

CONSUMERS BANCORP INC /OH/
Form 10-Q
February 17, 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 December 31, 2014

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
(State or other jurisdiction
of incorporation or organization)

34-1771400
(I.R.S. Employer Identification No.)

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

44657
(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 February 13, 2015
2,731,612 Common Shares

CONSUMERS BANCORP, INC.

FORM 10-Q

QUARTER ENDED December 31, 2014

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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) | December 31, 2014 | June 30, 2014 |
|--|----------------------|------------------|
| ASSETS | | |
| Cash on hand and noninterest-bearing deposits in financial institutions | \$ 8,487 | \$9,049 |
| Federal funds sold and interest-bearing deposits in financial institutions | 3,543 | 2,076 |
| Total cash and cash equivalents | 12,030 | 11,125 |
| Certificates of deposit in other financial institutions | 5,456 | 2,703 |
| Securities, available-for-sale | 132,342 | 126,393 |
| Securities, held-to-maturity (fair value of \$3,726 at December 31, 2014 and \$3,040 at June 30, 2014) | 3,690 | 3,000 |
| Federal bank and other restricted stocks, at cost | 1,396 | 1,396 |
| Loans held for sale | 625 | 559 |
| Total loans | 228,074 | 224,966 |
| Less allowance for loan losses | (2,452) | (2,405) |
| Net loans | 225,622 | 222,561 |
| Cash surrender value of life insurance | 6,531 | 5,967 |
| Premises and equipment, net | 9,112 | 6,713 |
| Other real estate owned | 54 | 204 |
| Accrued interest receivable and other assets | 1,489 | 1,856 |
| Total assets | \$ 398,347 | \$382,477 |
| LIABILITIES | | |
| Deposits | | |
| Non-interest bearing demand | \$ 83,635 | \$75,353 |
| Interest bearing demand | 44,572 | 42,718 |
| Savings | 128,498 | 125,151 |
| Time | 67,933 | 70,675 |
| Total deposits | 324,638 | 313,897 |
| Short-term borrowings | 16,435 | 19,489 |
| Federal Home Loan Bank advances | 12,768 | 6,296 |
| Accrued interest and other liabilities | 3,185 | 2,592 |
| Total liabilities | 357,026 | 342,274 |
| Commitments and contingent liabilities | — | — |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock (no par value, 350,000 shares authorized, none outstanding) | — | — |
| | 14,630 | 14,630 |

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Common stock (no par value, 3,500,000 shares authorized; 2,854,133 shares issued as of December 31, 2014 and June 30, 2014)

| | | |
|---|------------|------------|
| Retained earnings | 26,850 | 25,940 |
| Treasury stock, at cost (122,521 and 129,875 common shares as of December 31, 2014 and June 30, 2014, respectively) | (1,652) | (1,650) |
| Accumulated other comprehensive income | 1,493 | 1,283 |
| Total shareholders' equity | 41,321 | 40,203 |
| Total liabilities and shareholders' equity | \$ 398,347 | \$ 382,477 |

See accompanying notes to consolidated financial statements

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

| | Three Months ended December 31, | | Six Months ended December 31, | |
|--|------------------------------------|----------|----------------------------------|----------|
| (Dollars in thousands, except per share amounts) | 2014 | 2013 | 2014 | 2013 |
| Interest income | | | | |
| Loans, including fees | \$ 2,728 | \$ 2,645 | \$ 5,432 | \$ 5,312 |
| Securities, taxable | 496 | 413 | 959 | 694 |
| Securities, tax-exempt | 342 | 344 | 694 | 672 |
| Federal funds sold and other interest bearing deposits | 19 | 9 | 33 | 21 |
| Total interest income | 3,585 | 3,411 | 7,118 | 6,699 |
| Interest expense | | | | |
| Deposits | 182 | 199 | 372 | 398 |
| Short-term borrowings | 8 | 6 | 15 | 12 |
| Federal Home Loan Bank advances | 47 | 41 | 95 | 91 |
| Total interest expense | 237 | 246 | 482 | 501 |
| Net interest income | 3,348 | 3,165 | 6,636 | 6,198 |
| Provision for loan losses | 57 | 35 | 124 | 168 |
| Net interest income after provision for loan losses | 3,291 | 3,130 | 6,512 | 6,030 |
| Non-interest income | | | | |
| Service charges on deposit accounts | 320 | 336 | 640 | 699 |
| Debit card interchange income | 230 | 225 | 459 | 439 |
| Bank owned life insurance income | 44 | 45 | 88 | 91 |
| Securities gains, net | 85 | 32 | 122 | 32 |
| Gain on disposition of other real estate owned | — | — | 22 | — |
| Other | 114 | 99 | 253 | 171 |
| Total non-interest income | 793 | 737 | 1,584 | 1,432 |
| Non-interest expenses | | | | |
| Salaries and employee benefits | 1,699 | 1,569 | 3,416 | 3,129 |
| Occupancy and equipment | 367 | 328 | 735 | 644 |
| Data processing expenses | 141 | 139 | 283 | 277 |
| Professional and director fees | 121 | 130 | 218 | 241 |
| FDIC assessments | 56 | 55 | 116 | 106 |
| Franchise taxes | 72 | 76 | 149 | 151 |
| Marketing and advertising | 54 | 67 | 120 | 132 |
| Telephone and network communications | 65 | 69 | 137 | 142 |
| Debit card processing expenses | 123 | 103 | 237 | 214 |
| Other | 363 | 388 | 722 | 737 |
| Total non-interest expenses | 3,061 | 2,924 | 6,133 | 5,773 |
| Income before income taxes | 1,023 | 943 | 1,963 | 1,689 |
| Income tax expense | 215 | 188 | 399 | 313 |

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| | | | | |
|--------------------------------------|---------|---------|----------|----------|
| Net income | \$ 808 | \$ 755 | \$ 1,564 | \$ 1,376 |
| Basic and diluted earnings per share | \$ 0.30 | \$ 0.28 | \$ 0.57 | \$ 0.51 |

See accompanying notes to consolidated financial statements

CONSUMERS BANCORP, INC.

