

CONSUMERS BANCORP INC /OH/  
Form 10-K  
September 21, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark one)

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended June 30, 2012

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 033-79130

**CONSUMERS BANCORP, INC.**

**(Exact name of registrant as specified in its charter)**

OHIO 34-1771400  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

614 East Lincoln Way,

P.O. Box 256, Minerva, Ohio 44657

(330) 868-7701

**(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)**

**Securities registered pursuant Section 12(b) of the Act:** None

**Securities registered pursuant Section 12(g) of the Act:** Common Shares, no par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if small reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Based on the closing sales price on December 31, 2011, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$17,591,175.

The number of shares outstanding of the Registrant’s common stock, without par value was 2,056,349 at September 1, 2012.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Certain specifically designated portions of Consumers Bancorp, Inc.’s definitive Proxy Statement dated September 21, 2012 for its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

**TABLE OF CONTENTS**

**PART I**

ITEM 1—BUSINESS	3
ITEM 1A—RISK FACTORS	6
ITEM 1B—UNRESOLVED STAFF COMMENTS	6
ITEM 2—PROPERTIES	7
ITEM 3—LEGAL PROCEEDINGS	7
ITEM 4—MINE SAFETY DISCLOSURES	7

**PART II**

ITEM 5—MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	8
ITEM 6—SELECTED FINANCIAL DATA	8
ITEM 7—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	9
ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	20
ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	21
ITEM 9—CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	53
ITEM 9A—CONTROLS AND PROCEDURES	53
ITEM 9B—OTHER INFORMATION	53

**PART III**

ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	54
ITEM 11—EXECUTIVE COMPENSATION	54
ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS	54
ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	54
ITEM 14—PRINCIPAL ACCOUNTING FEES AND SERVICES	54

**PART IV**

ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES	54
---	----

## **PART I**

### **ITEM 1—BUSINESS**

#### **Business**

Consumers Bancorp, Inc. (Corporation), is a bank holding company under the Bank Holding Company Act of 1956, as amended and is a registered bank holding company, and was incorporated under the laws of the State of Ohio in 1994. In February 1995, the Corporation acquired all the issued and outstanding capital stock of Consumers National Bank (Bank), a bank chartered under the laws of the United States of America. The Corporation's activities have been limited primarily to holding the common stock of the Bank.

Since 1965, the Bank's main office has been serving the Minerva, Ohio area from its location at 614 East Lincoln Way, Minerva, Ohio. The Bank's business involves attracting deposits from businesses and individual customers and using such deposits to originate commercial, mortgage and consumer loans in its market area, consisting primarily of Stark, Columbiana, Carroll and contiguous counties in Ohio. The Bank currently has twelve branch locations. The Bank also invests in securities consisting primarily of obligations of U.S. government sponsored entities, municipal obligations and mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

#### **Supervision and Regulation**

The Corporation is supervised by the Board of Governors of the Federal Reserve System (Federal Reserve Board) and the Bank is subject to supervision, regulation and periodic examination by the Office of the Comptroller of the Currency (OCC). Earnings of the Corporation are affected by state and federal laws and regulations and by policies of various regulatory authorities. Changes in applicable law or in the policies of various regulatory authorities could affect materially the business and prospects of the Corporation and the Bank. The following discussion of supervision and regulation is qualified in its entirety by reference to the statutory and regulatory provisions discussed.

#### **Regulation of the Corporation:**

**The Bank Holding Company Act:** As a bank holding company, the Corporation is subject to regulation under the Bank Holding Company Act of 1956, as amended (BHCA) and the examination and reporting requirements of the

Board of Governors of the Federal Reserve System (Federal Reserve Board). Under the BHCA, the Corporation is subject to periodic examination by the Federal Reserve Board and required to file periodic reports regarding its operations and any additional information that the Federal Reserve Board may require.

The BHCA generally limits the activities of a bank holding company to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries and engaging in any other activities that the Federal Reserve Board has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident to those activities. In addition, the BHCA requires every bank holding company to obtain the approval of the Federal Reserve Board prior to acquiring substantially all the assets of any bank, acquiring direct or indirect ownership or control of more than 5% of the voting shares of a bank or merging or consolidating with another bank holding company.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each subsidiary bank and to commit resources to support those subsidiary banks. Under this policy, the Federal Reserve Board may require a bank holding company to contribute additional capital to an undercapitalized subsidiary bank and may disapprove of the payment of dividends to shareholders if the Federal Reserve Board believes the payment of such dividends would be an unsafe or unsound practice. The Federal Reserve Board has extensive enforcement authority over bank holding companies for violations of laws and regulations and unsafe or unsound practices.

**Privacy Provisions of Gramm-Leach-Bliley Act:** The Gramm-Leach-Bliley Act of 1999 contains extensive provisions on a customer's right to privacy of non-public personal information. Under these provisions, a financial institution must provide to its customers the institution's policies and procedures regarding the handling of customers' non-public personal information. Except in certain cases, an institution may not provide personal information to unaffiliated third parties unless the institution discloses that such information may be disclosed and the customer is given the opportunity to opt out of such disclosure. The Corporation and the Bank are also subject to certain state laws that deal with the use and distribution of non-public personal information.

**Sarbanes-Oxley Act:** The Sarbanes-Oxley Act of 2002 contains important requirements for public companies in the area of financial disclosure and corporate governance. In accordance with section 302(a) of the Sarbanes-Oxley Act, written certifications by the Corporation's Chief Executive Officer and Chief Financial Officer are required. These certifications attest that the Corporation's quarterly and annual reports filed with the Securities and Exchange Commission do not contain any untrue statement of a material fact or omit to state a material fact.

## **Regulation of the Bank:**

As a national bank, Consumers National Bank is subject to regulation, supervision and examination by the OCC and by the Federal Deposit Insurance Corporation (FDIC). These examinations are designed primarily for the protection of the depositors of the Bank.

**Dividend Restrictions:** Dividends from the Bank are the primary source of funds for payment of dividends to our shareholders. However, there are statutory limits on the amount of dividends the Bank can pay without regulatory approval. Under regulations promulgated by the OCC, the Bank may not declare a dividend in excess of its undivided profits. Additionally, the Bank may not declare a dividend if the total amount of all dividends, including the proposed dividend, declared by the Bank in any calendar year exceeds the total of its retained net income of that year to date, combined with its retained net income of the two preceding years, unless the dividend is approved by the OCC. The Bank may not declare or pay any dividend if, after making the dividend, the Bank would be “undercapitalized,” as defined in the federal regulations.

**FDIC:** The FDIC is an independent federal agency, which insures the deposits of federally insured banks and savings associations up to certain prescribed limits and safeguards the safety and soundness of financial institutions. The deposits of the Bank are subject to the deposit insurance assessments of the Bank Insurance Fund of the FDIC. Under the FDIC’s deposit insurance assessment system, the assessment rate for any insured institutions varies according to regulatory capital levels of the institution and other factors such as supervisory evaluations.

The FDIC is authorized to prohibit any insured institution from engaging in any activity that poses a serious threat to the insurance fund and may initiate enforcement actions against banks, after first giving the institution’s primary regulatory authority and opportunity to take such action. The FDIC may also terminate the deposit insurance of any institution that has engaged in or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, order or condition imposed by the FDIC.

**FHLB:** The Bank is also a member of the Federal Home Loan Bank of Cincinnati (FHLB), which is a privately capitalized, government sponsored enterprise that expands housing and economic development opportunities throughout the nation by providing loans and other banking services to community-based financial institutions.

**Risk-Based Capital Requirements:** The Federal Reserve Board and the OCC employ similar risk-based capital guidelines in their examination and regulation of bank holding companies and national banks. As of the fiscal year-end 2012, the Corporation met the definition of a Small Bank Holding Company and, therefore, was exempt from consolidated risk-based and coverage capital adequacy guidelines for bank holding companies. The guidelines involve a process of assigning various risk weights to different classes of assets, then evaluating the sum of the

risk-weighted balance sheet structure against the capital base. If capital falls below the minimum levels established by the guidelines, the bank holding company or bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open new facilities. In addition, failure to satisfy capital guidelines could subject a banking institution to a variety of enforcement actions by federal bank regulatory authorities, including the termination of deposit insurance by the FDIC and a prohibition on the acceptance of “brokered deposits.”

Under regulations adopted under these provisions, for an institution to be well capitalized it must have a total risk-based capital ratio of at least 10%, a Tier I risk-based capital ratio of at least 6% and a Tier I leverage ratio of at least 5% and not be subject to any specific capital order or directive. The OCC and the FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the OCC or the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring prior approval of capital distributions by any bank holding company that controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers. The OCC’s final supervisory judgment concerning an institution’s capital adequacy could differ significantly from the conclusions that might be derived from the absolute level of an institution’s risk-based capital ratios. Therefore, institutions generally are expected to maintain risk-based capital ratios that exceed the minimum ratios. At June 30, 2012, the Bank was in compliance with all regulatory capital requirements.

**Dodd-Frank Act:** On July 21, 2010, sweeping financial regulatory reform legislation entitled the “Dodd-Frank Wall Street Reform and Consumer Protection Act” (Dodd-Frank Act) was signed into law. The Dodd-Frank Act was designed to become effective in stages following a regulatory implementation phase during which an intense period of rulemaking will occur. Agency rulemaking will largely establish the parameters of the new regulatory framework and is expected to occur for an extended period. While much of the Dodd-Frank Act will directly affect large, complex financial institutions, smaller community banks will also face a more complicated and expensive regulatory framework. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:



Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws.

Require the Office of the Comptroller of the Currency to seek to make its capital requirements for national banks, countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling of the Deposit Insurance Fund (DIF) and increase the floor of the DIF, which generally will reduce the level of assessments for institutions with assets below \$10 billion and increase the level of assessments for institutions with assets in excess of \$10 billion.

Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions.

Make permanent the \$250 thousand limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts effective one year after the bill was signed into law.

Amend the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Make permanent SOX 404 (B) exemption regarding auditor attestation requirements for companies with less than \$75 million in market capitalization.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Corporation, its customers or the financial industry more generally. While the ultimate effect of the legislation on the Corporation cannot yet be determined, the law is likely to increase capital requirements and compliance costs. We will continue to monitor legislative developments and assess their potential impact on our business.

**Interstate Banking and Branching:** The Interstate Banking and Branch Efficiency Act of 1995 has eased restrictions on interstate expansion and consolidation of banking operations by, among other things: (i) permitting interstate bank acquisitions regardless of host state laws, (ii) permitting interstate merger of banks unless specific states have opted out of this provision and (iii) permitting banks to establish new branches outside the state provided the law of the host state specifically allows interstate bank branching.

**Community Reinvestment Act:** The Community Reinvestment Act requires depository institutions to assist in meeting the credit needs of their market areas, including low and moderate-income areas, consistent with safe and sound banking practices. Under this Act, each institution is required to adopt a statement for each of its market areas describing the depository institution's efforts to assist in its community's credit needs. Depository institutions are periodically examined for compliance and assigned ratings. Banking regulators consider these ratings when considering approval of a proposed transaction by an institution.

**USA Patriot Act:** In 2001, Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act) Act of 2001 (Patriot Act). The Patriot Act is designed to deny terrorists and criminals the ability to obtain access to the United States' financial system and has significant implications for depository institutions, brokers, dealers, and other businesses involved in the transfer of money. The Patriot Act mandates financial services companies to implement additional policies and procedures with respect to additional measures designed to address any or all of the following matters: money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, and currency crimes.

## **Employees**

As of June 30, 2012, the Bank employed 107 full-time and 20 part-time employees. None of the employees are represented by a collective bargaining group. Management considers its relations with employees to be good.

**Statistical Disclosure**

The following statistical information is included on the indicated pages of this Report:

Average Consolidated Balance Sheet And Net Interest Margin	10
Interest Rates and Interest Differential	11
Carrying Values Of Securities Maturities And	13
Weighted-Average Yield Of Securities	14
Loan Types	14
Selected Loan Maturities And Interest Sensitivity	15
Non-accrual, Past Due And Restructured Loans And Other Nonperforming Assets	15
Potential Problem Loans	16
Summary Of Loan Loss Experience	16
Allocation Of Allowance For Loan Losses	16
Average Amount And Average Rate Paid On Deposits	17
Time Deposits Of \$100 Thousand Or More	17
Short-Term Borrowings	17 and 43
Selected Consolidated Financial Data	8

**Available Information**

The Corporation files annual, quarterly, and current reports, proxy statements, and other information with the Securities and Exchange Commission (SEC). These filings are available to the public over the Internet at the SEC's web site at [www.sec.gov](http://www.sec.gov). Shareholders may also read and copy any document that the Corporation files at the SEC's public reference room located at 100 F Street, NE, Washington, DC 20549. Shareholders may call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Shareholders may request a copy of any of the Corporation's filings at no cost by writing or e-mailing the Corporation at the following address or e-mail address: Consumers Bancorp, Inc., Attn: Theresa J. Linder, 614 East Lincoln Way, Minerva, Ohio 44657 or e-mail to *shareholderrelations@consumersbank.com*.

The Corporation's Code of Ethics Policy, which is applicable to all directors, officers and employees of the Corporation, and its Code of Ethics for Principal Financial Officers, which is applicable to the principal executive officer and the principal financial officer, are each available on the Investor Relations section under Corporate Governance of the Corporation's website ([www.consumersbank.com](http://www.consumersbank.com)). Copies of either of the Code of Ethics Policies are also available in print to shareholders upon request, addressed to the Corporate Secretary at Consumers Bancorp, Inc., 614 East Lincoln Way, Minerva, Ohio 44657. The Corporation intends to post amendments to or waivers from its Code of Ethics on its website.

#### ITEM 1A—RISK FACTORS

Not applicable for Smaller Reporting Companies.

#### ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

## ITEM 2—PROPERTIES

The Bank owns and maintains the premises in which nine banking facilities are located, and leases offices in Carrollton, Alliance and Malvern. The location of each of the twelve currently operating offices is as follows:

Minerva Office:	614 E. Lincoln Way, P.O. Box 256, Minerva, Ohio, 44657
Salem Office:	141 S. Ellsworth Ave., P.O. Box 798, Salem, Ohio, 44460
Waynesburg Office:	8607 Waynesburg Dr. SE, P.O. Box 746, Waynesburg, Ohio, 44423
Hanoverton Office:	30034 Canal St., P.O. Box 178, Hanoverton, Ohio, 44423
Carrollton Office:	1017 Canton Rd. NW, Carrollton, Ohio, 44615
Alliance Office:	610 West State St., Alliance, Ohio, 44601
Lisbon Office:	7985 Dickey Dr., Lisbon, Ohio 44432
Louisville Office:	1111 N. Chapel St., Louisville, Ohio 44641
East Canton Office:	440 W. Noble, East Canton, Ohio, 44730
Malvern Office:	4070 Alliance Rd., Malvern, Ohio 44644
Hartville Office:	1215 W. Maple Street, Hartville, OH 44632
Jackson-Belden Office:	4026 Dressler Road NW, Canton, Ohio 44718

In the opinion of management, the properties listed above are adequate for their present uses and the Bank's business requirements and are adequately covered by insurance.

## ITEM 3—LEGAL PROCEEDINGS

The Corporation is not a party to any pending material legal or administrative proceedings, other than ordinary routine litigation incidental to the business of the Corporation. Further, there are no material legal proceedings in which any director, executive officer, principal shareholder or affiliate of the Corporation is a party or has a material interest that is adverse to the Corporation. No routine litigation in which the Corporation is involved is expected to have a material adverse impact on the financial position or results of operations of the Corporation.

## ITEM 4—MINE SAFETY DISCLOSURES

None.



**PART II****ITEM 5—MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Corporation had 2,056,349 common shares outstanding on June 30, 2012 with 748 shareholders of record and an estimated 243 additional beneficial holders whose stock was held in nominee name.

The common shares of Consumers Bancorp, Inc. are traded on the over-the-counter bulletin board. The following quoted market prices reflect inter-dealer prices, without adjustments for retail markups, markdowns, or commissions and may not represent actual transactions. The market prices represent highs and lows reported during the quarterly period.

<b>Quarter Ended</b>	<b>September 30, 2011</b>	<b>December 31, 2011</b>	<b>March 31, 2012</b>	<b>June 30, 2012</b>
High	\$ 12.40	\$ 13.00	\$ 13.50	\$ 15.00
Low	10.85	11.40	11.60	13.48
Cash dividends paid per share	0.11	0.11	0.11	0.11

<b>Quarter Ended</b>	<b>September 30, 2010</b>	<b>December 31, 2010</b>	<b>March 31, 2011</b>	<b>June 30, 2011</b>
High	\$ 13.25	\$ 13.85	\$ 12.50	\$ 13.25
Low	10.75	11.25	11.55	11.85
Cash dividends paid per share	0.10	0.10	0.10	0.11

Management does not have knowledge of the prices paid in all transactions and has not verified the accuracy of those prices that have been reported. Because of the lack of an established market for the Corporation’s common shares, these prices may not reflect the prices at which the common shares would trade in an active market.

The Corporation’s management is currently committed to continuing to pay regular cash dividends; however, there can be no assurance as to future dividends because they are dependent on the Corporation’s future earnings, capital requirements and financial condition. The Corporation’s principal source of funds for dividend payment is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited

to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. See Note 1 and Note 11 to the Consolidated Financial Statements for dividend restrictions.

There were no repurchases of the Corporation's securities during the 2012 fiscal year.

Information regarding stock-based compensation awards outstanding and available for future grants as of June 30, 2012, segregated between stock-based compensation plans approved by shareholders and stock-based compensation plans not approved by shareholders, is presented in the table below. Additional information regarding stock-based compensation plans is presented in Note 9 - Employee Benefit Plans to the Consolidated Financial Statements located elsewhere in this report.

Plan Category	Number of Shares to be Issued Upon Vesting of Outstanding Awards	Weighted-Average Grant Date Fair Value Per Share	Number of Shares Available for Future Grants
Plans approved by shareholders	5,116	\$ 10.85	94,884
Plans not approved by shareholders	—	—	—
Total	5,116	\$ 10.85	94,884

#### ITEM 6—SELECTED FINANCIAL DATA

Not applicable for Smaller Reporting Companies.



## ITEM 7—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*(Dollars in thousands, except per share data)*

### **General**

The following is management’s analysis of the Corporation’s financial condition and results of operations as of and for the years ended June 30, 2012 and 2011. This discussion is designed to provide a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the consolidated financial statements and related footnotes and the selected financial data included elsewhere in this report.

### **Overview**

Consumers Bancorp, Inc., a bank holding company incorporated under the laws of the State of Ohio, owns all of the issued and outstanding capital stock of Consumers National Bank, a bank chartered under the laws of the United States of America. The Corporation’s activities have been limited primarily to holding the common stock of the Bank. The Bank’s business involves attracting deposits from businesses and individual customers and using such deposits to originate commercial, mortgage and consumer loans in its market area, consisting primarily of Stark, Columbiana, Carroll and contiguous counties in Ohio. The Bank also invests in securities consisting primarily of U.S. government sponsored entities, municipal obligations, mortgage-backed and collateralized mortgage obligations issued by Fannie Mae, Freddie Mac and Ginnie Mae.

### **Comparison of Results of Operations for the Years Ended June 30, 2012 and June 30, 2011**

**Net Income.** Net income increased by \$516, or 23.0%, from 2011 to 2012. The following key factors summarize our results of operations for the year ended June 30, 2012:

- net interest income increased by \$751, or 6.9%, in 2012 from 2011;
- loan loss provision expense in 2012 totaled \$315 compared to \$435 in 2011;
- net gains on the sale of securities totaled \$144 for 2012 compared to a net loss of \$299 in 2011 that includes an other-than-temporary impairment loss of \$370 related to a trust preferred security the Corporation owns; and
-

total other expenses increased \$770, or 8.0% in 2012, an increase principally related to salary and employee benefits mainly due to staff additions in the lending area and for the branch location in Hartville, Ohio that opened during the fourth fiscal quarter of 2011.

Return on average equity and return on average assets were 10.29% and 0.87%, respectively, for the 2012 fiscal year-to-date period compared to 9.21% and 0.80%, respectively, for the same periods last year.

**Net Interest Income.** Net interest income, the difference between interest income earned on interest-earning assets and interest expense incurred on interest-bearing liabilities, is the largest component of the Corporation's earnings. Net interest income is affected by changes in the volumes, rates and composition of interest-earning assets and interest-bearing liabilities. Net interest margin is calculated by dividing net interest income on a fully tax equivalent basis (FTE) by total interest-earning assets. FTE income includes tax-exempt income, restated to a pre-tax equivalent, based on the statutory federal income tax rate. All average balances are daily average balances. Non-accruing loans are included in average loan balances.

Net Interest Income Year ended June 30,	<b>2012</b>		2011
Net interest income	\$11,619		\$10,868
Taxable equivalent adjustments to net interest	530		445
Net interest income, fully taxable equivalent	\$12,149		\$11,313
Net interest margin	3.86	%	4.05 %
Taxable equivalent adjustment	0.18		0.17
Net interest margin, fully taxable equivalent	4.04	%	4.22 %

Net interest income for the year of 2012 was \$11,619, an increase of \$751, or 6.9%, from \$10,868 in the year of 2011. The Corporation's tax equivalent net interest margin for the year ended June 30, 2012 was 4.04%, a decrease of 18 basis points from 2011. Interest income for the year of 2012 was \$13,078, an increase of \$294, or 2.3%, from \$12,784 in the year of 2011. An increase of \$34,150, or 12.7%, in average interest-earning assets more than offset the impact the low interest rate environment has had on the yield of average interest-earning assets. Interest expense for the year of 2012 was \$1,459, a decrease of \$457, or 23.9%, from \$1,916 in the year of 2011. This decrease was mainly the result of lower market rates affecting the rates paid on savings, time deposits and short-term borrowings. The Corporation introduced a new interest bearing demand checking account product that pays a higher rate of interest to customers who meet certain qualifications, with one of the main qualifications being the frequent use of a debit card. As a result, debit card interchange income has increased (see discussion in "Other Income" section) and the rate paid on the interest bearing demand checking account increased to 0.20% from 0.13% for the same year ago period.

**Average Balance Sheet and Net Interest Margin**

	2012			2011			
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	
<b>Interest earning assets:</b>							
Taxable securities	\$74,242	\$1,802	2.46	% \$54,861	\$1,624	3.02	%
Nontaxable Securities (1)	29,300	1,559	5.54	22,463	1,314	5.85	
Loans receivable (1)	181,951	10,190	5.60	176,034	10,237	5.82	
Interest bearing deposits and federal funds sold	17,614	57	0.32	15,599	54	0.35	
Total interest earning assets	303,107	13,608	4.52	% 268,957	13,229	4.94	%
Non-interest earning assets	13,498			12,659			
Total assets	\$316,605			\$281,616			
<b>Interest bearing liabilities:</b>							
Interest bearing demand	\$26,049	\$51	0.20	% \$14,102	\$19	0.13	%
Savings	90,374	116	0.13	71,968	151	0.21	
Time deposits	85,477	1,033	1.21	90,863	1,447	1.59	
Short-term borrowings	15,293	29	0.19	14,892	45	0.30	
FHLB advances	6,794	230	3.39	7,940	254	3.20	
Total interest bearing liabilities	223,987	1,459	0.65	% 199,765	1,916	0.96	%
Non-interest bearing liabilities	65,768			57,452			
Total liabilities	289,755			257,217			
Shareholders' equity	26,850			24,399			
Total liabilities and shareholders' equity	\$316,605			\$281,616			
Net interest income, interest rate spread (1)		\$12,149	3.87	%	\$11,313	3.98	%
Net interest margin (net interest as a percent of average interest earning assets) (1)			4.04	%		4.22	%
Federal tax exemption on non-taxable securities and loans included in interest income		\$530			\$445		
Average interest earning assets to interest bearing liabilities			135.32%			134.64%	

(1) Calculated on a fully taxable equivalent basis

The following table presents the changes in the Corporation's interest income and interest expense resulting from changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities. Changes attributable to both rate and volume that cannot be segregated have been allocated in proportion to the changes due to rate and volume.

## INTEREST RATES AND INTEREST DIFFERENTIAL

	2012 Compared to 2011			2011 Compared to 2010		
	Increase / (Decrease)			Increase / (Decrease)		
Total Change	Change due to Volume	Change due to Rate	Total Change	Change due to Volume	Change due to Rate	
(In thousands)						
Interest earning assets:						
Taxable securities	\$ 178	\$ 515	\$ (337 )	\$(203)	\$ 305	\$ (508 )
Nontaxable securities (1)	245	317	(72 )	171	197	(26 )
Loans receivable (2)	(47 )	338	(385 )	270	521	(251 )
Federal funds sold	3	7	(4 )	(7 )	19	(26 )
Total interest income	379	1,177	(798 )	231	1,042	(811 )
Interest bearing liabilities:						
Interest bearing demand	32	21	11	(8 )	1	(9 )
Savings deposits	(35 )	33	(68 )	(33 )	33	(66 )
Time deposits	(414)	(82 )	(332 )	(559)	12	(571 )
Short-term borrowings	(16 )	1	(17 )	(5 )	7	(12 )
FHLB advances	(24 )	(38 )	14	(39 )	(30 )	(9 )
Total interest expense	(457)	(65 )	(392 )	(644)	23	(667 )
Net interest income	\$836	\$ 1,242	\$ (406 )	\$875	\$ 1,019	\$ (144 )

(1) Nontaxable income is adjusted to a fully tax equivalent basis utilizing a 34% tax rate.

(2) Non-accrual loan balances are included for purposes of computing the rate and volume effects although interest on these balances has been excluded.

**Provision for Loan Losses.** The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management's assessment of the estimated probable credit losses in the Corporation's loan portfolio that have been incurred at each balance sheet date. The provision for loan losses was \$315 in fiscal year 2012 compared to \$435 in fiscal year 2011. For 2012, net charge-offs were \$81, or 0.04% of total loans compared with \$610, or 0.34% of total loans, for the same period last year. The provision for loan losses decreased compared to the prior year primarily as a result of a decline in net charge-offs.

For 2012, the provision for the commercial real estate portfolio was \$336 primarily as a result of an increase in the reserve percentage allocated to substandard and special mention loans combined with an overall increase in these types of loans from June 30, 2011. The provision for the commercial loan portfolio was a negative \$36 for 2012 primarily as a result of the upgrade of commercial loans from substandard and special mention to pass, which was partially offset by an increase in the specific reserves for commercial loans individually evaluated for impairment. The provision for the 1-4 family residential real estate loan portfolio was a negative \$171 for 2012 primarily as a result of a reduction in 1-4 family residential loans classified as substandard and an improved 3 year historical loss ratio.

Non-performing loans were \$1,932 as of June 30, 2012 and represented 0.98% of total loans. This compared with \$1,760, or 0.99% of total loans, at June 30, 2011. The allowance for loan losses to total non-performing loans at June 30, 2012 was 120.86% compared with 119.38% at June 30, 2011. Non-performing loans have been considered in management's analysis of the appropriateness of the allowance for loan losses. Management and the Board of Directors closely monitor these loans and believe the prospect for recovery of principal, less identified specific reserves, are favorable.

**Other Income.** Total other income was \$2,604 for fiscal year 2012, compared to \$2,011 for the same period last year. Adjusted for security gains, a security impairment charge, and gains or losses from the sale of other real estate owned (OREO), other income totaled \$2,513 for the 2012 fiscal year, compared with \$2,308 for the same period last year.

Service charges on deposit accounts increased by \$94, or 7.3%, in 2012 to \$1,386 from \$1,292 mainly due to increased service charges as a result of updated personal checking account products that were introduced in December 2011 and an increase in overdraft fee income from the same period last year.

Debit card interchange income increased by \$99, or 15.4% in 2012 to \$743 from \$644 in the previous fiscal year primarily due to higher volume as a result of increased customer usage. On July 21, 2010, the Dodd-Frank Act amended the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. Because of the uncertainty as to any future rulemaking by the Federal Reserve, the Corporation cannot provide any assurance as to the ultimate impact of the Dodd-Frank Act on the amount of interchange income from debit card transactions reported in future periods.

Bank owned life insurance income increased by \$12, or 6.6%, in 2012 to \$194 from \$182 as a result of an increase in the cash surrender value of life insurance. In February 2011, \$431 of single-premium life insurance was purchased following the conversion of a term life insurance policy.

