

CONSUMERS BANCORP INC /OH/  
Form 10-Q  
November 16, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15 (d) or the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2015

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 (I.R.S. Employer Identification No.)  
of incorporation or organization)

614 East Lincoln Way, P.O. Box 256, Minerva, Ohio 44657  
(Address of principal executive offices) (Zip  
Code)

(330) 868-7701

(Registrant's telephone number)

Not applicable

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 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 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.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

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

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

Common Stock, no par value Outstanding at November 10, 2015  
2,727,730 Common Shares



**CONSUMERS BANCORP, INC.**

**FORM 10-Q**

**QUARTER ENDED September 30, 2015**

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## PART I – FINANCIAL INFORMATION

## Item 1 – Financial Statements

## CONSUMERS BANCORP, INC.

## CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except per share data)	September 30, 2015	June 30, 2015
<b>ASSETS</b>		
Cash on hand and noninterest-bearing deposits in financial institutions	\$ 7,543	\$8,028
Federal funds sold and interest-bearing deposits in financial institutions	6,105	2,516
Total cash and cash equivalents	13,648	10,544
Certificates of deposit in other financial institutions	5,913	4,470
Securities, available-for-sale	137,763	137,144
Securities, held-to-maturity (fair value of \$3,712 at September 30, 2015 and \$3,722 at June 30, 2015)	3,565	3,655
Federal bank and other restricted stocks, at cost	1,396	1,396
Loans held for sale	307	462
Total loans	233,914	228,519
Less allowance for loan losses	(2,514 )	(2,432 )
Net loans	231,400	226,087
Cash surrender value of life insurance	6,672	6,626
Premises and equipment, net	12,435	11,605
Other real estate owned	38	—
Accrued interest receivable and other assets	1,918	1,978
Total assets	\$ 415,055	\$403,967
<b>LIABILITIES</b>		
Deposits		
Non-interest bearing demand	\$ 93,431	\$86,651
Interest bearing demand	46,661	45,320
Savings	135,801	134,664
Time	64,998	66,361
Total deposits	340,891	332,996
Short-term borrowings	22,229	19,838
Federal Home Loan Bank advances	6,225	6,240
Accrued interest and other liabilities	3,331	3,427
Total liabilities	372,676	362,501
Commitments and contingent liabilities		

## SHAREHOLDERS' EQUITY

Preferred stock (no par value, 350,000 shares authorized, none outstanding)	—	—
Common stock (no par value, 3,500,000 shares authorized; 2,854,133 shares issued as of September 30, 2015 and June 30, 2015)	14,630	14,630
Retained earnings	27,992	27,589
Treasury stock, at cost (130,312 and 130,064 common shares as of September 30, 2015 and June 30, 2015, respectively)	(1,656	) (1,652 )
Accumulated other comprehensive income	1,413	899
Total shareholders' equity	42,379	41,466
Total liabilities and shareholders' equity	\$ 415,055	\$ 403,967

See accompanying notes to consolidated financial statements

**CONSUMERS BANCORP, INC.****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

(Dollars in thousands, except per share amounts)	Three Months ended September 30,	
	2015	2014
Interest income		
Loans, including fees	\$2,795	\$2,704
Securities, taxable	457	463
Securities, tax-exempt	344	352
Federal funds sold and other interest bearing deposits	24	14
Total interest income	3,620	3,533
Interest expense		
Deposits	176	190
Short-term borrowings	8	7
Federal Home Loan Bank advances	43	48
Total interest expense	227	245
Net interest income	3,393	3,288
Provision for loan losses	92	67
Net interest income after provision for loan losses	3,301	3,221
Non-interest income		
Service charges on deposit accounts	314	320
Debit card interchange income	234	229
Bank owned life insurance income	46	44
Securities gains, net	35	37
Gain on disposition of other real estate owned	—	22
Other	106	139
Total non-interest income	735	791
Non-interest expenses		
Salaries and employee benefits	1,732	1,717
Occupancy and equipment	342	368
Data processing expenses	144	142
Professional and director fees	97	97
FDIC assessments	58	60
Franchise taxes	82	77
Marketing and advertising	93	66
Telephone and network communications	75	72
Debit card processing expenses	116	114
Other	398	359
Total non-interest expenses	3,137	3,072



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Income before income taxes	899	940
Income tax expense	172	184
Net income	\$727	\$756
Basic and diluted earnings per share	\$0.27	\$0.28

See accompanying notes to consolidated financial statements

**CONSUMERS BANCORP, INC.****Consolidated statements of comprehensive income (LOSS)****(Unaudited)**

(Dollars in thousands)

	Three Months ended September 30,	
	2015	2014
Net income	\$727	\$756
Other comprehensive income (loss), net of tax:		
Net change in unrealized gains (losses):		
Unrealized gains (losses) arising during the period	813	(91 )
Reclassification adjustment for gains included in income	(35 )	(37 )
Net unrealized gain (losses)	778	(128)
Income tax effect	264	(43 )
Other comprehensive income (loss)	514	(85 )
Total comprehensive income	\$1,241	\$671

See accompanying notes to consolidated financial statements.

**CONSUMERS BANCORP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****(Unaudited)**

(Dollars in thousands, except per share data)

	Three Months ended September 30,	
	2015	2014
Balance at beginning of period	\$41,466	\$40,203
Net income	727	756
Other comprehensive income (loss)	514	(85 )
248 and 130 Dividend reinvestment plan shares associated with expired restricted stock awards retired to treasury stock during the three months ended September 30, 2015 and 2014, respectively	—	—
Common cash dividends	(328 )	(328 )
Balance at the end of the period	\$42,379	\$40,546
Common cash dividends per share	\$0.12	\$0.12

See accompanying notes to consolidated financial statements.

