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ASB FINANCIAL CORP /OH
Form 10QSB
February 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number: 0-25906

ASB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Ohio

31-1429488

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

503 Chillicothe Street, Portsmouth, Ohio 45662

(Address of principal executive offices) (Zip Code)

(740) 354-3177

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act
of 1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports) and (2) has been subject to
such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act.)

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

February 11, 2004 - 1,701,920 common shares, no par value

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ASB Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS	December 31, 2004	June 30, 2004
Cash and due from banks	\$ 1,145	\$ 2,078
Interest-bearing deposits in other financial institutions	4,422	5,307
	-----	-----
Cash and cash equivalents	5,567	7,385
Certificates of deposit in other financial institutions	71	178
Investment securities available for sale - at market	10,935	12,487
Mortgage-backed securities available for sale - at market	11,287	11,768
Loans receivable - net	137,916	129,821
Office premises and equipment - at depreciated cost	1,887	1,814
Federal Home Loan Bank stock - at cost	1,128	1,104

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Accrued interest receivable on loans	305	336
Accrued interest receivable on mortgage-backed securities	45	50
Accrued interest receivable on investments and interest-bearing deposits	107	130
Prepaid expenses and other assets	282	830
Bank-owned life insurance	3,137	-
Prepaid federal income taxes	169	183
Deferred federal income taxes	125	285
	-----	-----
Total assets	\$172,961	\$166,371
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$138,035	\$136,761
Advances from the Federal Home Loan Bank	14,952	10,899
Advances by borrowers for taxes and insurance	185	180
Accrued interest payable	44	52
Other liabilities	1,084	1,055
	-----	-----
Total liabilities	154,300	148,947
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; 1,952,037 and 1,936,180 shares issued at December 31, 2004 and June 30, 2004, respectively	-	-
Additional paid-in capital	10,540	10,165
Retained earnings, restricted	10,353	9,848
Shares acquired by stock benefit plans	(63)	(126)
Accumulated comprehensive income, unrealized gains on securities designated as available for sale, net of related tax effects	671	377
Less 250,117 shares of treasury stock at December 31, 2004 and June 30 2004, respectively - at cost	(2,840)	(2,840)
Total shareholders' equity	18,661	17,424
	-----	-----
Total liabilities and shareholders' equity	\$172,961	\$166,371
	=====	=====

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ASB Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	For the six months	For the three months
	ended December 31,	ended December 31,
	2004	2004
	2003	2003

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Interest income				
Loans	\$4,278	\$3,992	\$2,184	\$2,000
Mortgage-backed securities	208	79	118	47
Investment securities	233	346	110	175
	-----	-----	-----	-----
Total interest income	4,719	4,417	2,412	2,222
Interest expense				
Deposits	1,456	1,431	737	705
Borrowings	193	33	103	18
	-----	-----	-----	-----
Total interest expense	1,649	1,464	840	723
	-----	-----	-----	-----
Net interest income	3,070	2,953	1,572	1,499
Provision for losses on loans	117	50	96	28
	-----	-----	-----	-----
Net interest income after provision for losses on loans	2,953	2,903	1,476	1,471
Other income				
Gain on sale of investment securities	-	10	-	10
Gain on sale of office premises	-	58	-	-
Other operating	340	313	162	160
	-----	-----	-----	-----
Total other income	340	381	162	170
General, administrative and other expense				
Employee compensation and benefits	1,046	1,001	516	493
Occupancy and equipment	115	116	58	63
Franchise taxes	82	85	41	43
Data processing	224	212	105	103
Other operating	429	512	212	279
	-----	-----	-----	-----
Total general, administrative and other expense	1,896	1,926	932	981
	-----	-----	-----	-----
Earnings before income taxes	1,397	1,358	706	660
Federal income taxes				
Current	365	217	88	149
Deferred	11	129	98	-
	-----	-----	-----	-----
Total federal income taxes	376	346	186	149
	-----	-----	-----	-----
NET EARNINGS	\$1,021	\$1,012	\$ 520	\$ 511
	=====	=====	=====	=====
EARNINGS PER SHARE				
Basic	\$.60	\$.61	\$.31	\$.31
	=====	=====	=====	=====
Diluted	\$.60	\$.59	\$.30	\$.30
	=====	=====	=====	=====

