ASB FINANCIAL CORP /OH
Form 10QSB
November 14, 2003

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

OR

[ ] TRANSITION REPORT UNDER 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 small business issuer as specified in its charter)

Ohio	31-1429488
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

503 Chillicothe Street, Portsmouth, Ohio 45662

(Address of principal executive offices)

(740) 354-3177

(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months or such shorter period that the issuer was required to file such reports and (2) has been subject to such filing requirements for the past ninety days:
Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:
November 12, 2003 - 1,655,497 shares of common stock, no par value

Transitional Small Business Disclosure Format (Check one):

Yes [ ] No [X]

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ASB Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS	September 30, 2003	June 20
Cash and due from banks	$ 1,220	$ 2
Interest-bearing deposits in other financial institutions	1,107	4
Cash and cash equivalents	2,327	7
Certificates of deposit in other financial institutions	178	
Investment securities available for sale - at market	13,019	13
Mortgage-backed securities available for sale - at market	11,856	12
Loans receivable - net	120,932	114
Office premises and equipment - at depreciated cost	1,890	1
Federal Home Loan Bank stock - at cost	1,072	1
Accrued interest receivable on loans	262	
Accrued interest receivable on mortgage-backed securities	56	

Accrued interest receivable on investments and interest-bearing deposits	133	
Prepaid expenses and other assets	998	1
Prepaid federal income taxes	103	
Deferred federal income taxes	103	
Total assets	$152,929	$152
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$130,375	$130
Advances from the Federal Home Loan Bank	4,429	4
Advances by borrowers for taxes and insurance	95	
Accrued interest payable	445	
Other liabilities	1,231	1
Total liabilities	136,575	136
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; 1,905,614 shares issued at both September 30, 2003 and June 30, 2003	-	
Additional paid-in capital	9,895	9
Retained earnings, restricted	9,053	8
Shares acquired by stock benefit plans	(285)	
Accumulated comprehensive income, unrealized gains on securities designated as available for sale, net of related tax effects	531	
Less 250,117 and 243,267 shares of treasury stock at September 30, 2003 and June 30 2003, respectively - at cost	(2,840)	(2
Total shareholders' equity	16,354	16
Total liabilities and shareholders' equity	$152,929	$152

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ASB Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

For the three months ended September 30, 2003 and 2002
(In thousands, except per share data)

	2003	2002
Interest income		
Loans	$1,992	$2,031
Mortgage-backed securities	32	129
Investment securities	170	303

Interest-bearing deposits and other	-	11
Total interest income	2,194	2,474
Interest expense		
Deposits	726	1,058
Borrowings	14	21
Total interest expense	740	1,079
Net interest income	1,454	1,395
Provision for losses on loans	23	-
Net interest income after provision for losses on loans	1,431	1,395
Other income		
Gain on investment securities transactions	-	5
Gain on sale of office premises and equipment	58	-
Other operating	153	128
Total other income	211	133
General, administrative and other expense		
Employee compensation and benefits	508	468
Occupancy and equipment	53	44
Data processing	109	131
Other operating	274	194
Total general, administrative and other expense	944	837
Earnings before income taxes	698	691
Federal income taxes		
Current	68	123
Deferred	129	80
Total federal income taxes	197	203
NET EARNINGS	$ 501	$ 488
EARNINGS PER SHARE		
Basic	$ .30	$ .32
Diluted	$ .29	$. 31

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended September 30, 2003 and 2002
(In thousands)

	2003	2002
Net earnings	$ 501	$488
Other comprehensive income, net of tax:		
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of $(73) and $16 in 2003 and 2002, respectively	(142)	32
Reclassification adjustment for realized gains included in earnings, net of tax of $2 in 2002	-	(3)
Comprehensive income	$ 359	$517
Accumulated comprehensive income	$ 531	$879

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ASB Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended September 30, 2003 and 2002
(In thousands)

	2003	2002
Cash flows from operating activities:		
Net earnings for the period	$ 501	$ 488
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	91	73
Amortization of deferred loan origination fees	(26)	(23)
Depreciation and amortization	32	36
Provision for losses on loans	23	-
Federal Home Loan Bank stock dividends	(11)	(12)
Gain on sale of office premises and equipment	(58)	-
Gain on investment securities transactions	-	(5)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	149	(34)
Prepaid expenses and other assets	52	(18)