**CONSUMERS BANCORP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(Dollars in thousands)	Three Months Ended September,	
	2015	2014
Cash flows from operating activities		
Net cash from operating activities	\$ 1,021	\$ 1,766
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(7,438 )	(15,545 )
Maturities, calls and principal pay downs	5,346	3,840
Proceeds from sales of available-for-sale securities	1,990	4,372
Securities held-to-maturity		
Principal pay downs	90	90
Net increase in certificates of deposits in other financial institutions	(1,443 )	(1,503 )
Net (increase) decrease in loans	(5,443 )	1,730
Acquisition of premises and equipment	(962 )	(1,328 )
Proceeds from sale of other real estate owned	—	128
Net cash from investing activities	(7,860 )	(8,216 )
Cash flow from financing activities		
Net increase in deposit accounts	7,895	2,304
Net change in short-term borrowings	2,391	2,075
Proceeds from Federal Home Loan Bank advances	—	2,000
Repayments of Federal Home Loan Bank advances	(15 )	(14 )
Dividends paid	(328 )	(328 )
Net cash from financing activities	9,943	6,037
Increase (decrease) in cash or cash equivalents	3,104	(413 )
Cash and cash equivalents, beginning of period	10,544	11,125
Cash and cash equivalents, end of period	\$ 13,648	\$ 10,712
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	\$ 229	\$ 244
Federal income taxes	200	200
Non-cash items:		
Transfer from loans to repossessed assets	38	—
Expired and forfeited dividend reinvestment plan shares associated		

with restricted stock awards that were retired to treasury stock                    4                    2

See accompanying notes to consolidated financial statements.

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**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited)**

(Dollars in thousands, except per share amounts)

**Note 1 – Summary of Significant Accounting Policies:**

**Nature of Operations:** Consumers Bancorp, Inc. (the Corporation) is a bank holding company headquartered in Minerva, Ohio that provides, through its banking subsidiary, Consumers National Bank (the Bank), a broad array of products and services throughout its primary market area of Carroll, Columbiana, Stark, Summit, Wayne 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.

**Basis of Presentation:** The consolidated financial statements for interim periods are unaudited and reflect all adjustments (consisting of only normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the financial position and results of operations and cash flows for the periods presented. The unaudited financial statements are presented in accordance with the requirements of Form 10-Q and do not include all disclosures normally required by accounting principles generally accepted in the United States of America. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form 10-K for the year ended June 30, 2015. The results of operations for the interim period disclosed herein are not necessarily indicative of the results that may be expected for a full year.

The consolidated financial statements include the accounts of the Corporation and the Bank. All significant inter-company transactions and accounts have been eliminated in consolidation.

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

**Reclassifications:** Certain items in prior financial statements have been reclassified to conform to the current presentation. Any reclassifications had no impact on prior year net income or shareholders' equity.



**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Note 2 – Securities**

<b><u>Available –for-Sale</u></b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
September 30, 2015				
Obligations of U.S. government-sponsored entities and agencies	\$ 15,979	\$ 326	\$ —	\$ 16,305
Obligations of state and political subdivisions	50,718	1,015	(144 )	51,589
Mortgage-backed securities – residential	61,945	708	(121 )	62,532
Mortgage-backed securities– commercial	1,486	9	—	1,495
Collateralized mortgage obligations– residential	5,320	21	(16 )	5,325
Pooled trust preferred security	174	343	—	517
Total available-for-sale securities	\$ 135,622	\$ 2,422	\$ (281 )	\$ 137,763

<b><u>Held-to-Maturity</u></b>	<b>Amortized Cost</b>	<b>Gross Unrecognized Gains</b>	<b>Gross Unrecognized Losses</b>	<b>Fair Value</b>
September 30, 2015				
Obligations of state and political subdivisions	\$ 3,565	\$ 147	\$ —	\$ 3,712

<b><u>Available–for-Sale</u></b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
June 30, 2015				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,411	\$ 178	\$ (31 )	\$ 16,558
Obligations of state and political subdivisions	48,557	811	(405 )	48,963
Mortgage-backed securities – residential	64,441	699	(226 )	64,914
Mortgage-backed securities – commercial	1,485	1	—	1,486
Collateralized mortgage obligations - residential	4,703	14	(34 )	4,683
Pooled trust preferred security	184	356	—	540
Total available-for-sale securities	\$ 135,781	\$ 2,059	\$ (696 )	\$ 137,144



<b><u>Held-to-Maturity</u></b>	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
June 30, 2015				
Obligations of state and political subdivisions	\$ 3,655	\$ 67	\$ —	\$3,722

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

Proceeds from the sale of available-for-sale securities were as follows:

	Three Months Ended September 30,	
	2015	2014
Proceeds from sales	\$ 1,990	\$ 4,372
Gross realized gains	35	37

The income tax provision applicable to realized gains amounted to \$12 in 2015 and 2014.

The amortized cost and fair values of debt securities at September 30, 2015, 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 pooled trust preferred security are shown separately.

	Amortized Cost	Estimated Fair Value
<b><u>Available-for-Sale</u></b>		
Due in one year or less	\$ 6,210	\$ 6,231
Due after one year through five years	13,742	14,068
Due after five years through ten years	29,146	29,752
Due after ten years	17,599	17,843
Total	66,697	67,894
U.S. Government-sponsored mortgage-backed and related securities	68,751	69,352
Pooled trust preferred security	174	517
Total available-for-sale securities	\$ 135,622	\$ 137,763

**Held-to-Maturity**

Due after five years through ten years	745	777
--	-----	-----

Due after ten years	2,820	2,935
Total held-to-maturity securities	\$3,565	\$3,712

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table summarizes the securities with unrealized losses at September 30, 2015 and June 30, 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