Gains recognized on the sale of securities totaled \$144 during 2012 and \$71 during the same period last year. An other-than-temporary impairment loss of \$370 related to a trust preferred security was recognized during the 2011 fiscal year. As of June 30, 2012, the adjusted amortized cost of this trust preferred security was \$202. A discussion of the trust preferred security is included on the following pages under the heading "Financial Condition."

**Other Expenses.** Total other expenses were \$10,345 for the year ended June 30, 2012; an increase of \$770, or 8.0% from \$9,575 for the year ended June 30, 2011.

Salaries and employee benefit expenses increased \$681, or 14.1%, during the fiscal year ended June 30, 2012 mainly due to staff additions in the lending area and a full year of expenses associated with the Hartville, Ohio branch location that opened in May 2011. Salaries and employee benefits increased also as a result of higher expenses associated with annual performance based incentives, employee insurance and normal merit increases that went into effect on July 1, 2011.

Occupancy and equipment expenses increased by \$43, or 4.2%, mainly due to a full year of expenses associated with the Hartville, Ohio branch location that opened in May 2011, which was partially offset by lower depreciation expense related to computer and branch equipment. Occupancy expenses are expected to increase in fiscal year 2013 as a result of the opening of the Jackson-Belden, Ohio branch location.

Federal Deposit Insurance Corporation (FDIC) assessments decreased by \$93, or 32.4%, compared to the same period last year mainly due to an industry wide change in the way FDIC insurance assessments are calculated. On April 1, 2011, the deposit insurance assessment base changed from total domestic deposits to average total assets minus average tangible equity, pursuant to a rule issued by the FDIC as required by the Dodd-Frank Act.

Marketing and advertising expenses increased by \$59, or 24.5%, compared to the same period last year mainly due to an increase in general marketing efforts and as a result of entering new markets with the addition of the Hartville, Ohio and Jackson-Belden, Ohio branch locations.

The amortization of the intangible is directly related to the core deposit purchase premium of the Lisbon, Ohio branch that was purchased in January 2000. The core deposit premium was fully amortized in January 2012.

Debit card processing expenses increased by \$46, or 13.4%, during the 2012 fiscal year mainly due to increased debit card usage by our customers.

Other expenses totaled \$1,251 for the year ended June 30, 2012, an increase of \$47, or 3.9%, from \$1,204 for the year ended June 30, 2011. The increase was mainly the result of higher education and development expenses from the introduction of a management development program.

**Income Tax Expense.** The provision for income taxes totaled \$799 and \$621 for the years ended June 30, 2012 and 2011, respectively. The effective tax rates were 22.4% and 21.6%, respectively. The effective tax rate differed from the federal statutory rate principally as a result of tax-exempt income from obligations of states and political subdivisions, loans and earnings on bank owned life insurance.

## **Financial Condition**

Total assets at June 30, 2012 were \$334,761 compared to \$300,140 at June 30, 2011, an increase of \$34,621, or 11.5%. The increase in total assets is mainly attributed to an increase in loans of \$19,879 and an increase in securities of \$13,446. These increases were primarily funded by an increase of \$36,235, or 14.6%, in total deposits.

**Securities.** Available-for-sale securities increased by \$13,446 from \$91,889 at June 30, 2011 to \$105,335 at June 30, 2012. The securities portfolio is mainly comprised of residential mortgage-backed securities and collateralized mortgage obligations issued by Fannie Mae, Freddie Mac and Ginnie Mae, obligations of government sponsored enterprises and state and political subdivisions.

Within the securities portfolio, the Corporation owns a trust preferred security with an adjusted amortized cost of \$202 and a fair value of \$64. The trust preferred security is a collateralized debt obligation issued by other financial and insurance companies that is part of a pool of issuers that support a more senior tranche of securities. The issuers in this security are primarily banks, bank holding companies and a limited number of insurance companies. On June 30, 2012, the lowest credit rating on this security was Fitch's rating of C, which is defined as highly speculative. The investment security is evaluated using a model to compare the present value of expected cash flows to prior periods expected cash flows to determine if there has been an adverse change in cash flows during the period. According to the June 30, 2012 analysis, the expected cash flows were above the recorded amortized cost of the trust preferred security. The accumulated other-than-temporary impairment loss recognized in earnings was \$780 at June 30, 2012 and June 30, 2011. Due to the illiquidity in the market, it is unlikely the Corporation would be able to recover its investment in this security if the Corporation sold the security at this time. If there is further deterioration in the underlying collateral of this security, other-than-temporary impairments may occur in future periods. See Note 2—Securities to the Consolidated Financial Statements, for additional information concerning this trust preferred security.

The following table sets forth certain information regarding the amortized cost and fair value of the Corporation's available-for-sale securities at the dates indicated.

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
Obligations of U.S. government-sponsored entities and agencies	\$ 8,487	\$ 80	\$ —	\$ 8,567
Obligations of state and political subdivisions	33,808	1,577	(109 )	35,276
Mortgage-backed securities - residential	48,255	1,108	(32 )	49,331
Collateralized mortgage obligations	12,154	25	(82 )	12,097
Trust preferred security	202	—	(138 )	64
Total securities	\$ 102,906	\$ 2,790	\$ (361 )	\$ 105,335
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011				
Obligations of U.S. government sponsored entities and agencies	\$ 16,185	\$ 98	\$ (23 )	\$ 16,260
Obligations of state and political subdivisions	24,725	584	(211 )	25,098
Mortgage-backed securities - residential	29,424	1,172	—	30,596



Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-K

Collateralized mortgage obligations	19,856	74	(62	)	19,868
Trust preferred security	202	—	(135	)	67
Total securities	\$ 90,392	\$ 1,928	\$ (431	)	\$91,889

13

The following tables summarize the amounts and distribution of the Corporation's securities held and the weighted average yields as of June 30, 2012:

	<b>Amortized Cost</b>	<b>Fair Value</b>	Average Yield / Cost	
<b>AVAILABLE-FOR-SALE</b>				
Obligations of government sponsored entities:				
3 months or less	\$ 1,000	1,001	2.00	%
Over 3 months through 1 year	2,507	2,523	1.73	
Over 1 year through 5 years	4,980	5,043	1.62	
Total obligations of government sponsored entities	8,487	8,567	1.70	
Obligations of state and political subdivisions:				
Over 1 year through 5 years	948	975	3.74	
Over 5 years through 10 years	10,105	10,577	4.56	
Over 10 years	22,755	23,724	5.57	
Total obligations of state and political subdivisions	33,808	35,276	5.21	
Mortgage-backed securities - residential:				
Over 1 year through 5 years	39,123	40,067	2.82	
Over 5 years through 10 years	9,132	9,264	2.96	
Total mortgage-backed securities	48,255	49,331	2.85	
Collateralized mortgage obligations:				
Over 3 months through 1 year	894	894	1.55	
Over 1 year through 5 years	11,260	11,203	1.50	
Total collateralized mortgage obligations	12,154	12,097	1.51	
Trust preferred security	202	64	—	
Total securities	\$ 102,906	\$ 105,335	3.36	%

The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount. The weighted average yield on tax-exempt obligations has been calculated on a tax equivalent basis. Average yields are based on amortized cost balances. The yield on the trust preferred security is zero since the cash interest payments for this security are being deferred.

At June 30, 2012, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies and corporations, with an aggregate book value which exceeds 10% of shareholders' equity.

**Loans.** Loan receivables increased by \$19,879 to \$197,430 at June 30, 2012 compared to \$177,551 at June 30, 2011. Loan demand increased, particularly in the commercial and commercial real estate segments, principally as a result of increased calling efforts within and the surrounding markets of Bank's new branch locations. Consumer loans increased primarily as a result of the introduction of a more competitive product and added efficiencies to improve the

approval process. Major classifications of loans, net of deferred loan fees and costs, were as follows as of June 30:

	<b>2012</b>	<b>2011</b>
Commercial	\$23,038	\$19,297
Commercial real estate:		
Construction	1,544	1,049
Other	110,544	97,199
1-4 Family residential real estate:		
Owner occupied	34,018	34,517
Non-owner occupied	18,745	19,047
Construction	186	596
Consumer loans	9,355	5,846
Total loans	\$197,430	\$177,551

The following is a schedule of contractual maturities and repayments of 1-4 family residential real estate construction, commercial and commercial real estate loans, as of June 30, 2012:

Due in one year or less	\$11,022
Due after one year but within five years	18,602
Due after five years	105,688
Total	\$135,312

The following is a schedule of fixed and variable rate 1-4 family residential real estate construction, commercial and commercial real estate loans due after one year (variable rate loans are those loans with floating or adjustable interest rates) as of June 30, 2012:

	<b>Fixed Interest Rates</b>	<b>Variable Interest Rates</b>
Total 1-4 family residential real estate construction, commercial and commercial real estate loans due after one year	\$ 39,393	\$ 84,897

Foreign Outstandings—there were no foreign outstandings during the periods presented. There are no concentrations of loans greater than 10% of total loans, which are not otherwise disclosed as a category of loans.

**Allowance for Loan Losses.** The allowance for loan losses balance and the provision charged to expense are judgmentally determined by management based upon a periodic review of the loan portfolio, an analysis of impaired loans, past loan loss experience, current economic conditions, collateral value assumptions for collateral-dependent loans and various other circumstances which are subject to change over time. Probable losses are estimated by stratifying the total loan portfolio into pools of homogenous loans by ownership, collateral type and loan purpose and applying the Bank's three year historical loss ratio, increased for more recent trends in loss experience, to each loan pool. Also, the local unemployment rate is monitored and additional reserves are applied to all loans that are not assigned a specific reserve if there is an increase in the local unemployment rate. Specific reserves are determined by management's review of delinquent loans, impaired loans, non-accrual loans, loans classified as substandard, watch list loans, loans to industries experiencing economic difficulties and other selected large loans. The collectability of these loans is evaluated after considering the current financial position of the borrower, the estimated market value of the collateral, guarantees and the Corporation's collateral position versus other creditors. Judgments, which are necessarily subjective, as to the probability of loss and the amount of such loss, are formed on these loans, as well as other loans in the aggregate.

Failure to receive principal and interest payments when due on any loan results in efforts to restore such loan to a current status. Loans are classified as non-accrual when, in the opinion of management, full collection of principal and accrued interest is not expected. The loans must be brought and kept current for six sustained payments before being

considered for removal from non-accrual status. Commercial and commercial real estate loans are classified as impaired if management determines that full collection of principal and interest, in accordance with the terms of the loan documents, is not probable. If a loan is impaired, a portion of the allowance is allocated so the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that not all principal and interest amounts will be collected according to the original terms of the loan. As of June 30, 2012, impaired loans totaled \$2,557, of which \$1,861 are included in non-accrual loans. Continued unsuccessful collection efforts generally lead to initiation of foreclosure or other legal proceedings.

The following schedule summarizes non-accrual, past due, impaired and restructured loans for the years ended June 30:

	2012	2011
Non-accrual loans	\$1,932	\$1,760
Accruing loans past due 90 days or more	—	—
Total non-performing loans	\$1,932	\$1,760
Other real estate owned	—	76
Total non-performing assets	\$1,932	\$1,836
Impaired loans	\$2,557	\$2,536
Accruing restructured loans	\$696	\$791

The non-performing loans are either in the process of foreclosure or efforts are being made to work with the borrower to bring the loan current. Properties acquired by the Corporation as a result of foreclosure, or by deed in lieu of foreclosure, are classified as “other real estate owned” until such time as they are sold or otherwise disposed. As of June 30, 2012, there were no properties classified as other real estate owned.

**Potential Problem Loans.** There were no loans, not otherwise identified above, included on management’s watch or troubled loan lists that management has serious doubts as to the ability of such borrowers to comply with the loan repayment terms. Management’s watch and troubled loan lists includes loans which management has some doubt as to the borrowers’ ability to comply with the present repayment terms, loans which management is actively monitoring due to changes in the borrowers financial condition and other loans which management wants to more closely monitor due to special circumstances. These loans and their potential loss exposure have been considered in management’s analysis of the adequacy of the allowance for loan losses.

The following table summarizes the Corporation’s loan loss experience, and provides a breakdown of the charge-off, recovery and other activity for the years ended June 30:

	2012	2011
Allowance for loan losses at beginning of year	\$2,101	\$2,276
Loans charged off:		
Commercial	—	9
Commercial real estate	—	510
1-4 Family residential real estate	69	62
Consumer loans	158	116
Total charge offs	227	697
Recoveries:		
Commercial	—	2
Commercial real estate	65	19
1-4 Family residential real estate	5	—
Consumer loans	76	66
Total recoveries	146	87
Net charge offs	81	610
Provision for loan losses charged to operations	315	435
Allowance for loan losses at end of year	\$2,335	\$2,101

The following schedule is a breakdown of the allowance for loan losses allocated by type of loan and related ratios:

Allocation of the Allowance for Loan Losses	
Allowance of Loan	Allowance of Loan
Amount Type to	Amount Type to

	<b>Total Loans</b>		Total Loans		
	June 30, 2012		June 30, 2011		
Commercial	\$ 143	11.7	% \$ 179	10.9	%
Commercial real estate loans	1,283	56.8	882	55.3	
1-4 Family residential real estate	712	26.8	947	30.5	
Consumer loans	197	4.7	93	3.3	
Total	\$2,335	100.0	% \$2,101	100.0	%

While management's periodic analysis of the adequacy of the allowance for loan loss may allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-off that may occur.

**Funding Sources.** Total deposits increased \$36,235, or 14.6%, from \$248,246 at June 30, 2011 to \$284,481 at June 30, 2012. Interest bearing demand deposits increased \$20,226, or 136.4%, savings deposits increased \$19,225, or 24.1%, and non-interest bearing demand checking balances increased \$1,258, or 1.9%, from June 30, 2011 to June 30, 2012. Time deposits decreased by \$4,474, or 5.0%, as customers choose to deposit funds into more liquid deposit products during the current low interest rate environment. Interest bearing demand deposits increased primarily as a result of the reclassification of \$10,746 from non-interest bearing checking to interest bearing checking with the introduction of a new checking account product that rewards customers with a higher rate of interest if certain qualifications are met, with one of the main qualifications being the frequent use of a debit card. The increase in deposits reflects the results of the Corporation's increased calling efforts, the economic benefit from the oil and gas activity in the Bank's primary market areas and the current trend in the industry where customers are turning to the safety of insured deposits during these uncertain economic times.