Accrued interest payable	373	484
Other liabilities	52	91
Federal income taxes		
Current	61	(128)
Deferred	129	80
Net cash provided by operating activities	1,368	1,032
Cash flows provided by (used in) investing activities:		
Proceeds from maturities of investment securities	3,000	5,003
Proceeds from sale of office premises and equipment	58	-
Purchase of investment securities	(3,074)	(4,879)
Principal repayments on mortgage-backed securities	2,059	3,963
Purchase of mortgage-backed securities	(2,036)	(6,398)
Loan principal repayments	9,066	9,703
Loan disbursements	(15,021)	(10,708)
Purchase of office premises and equipment	(93)	(258)
Net cash used in investing activities	(6,041)	(3,574)
Cash flows provided by (used in) financing activities:		
Net decrease in deposit accounts	(405)	(814)
Proceeds from Federal Home Loan Bank advances	250	-
Repayment of Federal Home Loan Bank advances	(9)	(9)
Advances by borrowers for taxes and insurance	(82)	(85)
Purchase of treasury stock	(134)	(20)
Dividends paid on common shares	(230)	(202)
Net cash used in financing activities	(610)	(1,130)
Net decrease in cash and cash equivalents	(5,283)	(3,672)
Cash and cash equivalents at beginning of period	7,610	7,704
Cash and cash equivalents at end of period	$ 2,327	$ 4,032

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CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the three months ended September 30, 2003 and 2002
(In thousands)

	2003	2002
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 367	$595
Federal income taxes	$ -	$230

Supplemental disclosure of noncash investing activities:		
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	$(142)	$ 29

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ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three-month periods ended September 30, 2003 and 2002

1. Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions for Form 10-QSB 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, 2003. 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 three-month period ended September 30, 2003, 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"), ASB Community Development Corporation and A.S.L. Services, Inc., American's wholly-owned subsidiaries. All significant intercompany items have been eliminated.

3. 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 Owenership Plan ("ESOP") that are unallocated and not committed to be released. Weighted-average common shares deemed outstanding give effect to 8,128 and 21,979 unallocated ESOP shares for the three month periods ended September 30, 2003 and 2002, respectively. 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 three months ended September 30,	2003	2002

Weighted-average common shares outstanding (basic)	1,660,853	1,505,233
Dilutive effect of assumed exercise of stock options	43,382	70,534
Weighted-average common shares outstanding (diluted)	1,704,235	1,575,767

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ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three-month periods ended September 30, 2003 and 2002

4. Effects of Recent Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets," which prescribes accounting for all purchased goodwill and intangible assets. Pursuant to SFAS No. 142, acquired goodwill is not amortized, but is tested for impairment at the reporting unit level annually and whenever an impairment indicator arises. SFAS No. 142 is effective for fiscal years beginning after December 15, 2002. Management adopted SFAS No. 142 effective July 1, 2002, as required, without material effect on the Corporation's financial position or results of operations.

In August 2002, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which carries over the recognition and measurement provisions in SFAS No. 121. Accordingly, an entity must recognize an impairment loss if the carrying value of a long-lived asset or asset group (a) is not recoverable and (b) exceeds its fair value. Similar to SFAS No. 121, SFAS No. 144 requires an entity to test an asset or asset group for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. SFAS No. 144 differs from SFAS No. 121 in that it provides guidance on estimating future cash flows to test recoverability. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2002 and interim periods within those fiscal years. Management adopted SFAS No. 144 effective July 1, 2002, without material effect on the Corporation's financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 provides financial accounting and reporting guidance for costs associated with exit or disposal activities, including one-time termination benefits, contract termination costs other than for a capital lease, and costs to consolidate facilities or relocate employees. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. Management adopted SFAS No. 146 effective January 1, 2003, without material effect on the Corporation's financial condition or results of operations.

In October 2002, the FASB issued SFAS No. 147, "Accounting for Certain Financial Institutions: An Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9," which removes acquisitions of financial institutions from the scope of SFAS No. 72, "Accounting for Certain Acquisitions of Banking and Thrift Institutions," except for transactions between mutual enterprises. Accordingly, the excess of the fair value of liabilities assumed over the fair value of tangible and intangible assets acquired in a business combination should be recognized and accounted for as goodwill in accordance with SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets."