<u>Available-for-sale</u>	<b>Less than 12 Months</b>		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2015						
Obligations of states and political subdivisions	11,562	(116 )	1,661	(28 )	13,223	(144 )
Mortgage-backed securities - residential	20,393	(96 )	3,155	(25 )	23,548	(121 )
Collateralized mortgage obligations	3,036	(16 )	—	—	3,036	(16 )
Total temporarily impaired	\$ 34,991	\$ (228 )	\$ 4,816	\$ (53 )	\$ 39,807	\$ (281 )

<u>Available-for-sale</u>	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2015						
Obligation of U.S. government- sponsored entities and agencies	\$ 3,719	\$ (31 )	\$ —	\$ —	\$ 3,719	\$ (31 )
Obligations of states and political subdivisions	18,796	(352 )	2,145	(53 )	20,941	(405 )
Mortgage-backed securities - residential	24,322	(200 )	2,031	(26 )	26,353	(226 )
Collateral mortgage obligation - residential	3,321	(34 )	—	—	3,321	(34 )
Total temporarily impaired	\$ 50,158	\$ (617 )	\$ 4,176	\$ (79 )	\$ 54,334	\$ (696 )

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*.

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.

The unrealized losses within the securities portfolio as of September 30, 2015 have not been recognized into income because the decline in fair value is not attributed to credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. The decline in fair value of the residential mortgage-backed securities, obligations of state and political subdivisions and collateralized mortgage obligations is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity. The mortgage-backed securities and collateralized mortgage obligations were primarily issued by Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. The Corporation does not own any private label mortgage-backed securities.

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Note 3 – Loans**

Major classifications of loans were as follows:

	September 30, 2015	June 30, 2015
Commercial	\$ 36,890	\$ 32,155
Commercial real estate:		
Construction	3,118	1,295
Other	142,702	143,680
1 – 4 Family residential real estate:		
Owner occupied	30,353	30,027
Non-owner occupied	13,897	14,555
Construction	661	234
Consumer	6,667	6,965
Subtotal	234,288	228,911
Less: Net deferred loan fees	(374 )	(392 )
Allowance for loan losses	(2,514 )	(2,432 )
Net Loans	\$ 231,400	\$ 226,087

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ending September 30, 2015:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 316	\$ 1,660	\$ 289	\$ 167	\$2,432
Provision for loan losses	71	70	(11 )	(38 )	92
Loans charged-off	—	(3 )	—	(18 )	(21 )
Recoveries	—	—	—	11	11
Total ending allowance balance	\$ 387	\$ 1,727	\$ 278	\$ 122	\$2,514

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ending September 30, 2014:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 307	\$ 1,440	\$ 294	\$ 364	\$2,405
Provision for loan losses	(7 )	15	27	32	67
Loans charged-off	—	—	(33 )	(33 )	(66 )
Recoveries	—	—	1	12	13
Total ending allowance balance	\$ 300	\$ 1,455	\$ 289	\$ 375	\$2,419

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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 September 30, 2015. Included in the recorded investment in loans is \$506 of accrued interest receivable net of deferred loan fees of \$374.

	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	\$ —	\$ 164	\$ 56	\$ —	\$220
Collectively evaluated for impairment	387	1,563	222	122	2,294
Total ending allowance balance	\$ 387	\$ 1,727	\$ 278	\$ 122	\$2,514
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ —	\$ 3,332	\$ 1,080	\$ —	\$4,412
Loans collectively evaluated for impairment	36,957	142,429	43,955	6,667	230,008
Total ending loans balance	\$ 36,957	\$ 145,761	\$ 45,035	\$ 6,667	\$234,420



**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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, 2015. Included in the recorded investment in loans is \$501 of accrued interest receivable net of deferred loan fees of \$392.

	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	\$ —	\$ 58	\$ 12	\$ —	\$ 70
Collectively evaluated for impairment	316	1,602	277	167	2,362
Total ending allowance balance	\$ 316	\$ 1,660	\$ 289	\$ 167	\$ 2,432
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ —	\$ 2,786	\$ 615	\$ —	\$ 3,401
Loans collectively evaluated for impairment	32,210	142,139	44,304	6,966	225,619
Total ending loans balance	\$ 32,210	\$ 144,925	\$ 44,919	\$ 6,966	\$ 229,020

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents information related to average recorded investment and interest income associated with loans individually evaluated for impairment by class of loans as of September 30, 2015 and for the three months ended September 30, 2015:

	As of September 30, 2015			Three Months ended September 30, 2015		
	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 real estate:						
Construction	\$ 35	\$ 35	\$ —	\$ 12	\$ —	\$ —
Other	2,394	2,117	—	2,059	—	—
1-4 Family residential real estate:						
Owner occupied	301	267	—	267	—	—
Non-owner occupied	232	232	—	77	—	—
With an allowance recorded:						
Commercial real estate:						
Other	1,209	1,180	164	894	9	9
1-4 Family residential real estate:						
Owner occupied	121	121	5	122	2	2
Non-owner occupied	511	460	51	458	4	4
Total	\$ 4,803	\$ 4,412	\$ 220	\$ 3,889	\$ 15	\$ 15

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents information related to loans individually evaluated for impairment by class of loans as of June 30, 2015 and for the three months ended September 30, 2014:

	As of June 30, 2015			Three Months ended September 30, 2014		
	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 real estate:						
Other	\$2,432	\$ 2,082	\$ —	\$ 1,350	\$ —	—
1-4 Family residential real estate:						
Owner occupied	58	35	—	120	—	—
With an allowance recorded:						
Commercial real estate:						
Other	740	704	58	766	9	9
1-4 Family residential real estate:						
Owner occupied	122	123	4	126	2	2
Non-owner occupied	512	457	8	545	5	5
Total	\$3,864	\$ 3,401	\$ 70	\$ 2,907	\$ 16	\$ 16

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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 September 30, 2015 and June 30, 2015:

	September 30, 2015		June 30, 2015	
	Non-accrual	Loans Past Due Over 90 Days Still Accruing	Non-accrual	Loans Past Due Over 90 Days Still Accruing
Commercial real estate:				
Construction	\$ 35	\$ —	\$ —	\$ —
Other	2,595	—	2,079	—
1 – 4 Family residential:				
Owner occupied	366	—	190	—
Non-owner occupied	232	—	—	—
Consumer	16	—	—	—
Total	\$ 3,244	\$ —	\$ 2,269	\$ —

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.