The following is a schedule of average deposit amounts and average rates paid on each category for the periods included:

	Years Ended June 30,			
	2012		2011	
	Amount	Rate	Amount	Rate
Non-interest bearing demand deposit	\$63,653	—	\$55,499	—
Interest bearing demand deposit	26,049	0.20 %	14,102	0.13 %
Savings	90,374	0.13	71,968	0.21
Certificates and other time deposits	85,477	1.21	90,863	1.59
Total	\$265,553	0.45 %	\$232,432	0.70 %

The following table summarizes time deposits issued in amounts of \$100 or more as of June 30, 2012 by time remaining until maturity:

Maturing in:

Under 3 months	\$3,932
Over 3 to 6 months	9,080
Over 6 to 12 months	8,391
Over 12 months	13,019
Total	\$34,422

See Note 7—Short-Term Borrowings to the Consolidated Financial Statements, for information concerning short-term borrowings.

**Shareholders' Equity.** Total shareholders' equity increased by \$2,566 from \$25,324 at June 30, 2011 to \$27,890 at June 30, 2012. The increase was primarily due to net income of \$2,764 for the current fiscal year, an increase of \$616 in the unrealized gain on the mark-to-market of available-for-sale securities and cash of \$91 received from the dividend reinvestment and stock purchase program. These increases were partially offset by cash dividends paid of \$905.

## Liquidity



Management considers the asset position of the Bank to be sufficiently liquid to meet normal operating needs and conditions. The Bank's earning assets are divided primarily between loans and available-for-sale securities, with any excess funds placed in federal funds sold or interest-bearing deposit accounts with other financial institutions on a daily basis.

Net cash inflow from operating activities for the 2012 fiscal year were \$4,639 and net cash inflow from financing activities was \$31,042. Net cash outflow from investing activities was \$35,764. The major sources of cash were \$36,235 net increase in deposits, \$35,876 net increase from sales, maturities or principal pay downs on available-for-sale securities. The major uses of cash were the \$49,613 purchase of securities and a \$19,960 net increase in loans. Total cash and cash equivalents were \$13,745 as of June 30, 2012 compared to \$13,828 at June 30, 2011.

The Bank groups its loan portfolio into four major categories: commercial loans; commercial real estate loans; 1-4 family residential real estate loans; and consumer loans. The Bank's 1-4 family residential real estate loan portfolio consists of three basic segments: mortgage loans having fixed rates for terms not longer than fifteen years, variable rate home equity line of credit loans and fixed rate loans having maturity or renewal dates that are less than the scheduled amortization period. Commercial and commercial real estate loans are comprised of both variable rate notes subject to interest rate changes based on the prime rate or T-bill and fixed rate notes having maturities of generally not greater than five years. Consumer loans offered by the Bank are generally written for periods of up to five years, based on the nature of the collateral. These may be either installment loans having regular monthly payments or demand type loans for short periods of time.

Funds not allocated to the Bank's loan portfolio are invested in various securities having diverse maturity schedules. The majority of the Bank's securities are held in obligations of U.S. Government sponsored entities, mortgage-backed securities, and investments in tax free municipal bonds.

The Bank offers several forms of deposit products to its customers. The rates offered by the Bank and the fees charged for them are competitive with others available currently in the market area. While the Bank continues to be under competitive pressures in the Bank's market area as financial institutions attempt to attract and keep new deposits, we believe many commercial and retail customers have been continuing to turn to community banks. Time deposit interest rates continued to decline in the 2012 fiscal year. Compared to our peers, the Corporation's core deposits consist of a large percentage of non-interest bearing demand deposits resulting in the cost of funds remaining at a low level of 0.65%.

Jumbo time deposits (those with balances of \$100 and over) were \$34,422 and \$34,707 at June 30, 2012 and 2011, respectively. These deposits are monitored closely by the Bank and typically priced on an individual basis. When these deposits are from a municipality, certain bank-owned securities are pledged to guarantee the safety of these public fund deposits as required by Ohio law. The Corporation has the option to use a fee paid broker to obtain deposits from outside its normal service area as an additional source of funding. However, these deposits are not relied upon as a primary source of funding and the Bank can foresee no dependence on these types of deposits in the near term.

### **Capital Resources**

At June 30, 2012, management believes the Bank complied with all regulatory capital requirements. Based on the Bank's computed regulatory capital ratios, the OCC has determined the Bank to be well capitalized under the Federal Deposit Insurance Act as of its latest exam date. The Bank's actual and required capital amounts are disclosed in Note 11 of the Consolidated Financial Statements. Management is not aware of any matters occurring subsequent to that exam that would cause the Bank's capital category to change.

### **Impact of Inflation and Changing Prices**

The financial statements and related data presented herein have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and results of operations primarily in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of the Corporation are monetary in nature. Therefore, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. The liquidity, maturity structure and quality of the Corporation's assets and liabilities are critical to the maintenance of acceptable performance levels.

### **Critical Accounting Policies and Use of Significant Estimates**

The financial condition and results of operations for the Corporation presented in the Consolidated Financial Statements, accompanying notes to the Consolidated Financial Statements and management's discussion and analysis are, to a large degree, dependent upon the Corporation's accounting policies. The selection and application of these accounting policies involve judgments, estimates and uncertainties that are susceptible to change.

Presented below is a discussion of the accounting policy that management believes is the most important to the portrayal and understanding of the Corporation's financial condition and results of operations. This policy requires management's most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood. Also, see Note 1 of the Consolidated Financial Statements for additional information related to significant accounting policies.

**Allowance for Loan Losses.** Management periodically reviews the loan portfolio in order to establish an estimated allowance for loan losses (allowance) that are probable as of the respective reporting date. Additions to the allowance are charged against earnings for the period as a provision for loan losses. Actual loan losses are charged against the allowance when management believes that the collection of principal will not occur. Unpaid interest for loans that are placed on non-accrual status is reversed against current interest income.

The allowance is regularly reviewed by management to determine whether or not the amount is considered adequate to absorb probable incurred losses. If not, an additional provision is made to increase the allowance. This evaluation includes specific loss estimates on certain individually reviewed loans, loss estimates for loan groups or pools that are based on historical loss experience and general loss estimates that are based upon the size, quality, and concentration characteristics of the various loan portfolios, adverse situations that may affect a borrower's ability to repay, and current economic and industry conditions, among other things. The allowance is also subject to periodic examination by regulators whose review includes a determination as to its adequacy to absorb probable incurred losses.

Those judgments and assumptions that are most critical to the application of this accounting policy are the initial and on-going credit-worthiness of the borrower, the amount and timing of future cash flows of the borrower that are available for repayment of the loan, the sufficiency of underlying collateral, the enforceability of third-party guarantees, the frequency and subjectivity of loan reviews and risk grading, emerging or changing trends that might not be fully captured in the historical loss experience, and charges against the allowance for actual losses that are greater than previously estimated. These judgments and assumptions are dependent upon or can be influenced by a variety of factors including the breadth and depth of experience of lending officers, credit administration and the loan review staff that periodically review the status of the loan, changing economic and industry conditions, changes in the financial condition of the borrower, and changes in the value and availability of the underlying collateral and guarantees.

While the Corporation strives to reflect all known risk factors in its evaluations, judgment errors may occur. If different assumptions or conditions were to prevail, the amount and timing of interest income and loan losses could be materially different. These factors are most pronounced during economic downturns. Since, as described above, so many factors can affect the amount and timing of losses on loans it is difficult to predict, with any degree of certainty, the affect on income if different conditions or assumptions were to prevail.

**Valuation of Securities and Other-Than-Temporary Impairment (OTTI).** The fair value of available-for-sale securities is estimated using relevant market information and other assumptions. Fair value measurements are classified within one of three levels in a valuation hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, discounted cash flows, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Securities are reviewed at least quarterly for indicators of other-than-temporary impairment. This determination requires significant judgment. In estimating other-than-temporary impairment, management evaluates: the length of time and extent the fair value has been less than cost, the expected cash flows of the security, the financial condition and near term prospects of the issuer, and whether the Corporation has the intent to sell the security or the likelihood the Corporation will be required to sell the security at an unrealized loss position prior to any anticipated recovery in fair value, which may be maturity. A decline in value that is considered to be credit-related other-than-temporary is recorded as a loss within other income in the consolidated statements of income.

### Contractual Obligations, Commitments and Contingent Liabilities

The following table presents, as of June 30, 2012, the Corporation's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient and do not include any unamortized premiums or discounts. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

	Note Reference	2013	2014	2015	2016	2017	Thereafter	Total
Certificates of deposit	6	\$50,244	\$19,974	\$6,038	\$4,939	\$1,913	\$ 1,362	\$84,470
Short-term borrowings	7	13,722	—	—	—	—	—	13,722
Federal Home Loan Advances	8	86	69	56	559	62	5,614	6,446
Salary continuation plan	9	22	22	22	22	22	1,241	1,351
Operating leases	4	103	90	77	18	—	—	288
Deposits without maturity		—	—	—	—	—	—	200,011

Note 12 to the Consolidated Financial Statements discusses in greater detail other commitments and contingencies and the various obligations that exist under those agreements. These commitments and contingencies consist primarily of commitments to extend credit to borrowers under lines of credit.

### **Off-Balance Sheet Arrangements**

At June 30, 2012, the Corporation had no unconsolidated, related special purpose entities, nor did the Corporation engage in derivatives and hedging contracts, such as interest rate swaps, which may expose the Corporation to liabilities greater than the amounts recorded on the consolidated balance sheet. The Corporation's investment policy prohibits engaging in derivative contracts for speculative trading purposes; however, in the future, the Corporation may pursue certain contracts, such as interest rate swaps, in an effort to execute a sound and defensive interest rate risk management policy.

### **Forward-Looking Statements**

All statements set forth in this discussion or future filings by the Corporation with the Securities and Exchange Commission, or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, that are not historical in nature, including words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe" or similar expressions are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may involve risks and uncertainties that are difficult to predict, may be beyond our control, and could cause actual results to differ materially from those described in such statements. Any such forward-looking statements are made only as of the date of this report or the respective dates of the relevant incorporated documents, as the case may be, and, except as required by law, we undertake no obligation to update these forward-looking statements to reflect subsequent events or circumstances. Factors that could cause actual results for future periods to differ materially from those anticipated or projected include, but are not limited to:

regional and national economic conditions becoming less favorable than expected, resulting in, among other things, a deterioration in credit quality of assets and the underlying value of collateral could prove to be less valuable than otherwise assumed;

the economic impact from the oil and gas activity in the region could be less than expected or the timeline for development could be longer than anticipated;

- the nature, extent, and timing of government and regulatory actions;
- material unforeseen changes in the financial condition or results of Consumers National Bank's customers;
  - changes in levels of market interest rates which could reduce anticipated or actual margins;
  - competitive pressures on product pricing and services; and
- a continued deterioration in market conditions causing debtors to be unable to meet their obligations.

The risks and uncertainties identified above are not the only risks we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely affect us. Should any known or unknown risks and uncertainties develop into actual events, those developments could have material adverse effects on our business, financial condition and results of operations.

#### ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable for Smaller Reporting Companies.

ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**REPORT OF MANAGEMENT ON THE CORPORATION'S INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Consumers Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(1) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of; our principal executive and principal financial officers and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on that assessment, we have concluded that, as of June 30, 2012, our internal control over financial reporting is effective based on those criteria.

/s/ Ralph J. Lober, II

Ralph J. Lober, II

Chief Executive Officer

/s/ Renee K. Wood

Renee K. Wood

Chief Financial Officer & Treasurer

21



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

Consumers Bancorp, Inc.

Minerva, Ohio

We have audited the accompanying consolidated balance sheets of Consumers Bancorp, Inc. as of June 30, 2012 and 2011 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumers Bancorp, Inc. as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the years then ended, in conformity with U. S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Cleveland, Ohio

September 21, 2012

22

**CONSOLIDATED BALANCE SHEETS**

As of June 30, 2012 and 2011

(Dollar amounts in thousands, except per share data)

	2012	2011
<b>ASSETS:</b>		
Cash on hand and noninterest-bearing deposits in financial institutions	\$6,663	\$5,944
Federal funds sold and interest-bearing deposits in financial institutions	7,082	7,884
Total cash and cash equivalents	13,745	13,828
Certificate of deposits in financial institutions	5,645	4,900
Securities, available-for-sale	105,335	91,889
Federal bank and other restricted stocks, at cost	1,186	1,186
Loans held for sale	377	—
Total loans	197,430	177,551
Less allowance for loan losses	(2,335 )	(2,101 )
Net loans	195,095	175,450
Cash surrender value of life insurance	5,605	5,411
Premises and equipment, net	5,752	4,776
Intangible assets, net	—	89
Other real estate owned	—	76
Accrued interest receivable and other assets	2,021	2,535
Total assets	\$334,761	\$300,140
<b>LIABILITIES:</b>		
Deposits:		
Non-interest bearing demand	\$65,915	\$64,657
Interest bearing demand	35,055	14,829
Savings	99,041	79,816
Time	84,470	88,944
Total deposits	284,481	248,246
Short-term borrowings	13,722	17,012
Federal Home Loan Bank advances	6,446	7,535
Accrued interest payable and other liabilities	2,222	2,023
Total liabilities	306,871	274,816
Commitments and contingent liabilities	—	—
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, no par value; 350,000 shares authorized	—	—
Common shares, no par value; 3,500,000 shares authorized; 2,186,791 and 2,180,315 shares issued as of June 30, 2012 and 2011, respectively	5,205	5,114
Retained earnings	22,740	20,881
Treasury stock, at cost (130,442 common shares at June 30, 2012 and 2011)	(1,659 )	(1,659 )
Accumulated other comprehensive income	1,604	988

Total shareholders' equity	27,890	25,324
Total liabilities and shareholders' equity	\$334,761	\$300,140

*See accompanying notes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF INCOME**

Years Ended June 30, 2012 and 2011

(Dollar amounts in thousands, except per share data)