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ASB Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	For the six months ended December 31,		For the three months ended December 31,	
	2004	2003	2004	2003
Net earnings	\$1,021	\$1,012	\$520	\$511
Other comprehensive income (loss), net of taxes (benefits):				
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of \$151, \$(33), \$26 and \$36 during the respective periods	294	(65)	51	77
Reclassification adjustment for realized gains included in earnings, net of taxes of \$3 during both the six-month and three-month periods ended December 31, 2003	-	(7)	-	(7)
	-----	-----	----	----
Comprehensive income	\$1,315	\$ 940	\$571	\$581
	=====	=====	=====	=====
Accumulated comprehensive income	\$ 671	\$ 601	\$671	\$601
	=====	=====	=====	=====

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ASB Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended December 31,

(In thousands)

	2004	2003
Cash flows from operating activities:		
Net earnings for the period	\$ 1,021	\$ 1,012
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	44	161
Amortization of deferred loan origination fees	(31)	(95)
Depreciation and amortization	81	74

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Amortization of expense related to stock benefit plans	118	308
Provision for losses on loans	117	50
Federal Home Loan Bank stock dividends	(24)	(21)
Gain on sale of investment securities	-	(10)
Gain on sale of office premises	-	(58)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	59	63
Prepaid expenses and other assets	548	348
Accrued interest payable	(8)	(37)
Other liabilities	29	(157)
Federal income taxes		
Current	11	(289)
Deferred	11	129
	-----	-----
Net cash provided by operating activities	1,976	1,478
Cash flows provided by (used in) investing activities:		
Purchase of investment securities	(1,240)	(4,988)
Proceeds from maturities of certificates of deposit	107	-
Proceeds from sale of office premises	-	58
Proceeds from maturity of investment securities	3,000	4,010
Proceeds from sale of investment securities	-	500
Purchase of mortgage-backed securities	(1,349)	(2,783)
Principal repayments on mortgage-backed securities	1,952	3,318
Loan principal repayments	18,252	22,001
Loan disbursements	(26,361)	(32,145)
Purchase of bank-owned life insurance	(3,137)	-
Purchase of office equipment	(154)	(95)
	-----	-----
Net cash used in investing activities	(8,930)	(10,124)
Cash flows provided by (used in) financing activities:		
Net increase in deposit accounts	1,274	1,702
Proceeds from Federal Home Loan Bank advances	7,900	9,931
Repayment of Federal Home Loan Bank advances	(3,847)	(4,700)
Advances by borrowers for taxes and insurance	5	8
Proceeds from issuance of shares under stock option plan	320	-
Purchase of treasury stock	-	(134)
Dividends paid on common stock	(516)	(465)
	-----	-----
Net cash provided by financing activities	5,136	6,342
	-----	-----
Net decrease in cash and cash equivalents	(1,818)	(2,304)
Cash and cash equivalents at beginning of period	7,385	7,610
	-----	-----
Cash and cash equivalents at end of period	\$ 5,567	\$ 5,306
	=====	=====

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ASB Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

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

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	2004	2003
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$ 354 =====	\$ 559 =====
Interest on deposits and borrowings	\$ 1,657 =====	\$ 1,501 =====
Supplemental disclosure of noncash investing activities:		
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	\$ 294 =====	\$ (72) =====

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ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended December 31, 2004 and 2003

1. Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-Q and, therefore, 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 on Form 10-KSB for the year ended June 30, 2004. 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, 2004, 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

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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, 2004 (incorporated by reference into the Corporation's Form 10-KSB filing) 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.

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ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended December 31, 2004 and 2003

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, 2004, all ESOP shares were allocated. At December 31, 2003, basic earnings per share included the effects of 8,128 unallocated ESOP shares. 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,	
	2004	2003	2004	2003
Weighted-average common shares outstanding (basic)	1,690,979	1,659,994	1,696,883	1,659,994
Dilutive effect of assumed exercise of stock options	16,240	49,576	15,467	49,576
	-----	-----	-----	-----
Weighted-average common shares outstanding (diluted)	1,707,219	1,709,570	1,712,350	1,709,570
	=====	=====	=====	=====

5. Stock Option Plan

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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.