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents the aging of the recorded investment in past due loans as of September 30, 2015 by class of loans:

	Days Past Due			Total Past Due	Loans Not Past Due	Total
	30 - 59 Days	60 - 89 Days	90 Days or Greater			
Commercial	\$—	\$ —	\$ —	\$ —	\$36,957	\$36,957
Commercial real estate:						
Construction	—	—	—	—	3,093	3,093
Other	250	113	1,954	2,317	140,351	142,668
1-4 Family residential:						
Owner occupied	80	112	206	398	30,073	30,471
Non-owner occupied	630	—	—	630	13,271	13,901
Construction	—	—	—	—	663	663
Consumer	44	1	16	61	6,606	6,667
Total	\$1,004	\$ 226	\$ 2,176	\$ 3,406	\$ 231,014	\$ 234,420

The above table of past due loans includes the recorded investment in non-accrual loans of \$224 in the 60-89 days category, \$2,176 in the 90 days or greater category and \$844 in the loans not past due category.

The following table presents the aging of the recorded investment in past due loans as of June 30, 2015 by class of loans:

	Days Past Due			Total Past Due	Loans Not Past Due	Total
	30 - 59 Days	60 - 89 Days	90 Days or Greater			
Commercial	\$—	\$ 25	\$ —	\$ 25	\$ 32,185	\$32,210
Commercial real estate:						
Construction	—	—	—	—	1,270	1,270
Other	62	—	30	92	143,563	143,655
1-4 Family residential:						

Owner occupied	268	68	139	475	29,654	30,129
Non-owner occupied	—	8	—	8	14,547	14,555
Construction	—	—	—	—	235	235
Consumer	17	—	—	17	6,949	6,966
Total	\$347	\$ 101	\$ 169	\$ 617	\$ 228,403	\$ 229,020

The above table of past due loans includes the recorded investment in non-accrual loans of \$169 in the 90 days or greater and \$2,100 in the loans not past due category.

#### **Troubled Debt Restructurings:**

As of September 30, 2015, the recorded investment of loans classified as troubled debt restructurings was \$1,330 with \$129 of specific reserves allocated to these loans. As of June 30, 2015, the recorded investment of loans classified as troubled debt restructurings was \$1,335 with \$70 of specific reserves allocated to these loans. As of September 30, 2015 and June 30, 2015, the Corporation had not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

During the three months ended September 30, 2015 and 2014 there were no loan modifications completed that were classified as troubled debt restructurings. There were no charge offs from troubled debt restructurings during the three month periods ended September 30, 2015 and 2014.

There were no loans classified as troubled debt restructurings for which there was a payment default during the three month periods ending September 30, 2015 or 2014. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

**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, current economic trends and other relevant information. 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. Management monitors the loans on an ongoing basis for any changes in the borrower's ability to service their debt and affirm the risk ratings for the loans and leases in their respective portfolio on an annual 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.



**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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. These loans are evaluated based on delinquency status, which are disclosed in the previous table within this footnote. Based on the most recent analysis performed, the recorded investment by risk category of loans by class of loans was as follows:

	As of September 30, 2015				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$31,302	\$ 5,035	\$ 95	\$ —	\$525
Commercial real estate:					
Construction	3,058	—	35	—	—
Other	132,333	3,776	2,786	2,004	1,769
1-4 Family residential real estate:					
Owner occupied	3,744	—	—	34	26,693
Non-owner occupied	12,200	459	1,019	—	223
Construction	476	—	—	—	187
Consumer	—	—	—	—	6,667
Total	\$183,113	\$ 9,270	\$ 3,935	\$ 2,038	\$36,064

	As of June 30, 2015				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$27,359	\$ 4,030	\$ 96	\$ —	\$725
Commercial real estate:					
Construction	1,224	—	46	—	—
Other	133,452	4,473	2,876	2,032	822
1-4 Family residential real estate:					
Owner occupied	4,029	—	—	35	26,065
Non-owner occupied	12,602	475	1,025	—	453
Construction	235	—	—	—	—
Consumer	—	—	—	—	6,966
Total	\$178,901	\$ 8,978	\$ 4,043	\$ 2,067	\$35,031

**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Note 4 - 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).

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 September 30, 2015	Fair Value Measurements at September 30, 2015 Using		
		Level 1	Level 2	Level 3
Assets:				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,305	\$ —	\$ 16,305	\$ —
Obligations of states and political subdivisions	51,589	—	51,589	—
Mortgage-backed securities – residential	62,532	—	62,532	—
Mortgage-backed securities – commercial	1,495	—	1,495	—
Collateralized mortgage obligations - residential	5,325	—	5,325	—
Pooled trust preferred security	517	—	517	—

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

	Balance at June 30, 2015	Fair Value Measurements at June 30, 2015 Using		
		Level 1	Level 2	Level 3
Assets:				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,558	\$ —	\$ 16,558	\$ —
Obligations of states and political subdivisions	48,963	—	48,963	—
Mortgage-backed securities - residential	64,914	—	64,914	—
Mortgage-backed securities - commercial	1,486	—	1,486	—
Collateralized mortgage obligations - residential	4,683	—	4,683	—
Pooled trust preferred security	540	—	540	—

There were no transfers between Level 1 and Level 2 during the three month periods ended September 30, 2015 or 2014.