SFAS No. 147 also requires that the acquisition of a less-than-whole financial institution, such as a branch, be accounted for as a business combination if the transferred assets and activities constitute a business. Otherwise, the acquisition should be accounted for as the acquisition of net assets. SFAS No. 147 also amends the scope of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include long-term customer relationship assets of financial institutions (including mutual enterprises) such as depositor- and borrower-relationship intangible assets and credit card holder intangible assets.

The provisions of SFAS No. 147 related to unidentifiable intangible assets and the acquisition of a less-than-whole financial institution are effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions related to impairment of long-term customer relationship assets are effective October 1, 2002. Transition provisions for previously recognized unidentifiable intangible assets are effective on October 1, 2002, with earlier application permitted. Management adopted SFAS No. 147 effective October 1, 2002, without material effect on the Corporation's financial condition or results of operations.

4. Effects of Recent Accounting Pronouncements (continued)

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting used for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. Management adopted the disclosure provisions of SFAS No. 148 effective September 30, 2003, without material effect on the Corporation's financial condition or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Corporation has financial letters of credit, which may require the Corporation to make payment if the customer's financial condition deteriorates, as defined in the agreements. FIN 45 requires the Corporation to record an initial liability generally equal to the fees received for these letters of credit when guaranteeing obligations. FIN 45 applies prospectively to letters of credit the Corporation issues or modifies subsequent to December 31, 2002.

The maximum potential undiscounted amount of future payments of these letters of credit as of September 30, 2003 totaled $289,000 and such letters of credit expire at various times through September 2004. Amounts due under these letters of credit would be reduced by any proceeds that the Corporation would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. Management has not established any variable interest entities subsequent to January 31, 2003 and has no current intent to do so.

5. Stock Option Plan

During fiscal 1996 the Board of Directors and shareholders adopted the ASB Financial Corp. Stock Option and Incentive Plan (the "Plan") that provided for the issuance of 225,423 shares, as adjusted, of authorized but unissued shares of common stock at fair value at the date of grant. In fiscal 1996, the Corporation granted 197,521 options which have an adjusted exercise price 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 Plan provides that one-fifth of the options granted become exercisable on each of the first five anniversaries of the date of grant.

5. Stock Option Plan (continued)

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.

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 Corporation's stock option 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 three-month periods ended September 30, 2003 and 2002, would have been reported as the pro forma amounts indicated below:

		Three months ended September 30, 2003	2002
Net earnings (In thousands)	As reported	$501	$488
	Stock-based compensation, net of tax	(2)	-
	Pro-forma	$499	$488
Earnings per share			
Basic	As reported	$.30	$.32
	Stock-based compensation, net of tax	-	-
	Pro-forma	$.30	$.32
Diluted	As reported	$.29	$.31
	Stock-based compensation, net of tax	-	-
	Pro-forma	$.29	$.31

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 2003: dividend yield of 2.9% and 4.9%, respectively; expected volatility of 20.0% for both years; a risk-free interest rate of 3.4% and 5.0%, respectively; and an expected life of ten years for all grants.

ASB Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three-month periods ended September 30, 2003 and 2002

5. Stock Option Plan (continued)

A summary of the status of the Corporation's Plan as of September 30, 2003 and June 30, 2003 and 2002, and changes during the periods ending on those dates is presented below:

	Three months ended September 30, 2003		Year ended June 30, 2003		200
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price	Shares
Outstanding at beginning of period	77,694	$8.89	212,915	$ 7.69	226,672
Granted	-	-	9,712	16.50	-
Exercised	-	-	(144,933)	7.64	(13,757)
Forfeited	-	-	-	-	-
Outstanding at end of period	77,694	$8.89	77,694	$ 8.89	212,915
Options exercisable at period-end	61,982	$7.71	61,982	$ 7.71	204,915
Weighted-average fair value of options granted during the period		N/A		$ 5.28	

The following information applies to options outstanding at September 30, 2003:

Number outstanding	67,982
Range of exercise prices	$7.64-$8.75
Number outstanding	9,712
Exercise price	$16.50
Weighted-average exercise price	$8.89
Weighted-average remaining contractual life	3.8 years

ASB Financial Corp.