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ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended December 31, 2004 and 2003

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, 2004 and 2003, would have been reported as the pro forma amounts indicated below:

		Six months ended December 31,		
		2004	2003	
Net earnings (In thousands)	As reported	\$1,021	\$1,012	\$
	Stock-based compensation, net of tax	(14)	(14)	
		-----	-----	
		Pro-forma	\$ 998	\$
		=====	=====	=
Earnings per share				
	Basic			
	As reported	\$.60	\$.61	\$
	Stock-based compensation, net of tax	-	(.01)	

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		Pro-forma	\$.60	\$.60	\$
			=====	=====	=
Diluted		As reported	\$.60	\$.59	\$
	Stock-based compensation, net of tax		(.01)	(.01)	
			-----	-----	
		Pro-forma	\$.59	\$.58	\$
			=====	=====	=

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 and 2003, respectively: dividend yields of 2.3% and 2.9%, respectively; expected volatility of 20% for both years; risk-free interest rates of 4.3% and 3.4%, respectively; and an expected life of ten years for all grants.

A summary of the status of the Corporation's Plan as of December 31, 2004 and June 30, 2004 and 2003, and changes during the periods ending on those dates is presented below:

	Six months ended December 31, 2004		Year ended June 30, 2004		
	Shares	Weighted- average exercise price	Shares	Weighted- average exercise price	Share
Outstanding at beginning of period	78,128	\$10.15	77,694	\$ 8.89	212,9
Granted	-	-	6,000	26.00	9,7
Exercised	(40,857)	7.80	(5,566)	9.57	(144,9
	-----	-----	-----	-----	-----
Outstanding at end of period	37,271	\$12.73	78,128	\$10.15	77,6
	=====	=====	=====	=====	=====
Options exercisable at period-end	23,901	\$ 9.36	59,616	\$ 7.87	61,9
	=====	=====	=====	=====	=====
Weighted-average fair value of options granted during the period		\$ -		\$11.41	
		=====		=====	

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ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six- and three-month periods ended December 31, 2004 and 2003

5. Stock Option Plan (continued)

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The following information applies to options outstanding at December 31, 2004:

Number outstanding	23,501
Range of exercise prices	\$7.64 - \$8.75
Number outstanding	13,770
Range of exercise prices	\$16.50 - \$26.00
Weighted-average exercise price	\$12.73
Weighted-average remaining contractual life	6.7 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. 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.

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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, 2004

to December 31, 2004

At December 31, 2004, the Corporation's assets totaled \$173.0 million, an increase of \$6.6 million, or 4.0%, over total assets at June 30, 2004.

Cash and cash equivalents decreased by \$1.8 million, or 24.6%, from June 30, 2004 levels, to a total of \$5.6 million at December 31, 2004. Investment securities and certificates of deposit totaled \$11.0 million at December 31, 2004, a decrease of \$1.7 million, or 13.1%, from June 30, 2004 levels. Maturities and discount accretion related to investment securities totaling approximately \$2.9 million, which were partially offset by purchases of \$1.2 million. Purchases of investment securities consisted primarily of fixed-rate medium-term callable U.S. Government agency obligations. Mortgage-backed securities totaled \$11.3 million at December 31, 2004, a decrease of \$481,000, or 4.1%, from the total at June 30, 2004, due primarily to purchases totaling \$1.3 million, which were more than offset by principal repayments of \$2.0 million, a pre-tax increase in unrealized gains totaling \$167,000 and premium amortization of \$45,000.

Loans receivable increased by \$8.1 million, or 6.2%, during the six-month period ended December 31, 2004, to a total of \$138.0 million. Loan disbursements amounted to \$26.4 million for the six months ended December 31, 2004, and were partially offset by principal repayments of \$18.3 million. During the six months ended December 31, 2004, loans originated consisted of \$11.9 million of loans secured by one- to four-family residential real estate, \$5.8 million of loans secured by nonresidential real estate, \$6.2 million of commercial loans and \$2.5 million of consumer loans.