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. 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 September 30, 2015	Fair Value Measurements at September 30, 2015 Using		
		Level 1	Level 2	Level 3
Impaired loans:				
Commercial Real Estate - Other	\$ 1,954	\$ —	\$ —	\$ 1,954

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

	Balance at June 30, 2015	Fair Value Measurements at June 30, 2015 Using		
		Level 1	Level 2	Level 3
Impaired loans:				
Commercial Real Estate - Other	\$ 1,979	\$ —	\$ —	\$ 1,979

Impaired loans included in the tables above are measured for impairment using the fair value of the collateral and had a carrying amount of \$1,954, with no valuation allowance at September 30, 2015. The resulting impact to the provision for loan losses was a reduction of \$3 being recorded for the three month period ended September 30, 2015. As of June 30, 2015, the carrying amount of impaired loans was \$1,979 with no valuation allowance. There was no provision for loan loss recorded related to impaired loans measured at fair value for the three month period ended September 30, 2014.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2015:

	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Impaired loans:					
Commercial Real Estate - Other	\$733	Income approach	Liquidation adjustment for distressed sales	-40.0%	-40.0%
Commercial Real Estate - Other	\$125	Cost approach	Liquidation adjustment for distressed sales	-40.0%	-40.0%
Commercial Real Estate - Other	\$1,096	Sales comparison approach	Adjustment for differences between comparable sales	82.9% to -38.7%	-7.5%

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2015:

	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Impaired loans:					
Commercial Real Estate - Other	\$733	Income approach	Liquidation adjustment for distressed sales	-40.0%	-40.0%
Commercial Real Estate - Other	\$125	Cost approach	Liquidation adjustment for distressed sales	-40.0%	-40.0%
Commercial Real Estate - Other	\$1,121	Sales comparison approach	Adjustment for differences between comparable sales	82.9% to -71.6%	-11.7%

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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 consisted of the sales comparison approach. The significant unobservable inputs used in the fair value measurement relate to any adjustment made to the value set forth in the appraisal due to a distressed sale situation.

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:

	September 30, 2015		June 30, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Level 1 inputs:				
Cash and cash equivalents	\$13,648	\$13,648	\$10,544	\$10,544
Level 2 inputs:				
Certificates of deposits in other financial institutions	5,913	5,910	4,470	4,456
Loans held for sale	307	310	462	468
Accrued interest receivable	1,310	1,310	1,035	1,035
Level 3 inputs:				
Securities held-to-maturity	3,565	3,712	3,655	3,722
Loans, net	231,400	232,295	226,087	226,915
Financial Liabilities:				
Level 2 inputs:				
Demand and savings deposits	275,893	275,893	266,635	266,635
Time deposits	64,998	65,104	66,361	66,498
Short-term borrowings	22,229	22,229	19,838	19,838
Federal Home Loan Bank advances	6,225	6,534	6,240	6,537
Accrued interest payable	39	39	41	41



**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The assumptions used to estimate fair value are described as follows:

**Cash and cash equivalents:** The carrying value of cash, deposits in other financial institutions and federal funds sold were considered to approximate fair value resulting in a Level 1 classification.

**Certificates of deposits in other financial institutions:** Fair value of certificates of deposits in other financial institutions was estimated using current rates for deposits of similar remaining maturities resulting in a Level 2 classification.

**Accrued interest receivable and payable, demand and savings deposits and short-term borrowings:** The carrying value of accrued interest receivable and payable, demand and savings deposits and short-term borrowings were considered to approximate fair value due to their short-term duration resulting in a Level 2 classification.

**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.

**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.

**Securities held-to-maturity:** The held-to-maturity securities are general obligation and revenue bonds made to local municipalities. The fair values of these securities are estimated using a spread to the applicable municipal fair market

curve resulting in a Level 3 classification.

**Time deposits:** Fair value of fixed-maturity certificates of deposit was estimated using the rates offered at September 30, 2015 and June 30, 2015, for deposits of similar remaining maturities. Estimated fair value does not include the benefit that results 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 September 30, 2015 and June 30, 2015 for similar financing resulting in a Level 2 classification.

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Federal bank and other restricted stocks, at cost:** 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.

**Off-balance sheet commitments:** 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 above table.

**Note 5 – 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. There were no equity instruments there were anti-dilutive for the three month periods ended September 30, 2015 and 2014. The following table details the calculation of basic and diluted earnings per share:

	For the Three Months Ended September 30,	
	2015	2014
Basic:		
Net income available to common shareholders	\$727	\$756
Weighted average common shares outstanding	2,724,372	2,721,695
Basic income per share	\$0.27	\$0.28
Diluted:		
Net income available to common shareholders	\$727	\$756
Weighted average common shares outstanding	2,724,372	2,721,695
Dilutive effect of restricted stock	189	418

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Total common shares and dilutive potential common shares	2,724,561	2,722,113
Dilutive income per share	\$0.27	\$0.28

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Note 6 –Accumulated Other Comprehensive Income**

The components of other comprehensive income related to unrealized gains and losses on available-for-sale securities for the three month periods ended September 30, 2015 and 2014, were as follows:

	Pretax	Tax Effect	After-tax	Affected Line Item in Consolidated Statements of Income
Balance as of June 30, 2015	\$ 1,363	\$ (464 )	\$ 899	
Unrealized holding gain on available-for-sale securities arising during the period	813	(276 )	537	
Amounts reclassified from accumulated other comprehensive income	(35 )	12	(23 )	(a)(b)
Net current period other comprehensive income	778	(264 )	514	
Balance as of September 30, 2015	\$ 2,141	\$ (728 )	\$ 1,413	
Balance as of June 30, 2014	\$ 1,944	\$ (661 )	\$ 1,283	
Unrealized holding loss on available-for-sale securities arising during the period	(91 )	31	(60 )	
Amounts reclassified from accumulated other comprehensive income	(37 )	12	(25 )	(a)(b)
Net current period other comprehensive income	(128 )	43	(85 )	
Balance as of September 30, 2014	\$ 1,816	\$ (618 )	\$ 1,198	

(a) Securities gains, net

(b) Income tax expense

## **Item 2 – 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 results of operations for the three month period ended September 30, 2015, compared to the same period in 2014, and the consolidated balance sheet at September 30, 2015, compared to June 30, 2015. This discussion is designed to provide a more comprehensive review of the operating results and financial condition 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 (the Corporation), owns all of the issued and outstanding common shares of Consumers National Bank, a bank chartered under the laws of the United States of America (the Bank). The Corporation’s activities have been limited primarily to holding the common shares 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 Carroll, Columbiana, Stark, Summit, Wayne 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.