	2012	2011
Interest income:		
Loans, including fees	\$10,167	\$10,212
Federal funds sold and interest-bearing deposits in financial institutions	57	54
Securities, taxable	1,802	1,624
Securities, tax-exempt	1,052	894
Total interest and dividend income	13,078	12,784
Interest expense:		
Deposits	1,200	1,617
Short-term borrowings	29	45
Federal Home Loan Bank advances	230	254
Total interest expense	1,459	1,916
Net interest income	11,619	10,868
Provision for loan losses	315	435
Net interest income after provision for loan losses	11,304	10,433
Other income:		
Service charges on deposit accounts	1,386	1,292
Debit card interchange income	743	644
Bank owned life insurance income	194	182
Securities gains, net	144	71
Other-than-temporary loss		
Total impairment loss	—	(370 )
Loss recognized in other comprehensive income	—	—
Net impairment loss recognized in earnings	—	(370 )
Gain (loss) on disposition or direct write-down of other real estate owned	(53 )	2
Other	190	190
Total other income	2,604	2,011
Other expenses:		
Salaries and employee benefits	5,508	4,827
Occupancy and equipment	1,062	1,019
Data processing expenses	566	553
Professional and director fees	356	346
Federal Deposit Insurance Corporation assessments	194	287
Franchise taxes	267	242
Marketing and advertising	300	241
Loan and collection expenses	123	121
Amortization of intangible	89	161
Telephone and communications	240	231

Debit card processing expenses	389	343
Other	1,251	1,204
Total other expenses	10,345	9,575
Income before income taxes	3,563	2,869
Income tax expense	799	621
Net income	\$2,764	\$2,248
Basic and diluted earnings per share	\$1.35	\$1.10

*See accompanying notes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended June 30, 2012 and 2011

(Dollar amounts in thousands, except per share data)

	2012	2011
Net income	\$2,764	\$2,248
Other comprehensive income (loss), net of tax:		
Net change in unrealized gains (losses):		
Other-than-temporarily impaired securities:		
Unrealized gains (loss) on other-than-temporarily impaired securities	—	(355 )
Reclassification adjustment for losses included in income	—	370
Net unrealized gain (loss)	—	15
Income tax effect	—	5
	—	10
Available-for-sale securities which are not other-than-temporarily impaired:		
Unrealized gains arising during the period	1,076	134
Reclassification adjustment for gains included in income	(144 )	(71 )
Net unrealized gain	932	63
Income tax effect	316	22
	616	41
Other comprehensive income	616	51
Total comprehensive income	\$3,380	\$2,299

*See accompanying notes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Years Ended June 30, 2012 and 2011

(Dollar amounts in thousands, except per share data)

	Common Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, June 30, 2010	\$ 4,968	\$ 19,470	\$(1,659 )	\$ 937	\$ 23,716
Net income		2,248			2,248
Other comprehensive income				51	51
Issuance of 11,986 shares for dividend reinvestment and stock purchase plan	146				146
Cash dividends declared (\$0.41 per share)		(837 )			(837 )
Balance, June 30, 2011	5,114	20,881	(1,659 )	988	25,324
Net income		2,764			2,764
Other comprehensive income				616	616
Issuance of 6,476 shares for dividend reinvestment and stock purchase plan	91				91
Cash dividends declared (\$0.44 per share)		(905 )			(905 )
Balance, June 30, 2012	\$ 5,205	\$ 22,740	\$(1,659 )	\$ 1,604	\$ 27,890

*See accompanying notes to consolidated financial statements.*



**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2012 and 2011

(Dollar amounts in thousands, except per share data)

	2012	2011
Cash flows from operating activities:		
Net income	\$2,764	\$2,248
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	369	382
Securities amortization and accretion, net	1,367	843
Provision for loan losses	315	435
(Gain) loss on disposition or direct write-down of other real estate owned	53	(2 )
Deferred income taxes	(271 )	81
Gain on sale of securities	(144 )	(71 )
Impairment loss on securities	—	370
Intangible amortization	89	161
Origination of loans held for sale	(377 )	—
Increase in cash surrender value of life insurance	(194 )	(182 )
Change in:		
Accrued interest receivable	(63 )	(37 )
Accrued interest payable	(26 )	(40 )
Other assets and other liabilities	757	(25 )
Net cash flows from operating activities	4,639	4,163
Cash flows from investing activities:		
Securities available-for-sale:		
Purchases	(49,613)	(49,803)
Maturities, calls and principal pay downs	21,308	15,989
Proceeds from sales of available for sale securities	14,568	5,123
Net increase in certificates of deposit with other financial institutions	(745 )	(3,920 )
Net increase in loans	(19,960)	(3,954 )
Purchase of Bank owned life insurance	—	(431 )
Acquisition of premises and equipment	(1,345 )	(1,577 )
Proceeds from sale of other real estate owned	23	27
Net cash flows from investing activities	(35,764)	(38,546)
Cash flows from financing activities:		
Net increase in deposit accounts	36,235	31,932
Proceeds from FHLB advances	—	1,000
Repayments of FHLB advances	(1,089 )	(1,762 )
Change in short-term borrowings	(3,290 )	3,926
Proceeds from dividend reinvestment and stock purchase plan	91	146
Dividends paid	(905 )	(837 )
Net cash flows from financing activities	31,042	34,405

Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-K

Increase (decrease) in cash and cash equivalents	(83 )	22
Cash and cash equivalents, beginning of year	13,828	13,806
Cash and cash equivalents, end of year	\$13,745	\$13,828
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$1,485	\$1,956
Federal income taxes paid	721	830
Noncash transactions:		
Transfers from loans to repossessed assets	—	76

*See accompanying notes to consolidated financial statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Dollar amounts in thousands, except per share data)

### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise indicated, dollar amounts are in thousands, except per share data.

**Principles of Consolidation:** The consolidated financial statements include the accounts of Consumers Bancorp, Inc. (Corporation) and its wholly owned subsidiary, Consumers National Bank (Bank), together referred to as the Corporation. All significant intercompany transactions have been eliminated in the consolidation.

**Nature of Operations:** Consumers Bancorp, Inc. is a bank holding company headquartered in Minerva, Ohio that provides, through its banking subsidiary, a broad array of products and services throughout its primary market area of Stark, Columbiana, Carroll and contiguous counties in Ohio. The Bank's business involves attracting deposits from businesses and individual customers and using such deposits to originate commercial, mortgage and consumer loans in its primary market area.

**Business Segment Information:** Consumers Bancorp, Inc. is a bank holding company engaged in the business of commercial and retail banking, which accounts for substantially all of its revenues, operating income, and assets. Accordingly, all of its operations are reported in one segment, banking.

**Use of Estimates:** To prepare financial statements in conformity with U. S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, fair values of financial instruments, and determination of other-than-temporary impairment of securities are particularly subject to change.

**Cash Flows:** Cash and cash equivalents include cash, deposits with other financial institutions with original maturities of less than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions and short-term borrowings.

**Interest-Bearing Deposits in Other Financial Institutions:** Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

**Cash Reserves:** The Bank is required to maintain cash on hand and non-interest bearing balances on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements. The required reserve balance at June 30, 2012 and 2011 was \$3,991 and \$3,075, respectively.

**Securities:** Securities are generally classified into either held-to-maturity or available-for-sale categories. Held-to-maturity securities are carried at amortized cost and are those that the Corporation has the positive intent and ability to hold to maturity. Available-for-sale securities are those that the Corporation may decide to sell before maturity if needed for liquidity, asset-liability management, or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains or losses included in other comprehensive income as a separate component of equity, net of tax.

Interest income includes amortization of purchase premiums and accretion of discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

**Federal Bank and Other Restricted Stocks:** The Bank is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock, included with Federal bank and other restricted stocks on the Consolidated Balance Sheet, is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Federal Reserve Bank stock is also carried at cost. Since these stocks are viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

**Loans Held for Sale:** Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Mortgage loans held for sale are generally sold with servicing rights released. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

**Loans:** Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. The recorded investment in loans includes accrued interest receivable.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is determined by the contractual terms of the loan. In all cases, loans are placed on

non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received on loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when the customer has exhibited the ability to repay and demonstrated this ability over a consecutive six month period and future payments are reasonably assured.

**Loan Commitments and Related Financial Instruments:** Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when funded.

**Concentrations of Credit Risk:** The Bank grants consumer, real estate and commercial loans primarily to borrowers in Stark, Columbiana and Carroll counties. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy in this tri-county area. Automobiles and other consumer assets, business assets and residential and commercial real estate secure most loans.

**Allowance for Loan Losses:** The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required based on past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer loans and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that not all principal and interest amounts will be collected according to the original terms of the loan. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective interest rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the most recent three year period. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified:

*Commercial Loans:* Commercial loans are made for a wide variety of general business purposes, including financing for equipment, inventories and accounts receivable. The term of each commercial loan varies by its purpose. Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Current and projected cash flows are evaluated to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and usually incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The commercial loan portfolio includes loans to a wide variety of corporations and businesses across many industrial classifications in the areas where the Bank operates.

*Commercial Real Estate:* Commercial real estate loans include mortgage loans to farmers, multi-family investment properties, developers and owners of commercial real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Corporation's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Corporation's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Residential real estate:* Residential real estate loans are secured by one to four family residential properties and include both owner occupied, non-owner occupied and home equity loans. Credit approval for residential real estate loans requires demonstration of sufficient income to repay the principal and interest and the real estate taxes and insurance, stability of employment, an established credit record and an appropriately appraised value of the real estate securing the loan that generally requires that the residential real estate loan amount be no more than 80% of the purchase price or the appraised value of the real estate securing the loan. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements.

*Consumer Loans:* The Corporation originates direct and indirect consumer loans, primarily automobile loans, personal lines of credit, and unsecured consumer loans in its primary market areas. Credit approval for consumer loans requires income sufficient to repay principal and interest due, stability of employment, an established credit record and sufficient collateral for secured loans. Consumer loans typically have shorter terms and lower balances with higher yields as compared to real estate mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances.

**Other Real Estate Owned:** Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less costs to sell at the date of acquisition, establishing a new cost basis. Any reduction to fair value from the carrying value of the related loan at the time of acquisition is accounted for as a loan loss. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If the fair value declines after acquisition, a valuation allowance is recorded as a charge to income. Operating costs after acquisition are expensed. Gains and losses on disposition are reported as a charge to income.

**Premises and Equipment:** Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful life of the owned asset and, for leasehold improvements, generally over the lesser of the remaining term of the lease facility or the estimated economic life of the improvement. Useful lives range from three years for software to thirty-nine and one-half years for buildings.

**Cash Surrender Value of Life Insurance:** The Bank has purchased single-premium life insurance policies to insure the lives of current and former participants in the salary continuation plan. As of June 30, 2012, the Bank had policies with total death benefits of \$12,044 and total cash surrender values of \$5,605. As of June 30, 2011, the Bank had policies with total death benefits of \$11,944 and total cash surrender values of \$5,411. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash

surrender value adjusted for other changes or other amounts due that are probable at settlement. Tax-exempt income is recognized from the periodic increases in cash surrender value of these policies.

**Intangible Assets:** Core deposit intangible is recorded at cost and is amortized over an estimated life of 12 years on a straight line method. Intangibles are assessed annually for impairment and written down as necessary.

**Long-term Assets:** Premises and equipment, core deposit and other intangible assets and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

**Repurchase Agreements:** Substantially all repurchase agreement liabilities, which are classified as short-term borrowings, represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

**Retirement Plan:** The Bank maintains a 401(k) savings and retirement plan covering all eligible employees. Matching contributions are made and expensed annually.

**Income Taxes:** The Corporation files a consolidated federal income tax return. Income tax expense is the sum of the current-year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Corporation applies a more likely than not recognition threshold for all tax uncertainties in accordance with U.S. generally accepted accounting principles. A tax position is recognized as a benefit only if it is more likely than not the position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit greater than 50% likely of being realized on examination. The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Earnings per Common Share:** Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable upon the vesting of restricted stock awards.

**Stock-Based Compensation:** Compensation cost is recognized for restricted stock awards issued to employees over the required service period, generally defined as the vesting period. The fair value of restricted stock awards is estimated by using the market price of the Corporation's common stock at the date of grant. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

**Comprehensive Income:** Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, which are also recognized as a separate component of equity, net of tax.

**Loss Contingencies:** Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

**Fair Value of Financial Instruments:** Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, discounted cash flows, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

**Dividend Restrictions:** Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders. As of June 30, 2012 the Bank could, without prior approval, declare a dividend of approximately \$4,107.

**Reclassifications:** Certain reclassifications have been made to the June 30, 2011 financial statements to be comparable to the June 30, 2012 presentation.

**Adoption of New Accounting Standards:** In May, 2011, the Financial Accounting Standards Board (FASB) issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The effect of adopting this standard did not have a material effect on the Corporation's operating results or financial condition, but the additional disclosures are included in Note 13.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. Early adoption is permitted. The adoption of this amendment had no impact on the consolidated financial statements as the prior presentation of comprehensive income was in compliance with this amendment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2—SECURITIES

The following table sets forth certain information regarding the amortized cost and fair value of the Corporation's available-for-sale securities at the dates indicated.

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
Obligations of U.S. government-sponsored entities and agencies	\$ 8,487	\$ 80	\$ —	\$ 8,567
Obligations of state and political subdivisions	33,808	1,577	(109 )	35,276
Mortgage-backed securities - residential	48,255	1,108	(32 )	49,331
Collateralized mortgage obligations	12,154	25	(82 )	12,097
Trust preferred security	202	—	(138 )	64
Total securities	\$ 102,906	\$ 2,790	\$ (361 )	\$ 105,335
June 30, 2011				
Obligations of U.S. government sponsored entities and agencies	\$ 16,185	\$ 98	\$ (23 )	\$ 16,260
Obligations of state and political subdivisions	24,725	584	(211 )	25,098
Mortgage-backed securities - residential	29,424	1,172	—	30,596
Collateralized mortgage obligations	19,856	74	(62 )	19,868
Trust preferred security	202	—	(135 )	67
Total securities	\$ 90,392	\$ 1,928	\$ (431 )	\$ 91,889

Proceeds from sales of debt securities during 2012 and 2011 were as follows:

	2012	2011
Proceeds from sales	\$ 14,568	\$ 5,123
Gross realized gains	204	77
Gross realized gains from calls	-	21
Gross realized losses	60	27

The amortized cost and fair values of available-for-sale securities at June 30, 2012 by expected maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized mortgage obligations and the trust preferred security are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	\$ 3,507	\$ 3,524
Due after one year through five years	5,928	6,018
Due after five years through ten years	10,105	10,577
Due after ten years	22,755	23,724
Total	42,295	43,843
Mortgage-backed securities – residential	48,255	49,331
Collateralized mortgage obligations	12,154	12,097
Trust preferred security	202	64
Total	\$ 102,906	\$ 105,335

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities with a carrying value of approximately \$35,411 and \$43,262 were pledged at June 30, 2012 and 2011, respectively, to secure public deposits and commitments as required or permitted by law. At June 30, 2012 and 2011, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, with an aggregate book value greater than 10% of shareholders' equity.