The allowance for loan losses increased by \$100,000, or 9.1%, during the six month period ended December 31, 2004, to a total of \$1.2 million. Nonperforming and nonaccrual loans totaled \$814,000 at December 31, 2004, a decrease of \$186,000, or 19.0% from the balance at June 30, 2004. The allowance for loan losses represented 149.2% and 99.9% of nonperforming loans at December 31, 2004 and June 30, 2004, respectively. At December 31, 2004, nonperforming loans consisted of \$178,000 in one- to four-family residential real estate loans and \$636,000 in nonresidential real estate, consumer and other loans. Management believes such loans are adequately

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collateralized and does not expect to incur any losses on such loans. Although management believes that its allowance for loan losses at December 31, 2004, 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 \$138.0 million at December 31, 2004, an increase of \$1.3 million, or .9%, from June 30, 2004 levels. The increase in deposits was due primarily to market growth.

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ASB Financial Corp.

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

Discussion of Financial Condition Changes from June 30, 2004

to December 31, 2004 (continued)

Federal Home Loan Bank advances increased by \$4.1 million, or 37.2%, during the six-month period ended December 31, 2004. New borrowings amounted to \$7.9 million for the six months ended December 31, 2004, and were partially offset by repayments of \$3.8 million. The proceeds from the advances were primarily used to fund new loan originations.

Shareholders' equity totaled \$18.7 million at December 31, 2004, an increase of \$1.2 million, or 7.1%, from the June 30, 2004 level. The increase was due to net earnings of \$1.0 million, \$320,000 in proceeds from the exercise of stock options and a \$294,000 net increase in unrealized gains on securities, which were partially offset by dividends on common shares totaling \$516,000. Dividends totaled \$.30 per share for the six months ended December 31, 2004.

American is required to meet minimum regulatory capital requirements promulgated by the Office of Thrift Supervision ("OTS"). At December 31, 2004, American's regulatory capital exceeded the minimum capital requirements.

Comparison of Operating Results for the Six-Month Periods

Ended December 31, 2004 and 2003

General

Net earnings totaled \$1.0 million for the six months ended December 31, 2004, essentially unchanged from the same period in 2003. An increase of \$117,000 in net interest income and a decrease of \$30,000 in general, administrative and other expense were partially offset by a \$67,000 increase in the provision for losses on loans, an increase of \$30,000 in the provision for federal income taxes and a decrease of \$41,000 in other income.

Net Interest Income

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Interest income on loans increased by \$286,000, or 7.2%, for the six months ended December 31, 2004, compared to the 2003 period. This increase was due primarily to a \$14.9 million, or 12.3%, increase in the average portfolio balance outstanding period to period, which was partially offset by a 30 basis point decrease in the weighted-average yield, to 6.28% for the 2004 six-month period. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits increased by \$16,000, or 3.8%, due primarily to a 10 basis point increase in the weighted-average yield, to 2.93% for the 2004 period and a \$1.9 million, or 6.5%, increase in the average balance of the related earning assets outstanding period to period.

Interest expense on deposits increased by \$25,000, or 1.7%, for the six months ended December 31, 2004, compared to the same period in 2003. This increase was due primarily to a \$5.8 million, or 4.4%, increase in the average balance of deposits outstanding period to period, which was partially offset by a 5 basis point decrease in the weighted-average cost of deposits, to 2.11% for the six months ended December 31, 2004. Interest expense on borrowings increased by \$160,000, or 484.8%, due to a 183 basis point increase in the average cost of borrowings during the period and a \$7.1 million, or 120.7%, increase in the average balance outstanding.

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ASB Financial Corp.

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

Comparison of Operating Results for the Six-Month Periods

Ended December 31, 2004 and 2003 (continued)

Net Interest Income (continued)

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$117,000, or 4.0%, to a total of \$3.1 million for the six months ended December 31, 2004. The interest rate spread decreased to 3.50% for the six months ended December 31, 2004, from 3.79% for the 2003 period, while the net interest margin decreased to 3.69% in the 2004 period, compared to 3.95% in the 2003 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 \$117,000 during the six months ended December 31, 2004, an increase of \$67,000, or 134.0%, from the comparable six-month period in 2003. The increase in the provision during the 2004 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

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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 \$340,000 for the six months ended December 31, 2004, a decrease of \$41,000, or 10.8%, from the same period in 2003. The decrease was due to a reductions of \$58,000 in gain on sale of office premises and \$10,000 in gain on sale of investment securities, which were partially offset by a \$27,000, or 8.6%, increase in other operating income, primarily derived from increased ATM transaction fees and other charges.

