162	90
Prepaid expenses and other assets	801	306
Bank-owned life insurance	3,442	3,362
Prepaid federal income taxes	759	174
Deferred federal income taxes	<u>64</u>	<u>986</u>
Total assets	<b><u>\$211,379</u></b>	<b><u>\$198,499</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$166,903	\$152,495
Advances from the Federal Home Loan Bank	24,577	27,496
Advances by borrowers for taxes and insurance	139	208
Accrued interest payable	970	155
Accrued federal income taxes	-	-
Other liabilities	<u>1,247</u>	<u>1,229</u>
Total liabilities	193,836	181,583
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; 1,849,891 and 1,848,004 shares issued at March 31, 2007 and June 30, 2006, respectively	-	-
Additional paid-in capital	8,227	8,205
Retained earnings, restricted	11,911	11,617
Accumulated comprehensive income, unrealized gains on securities designated as available for sale, net of related tax effects	490	179
Less 256,980 shares of treasury stock at cost	<u>(3,085)</u>	<u>(3,085)</u>
Total shareholders' equity	<u>17,543</u>	<u>16,916</u>
Total liabilities and shareholders' equity	<b><u>\$211,379</u></b>	<b><u>\$198,499</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,	
	2007	2006	2007	2006
Interest income				
Loans	\$8,743	\$7,319	\$2,988	\$2,577
Mortgage-backed securities	376	283	139	106
Investment securities	<u>431</u>	<u>421</u>	<u>125</u>	<u>130</u>
Total interest income	9,550	8,023	3,252	2,813
Interest expense				
Deposits	4,368	3,066	1,535	1,195
Borrowings	<u>945</u>	<u>733</u>	<u>279</u>	<u>290</u>
Total interest expense	<u>5,313</u>	<u>3,799</u>	<u>1,814</u>	<u>1,485</u>
Net interest income	4,237	4,224	1,438	1,328
Provision for losses on loans	<u>180</u>	<u>209</u>	<u>60</u>	<u>55</u>
Net interest income after provision for losses on loans	4,057	4,015	1,378	1,273
Other income				
Gain on sale of investment securities	-	34	-	-
Loss on sale of REO	(14)	(38)	-	-
Other operating	<u>890</u>	<u>812</u>	<u>295</u>	<u>229</u>
Total other income	876	808	295	229
General, administrative and other expense				
Employee compensation and benefits	1,867	1,728	623	575
Occupancy and equipment	262	199	78	66
Franchise taxes	144	146	51	49
Data processing	409	337	143	130
Other operating	<u>826</u>	<u>772</u>	<u>251</u>	<u>237</u>
Total general, administrative and other expense	<u>3,508</u>	<u>3,182</u>	<u>1,146</u>	<u>1,057</u>
Earnings before income taxes	1,425	1,641	527	445
Federal income taxes				
Current	318	357	125	117
Deferred	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total federal income taxes	<u>318</u>	<u>357</u>	<u>125</u>	<u>117</u>
NET EARNINGS	<u>\$1,107</u>	<u>\$1,284</u>	<u>\$ 402</u>	<u>\$ 328</u>
EARNINGS PER SHARE				
Basic	<u>\$.69</u>	<u>\$.80</u>	<u>\$.25</u>	<u>\$.21</u>
Diluted	<u>\$.69</u>	<u>\$.80</u>	<u>\$.25</u>	<u>\$.21</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,	
	2007	2006	2007	2006
Net earnings	\$1,107	\$1,284	\$328	\$328
Other comprehensive income (loss), net of taxes (benefits):				
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of \$160, \$(94), \$(22) and \$(31) during the respective periods	<u>311</u>	<u>(183)</u>	<u>(42)</u>	<u>(61)</u>
Comprehensive income	<u>\$1,418</u>	<u>\$1,101</u>	<u>\$286</u>	<u>\$267</u>
Accumulated comprehensive income	<u>\$ 490</u>	<u>\$ 359</u>	<u>\$490</u>	<u>\$359</u>