The following table summarizes the securities with unrealized losses at June 30, 2012 and 2011, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position:

Description of Securities	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2012						
Obligations of states and political subdivisions	\$ 6,002	\$ (109 )	\$ —	\$ —	\$ 6,002	\$ (109 )
Mortgage-backed securities - residential	11,135	(32 )	—	—	11,135	(32 )
Collateralized mortgage obligations	6,411	(62 )	2,314	(20 )	8,725	(82 )
Trust preferred security	—	—	64	(138 )	64	(138 )
Total temporarily impaired	\$ 23,548	\$ (203 )	\$ 2,378	\$ (158 )	\$ 25,926	\$ (361 )

Description of Securities	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2011						
Obligations of U.S. government-sponsored entities	\$ 3,088	\$ (23 )	\$ —	\$ —	\$ 3,088	\$ (23 )
Obligations of states and political subdivisions	3,656	(81 )	1,221	(130 )	4,877	(211 )
Collateralized mortgage obligations	9,665	(62 )	—	—	9,665	(62 )
Trust preferred security	—	—	67	(135 )	67	(135 )
Total temporarily impaired	\$ 16,409	\$ (166 )	\$ 1,288	\$ (265 )	\$ 17,697	\$ (431 )

Management evaluates securities for other-than-temporary impairment (OTTI) on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities are generally evaluated for OTTI under FASB ASC Topic 320, *Accounting for Certain Investments in Debt and Equity Securities*. However, the trust preferred security is evaluated using the model outlined in FASB ASC Topic 325, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets*.

In determining OTTI under the ASC Topic 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

Under the ASC Topic 325 model, the present value of the remaining cash flows as estimated at the preceding evaluation date are compared to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows. The analysis of the trust preferred security falls within the scope of ASC Topic 325.

As of June 30, 2012, the Corporation's security portfolio consisted of \$105,335, of which \$25,926 were in an unrealized loss position. The unrealized losses are related to the Corporation's obligations of states and political subdivisions, residential mortgage-backed securities, collateralized mortgage obligations and the trust preferred security, as discussed below:

**Mortgage-Backed Securities and Collateralized Mortgage Obligations:** At June 30, 2012, all of the mortgage-backed securities and collateralized mortgage obligations held by the Corporation were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to higher than projected prepayment speeds increasing the premium amortization, and not credit quality, and because the Corporation does not have the intent to sell nor is it likely that it will be required to sell the securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Obligations of States and Political Subdivisions:** At June 30, 2012, approximately 90.6% of the obligations of states and political subdivisions held by the Corporation were general obligation bonds and 9.4% were revenue bonds. The \$109 unrealized loss was related to 17 municipal securities that were purchased during the third quarter of fiscal year 2012. The unrealized loss was mainly attributable to the spreads for these types of securities being wider at June 30, 2012 than when these securities were purchased. Management monitors the financial data of the individual municipalities to ensure they meet minimum credit standards. Since the Corporation does not intend to sell these securities and it is not likely the Corporation will be required to sell these securities at an unrealized loss position prior to any anticipated recovery in fair value, which may be maturity, management does not believe there is any other-than-temporary impairment related to these securities at June 30, 2012.

**Trust Preferred Security:** The Corporation owns a trust preferred security, which represents collateralized debt obligations (CDOs) issued by other banks, bank holding companies and insurance companies. The security is part of a pool of issuers that support a more senior tranche of securities. Due to an increase in principal and/or interest deferrals by the issuers of the underlying securities, the cash interest payments for the trust preferred security are being deferred. On June 30, 2012, the lowest credit rating on this security was Fitch's rating of C, which is defined as highly speculative. The investment security is evaluated using a model to compare the present value of expected cash flows to prior periods expected cash flows to determine if there has been an adverse change in cash flows during the period. The discount rate used to calculate the cash flows is the coupon rate of the security, based on the forward LIBOR curve. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and all interest payment deferrals are treated as defaults with an assumed recovery rate of 15% on deferrals. In addition we use the model to "stress" the CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Corporation's note class. According to the June 30, 2012 analysis, the expected cash flows were above the recorded amortized cost of the trust preferred security. Therefore, no other-than-temporary impairment loss was recognized during the 2012 fiscal year. An other-than-temporary impairment loss of \$370 was recognized for the fiscal year-to-date period ended June 30, 2011 and the accumulated other-than-temporary impairment loss recognized in earnings was \$780 at June 30, 2012 and 2011. If there is further deterioration in the underlying collateral of this security, other-than-temporary impairments may occur in future periods. Due to the illiquidity in the market, it is unlikely the Corporation would be able to recover its investment in this security if the Corporation sold the security at this time.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3—LOANS

Major classifications of loans were as follows as of June 30:

	2012	2011
Commercial	\$23,041	\$19,297
Commercial real estate:		
Construction	1,546	1,057
Other	110,775	97,403
1 – 4 Family residential real estate:		
Owner occupied	34,000	34,488
Non-owner occupied	18,794	19,098
Construction	187	597
Consumer	9,407	5,874
Subtotal	197,750	177,814
Less: Deferred loan fees and costs	(320 )	(263 )
Allowance for loan losses	(2,335 )	(2,101 )
Net loans	\$195,095	\$175,450

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ending June 30, 2012:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 179	\$ 882	\$ 947	\$ 93	\$2,101
Provision for loan losses	(36 )	336	(171 )	186	315
Loans charged-off	—	—	(69 )	(158 )	(227 )
Recoveries	—	65	5	76	146
Total ending allowance balance	\$ 143	\$ 1,283	\$ 712	\$ 197	\$2,335

Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-K

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ending June 30, 2011:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 183	\$ 1,337	\$ 653	\$ 103	\$2,276
Provision for loan losses	3	36	356	40	435
Loans charged-off	(9 )	(510 )	(62 )	(116 )	(697 )
Recoveries	2	19	—	66	87
Total ending allowance balance	\$ 179	\$ 882	\$ 947	\$ 93	\$2,101

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2012. Included in the recorded investment in loans is \$494 of accrued interest receivable net of deferred loans fees of \$320.

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ 50	\$ 82	\$ 258	\$ —	\$ 390
Collectively evaluated for impairment	93	1,201	454	197	1,945
Total ending allowance balance	\$ 143	\$ 1,283	\$ 712	\$ 197	\$ 2,335
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 148	\$ 996	\$ 1,417	\$ —	\$ 2,561
Loans collectively evaluated for impairment	22,940	111,352	51,683	9,388	195,363
Total ending loans balance	\$ 23,088	\$ 112,348	\$ 53,100	\$ 9,388	\$ 197,924

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2011. Included in the recorded investment in loans is \$472 of accrued interest receivable net of deferred loans fees of \$263.

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ 13	\$ 126	\$ 293	\$ —	\$ 432
Collectively evaluated for impairment	166	756	654	93	1,669
Total ending allowance balance	\$ 179	\$ 882	\$ 947	\$ 93	\$ 2,101
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 82	\$ 1,405	\$ 1,042	\$ —	\$ 2,529
Loans collectively evaluated for impairment	19,254	97,093	53,279	5,868	175,494

Total ending loans balance	\$ 19,336	\$ 98,498	\$ 54,321	\$ 5,868	\$178,023
----------------------------	-----------	-----------	-----------	----------	-----------

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the year ended June 30, 2012:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	\$ 12	\$ 12	\$ —	\$ 22	\$ 1	\$ 1
Commercial real estate:						
Other	144	144	—	412	67	67
1-4 Family residential real estate:						
Owner occupied	238	238	—	92	2	2
Non-owner occupied	64	65	—	59	5	5
With an allowance recorded:						
Commercial	136	136	50	100	3	3
Commercial real estate:						
Other	851	852	82	813	14	14
1-4 Family residential real estate:						
Owner occupied	160	160	13	271	3	3
Non-owner occupied	952	954	245	936	14	14
Total	\$ 2,557	\$ 2,561	\$ 390	\$ 2,705	\$ 109	\$ 109

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the year ended June 30, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	\$ 18	\$ 18	\$ —	\$ 20	\$ —	\$ —
Commercial real estate:						
Other	413	412	—	502	—	—
With an allowance recorded:						
Commercial	64	64	13	61	—	—
Commercial real estate:						
Other	997	993	126	1,238	23	18
1-4 Family residential real estate:						

Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-K

Owner occupied	320	319	3	302	6	—
Non-owner occupied	724	723	290	738	—	—
Total	\$ 2,536	\$ 2,529	\$ 432	\$ 2,861	\$ 29	\$ 18

38

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2012 and 2011:

	June 30, 2012		June 30, 2011	
	Non-accrual	Loans Past Due Over 90 Days Still Accruing	Non-accrual	Loans Past Due Over 90 Days Still Accruing
Commercial	\$ 51	\$ —	\$ 64	\$ —
Commercial real estate:				
Other	911	—	754	—
1 – 4 Family residential:				
Owner occupied	307	—	219	—
Non-owner occupied	663	—	723	—
Consumer	—	—	—	—
Total	\$ 1,932	\$ —	\$ 1,760	\$ —

Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the aging of the recorded investment in past due loans as of June 30, 2012 by class of loans:

	Days Past Due			Total Past Due	Loans Not Past Due	
	30 - 59 Days	60 - 89 Days	90 Days or Greater & Non-accrual		Past Due	Total
Commercial	\$85	\$ —	\$ 33	\$ 118	\$ 22,970	\$23,088
Commercial real estate:						
Construction	202	—	—	202	1,345	1,547
Other	82	—	268	350	110,451	110,801
1-4 Family residential:						
Owner occupied	174	—	178	352	33,766	34,118
Non-owner occupied	43	—	—	43	18,753	18,796
Construction	—	—	—	—	186	186
Consumer	—	8	—	8	9,380	9,388



Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-K

Total	\$586	\$ 8	\$ 479	\$ 1,073	\$ 196,851	\$ 197,924
-------	-------	------	--------	----------	------------	------------

The above table of past due loans includes the recorded investment in non-accrual loans of \$43 in the 30-59 days past due category and \$1,410 in the loans not past due category.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 by class of loans:

	Days Past Due			Total Past Due	Loans Not Past Due	
	30 - 59 Days	60 - 89 Days	90 Days or Greater & Non-accrual		Past Due	Total
Commercial	\$—	\$ 1	\$ —	\$ 1	\$ 19,335	\$ 19,336
Commercial real estate:						
Construction	—	—	—	—	1,053	1,053
Other	—	242	412	654	96,791	97,445
1-4 Family residential:						
Owner occupied	—	167	23	190	34,438	34,628
Non-owner occupied	—	44	175	219	18,877	19,096
Construction	—	—	—	—	597	597
Consumer	26	—	—	26	5,842	5,868
Total	\$26	\$ 454	\$ 610	\$ 1,090	\$ 176,933	\$ 178,023

The above table of past due loans includes the recorded investment in non-accrual loans of \$410 in the 60-89 days past due category and \$740 in the loans not past due category.

**Troubled Debt Restructurings:**

As of June 30, 2012, the recorded investment of loans classified as troubled debt restructurings was \$1,973 with \$258 of specific reserves allocated to these loans. As of June 30, 2011, the recorded investment of loans classified as troubled debt restructurings was \$1,341 with \$229 of specific reserves allocated to these loans. As of June 30, 2012 and 2011, the Corporation had not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ended June 30, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a permanent reduction of the recorded investment in the loan; or a temporary reduction in the payment amount to interest only.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 25 years. Modifications involving an extension of the maturity date were for a period of 6.5 years to 25 years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended June 30, 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructuring:			
Commercial	1	\$ 85	\$ 85
Commercial real estate:			
Other	2	137	137
1 – 4 Family residential:			
Owner occupied	1	114	114
Non-owner occupied	7	534	466
Total	11	\$ 870	\$ 802

The troubled debt restructurings described above increased the allowance for loan losses by \$32 and resulted in charge offs of \$63 during the period ended June 30, 2012.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within 12 months following the modification during the period ended June 30, 2012:

	Number of Loans	Recorded Investment
Troubled debt restructuring:		
Commercial real estate:		
Other	1	\$ 428

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructuring that subsequently defaulted described above did not increase the allowance for loan losses or have any charge-off during the period ended June 30, 2012.

**Credit Quality Indicators:**

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with a total outstanding loan relationship greater than \$100 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Corporation uses the following definitions for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts,

conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than \$100 or are included in groups of homogeneous loans. As of June 30, 2012, and based on the most recent analysis performed, the recorded investment by risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$21,642	\$ 240	\$ 14	\$ 148	\$1,044
Commercial real estate:					
Construction	1,353	163	—	—	31
Other	98,942	7,332	2,657	996	874
1-4 Family residential real estate:					
Owner occupied	4,256	—	99	398	29,365
Non-owner occupied	14,205	2,197	875	1,019	500
Construction	47	—	—	—	139
Consumer	—	—	—	—	9,388
Total	\$140,445	\$ 9,932	\$ 3,645	\$ 2,561	\$41,341

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2011, and based on the most recent analysis performed, the recorded investment by risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$17,469	\$ 743	\$ 884	\$ 82	\$158
Commercial real estate:					
Construction	868	76	109	—	—
Other	87,857	5,624	2,055	1,405	504
1-4 Family residential real estate:					
Owner occupied	5,526	305	372	319	28,106
Non-owner occupied	14,549	1,976	1,657	723	191
Construction	28	—	—	—	569
Consumer	—	—	—	—	5,868
Total	\$126,297	\$ 8,724	\$ 5,077	\$ 2,529	\$35,396

The Bank has granted loans to certain of its executive officers, directors and their affiliates. A summary of activity during the year ended June 30, 2012 of related party loans were as follows:

Principal balance, July 1	\$1,173
New loans	74
Repayments	(374 )
Principal balance, June 30	\$873

**NOTE 4—PREMISES AND EQUIPMENT**

Major classifications of premises and equipment were as follows as of June 30:

	2012	2011
Land	\$1,379	\$1,174
Land improvements	385	368
Building and leasehold improvements	4,957	4,174
Furniture, fixture and equipment	4,594	4,278
Total premises and equipment	11,315	9,994

Accumulated depreciation and amortization	(5,563 )	(5,218)
Premises and equipment, net	\$5,752	\$4,776

Depreciation expense was \$369 and \$382 for the years ended June 30, 2012 and 2011, respectively.