### **Results of Operations**

#### **Three Months Ended September 30, 2015 and September 30, 2014**

In the first quarter of fiscal year 2016, net income was \$727, or \$0.27 per common share, compared with \$756, or \$0.28 per common share, in the prior year period. The following are key highlights of our results of operations for the three months ending September 30, 2015:

net interest income increased to \$3,393, or by 3.2%, in the first quarter of fiscal year 2016 from the same prior year period;

noninterest income decreased by \$56 primarily as a result of a decline in security brokerage income and gains from the sale of mortgage loans from the same prior year period; and

noninterest expenses increased by \$65, or 2.1%, in the first quarter of fiscal year 2016 compared to the same prior year period principally as a result of higher collection expenses and marketing and advertising expenses.

Return on average equity and return on average assets were 6.90% and 0.70%, respectively, for the first quarter of fiscal year 2016 compared to 7.40% and 0.78%, respectively, for the first quarter of fiscal year 2015.

**CONSUMERS BANCORP, INC.**

Management's Discussion and Analysis of Financial Condition

**and Results of Operations (continued)**

(Dollars in thousands, except per share data)

**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 average 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.

The Corporation's net interest margin was 3.69% for the three month period ended September 30, 2015, compared with 3.79% for the same period in 2014. Net interest income for the three months ended September 30, 2015 increased by \$105, or 3.2%, to \$3,393 from \$3,288 for the same year ago period. The increase in net interest income was primarily the result of an increase in average interest-earning assets.

Interest income for the three months ended September 30, 2015 increased by \$87, or 2.5%, from the same year ago period. An increase of \$20,087, or 5.5%, in average interest-earning assets from the same prior year period partially offset the impact the low interest rate environment has had on the yield of average interest-earning assets. Interest expense for the three months ended September 30, 2015 decreased by \$18, or 7.3%, from the same year ago period. The Corporation's cost of funds decreased to 0.33% for the three month period ended September 30, 2015 from 0.36% for the same year ago period.



**CONSUMERS BANCORP, INC.**

## Management's Discussion and Analysis of Financial Condition

**and Results of Operations (continued)**

(Dollars in thousands, except per share data)

**Average Balance Sheets and Analysis of Net Interest Income for the Three Months Ended September 30**

(In thousands, except percentages)

	2015 Average Balance	Interest	Yield/ Rate	2014 Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Taxable securities	\$86,757	\$457	2.12 %	\$83,166	\$463	2.23 %
Nontaxable securities (1)	54,589	517	3.79	48,442	526	4.39
Loans receivable (1)	232,229	2,803	4.79	224,695	2,715	4.79
Interest bearing deposits and federal funds sold	11,784	24	0.81	8,969	14	0.62
Total interest-earning assets	385,359	3,801	3.93 %	365,272	3,718	4.06 %
Noninterest-earning assets	25,915			20,163		
Total Assets	\$411,274			\$385,435		
Interest-bearing liabilities:						
NOW	\$47,751	\$17	0.14 %	\$47,327	\$22	0.18 %
Savings	136,764	30	0.09	125,210	25	0.08
Time deposits	65,393	129	0.78	69,629	143	0.81
Short-term borrowings	19,531	8	0.16	17,650	7	0.16
FHLB advances	6,265	43	2.72	6,689	48	2.85
Total interest-bearing liabilities	275,704	227	0.33 %	266,505	245	0.36 %
Noninterest-bearing liabilities:						
Noninterest-bearing checking accounts	90,250			75,624		
Other liabilities	3,406			2,760		
Total liabilities	369,360			344,889		
Shareholders' equity	41,914			40,546		
Total liabilities and shareholders' equity	\$411,274			\$385,435		
Net interest income, interest rate spread (1)		\$3,574	3.60 %		\$3,473	3.70 %

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Net interest margin (net interest as a percent of average interest-earning assets) (1)		3.69 %	3.79 %
Federal tax exemption on non-taxable securities and loans included in interest income		\$ 181	\$ 185
Average interest-earning assets to interest-bearing liabilities	139.77 %		137.06 %

(1) calculated on a fully taxable equivalent basis

**CONSUMERS BANCORP, INC.**

Management's Discussion and Analysis of Financial Condition

**and Results of Operations (continued)**

(Dollars in thousands, except per share data)

**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 incurred credit losses in the Bank's loan portfolio that have been incurred at each balance sheet date. For the three month period ended September 30, 2015, the provision for loan losses was \$92 compared to \$67 for the same prior year period. For the three month period ended September 30, 2015, net charge-offs totaled \$10, or an annualized net charge-offs to total loan ratio of 0.02%, compared with \$53, or 0.09% of total loans, for the same period last year. The allowance for loan losses as a percentage of loans was 1.07% at September 30, 2015 and 1.06% at June 30, 2015.