General, Administrative and Other Expense -----

General, administrative and other expense totaled \$1.9 million for the six months ended December 31, 2004, a decrease of \$30,000, or 1.6%, over the same period in 2003. This decrease was comprised of decreases of \$83,000, or 16.2%, in other operating expense and \$1,000 or .9%, in occupancy and equipment, which were partially offset by increases of \$45,000, or 4.5%, in employee compensation and benefits and \$12,000, or 5.7%, in data processing costs. The increase in employee compensation and benefits was due primarily to normal merit increases and incentives for employees. The increase in data processing was due primarily to rising vendor costs. The decrease in other operating expenses was due to decreases in legal, accounting and compliance costs.

Federal Income Taxes -----

The provision for federal income taxes totaled \$376,000 for the six months ended December 31, 2004, an increase of \$30,000, or 8.7%, compared to the same period in 2003. This increase was due to an increase in earnings before taxes of \$39,000, or 2.9%, which was partially offset by the effects of New Markets Tax Credits which were awarded to ASB Community Development Corp. in fiscal 2003. The effective tax rates were 26.9% and 25.5% for the six-month periods ended December 31, 2004 and 2003, respectively.

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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 December 31, 2004 and 2003

General -----

Net earnings totaled \$520,000 for the three months ended December 31, 2004, an increase of \$9,000, or 1.8% from the \$511,000 in earnings reported for the same quarter in 2003. An increase of \$73,000 in net interest income and a decrease of \$49,000 in general, administrative and other expense were

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partially offset by an increase of \$68,000 in provision for losses on loans and \$8,000 in other income and an increase of \$37,000 in the provision for federal income taxes.

Net Interest Income

Interest income on loans increased by \$184,000, or 9.2%, for the three months ended December 31, 2004, compared to the 2003 period. This increase was due primarily to a \$14.8 million, or 11.9%, increase in the average portfolio balance outstanding period to period, which was partially offset by a 16 basis point decrease in the weighted-average yield, to 6.31% for the 2004 three-month period. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits increased by \$6,000, or 2.7%, due primarily to a \$2.9 million, or 10.3%, increase in the average balance of the related assets outstanding period to period, which was offset by a 30 basis point decrease in the weighted-average yield, to 2.9% for the 2004 period.

Interest expense on deposits increased by \$32,000, or 4.5%, for the three months ended December 31, 2004, compared to the same period in 2003. This increase was due primarily to a \$5.9 million, or 4.5%, increase in the average balance of deposits outstanding period to period. The weighted average cost of deposits was 2.12% for 2004 and 2003. Interest expense on borrowings increased by \$85,000, or 472.2%, due to a 194 basis point increase in the average cost of borrowings during the period and a \$6.7 million, or 90.9%, increase in the average balance outstanding.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by \$73,000, or 4.9%, to a total of \$1.6 million for the three months ended December 31, 2004. The interest rate spread decreased to 3.50% for the three months ended December 31, 2004, from 3.80% for the 2003 period, while the net interest margin decreased to 3.71% in the 2004 period, compared to 3.95% in the 2003 period.

Provision for Losses on Loans

The Corporation recorded a provision for losses on loans totaling \$96,000 during the three months ended December 31, 2004, an increase of \$68,000, or 242.9%, from the comparable three-month period in 2003. The increase in the provision during the 2004 period was primarily influenced by an increase in the balance of commercial loans outstanding, as well as the deterioration of a specific commercial credit with an approximate \$100,000 principal balance. 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 \$162,000 for the three months ended December 31, 2004, a decrease of \$8,000, or 4.7%, from the same period in 2003. The decrease was due to a decrease of \$10,000 in gain on sale of investment securities, which was partially offset by a \$2,000, or 1.3%, increase in other operating income, primarily derived from increased ATM transaction fees and other charges.