The Corporation is obligated under non-cancelable operating leases for facilities and equipment. The approximate minimum annual rentals and commitments under these non-cancelable agreements and leases with remaining terms in excess of one year are as follows:

2013	\$ 103
2014	90
2015	77
2016	18
2017	—
Thereafter	—
	\$288

Rent expense incurred was \$110 and \$111 during the years ended June 30, 2012 and 2011, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 5—INTANGIBLE ASSETS**

The following summarizes the original balance and accumulated amortization of core deposit intangible assets at June 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Original balance	\$1,927	\$1,927
Less: accumulated amortization	1,927	1,838
Net balance, June 30	\$—	\$89

Amortization expense for the years ended June 30, 2012 and 2011 was \$89 and \$161, respectively. Amortization expense is estimated to be zero for the year ending June 30, 2013.

**NOTE 6—DEPOSITS**

The aggregate amount of time deposits, each with a minimum denomination of \$100 was \$34,422 and \$34,707 as of June 30, 2012 and 2011, respectively.

Scheduled maturities of time deposits at June 30, 2012 were as follows:

2013	\$50,244
2014	19,974
2015	6,038
2016	4,939
2017	1,913
Thereafter	1,362
	\$84,470

Related party deposits totaled \$5,920 as of June 30, 2012 and \$4,178 as of June 30, 2011.



**NOTE 7—SHORT-TERM BORROWINGS**

Short-term borrowings consisted of repurchase agreements. Repurchase agreements are financing arrangements. Physical control is maintained for all securities pledged to secure repurchase agreements. Information concerning all short-term borrowings at June 30, maturing in less than one year is summarized as follows:

	2012	2011
Balance at June 30	\$13,722	\$17,012
Average balance during the year	15,293	14,892
Maximum month-end balance	17,636	18,169
Average interest rate during the year	0.19 %	0.30 %
Weighted average rate, June 30	0.16 %	0.27 %

Repurchase agreements mature daily. The Bank has pledged obligations of government-sponsored entities and mortgage-backed securities with a carrying value of \$15,320 and \$18,055 at June 30, 2012 and 2011, respectively, as collateral for the repurchase agreements. Total interest expense on short-term borrowings was \$29 and \$45 for the years ended June 30, 2012 and 2011, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 8—FEDERAL HOME LOAN BANK ADVANCES**

A summary of Federal Home Loan Bank (FHLB) advances were as follows:

<b>Advance Type</b>	<b>Maturity</b>	<b>Term</b>	<b>Interest Rate</b>	<b>Balance June 30, 2012</b>	<b>Balance June 30, 2011</b>
Interest-only, single maturity	01/24/2012	Fixed	3.37	% \$ —	\$ 500
Interest-only, single maturity	07/24/2012	Fixed	3.50	—	500
Principal and interest, mortgage matched	04/01/2014	Fixed	2.54	44	84
Interest-only, single maturity	10/09/2015	Fixed	1.43	500	500
Interest-only, single maturity	10/12/2017	Fixed	2.07	500	500
Interest-only, putable	12/07/2017	Fixed	3.24	5,000	5,000
Principal and interest, mortgage matched	04/01/2019	Fixed	4.30	402	451
				\$ 6,446	\$ 7,535

Each fixed rate advance has a prepayment penalty equal to the present value of 100% of the lost cash flow based upon the difference between the contract rate on the advance and the current rate on the new advance. The \$5 million putable advance with the maturity date of December 7, 2017 can be called quarterly until maturity at the option of the FHLB, with the next call option being September 7, 2012. The following table is a summary of the scheduled principal payments for all advances:

<b>Twelve Months Ending June 30</b>	<b>Principal Payments</b>
2013	\$ 86
2014	69
2015	56
2016	559
2017	62
Thereafter	5,614
	\$ 6,446

During fiscal year 2011, the Corporation prepaid two \$500 fixed rate single maturity advances and replaced them with two \$500 fixed rate single maturity advances with lower rates. Because the present value of the cash flows of the new

debt including the prepayment penalty was not more than 10% different than the old debt, the transaction was considered to be an exchange rather than an extinguishment of debt. As such, prepayment penalties totaling \$16 were capitalized and are being amortized over the life of the new debt. Unamortized capitalized prepayment penalties totaled \$11 and \$13 at June 30, 2012 and 2011, respectively.

Pursuant to collateral agreements with the FHLB, advances are secured by all the stock invested in the FHLB and certain qualifying first mortgage loans. The advances were collateralized by \$36,907 and \$39,180 of first mortgage loans under a blanket lien arrangement at June 30, 2012 and 2011, respectively. Based on this collateral and the Corporation's holdings of FHLB stock, the Bank was eligible to borrow up to a total of \$18,208 in advances at June 30, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 9—EMPLOYEE BENEFIT PLANS**

The Bank maintains a 401(k) savings and retirement plan that permits eligible employees to make before- or after-tax contributions to the plan, subject to the dollar limits from Internal Revenue Service regulations. The Bank matches 100% of the employee's voluntary contributions to the plan based on the amount of each participant's contributions up to a maximum of 4% of eligible compensation. All regular full-time and part-time employees who complete six months of service and are at least 21 years of age are eligible to participate. Amounts charged to operations were \$122 and \$115, for the years ended June 30, 2012 and 2011, respectively.

The Bank has adopted a Salary Continuation Plan (the Plan) to encourage Bank executives to remain employees of the Bank. The Plan provides such executives (and, in the event of the executive's death, surviving beneficiary) with 180 months of salary continuation payments equal to a certain percentage of an executive's average compensation, as defined within each agreement, for the three full calendar years prior to Normal Retirement Age. For purposes of the Plan, "Normal Retirement Age" means the executive's 65th birthday. Vesting under the Plan commences at age 50 and is prorated until age 65. If an executive dies during active service, the executive's beneficiary is entitled to the Normal Retirement Benefit. The executive can become fully vested in the Accrual Balance upon termination of employment following a disability or a change in control of the Bank. For purposes of the Plan, "Accrual Balance" means the liability that should be accrued by the Corporation for the Corporation's obligation to the executive under the Plan. For purposes of calculating the Accrual Balance, the discount rate in effect at June 30, 2012 was 5.25%. The accrued liability for the salary continuation plan was \$1,351 as of June 30, 2012 and \$1,163 as of June 30, 2011. For the years ended June 30, 2012 and 2011, \$210 and \$183, respectively, have been charged to expense in connection with the Plan. Distributions to participants were \$22 for both of the years ending June 30, 2012 and 2011, respectively.

The 2010 Omnibus Incentive Plan (2010 Plan) is a nonqualified share based compensation plan. The 2010 Plan was established to promote alignment between key employee's performance and the Corporation's shareholder interests by motivating performance through the award of stock-based compensation. The 2010 Plan is intended to attract, retain and motivate key employees and as a means to compensate outside directors for their service to the Corporation. The 2010 Plan has been approved by the Corporation's shareholders. The Compensation Committee of the Corporation's Board of Directors has sole authority to select the employees, establish the awards to be issued, and approve the terms and conditions of each award contract.

Under the 2010 Plan, the Corporation may grant, among other things, nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, or any combination thereof to certain employees and directors. Each award is evidenced by an award agreement that specifies the number of shares awarded, the vesting period, the performance requirements, and such other provisions as the Compensation Committee determines. Upon a change-in-control of the Corporation, as defined in the 2010 Plan, all outstanding

awards immediately vest.

The Corporation has granted restricted stock awards to certain employees and directors. Restricted stock awards are issued at no cost to the recipient, and can be settled only in shares at the end of the vesting period. These awards vest on the anniversary date of the award if certain specified net income performance targets as established by the Compensation Committee are achieved. Restricted stock awards provide the holder with full voting rights and cash dividends during the vesting period. The fair value of the restricted stock awards is the closing market price of the Corporation's common stock on the date of the grant and compensation expense is recognized over the vesting period of the awards. Restricted stock awarded during the period presented vest under a graduated schedule over a five-year period.

The following table summarizes the status of the restricted stock awards as of June 30, 2012, and activity for the year ended June 30, 2012:

	<b>Restricted Stock Awards</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Granted	5,435	\$ 10.85
Forfeited	(319)	) 10.85
Nonvested at June 30, 2012	5,116	\$ 10.85

For the year ended June 30, 2012, \$12 has been charged to expense in connection with the restricted stock awards. There was no expense recognized in the 2011 fiscal year since there were no stock grants prior to the 2012 fiscal year. As of June 30, 2012, there was \$65 of total unrecognized compensation cost related to nonvested shares granted under the plan. The cost is expected to be recognized over a weighted-average period of 4.0 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 10—INCOME TAXES**

The provision for income taxes consists of the following for the years ended June 30:

	<b>2012</b>	<b>2011</b>
Current income taxes	\$1,070	\$540
Deferred income taxes (benefits)	(271 )	81
	\$799	\$621

The net deferred income tax asset consists of the following components at June 30:

	<b>2012</b>	<b>2011</b>
Deferred tax assets:		
Allowance for loan losses	\$627	\$520
Deferred compensation	532	413
Recognized loss on impairment of security	265	265
Intangibles	109	122
OREO deferred gain	16	18
Nonaccrual loan interest income	74	47
Gross deferred tax asset	1,623	1,385
Deferred tax liabilities:		
Depreciation	(261 )	(270 )
Loan fees	(211 )	(202 )
Prepaid expenses	(80 )	(113 )
FHLB stock dividends	(165 )	(165 )
Net unrealized securities gain	(826 )	(509 )
Gross deferred tax liabilities	(1,543)	(1,259)
Net deferred asset	\$80	\$126

The difference between the provision for income taxes and amounts computed by applying the statutory income tax rate of 34% to statutory income before taxes consists of the following for the years ended June 30:

	<b>2012</b>	<b>2011</b>
Income taxes computed at the statutory rate on pretax income	\$1,211	\$975
Tax exempt income	(359 )	(304 )
Cash surrender value income	(66 )	(62 )
Other	13	12
	<b>\$799</b>	<b>\$621</b>

At June 30, 2012 and June 30, 2011, the Corporation had no unrecognized tax benefits recorded. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. There were no interest or penalties recorded for the years ended June 30, 2012 and 2011 and there were no amounts accrued for interest and penalties at June 30, 2012 and 2011.

The Corporation and the Bank are subject to U.S. federal income tax as an income-based tax and a capital-based franchise tax in the state of Ohio. The Corporation and the Bank are no longer subject to examination by taxing authorities for years before 2008.

#### **NOTE 11—REGULATORY MATTERS**

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective-action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements. Management believes as of June 30, 2012, the Bank has met all capital adequacy requirements to which it is subject.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, under-capitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

As of fiscal year-end 2012, the Corporation met the definition of a small bank holding company and, therefore, was exempt from consolidated risk-based and leverage capital adequacy guidelines for bank holding companies. At year-end 2012 and 2011, actual Bank capital levels (in millions) and minimum required levels were as follows:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2012						
Total capital (to risk weighted assets)						
Bank	\$28.5	13.4 %	\$ 17.0	8.0 %	\$ 21.2	10.0 %
Tier 1 capital (to risk weighted assets)						
Bank	24.2	11.4	8.5	4.0	12.7	6.0
Tier 1 capital (to average assets)						
Bank	24.2	7.4	13.1	4.0	16.4	5.0
June 30, 2011						
Total capital (to risk weighted assets)						
Bank	\$26.3	14.0 %	\$ 15.0	8.0 %	\$ 18.8	10.0 %
Tier 1 capital (to risk weighted assets)						
Bank	22.2	11.8	7.5	4.0	11.3	6.0
Tier 1 capital (to average assets)						
Bank	22.2	7.5	11.8	4.0	14.8	5.0

As of the latest regulatory examination, the Bank was categorized as well capitalized. There are no conditions or events since that examination that management believes may have changed the Bank's category.



The Corporation's principal source of funds for dividend payment is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. As of June 30, 2012 the Bank could, without prior approval, declare a dividend of approximately \$4,107.

#### **NOTE 12—COMMITMENTS WITH OFF-BALANCE SHEET RISK**

The Bank is a party to commitments to extend credit in the normal course of business to meet the financing needs of its customers. Commitments are agreements to lend to customers providing there are no violations of any condition established in the contract. Commitments to extend credit have a fixed expiration date or other termination clause. These instruments involve elements of credit and interest rate risk more than the amount recognized in the statements of financial position. The Bank uses the same credit policies in making commitments to extend credit as it does for on-balance sheet instruments.

The Bank evaluates each customer's credit on a case by case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. The amount of commitments to extend credit and the exposure to credit loss for non-performance by the customer was \$33,808 and \$27,528 as of June 30, 2012 and 2011, respectively. Of the June 30, 2012 commitments, \$28,978 carried variable rates of interest ranging from 2.00% to 7.25% and \$4,830 carried fixed rates of interest ranging from 2.25% to 8.50%. Of the June 30, 2011 commitments, \$25,119 carried variable rates of interest ranging from 2.00% to 7.25% and \$2,409 carried fixed rates of interest ranging from 2.75% to 7.75%. Financial standby letters of credit were \$645 and \$579 as of June 30, 2012 and 2011, respectively. In addition, commitments to extend credit of \$8,029 and \$7,759 as of June 30, 2012 and 2011, respectively, were available to checking account customers related to the overdraft protection program. Since some loan commitments expire without being used, the amount does not necessarily represent future cash commitments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 13—FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Financial assets and financial liabilities measured at fair value on a recurring basis include the following:

**Securities available-for-sale:** When available, the fair values of available-for-sale securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For securities where quoted market prices are not available, fair values are calculated based on market prices of similar securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3 inputs). The fair value of the Level 3 security is obtained from a third-party pricing service. Discounted cash flows are calculated using spread to the swap and LIBOR curves. Rating agency and industry research reports as well as defaults and deferrals on the individual security is reviewed and incorporated into the calculation.