Non-performing loans were \$3,244 as of September 30, 2015 and represented 1.39% of total loans. This compared with \$2,269, or 0.99%, at June 30, 2015 and \$1,118, or 0.50%, at September 30, 2014. Non-performing loans increased from June 30, 2015 primarily as a result of placing a commercial credit with a recorded investment of \$700 on non-accrual. This credit is primarily secured by an owner-occupied commercial real estate property and two multi-family real estate properties. The allowance for loan losses to total non-performing loans at September 30, 2015 was 77.50% compared with 107.18% at June 30, 2015 and 216.37% at September 30, 2014.

The provision for loan losses for the period ending September 30, 2015 was considered sufficient by management for maintaining an appropriate allowance for probable incurred credit losses.

**Non-Interest Income**

Non-interest income decreased by \$56 for the first quarter of fiscal year 2016 from the same period last year. In the prior fiscal year, a \$22 gain was recognized from the sale of other real estate acquired through loan foreclosure.

Other income decreased by \$33 from the same period last year primarily as a result of a decline in securities brokerage income and gains from the sale of mortgage loans.

**Non-Interest Expenses**

Total non-interest expenses increased to \$3,137, or by 2.1%, during the first quarter of fiscal year 2016, compared with \$3,072 during the same year ago period.

Occupancy and equipment expenses decreased by \$26, or 7.1%, during the first quarter of fiscal year 2016 from the same period last year primarily as a result of lower building depreciation expense since the Minerva, Ohio location was expensed over the estimated remaining useful life and was fully depreciated in a prior period. This decline was partially offset by additional lease expense associated with the new Stow and Wooster, Ohio loan production offices. A new facility is being constructed at the Minerva, Ohio location to replace the existing branch and corporate headquarters. The remaining book value of the Minerva facility was expensed over the estimated remaining useful life. The new facility is anticipated to be completed during the 2016 fiscal year and upon being placed into service, it is expected that occupancy expenses will increase.

**CONSUMERS BANCORP, INC.**

Management's Discussion and Analysis of Financial Condition

**and Results of Operations (continued)**

(Dollars in thousands, except per share data)

Other expenses increased by \$39 or 10.9%, during the first quarter of fiscal year 2016 from the same period last year primarily as a result of higher loan collection expenses.

**Income Taxes**

Income tax expense for the three month period ended September 30, 2015 decreased by \$12, to \$172 from \$184, compared to a year ago. The effective tax rate was 19.1% for the current quarter as compared to 19.6% for the same period last year.

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 September 30, 2015 were \$415,055 compared to \$403,967 at June 30, 2015, an increase of \$11,088, or an annualized 10.9%.

Total loans increased by \$5,395, or an annualized 9.4%, from \$228,519 at June 30, 2015 to \$233,914 at September 30, 2015 and total deposits increased by \$7,895, or an annualized 9.4%.

**CONSUMERS BANCORP, INC.**

## Management's Discussion and Analysis of Financial Condition

**and Results of Operations (continued)**

(Dollars in thousands, except per share data)

**Non-Performing Assets**

The following table presents the aggregate amounts of non-performing assets and respective ratios as of the dates indicated.

	September 30, 2015	June 30, 2015	September 30, 2014
Non-accrual loans	\$ 3,244	\$2,269	\$ 1,118
Loans past due over 90 days and still accruing	—	—	—
Total non-performing loans	3,244	2,269	1,118
Other real estate owned	38	—	54
Total non-performing assets	\$ 3,282	\$2,269	\$ 1,172
Non-performing loans to total loans	1.39	% 0.99	% 0.50
Allowance for loan losses to total non-performing loans	77.50	% 107.18	% 216.37

As of September 30, 2015, impaired loans totaled \$4,412, of which \$3,083 are included in non-accrual loans. 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. Impaired loans and 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 are closely monitoring these loans and believe that the prospects for recovery of principal and interest, less identified specific reserves, are favorable.

**Contractual Obligations, Commitments, Contingent Liabilities and Off-Balance Sheet Arrangements****Liquidity**

The objective of liquidity management is to ensure adequate cash flows to accommodate the demands of our customers and provide adequate flexibility for the Corporation to take advantage of market opportunities under both normal operating conditions and under unpredictable circumstances of industry or market stress. Cash is used to fund loans, purchase investments, fund the maturity of liabilities, and at times to fund deposit outflows and operating

activities. The Corporation's principal sources of funds are deposits; amortization and prepayments of loans; maturities, sales and principal receipts from securities; borrowings; and operations. Management considers the asset position of the Corporation to be sufficiently liquid to meet normal operating needs and conditions. The Corporation's earning assets are mainly comprised of loans and investment securities. Management continually strives to obtain the best mix of loans and investments to both maximize yield and insure the soundness of the portfolio, as well as to provide funding for loan demand as needed.

**CONSUMERS BANCORP, INC.**

Management's Discussion and Analysis of Financial Condition

**and Results of Operations (continued)**

(Dollars in thousands, except per share data)

Net cash inflow from operating activities for the three month period ended September 30, 2015 was \$1,021, net cash outflows from investing activities was \$7,860 and net cash inflows from financing activities was \$9,943. A major source of cash was \$7,336 from sales, maturities, calls or principal pay downs on available-for-sale securities, a \$7,895 increase in deposits and \$2,391 increase in short-term borrowings. A major use of cash included the \$7,438 purchase of securities and \$5,443 increase in loans. Total cash and cash equivalents was \$13,648 as of September 30, 2015 compared to \$10,544 at June 30, 2015 and \$10,712 at September 30, 2014.

The Bank offers several types of deposit products to its customers. The rates offered by the Bank and the fees charged for them are competitive with others currently available in the market area. Deposits totaled \$340,891 at September 30, 2015 compared with \$332,996 at June 30, 2015.