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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 December 31, 2004 and 2003 (continued)

General, Administrative and Other Expense

General, administrative and other expense totaled \$932,000 for the three months ended December 31, 2004, a decrease of \$49,000, or 5.0%, over the same period in 2003. This reduction was comprised of decreases of \$5,000, or 7.9%, in occupancy and equipment, \$67,000, or 24.0%, in other operating expense and \$2,000, or 4.7%, in franchise tax, which were offset by increases of \$23,000, or 4.7%, in employee compensation and benefits and \$2,000, or 1.9%, in data processing costs. The increase in employee compensation and benefits was due primarily to normal merit increases and incentives for employees. The increase in data processing was due primarily to rising vendor costs. The reduction in other operating expense was due to decreases in legal, accounting and compliance costs.

Federal Income Taxes

The provision for federal income taxes totaled \$186,000 for the three months ended December 31, 2004, an increase of \$37,000, or 2.5%, compared to the same period in 2003. This increase was due to an increase in earnings before taxes of \$46,000, or 7.0%, which was partially offset by the effects of New Markets Tax Credits which were awarded to ASB Community Development Corp. in fiscal 2003. The effective tax rates were 26.3% and 22.6% for the three-month periods ended December 31, 2004 and 2003, respectively.

Subsequent Event

The Corporation's third-party data processor is Intrieve of Cincinnati, Ohio. Pursuant to the terms of the original third-party data processing agreement, the Corporation was required to purchase Intrieve common shares. In 2004, the Corporation purchased additional shares in a secondary offering of Intrieve common stock. On February 1, 2005, Intrieve announced that it had entered into an agreement to be acquired by John H. Harland Company. The agreement is subject to shareholder approval. Pursuant to the terms of transaction, the Corporation will recognize an approximate \$400,000 after-tax gain if the business combination is consummated.

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

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

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There has been no material change in the Corporation's market risk since the disclosure included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management" in the Corporation's 2004 Annual Report to Shareholders which was included as Exhibit 13 to the Corporation's Form 10-KSB for the year ended June 30, 2004.

ITEM 4: Controls and Procedures

Management reviews its control system with respect to results of operations with a view toward continuous improvement. In this regard, a post-closing review of interest income for the quarter ended December 31, 2004 revealed input errors with respect to the set-up of certain commercial loan types. These input errors were discovered prior to the issuance of this report but subsequent to closing of the Corporation's books. The Corporation's external auditors have advised the Audit Committee that the failure to timely review and approve changes to loan input fields constitutes a material weakness as defined in the auditing literature. The Corporation immediately corrected this weakness by instituting a timely review and approval of data input changes.

The Corporation's Chief Executive Officer and Chief Financial Officer have evaluated the Corporation's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation and the corrective actions discussed above, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective. There were no changes in the Corporation's internal controls which materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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ASB Financial Corp.

PART II

ITEM 1. Legal Proceedings

Not applicable.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

On October 27, 2004, the Corporation held its 2004 Annual Meeting of Shareholders. The shareholders elected six directors to terms expiring in 2005 by the following votes:

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	For	Withheld
William J. Burke	1,476,100	5,500
Gerald R. Jenkins	1,461,519	20,081
Christopher H. Lute	1,476,100	5,000
Larry F. Meredith	1,458,969	22,631
Louis M. Schoettle	1,476,000	5,600
Robert M. Smith	1,476,100	5,500

The shareholders also ratified the selection of Grant Thornton LLP as the Corporation's auditors for the 2005 fiscal year by the following vote:

For:	Against:	Abstain:
1,474,088	2,300	5,212

ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 10.1 ASB Financial Corp. Supplemental Employee Retirement Plan
- 10.2 Form of Participation Agreement for the ASB Financial Corp. Supplemental Employee Retirement Plan.
- 31.1 CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 31.2 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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ASB Financial Corp.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ASB FINANCIAL CORP.

Date: February 14, 2005

By: /s/ Robert M. Smith

Robert M. Smith
President

Date: February 14, 2005

By: /s/ Michael L. Gampp

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Michael L. Gamp
Chief Financial Officer