**ASB Financial Corp.**

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

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

	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net earnings for the period	\$ 1,107	\$ 1,284
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	(171)	(47)
Amortization of deferred loan origination fees	(40)	(49)
Depreciation and amortization	151	117
Amortization of expense related to stock benefit plans	-	113
Provision for losses on loans	180	209
Gain on sale of investment securities	-	(34)
Loss on sale of REO	12	38
Federal Home Loan Bank stock dividends	(45)	(48)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	(348)	(164)
Prepaid expenses and other assets	(495)	(139)
Accrued interest payable	815	697
Other liabilities	18	(88)
Federal income taxes		
Current	110	(706)
Deferred	<u>68</u>	<u>71</u>
Net cash provided by operating activities	1,362	1,254
Cash flows used in investing activities:		
Proceeds of maturities of certificates of deposit	-	73
Proceeds from maturity of investment securities	5,076	1,300
Proceeds from sale of investment securities	-	34
Purchase of investment securities	(3,515)	(3,694)
Principal repayments on mortgage-backed securities	1,920	2,376
Purchase of mortgage-backed securities	(2,484)	(3,279)
Loan principal repayments	20,989	22,434
Loan disbursements	(29,933)	(36,939)
Proceeds from sale of REO	32	30
Purchase of bank owned life insurance	(80)	(91)
Purchase of office premises and equipment	<u>(193)</u>	<u>(507)</u>
Net cash used in investing activities	(8,188)	(18,263)
Cash flows provided by financing activities:		
Net increase in deposit accounts	14,408	7,410
Proceeds from Federal Home Loan Bank advances	24,900	21,700
Repayment of Federal Home Loan Bank advances	(27,819)	(14,643)
Advances by borrowers for taxes and insurance	(69)	(75)
Purchase of treasury stock	-	(2,706)
Proceeds from exercise of stock options	22	10
Dividends paid and declared on common stock	<u>(814)</u>	<u>(763)</u>
Net cash provided by financing activities	<u>10,628</u>	<u>10,933</u>
Net increase (decrease) in cash and cash equivalents	3,802	(6,076)
Cash and cash equivalents at beginning of period	<u>3,425</u>	<u>11,791</u>
Cash and cash equivalents at end of period	<u>\$ 7,227</u>	<u>\$ 5,715</u>

**ASB Financial Corp.**

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

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

	2007	2006
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	<u>\$ 300</u>	<u>\$ 534</u>
Interest on deposits and borrowings	<u>\$4,498</u>	<u>\$3,102</u>
Supplemental disclosure of noncash investing activities:		
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	<u>\$ 311</u>	<u>\$ (183)</u>
Transfer from loans to real estate acquired through foreclosure	<u>\$ 38</u>	<u>\$ -</u>

## ASB Financial Corp.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine- and three-month periods ended March 31, 2007 and 2006

#### 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, 2006. 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, 2007, 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, 2006 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, 2007 and 2006

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		For the three months ended	
	March 31,		March 31,	
	2007	2006	2007	2006
Weighted-average common shares outstanding (basic)	1,591,881	1,594,198	1,592,466	1,589,888
Dilutive effect of assumed exercise of stock options	<u>5,150</u>	<u>6,823</u>	<u>5,150</u>	<u>6,823</u>
Weighted-average common shares outstanding (diluted)	<b><u>1,597,031</u></b>	<b><u>1,601,021</u></b>	<b><u>1,597,616</u></b>	<b><u>1,596,711</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, 2007 and 2006

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, 2007 and 2006, would have been reported as the pro forma amounts indicated below:

		Nine months ended March 31,		Three months ended March,	
		2007	2006	2007	2006
Net earnings (In thousands)	As reported	\$1,107	\$1,284	\$402	\$328
	Stock-based compensation, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Pro-forma	<u>\$1,107</u>	<u>\$1,284</u>	<u>\$402</u>	<u>\$328</u>
Earnings per share					
Basic	As reported	\$.69	\$.80	\$.25	\$.20
	Stock-based compensation, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Pro-forma	<u>\$.69</u>	<u>\$.80</u>	<u>\$.25</u>	<u>\$.21</u>
Diluted	As reported	\$.69	\$.80	\$.25	\$.21
	Stock-based compensation, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Pro-forma	<u>\$.69</u>	<u>\$.80</u>	<u>\$.25</u>	<u>\$.21</u>