To provide an additional source of liquidity, the Corporation has entered into an agreement with the FHLB of Cincinnati. At September 30, 2015, FHLB advances totaled \$6,225 as compared with \$6,240 at June 30, 2015. As of September 30, 2015, the Bank had the ability to borrow an additional \$18,265 from the FHLB based on a blanket pledge of qualifying first mortgage loans. The Corporation considers the FHLB to be a reliable source of liquidity funding, secondary to its deposit base.

Short-term borrowings consisted of repurchase agreements, which is a financing arrangement that matures daily and federal funds purchased from correspondent banks. The Bank pledges securities as collateral for the repurchase agreements. Short-term borrowings increased to \$22,229 at September 30, 2015 from \$19,838 at June 30, 2015.

Jumbo time deposits (those with balances of \$100 and over) totaled \$26,154 at September 30, 2015 and \$26,862 at June 30, 2015. These deposits are monitored closely by the Corporation and are mainly 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. The Corporation, however, does not rely upon these deposits as a primary source of funding and can foresee no dependence on these types of deposits in the near term. The Corporation had no brokered deposits at September 30, 2015 or June 30, 2015. Although management monitors interest rates on an ongoing basis, a quarterly rate sensitivity report is used to determine the effect of interest rate changes on the financial statements. In the opinion of management, enough assets or liabilities could be repriced over the near term (up to three years) to compensate for such changes. The spread on interest rates,



or the difference between the average earning assets and the average interest-bearing liabilities, is monitored quarterly.

**CONSUMERS BANCORP, INC.**

Management's Discussion and Analysis of Financial Condition

**and Results of Operations (continued)**

(Dollars in thousands, except per share data)

**Capital Resources**

Total shareholders' equity increased by \$913 to \$42,379 as of September 30, 2015 from \$41,466 as of June 30, 2015. The increase was primarily the result of \$727 in net income during the first fiscal quarter of 2016 and a net increase of \$514 in accumulated other comprehensive income from unrealized gains on available-for-sale securities. These increases were partially offset by cash dividends of \$328 that were paid during the first fiscal quarter of 2016.

The Bank is subject to various regulatory capital requirements administered by federal regulatory 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. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the Corporation's financial statements.

On January 1, 2015, rules to implement Basel III capital requirements became effective for community banks. The September 30, 2015 regulatory capital ratios were prepared under the Basel III capital requirements. The Bank's leverage, common equity tier 1 capital and total capital ratios as of September 30, 2015 were 9.6%, 14.3% and 15.2%, respectively. This compares to leverage, common equity tier 1 capital and risk-based capital ratios of 9.5%, 14.4% and 15.3%, respectively, as of June 30, 2015. The Bank exceeded minimum regulatory capital requirements to be considered well-capitalized for both periods. Management is not aware of any matters occurring subsequent to September 30, 2015 that would cause the Bank's capital category to change.

**Critical Accounting Policies**

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 of Financial Condition and Results of Operations 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.

The Corporation has identified the appropriateness of the allowance for loan losses and the valuation of securities as critical accounting policies and an understanding of these policies are necessary to understand the financial

statements. Critical accounting policies are those policies that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Note one (Summary of Significant Accounting Policies - Securities and Allowance for Loan Losses), note two (Securities), note three (Loans) and Management's Discussion and Analysis of Financial Condition and Results of Operation (Critical Accounting Policies and Use of Significant Estimates) of the 2015 Form 10-K provide detail with regard to the Corporation's accounting for the allowance for loan losses and valuation of securities and other-than-temporary impairment. There have been no significant changes in the application of accounting policies since June 30, 2015.

**CONSUMERS BANCORP, INC.**

Management's Discussion and Analysis of Financial Condition

**and Results of Operations (continued)**

(Dollars in thousands, except per share data)

**Forward-Looking Statements**

When used in this report (including information incorporated by reference in this report), the 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 the Corporation’s 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, the Corporation undertakes 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 or debtors being unable to meet their obligations;
- an extended period in which market levels of interest rates remain at historical low levels which could reduce, or put pressure on our ability to maintain, anticipated or actual margins;
- material unforeseen changes in the financial condition or results of Consumers National Bank’s customers;
- 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;
- competitive pressures on product pricing and services;
- pricing and liquidity pressures that may result in a rising market rate environment; and
- the nature, extent, and timing of government and regulatory actions.

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

**CONSUMERS BANCORP, INC.**

**Item 4 – Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by the report, an evaluation was performed under the supervision and with the participation of the Corporation's 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 pursuant to Exchange Act Rule 13a-15e. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2015.

**Changes in Internal Controls Over Financial Reporting**

There have not been any changes in the Corporation's internal control over financial reporting that occurred during the Corporation's last quarter that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**CONSUMERS BANCORP, INC.**

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

None

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not Applicable

Item 5 – Other Information

None

Item 6 – Exhibits

<u>Exhibit Number</u>	<u>Description</u>
Exhibit 11	Statement regarding Computation of Per Share Earnings (included in Note 5 to the Consolidated Financial Statements).
Exhibit 31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
Exhibit 31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

Exhibit 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.

Exhibit 101 The following materials from Consumers Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language) include: (1) Unaudited Consolidated Balance Sheets, (2) Unaudited Consolidated Statements of Income, (3) Unaudited Consolidated Statements of Comprehensive Income, (4) Unaudited Consolidated Statement of Changes in Shareholders' Equity, (5) Unaudited Condensed Consolidated Statements of Cash Flows, and (6) the Notes to Unaudited Condensed Consolidated Financial Statements.

**CONSUMERS BANCORP, INC.**

SIGNATURES

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

CONSUMERS  
BANCORP, INC.  
(Registrant)

Date: November 16, 2015 /s/ Ralph J. Lober  
Ralph J. Lober, II  
President & Chief  
Executive Officer  
(principal executive  
officer)

Date: November 16, 2015 /s/ Renee K. Wood  
Renee K. Wood  
Chief Financial  
Officer & Treasurer  
(principal financial  
officer)