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

Discussion of Financial Condition Changes from June 30, 2003 to September 30, 2003

At September 30, 2003, the Corporation's assets totaled $152.9 million, an increase of $174,000, or .1%, over total assets at June 30, 2003.

Cash and cash equivalents decreased by $5.3 million, or 69.4%, from June 30, 2003 levels, to a total of $2.3 million at September 30, 2003. Investment securities totaled $13.0 million at September 30, 2003, unchanged from June 30, 2003 levels. There were maturities of $3.0 million which were offset by purchases of $3.1 million. Purchases of investment securities consisted primarily of fixed-rate medium-term callable U.S. Government agency obligations. Mortgage-backed securities totaled $11.9 million at September 30, 2003, a decrease of $274,000, or 2.3%, from the total at June 30, 2003, due primarily to principal repayments of $2.1 million and a pre-tax decrease in unrealized gains totaling $215,000, which were substantially offset by purchases totaling $2.0 million.

Loans receivable increased by $6.0 million, or 5.2%, during the three-month period ended September 30, 2003, to a total of $120.9 million. Loan disbursements amounted to $15.0 million for the three months ended September 30, 2003, and were partially offset by principal repayments of $9.1 million. During the three months ended September 30, 2003, loans originated consisted of $10.0 million of loans secured by one- to four-family residential real estate, $1.3 million of loans secured by nonresidential real estate, $2.3 million of commercial loans and $1.4 million of consumer loans.

The allowance for loan losses totaled $1.1 million and $1.0 million at September 30, 2003 and June 30, 2003, respectively. Nonperforming and nonaccrual loans totaled $1.2 million at both September 30, 2003 and June 30, 2003. The allowance for loan losses represented 89.8% and 82.8% of nonperforming loans as of September 30, 2003 and June 30, 2003, respectively. At September 30, 2003, nonperforming loans consisted of $1.0 million in one- to four-family residential real estate loans and $211,000 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 September 30, 2003, 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 $130.4 million at September 30, 2003, a decrease of $405,000, or .3%, over June 30, 2003 levels. The decrease in deposits was due primarily to the maturity of jumbo CD's.

Shareholders' equity totaled $16.4 million at September 30, 2003, virtually unchanged from June 30, 2003 levels. Net earnings of $501,000, were completely offset by dividends on common shares totaling $230,000, a

$142,000 net decrease in unrealized gains on securities designated as available for sale and a $134,000 repurchase of treasury shares. Total dividends on a per share basis totaled $.14 for the three months ended September 30, 2003.

American is required to meet minimum capital standards promulgated by the Office of Thrift Supervision ("OTS"). At September 30, 2003, American's regulatory capital was well in excess of the minimum capital requirements.

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 September 30, 2003 and 2002

General

Net earnings amounted to $501,000 for the three months ended September 30, 2003, an increase of $13,000, or 2.7%, compared to the $488,000 of net earnings reported for the same period in 2002. The increase in earnings resulted primarily from increases of $59,000 in net interest income and $78,000 in other income, and a $6,000 decrease in the provision for federal income taxes, which were partially offset by increases of $107,000 in general, administrative and other expense and a $23,000 in the provision for losses on loans.

Net Interest Income

Interest income on loans decreased by $39,000, or 1.9%, during the quarter ended September 30, 2003, compared to the 2002 period. This decrease was due primarily to a 48 basis point decrease in the weighted-average yield, to 6.76% for the 2003 quarter, which was partially offset by a $6.0 million, or 5.2%, increase in the average portfolio balance outstanding year to year. Interest income on investment securities, mortgage-backed securities and interest-bearing deposits decreased by $241,000, or 54.5%, due primarily to a 282 basis point decrease in the weighted-average yield, to 2.6% for the 2003 quarter and a $274,000, or 2.2%, decrease in the average balance of the related assets outstanding year to year.

Interest expense on deposits decreased by $332,000, or 31.4%, for the three months ended September 30, 2003, compared to the same quarter in 2002. This decrease was due primarily to a 102 basis point decrease in the weighted-average cost of deposits, to 2.22% for the quarter ended September 30, 2003, and a $405,000, or .3%, decrease in the average balance of deposits outstanding year to year. Interest expense on borrowings decreased by $7,000, or 33.3%, due primarily to a 75 basis point decrease in the average cost of borrowings. The decrease in the yields on interest-earning assets and the costs of interest-bearing liabilities was due primarily to the lagging effects of prior quarters' decrease in interest rates in the economy.