A summary of the status of the Plan as of March 31, 2007 and June 30, 2006 and 2005, and changes during the periods ending on those dates is presented below:

	Nine months ended March 31, 2007		Year ended June 30, 2006		2005	
	Shares	Weighted- average exercise price	Shares	Weighted- average exercise price	Shares	Weighted- average exercise price
Outstanding at beginning of period	13,106	\$11.44	21,632	\$15.83	78,128	\$10.15
Forfeited	-	-	(6,064)	26.00	-	-
Granted	-	-	-	-	-	-
Exercised	<u>(1,887)</u>	<u>11.80</u>	<u>(2,462)</u>	<u>14.86</u>	<u>(56,496)</u>	<u>7.98</u>
Outstanding at end of period	<u>11,219</u>	<u>\$11.43</u>	<u>13,106</u>	<u>\$11.44</u>	<u>21,632</u>	<u>\$15.83</u>
Options exercisable at period-end	<u>7,335</u>	<u>\$ 8.75</u>	<u>9,442</u>	<u>\$9.36</u>	<u>9,004</u>	<u>\$11.55</u>

**ASB Financial Corp.**

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

For the nine- and three-month periods ended March 31, 2007 and 2006

5. Stock Option Plan (continued)

The following information applies to options outstanding at March 31, 2007:

Number outstanding	11,219
Exercise price	\$11.43
Range of exercise prices	\$8.75-\$16.50
Weighted-average remaining contractual life	5.7 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, 2006 to March 31, 2007

At March 31, 2007, the Corporation's assets totaled \$211.4 million, an increase of \$12.9 million, or 6.5%, over total assets at June 30, 2006.

Cash and cash equivalents increased by \$3.8 million, or 111.0%, from June 30, 2006 levels, to a total of \$7.2 million at March 31, 2007. Investment securities and certificates of deposit totaled \$11.2 million at March 31, 2007, a decrease of \$1.3 million, or 10.7%, from June 30, 2006 levels. Maturities and discount accretion related to investment securities totaling approximately \$4.8 million, were partially offset by purchases of \$3.5 million. Purchases of investment securities consisted primarily of fixed-rate medium-term callable U.S. Government agency obligations. Mortgage-backed securities totaled \$10.8 million at March 31, 2007, an increase of \$776,000, or 7.7%, from the total at June 30, 2006, due primarily to purchases totaling \$2.5 million and a \$190,000 decrease in pre-tax unrealized losses, which were partially offset by \$1.9 million in principal repayments and premium amortization.

Loans receivable increased by \$9.0 million, or 5.5%, during the nine-month period ended March 31, 2007, to a total of \$172.0 million. Loan disbursements amounted to \$30.0 million for the nine months ended March 31, 2007, and were partially offset by principal repayments of \$21.0 million. During the nine months ended March 31, 2007, loans originated consisted of \$16.0 million of loans secured by one- to four-family residential real estate, \$3.4 million of loans secured by nonresidential real estate, \$8.3 million of commercial loans and \$2.2 million of consumer loans.

The allowance for loan losses increased by \$152,000, or 11.4%, during the nine-month period ended March 31, 2007, to a total of \$1.5 million. Nonperforming and nonaccrual loans totaled \$4.4 million at March 31, 2007, an increase of \$3.5 million, or 391.1%, from the balance at June 30, 2006. The allowance for loan losses represented 34.1% and 149.3% of nonperforming loans at March 31, 2007 and June 30, 2006, respectively. At March 31, 2007, nonperforming loans consisted of \$1.2 million in one- to four-family residential real estate loans and \$3.2 million 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, 2007, 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 \$166.9 million at March 31, 2007, an increase of \$14.4 million, or 9.4%, from June 30, 2006 levels. The increase in deposits was due primarily to growth in market share in the communities served by American, the opening of a new branch office in Wheelersburg, Ohio and the purchase of a new branch in South Shore Kentucky.