**Loans held for sale:** The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Assets and liabilities measured at fair value on a recurring basis are summarized below, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Balance at June 30, 2012	Fair Value Measurements at June 30, 2012 Using		
		Level 1	Level 2	Level 3
Assets:				
Obligations of government-sponsored entities	\$ 8,567	\$ —	\$ 8,567	\$ —
Obligations of states and political subdivisions	35,276	—	35,276	—
Mortgage-backed securities - residential	49,331	—	49,331	—
Collateralized mortgage obligations	12,097	—	12,097	—
Trust preferred security	64	—	—	64
Loans held for sale	377	—	387	—

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Balance at June 30, 2011	Fair Value Measurements at June 30, 2011 Using		
		Level 1	Level 2	Level 3
Securities available-for-sale:				
Obligations of government sponsored entities	\$ 16,260	\$ —	\$ 16,260	\$ —
Obligations of states and political subdivisions	25,098	—	25,098	—
Mortgage-backed securities - residential	30,596	—	30,596	—
Collateralized mortgage obligations	19,868	—	19,868	—
Trust preferred security	67	—	—	67

There were no transfers between Level 1 and Level 2 during the 2012 or the 2011 fiscal year.

The following table presents a reconciliation of the trust preferred security measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011:

	Trust Preferred Security	
	2012	2011
Beginning balance	\$ 67	\$ 422
Realized losses included in other income	—	(370 )
Change in fair value included in other comprehensive income	(3 )	15
Ending balance, June 30	\$ 64	\$ 67

The significant unobservable inputs used in the fair value measurement of the Corporation's trust preferred security are probabilities of specific-issuer defaults and deferrals and specific-issuer recovery assumptions. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a significantly lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement.

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. Financial assets and financial liabilities measured at fair value on a non-recurring basis include the following:

**Impaired Loans:** At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses or are charged down to their fair value. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Financial assets and financial liabilities measured at fair value on a non-recurring basis are summarized below:

	Balance at June 30, 2012	Fair Value Measurements at June 30, 2012 Using		
		Level 1	Level 2	Level 3
Impaired loans:				
Commercial	\$ 11	\$ —	\$ —	\$ 11
Commercial real estate:				
Other	647	—	—	647
1-4 Family:				
Owner occupied	40	—	—	40
Non-owner occupied	438	—	—	438

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Balance at June 30, 2011	Fair Value Measurements at June 30, 2011 Using		
		Level 1	Level 2	Level 3
Impaired loans:				
Commercial	\$ 51	\$ —	\$ —	\$ 51
Commercial real estate:				
Other	871	—	—	871
1-4 Family:				
Owner occupied	317	—	—	317
Non-owner occupied	434	—	—	434

Impaired loans, which are generally measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$1,479, with a valuation allowance of \$343 at June 30, 2012. As of June 30, 2011, impaired loans with a principal balance of \$2,105 had a valuation allowance of \$432. The resulting impact to the provision for loan losses was a reduction of \$24 being recorded for the year ended June 30, 2012. The resulting impact to the provision for loan losses was \$272 being recorded for the year ended June 30, 2011.

The valuation technique used by an independent third party appraiser in the fair value measurement of collateral for collateral-dependent commercial real estate impaired loans primarily consisted of the sales comparison approach. The valuation technique used by an independent third party appraiser in the fair value measurement of collateral for collateral-dependent 1-4 family non-owner occupied impaired loans primarily consisted of the sales comparison and income approach. The significant unobservable inputs used in the fair value measurement relate to adjustments made to the value set forth in the appraisal by deducting estimated holding costs, costs to sell and a distressed sale adjustment. During the reported periods, collateral discounts for commercial real estate impaired loans ranged from 33% to 41% and for 1-4 family non-owner occupied impaired loans ranged from 15% to 39%.

Estimated fair value for cash and cash equivalents, certificates of deposits in other financial institutions, accrued interest receivable and payable, demand and savings deposits and short-term borrowings were considered to approximate carrying value. The methodologies for other financial assets and financial liabilities are discussed below:

**Loans:** Fair value for loans was estimated for portfolios of loans with similar financial characteristics. For adjustable rate loans that reprice at least annually and for fixed rate commercial loans with maturities of six months or less which possess normal risk characteristics, carrying value was determined to be fair value. Fair value of other types of loans (including adjustable rate loans which reprice less frequently than annually and fixed rate term loans or loans which possess higher risk characteristics) was estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar anticipated maturities resulting in

a Level 3 classification. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

**Time deposits:** Fair value of fixed-maturity certificates of deposit was estimated using the rates offered at June 30, 2012 and 2011, for deposits of similar remaining maturities. Estimated fair value does not include the benefit that result from low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market resulting in a Level 2 classification.

**Federal Home Loan Bank advances:** Fair value of Federal Home Loan Bank advances was estimated using current rates at June 30, 2012 and 2011 for similar financing resulting in a Level 2 classification.

Federal bank and other restricted stocks include stock acquired for regulatory purposes, such as Federal Home Loan Bank stock and Federal Reserve Bank stock that are accounted for at cost due to restrictions placed on their transferability; and therefore, are not subject to the fair value disclosure requirements. The Corporation's lending commitments have variable interest rates and "escape" clauses if the customer's credit quality deteriorates. Therefore, the fair values of these items are not significant and are not included in the following table.

The following table shows the estimated fair values of financial instruments that are reported at amortized cost in the Corporation's consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Level 1 inputs:				
Cash and cash equivalents	\$ 13,745	\$ 13,745	\$ 13,828	\$ 13,828
Level 2 inputs:				
Certificates of deposits in other financial institutions	5,645	5,645	4,900	4,900
Accrued interest receivable	1,043	1,043	980	980
Level 3 inputs:				
Loans, net	195,095	196,592	175,450	174,182
Financial Liabilities:				
Level 2 inputs:				
Demand and savings deposits	200,011	200,011	159,302	159,302
Time deposits	84,470	85,262	88,944	89,725
Short-term borrowings	13,722	13,722	17,012	17,012
Federal Home Loan Bank advances	6,446	7,398	7,535	7,884
Accrued interest payable	56	56	82	82

## NOTE 14—PARENT COMPANY FINANCIAL STATEMENTS

Condensed financial information of Consumers Bancorp. Inc. (parent company only) follows:

	June 30, 2012	June 30, 2011
Condensed Balance Sheets		
Assets		
Cash	\$ 74	\$ 25
Subordinated debenture receivable from subsidiary	2,000	2,000
Other assets	87	92
Investment in subsidiary	25,785	23,254
Total assets	\$ 27,946	\$ 25,371
Liabilities		
Other liabilities	\$ 56	\$ 47
Shareholders' equity	27,890	25,324
Total liabilities & shareholders' equity	\$ 27,946	\$ 25,371



	<b>Year Ended June 30, 2012</b>	<b>Year Ended June 30, 2011</b>
Condensed Statements of Income		
Cash dividends from subsidiary	\$ 855	\$ 650
Other income	160	160
Other expense	163	197
Income before income taxes and equity in undistributed net income of subsidiary	852	613
Income tax expense (benefit)	3	(9 )
Income before equity in undistributed net income of subsidiary	849	622
Equity in undistributed net income of subsidiary	1,915	1,626
Net income	\$ 2,764	\$ 2,248

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<b>Year Ended June 30, 2012</b>	<b>Year Ended June 30, 2011</b>
Condensed Statements of Cash Flows		
Cash flows from operating activities		
Net income	\$ 2,764	\$ 2,248
Equity in undistributed net income of Bank subsidiary	(1,915 )	(1,626 )
Change in other assets and liabilities	14	(20 )
Net cash flows from operating activities	863	602
Cash flows from financing activities		
Dividend paid	(905 )	(837 )
Proceeds from dividend reinvestment and stock purchase plan	91	146
Net cash flows from financing activities	(814 )	(691 )
Change in cash and cash equivalents	49	(89 )
Beginning cash and cash equivalents	25	114
Ending cash and cash equivalents	\$ 74	\$ 25

**Note 15 – Earnings Per Share**

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period and is equal to net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares that may be issued upon the vesting of restricted stock awards. The following table details the calculation of basic and diluted earnings per share:

	<b>For the year Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Basic:		
Net income available to common shareholders	\$ 2,764	\$ 2,248
Weighted average common shares outstanding	2,051,390	2,042,874
Basic income per share	\$ 1.35	\$ 1.10
Diluted:		
Net income available to common shareholders	\$ 2,764	\$ 2,248
Weighted average common shares outstanding	2,051,390	2,042,874
Dilutive effect of restricted stock	579	—
Total common shares and dilutive potential common shares	2,051,969	2,042,874
Dilutive income per share	\$ 1.35	\$ 1.10



ITEM 9—CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A—CONTROLS AND PROCEDURES

The management of the Corporation is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 13a-15(e) of the Securities Exchange Act of 1934 (Act). As of June 30, 2012, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as of June 30, 2012 were effective in ensuring that information required to be disclosed by the Corporation in the reports that it files or submits under the Act were recorded, processed, summarized and reported within the time period required by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There were no changes in the Corporation's internal controls over financial reporting that occurred during the fourth quarter of fiscal year 2012 that have materially affected, or are reasonably likely to materially affect the Corporation's internal controls over financial reporting. The Report of Management on the Company's Internal Controls Over Financial Reporting appears on page 21.

ITEM 9B—OTHER INFORMATION

None.

## **PART III**

### **ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is set forth in the Corporation's Proxy Statement dated September 21, 2012 under the captions "Election of Directors," "Directors and Executive Officers," "The Board of Directors and its Committees," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Certain Transactions and Relationships," and is incorporated herein by reference.

The Corporation's Code of Ethics Policy, which is applicable to all directors, officers and employees of the Corporation, and its Code of Ethics for Principal Financial Officers, which is applicable to the principal executive officer and the principal financial officer, are each available on the Investor Relations section under Corporate Governance of the Corporation's website ([www.consumersbank.com](http://www.consumersbank.com)). Copies of either of the Code of Ethics Policies are also available in print to share owners upon request, addressed to the Corporate Secretary at Consumers Bancorp, Inc., 614 East Lincoln Way, Minerva, Ohio 44657. The Corporation intends to post amendments to or waivers from its Code of Ethics on its website.

### **ITEM 11—EXECUTIVE COMPENSATION**

The information required by this item is set forth in the Corporation's Proxy Statement dated September 21, 2012 under the captions "Director Compensation," "Executive Compensation," "Defined Contribution Plan," "Outstanding Equity Awards at Fiscal Year-End," "Salary Continuation Program," "Noncompetition Agreement," "Compensation Committee Report," and "Compensation Committee Interlock and Insider Participation," and is incorporated herein by reference.

### **ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

The information required by this item is set forth in the Corporation's Proxy Statement dated September 21, 2012 under the caption "Security Ownership of Certain Beneficial Owners and Management," and is incorporated herein by reference.

### **ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is set forth in the Corporation's Proxy Statement dated September 21, 2012 under the caption "Certain Transactions and Relationships and Legal Proceedings," and is incorporated herein by reference.

#### ITEM 14—PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is set forth in the Corporation's Proxy Statement dated September 21, 2012 under the caption "Principal Accounting Fees and Services," and is incorporated herein by reference.

### **PART IV**

#### ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) The report of independent registered accounting firm and the consolidated financial statements appearing in Item 8.

(2) Financial statement schedules are omitted as they are not required or are not applicable, or the required information is included in the financial statements.

(3) The exhibits required by this item are listed in the Exhibit Index of this Form 10-K.

(b) The exhibits to this Form 10-K begin on page 56 of this report.

(c) See Item 15(a)(2) above.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

### CONSUMERS BANCORP, INC.

Date: September 21, 2012 By: /s/ Ralph J. Lober, II  
President and Chief Executive Officer  
(principal executive officer)

By: /s/ Renee K. Wood  
Chief Financial Officer and Treasurer  
(principal financial officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on September 21, 2012.

#### Signatures

/s/ Laurie L. McClellan  
Laurie L. McClellan  
Chairman of the Board of Directors

/s/ John P. Furey  
John P. Furey  
Director

/s/ Bradley Goris  
Bradley Goris  
Director

/s/ James R. Kiko, Sr.  
James R. Kiko, Sr.  
Director

/s/ Harry W. Schmuck, Jr.  
Harry W. Schmuck, Jr.  
Director

#### Signatures

/s/ Ralph J. Lober, II  
Ralph J. Lober, II  
President, Chief Executive Officer and Director

/s/ James V. Hanna  
James V. Hanna  
Director

/s/ David W. Johnson  
David W. Johnson  
Director

/s/ Thomas M. Kishman  
Thomas M. Kishman  
Director

/s/ John E. Tonti  
John E. Tonti  
Director





## EXHIBIT INDEX

### Exhibit Number Description of Document

3.1	Amended and Restated Articles of Incorporation of the Corporation. Reference is made to Form 10-K of the Corporation filed September 22, 2010, which is incorporated herein by reference.
3.2	Amended and Restated Code of Regulations of the Corporation. Reference is made to Form 10-K of the Corporation filed September 15, 2008, which is incorporated herein by reference.
4	Form of Certificate of Common Shares. Reference is made to Form 10-KSB of the Corporation filed September 26, 2002, which is incorporated herein by reference.
10.3	Lease Agreement entered into between Furey Holdings, LLC and Consumers National Bank on December 23, 2005. Reference is made to Form 10-Q of the Corporation filed February 14, 2006, which is incorporated herein by reference.
10.6	2011 Amendment and Restatement of Salary Continuation agreement entered into with Mr. Lober on February 11, 2011. Reference is made to Form 10-Q of the Corporation filed February 11, 2011, which is incorporated herein by reference.
10.7	Form Noncompetition agreement entered into with Ms. Wood on February 11, 2011. Reference is made to Form 10-Q of the Corporation filed February 11, 2011, which is incorporated herein by reference.
11	Computation of Earnings per Share. Reference is made to this Annual Report on Form 10-K Note 15 to the Consolidated Financial Statements, which is incorporated herein by reference.
21	Subsidiaries of Consumers Bancorp, Inc. Filed with this Annual Report on Form 10-K.
23	Consent of Crowe Horwath LLP
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer and Treasurer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following material from Consumers Bancorp, Inc.'s Form 10-K Report for the year ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Consolidated Balance Sheets, (2) Consolidated Statements of Income, (3) Consolidated Statements of Comprehensive Income, (4) Consolidated Statement of Changes in Shareholders' Equity, (5)

Consolidated Statements of Cash Flows, and (6) the Notes to Consolidated Financial Statements.