As a result of the foregoing changes in interest income and interest expense, net interest income increased by $59,000, or 4.2%, to a total of $1.5 million for the three months ended September 30, 2003. The interest rate spread increased to 3.69% for the three months ended September 30, 2003, from 3.65% for the 2002 period, while the net interest margin decreased to 3.89% in the 2003 period, compared to 3.92% in the 2002 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 $23,000 during the three months ended September 30, 2003, an increase of $23,000, or 100%, over the comparable quarter in 2002 where no provision was recorded. The current period provision was predicated primarily upon an increase in commercial loans and loans secured by nonresidential real estate and an increase in nonperforming loans. There can be no assurance that the loan loss allowance will be adequate to absorb losses on known nonperforming assets or that the allowance will be adequate to cover losses on nonperforming assets in the future, which could adversely affect the Corporation's results of operations.

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

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2003 and 2002 (continued)

Other Income

Other income totaled $211,000 for the three months ended September 30, 2003, an increase of $78,000, or 58.6% over the same period in 2002. The increase was due primarily to a $58,000 gain on sale of office premises, as well as a $25,000, or 9.5%, increase in other operating income, primarily from ATM transaction fees and other charges.

General, Administrative and Other Expense

General, administrative and other expense totaled $944,000 for the three months ended September 30, 2003, an increase of $107,000, or 12.8%, over the same period in 2002. This increase was comprised of increases of $40,000, or 8.5%, in employee compensation and benefits, $9,000, or 20.5%, in occupancy and equipment, and $80,000, or 41.2%, in other operating expenses, which were partially offset by a $22,000, or 16.8%, decrease in data processing costs. The increase in employee compensation and benefits was due primarily to normal merit increases and an increase in staffing levels.

The increase in occupancy and equipment was due to higher depreciation expense recognized in connection with the completion of a new branch location. The increase in other operating expenses was due to increases in legal, accounting and consultant costs. The decrease in data processing was due primarily to the absence of costs associated with system upgrades that were completed in the comparable quarter in 2002.

Federal Income Taxes

The provision for federal income taxes totaled $197,000 for the three months ended September 30, 2003, a decrease of $6,000, or 3.0%, compared to the same period in 2002. This decrease was a combination of an increase in net earnings before taxes of $7,000, or 1.0%, and was offset by the effects of $25,000 in New Markets Tax Credits which were awarded to ASB Community Development Corporation in fiscal 2003. The effective tax rates were 28.2% and 29.4% for the three-month periods ended September 30, 2003 and 2002, respectively. The decrease in the effective tax rate for the 2003 quarter was due to the Corporation's continued participation in the New Markets Tax Credit program.

ITEM 3: Controls and Procedures

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined under Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective.

There were no significant 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.

ASB Financial Corp.

PART II

ITEM 1. Legal Proceedings

Not applicable.

ITEM 2. Changes in Securities

Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

On October 22, 2003, the Corporation held its 2003 Annual Meeting of Shareholders. Two matters were submitted to the shareholders for a vote. The shareholders elected six directors to terms expiring in 2004 by the following votes:

	For	Withheld
William J. Burke	1,482,357	1,000
Gerald R. Jenkins	1,470,026	13,731
Christoper H. Lute	1,483,157	600
Larry F. Meredith	1,474,889	8,868
Louis M. Schoettle	1,482,357	1,000
Robert M. Smith	1,470,526	13,231

The shareholders also ratified the selection of Grant Thornton LLP as the Corporation's auditors for the 2004 fiscal year by the following vote:

For:	Against:	Abstain:
1,478,850	2,700	2,206

ITEM 5. Other Information

None.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

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
32.2 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

On August 5, 2003, the Corporation filed a Form 8-K regarding its press release announcing earnings for the quarter and year ended June 30, 2003

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASB FINANCIAL CORP.

Date: November 14, 2003

By: /s/ Robert M. Smith
Robert M. Smith
President and Chief Executive Officer

Date: November 14, 2003

By: /s/ Michael L. Gampp
Michael L. Gampp
Chief Financial Officer