## ASB Financial Corp.

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

#### Discussion of Financial Condition Changes from June 30, 2006 to March 31, 2007 (continued)

Federal Home Loan Bank advances decreased by \$2.9 million, or 31.9%, during the nine-month period ended March 31, 2007. New borrowings amounted to \$25.0 million for the nine months ended March 31, 2007, and were offset by repayments of \$27.9 million. The proceeds from the advances were primarily used to fund new loan originations.

Shareholders' equity totaled \$17.5 million at March 31, 2007, an increase of \$627,000, or 3.7%, from the June 30, 2006 level. The increase was due to net earnings of \$1.1 million, \$22,000 in proceeds from the exercise of stock options, and a \$311,000 increase in unrealized gains on securities, which were partially offset by dividends on common shares totaling \$814,000. Dividends totaled \$.17 per share for the nine months ended March 31, 2007.

American is required to meet minimum regulatory capital requirements promulgated by the Office of Thrift Supervision ("OTS"). At March 31, 2007, American's regulatory capital exceeded the minimum capital requirements.

#### Comparison of Operating Results for the Nine-Month Periods Ended March 31, 2007 and 2006

##### General

Net earnings totaled \$1.1 million for the nine months ended March 31, 2007, a decrease of \$177,000, or 13.8% from the same period in 2006. Increases of \$13,000 in net interest income and \$68,000 in other income and decreases of \$39,000 in provision for income taxes and \$29,000 in provision for loan losses were offset by an increase of \$326,000 in general, administrative and other expense.

##### Net Interest Income

Interest income on loans increased by \$1.4 million, or 19.5%, for the nine months ended March 31, 2007, compared to the 2006 period. This increase was due primarily to a \$15.3 million, or 10.0%, increase in the average portfolio balance outstanding period to period and a 55 basis point increase in the weighted-average yield, to 6.91% for the 2007 nine-month period. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits increased by \$103,000, or 14.6%, due primarily to a 45 basis point increase in the weighted-average yield, to 4.14% for the 2007 period and a \$534,000, or 2.1%, increase in the average balance of the related earning assets outstanding period to period.

Interest expense on deposits increased by \$1.3 million, or 42.5%, for the nine months ended March 31, 2007, compared to the same period in 2006. This increase was due primarily to a \$15.3 million, or 10.5%, increase in the average balance of deposits outstanding period to period and a 81 basis point increase in the weighted-average cost of deposits, to 3.60% for the nine months ended March 31, 2007. Interest expense on borrowings increased by \$212,000, or 28.9%, due to a 65 basis point increase in the average cost of borrowings during the period and a \$2.7 million, or 11.2%, increase in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$13,000, or .3%, to a total of \$4.2 million for the nine months ended March 31, 2007. The interest rate spread decreased to 2.77% for the nine months ended March 31, 2007, from 3.00% for the 2006 period, while the net interest margin decreased to 2.90% in the 2007 period, compared to 3.15% in the 2006 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, 2007 and 2006 (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 \$180,000 during the nine months ended March 31, 2007, a decrease of \$29,000, or 13.9%, from the comparable nine-month period in 2006. The decrease in the provision during the 2007 period was primarily due to managements analysis of the overall allowance for losses on 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 \$876,000 for the nine months ended March 31, 2007, an increase of \$68,000, or 8.4%, from the same period in 2006. The increase was due to a \$78,000, or 9.6%, increase in other operating income, primarily derived from income received from the addition of an overdraft privilege service and a \$24,000 decrease in losses on sale of real estate owned, which were partially offset by a \$34,000 decrease in gain on sale of investment securities.

##### General, Administrative and Other Expense

General, administrative and other expense totaled \$3.5 million for the nine months ended March 31, 2007, an increase of \$326,000, or 10.2%, over the same period in 2006. This increase was comprised of increases of \$139,000, or 8.0% in employee compensation and benefits, \$63,000, or 31.7% in occupancy and equipment, \$72,000, or 21.4% in data processing and \$54,000, or 7.0% in other operating expense which were partially offset by a \$2,000, or 1.4% decrease in franchise taxes. The increase in employee compensation and benefits was due primarily to normal merit increases and incentives for employees and the addition of a new office in South Shore Kentucky. 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 \$318,000 for the nine months ended March 31, 2007, a decrease of \$39,000, or 10.9%, compared to the same period in 2006. This decrease was due to a decrease in earnings before taxes of \$216,000, or 13.2%, and the effects of New Markets Tax Credits which were awarded to ASB Community Development Corp. in fiscal 2004. The effective tax rates were 22.3% and 21.8% for the six-month periods ended March 31, 2007 and 2006, 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, 2007 and 2006

##### General

Net earnings totaled \$402,000 for the three months ended March 31, 2007, an increase of \$74,000, or 22.6%, from the \$328,000 in earnings reported for the same quarter in 2006. Increases of \$110,000 in net interest income and \$66,000 in other income were partially offset by increases of \$5,000 in provision for losses on loans, \$89,000 in general, administrative and other expense and \$8,000 in provision for federal income taxes.

##### Net Interest Income

Interest income on loans increased by \$411,000, or 15.9%, for the three months ended March 31, 2007, compared to the 2006 period. This increase was due primarily to a \$12.5 million, or 7.9%, increase in the average portfolio balance outstanding period to period and a 49 basis point increase in the weighted-average yield, to 6.97% for the 2007 period. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits increased by \$28,000, or 11.9%, due primarily to a \$527,000, or 2.0%, decrease in the average balance of the related assets outstanding period to period and a 51 basis point increase in the weighted-average yield, to 4.14% for the 2007 period.

Interest expense on deposits increased by \$340,000, or 28.5%, for the three months ended March 31, 2007, compared to the same period in 2006. This increase was due primarily to a \$17.1 million, or 11.5%, increase in the average balance of deposits outstanding period to period. The weighted average cost of deposits was 3.70%, a 49 basis point increase from 2006. Interest expense on borrowings decreased by \$11,000, or 3.8%, due to a 20 basis point increase in the average cost of borrowings during the period and a \$2.1 million, or 8.0%, decrease in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$110,000, or 8.3%, to a total of \$1.4 million for the three months ended March 31, 2007. The interest rate spread increased to 2.79% for the three months ended March 31, 2007, from 2.70% for the 2006 period, while the net interest margin increased to 2.92% in the 2007 period, compared to 2.87% in the 2006 period.

##### Provision for Losses on Loans

The Corporation recorded a provision for losses on loans totaling \$60,000 during the three months ended March 31, 2007, an increase of \$5,000, or 9.1%, from the comparable three-month period in 2006. The increase in the provision during the 2007 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 \$295,000 for the three months ended March 31, 2007, a increase of \$66,000, or 28.8%, from the same period in 2006. The increase was due primarily to earnings from the implementation of an overdraft privileged program.

**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, 2007 and 2006 (continued)

General, Administrative and Other Expense

General, administrative and other expense totaled \$1.1 million for the three months ended March 31, 2007, an increase of \$89,000, or 8.4%, over the same period in 2006. This increase was comprised of increases of \$48,000, or 8.3%, in employee compensation and benefits, \$12,000, or 18.2%, in occupancy and equipment, \$2,000, or 4.1% in franchise taxes, \$13,000, or 3.9% in data processing costs, and 14,000 or 5.9% in other operating expenses. The increases in employee compensation and benefits, 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 \$125,000 for the three months ended March 31, 2007, an increase of \$8,000, or 6.8%, compared to the same period in 2006. This increase was due to an increase in earnings before taxes of \$82,000, or 18.4% and the effects of New Markets Tax Credits which were awarded to ASB Community Development Corp. in fiscal 2004. The effective tax rates were 23.7% and 26.3% for the three-month periods ended March 31, 2007 and 2006, respectively.