Consolidated statements of comprehensive income (LOSS)

(Unaudited)

(Dollars in thousands)

| | Three Months ended December 31, | | Six Months ended December 31, | |
|--|------------------------------------|--------|----------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$ 808 | \$ 755 | \$ 1,564 | \$ 1,376 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net change in unrealized gains (losses): | | | | |
| Unrealized gains (losses) arising during the period | 531 | (595) | 440 | (293) |
| Reclassification adjustment for gains included in income | (85) | (32) | (122) | (32) |
| Net unrealized gain (losses) | 446 | (627) | 318 | (325) |
| Income tax effect | 151 | (214) | 108 | (111) |
| Other comprehensive income (loss) | 295 | (413) | 210 | (214) |
| Total comprehensive income | \$ 1,103 | \$ 342 | \$ 1,774 | \$ 1,162 |

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 December 31, | | Six Months ended December 31, | |
|---|------------------------------------|-----------|----------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Balance at beginning of period | \$ 40,546 | \$ 37,872 | \$ 40,203 | \$ 28,143 |
| Net income | 808 | 755 | 1,564 | 1,376 |
| Other comprehensive income (loss) | 295 | (413) | 210 | (214) |
| Issuance of 655,668 shares for rights and public offering, net of offering costs of \$762 | — | — | — | 9,237 |
| 1,254 and 1,384 Dividend reinvestment plan shares associated with forfeited and expired restricted stock awards retired to treasury stock during the three and six months ended December 31, 2014, respectively | — | — | — | — |
| Common cash dividends | (328) | (328) | (656) | (656) |
| Balance at the end of the period | \$ 41,321 | \$ 37,886 | \$ 41,321 | \$ 37,886 |
| Common cash dividends per share | \$ 0.12 | \$ 0.12 | \$ 0.24 | \$ 0.24 |

See accompanying notes to consolidated financial statements.

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

| (Dollars in thousands) | Six Months Ended December 31, | |
|---|----------------------------------|----------|
| | 2014 | 2013 |
| Cash flows from operating activities | | |
| Net cash from operating activities | \$3,034 | \$2,495 |
| Cash flow from investing activities | | |
| Securities available-for-sale | | |
| Purchases | (28,920) | (31,918) |
| Maturities, calls and principal pay downs | 9,912 | 8,993 |
| Proceeds from sales of available-for-sale securities | 13,044 | 2,765 |
| Securities held-to-maturity | | |
| Purchases | (780) | — |
| Principal pay downs | 90 | — |
| Net (increase) decrease in certificates of deposits in other financial institutions | (2,753) | 2,447 |
| Net increase in loans | (3,185) | (3,660) |
| Purchase of Bank owned life insurance | (476) | — |
| Acquisition of premises and equipment | (2,698) | (869) |
| Disposal of premises and equipment | 6 | — |
| Proceeds from sale of other real estate owned | 128 | 1 |
| Net cash from investing activities | (15,632) | (22,241) |
| Cash flow from financing activities | | |
| Net increase in deposit accounts | 10,741 | 5,485 |
| Net change in short-term borrowings | (3,054) | 2,967 |
| Net proceeds from rights and public offering | — | 9,237 |
| Proceeds from Federal Home Loan Bank advances | 8,500 | 2,500 |
| Repayments of Federal Home Loan Bank advances | (2,028) | (36) |
| Dividends paid | (656) | (656) |
| Net cash from financing activities | 13,503 | 19,497 |
| Increase (decrease) in cash or cash equivalents | 905 | (249) |
| Cash and cash equivalents, beginning of period | 11,125 | 9,356 |
| Cash and cash equivalents, end of period | \$12,030 | \$9,107 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period: | | |
| Interest | \$480 | \$499 |
| Federal income taxes | 375 | 510 |

Non-cash items:

| | | |
|---|---|-----|
| Transfer from loans to repossessed assets | — | 709 |
| Expired and forfeited dividend reinvestment plan shares associated with restricted stock awards that were retired to treasury stock | 2 | — |

See accompanying notes to consolidated financial statements.

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 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.

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, 2014. 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.

Recently Issued Accounting Pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (a new revenue recognition standard). The Update's core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Corporation is evaluating the effect of adopting this new accounting Update.

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

(Dollars in thousands, except per share amounts)

Note 2 – Securities

| Available –for-Sale | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| December 31, 2014 | | | | |
| Obligations of U.S. government-sponsored entities and agencies | \$ 17,384 | \$ 152 | \$ (24 |) \$17,512 |
| Obligations of state and political subdivisions | 44,930 | 1,071 | (111 |) 45,890 |
| Mortgage-backed securities – residential | 63,129 | 957 | (124 |) 63,962 |
| Collateralized mortgage obligations | 4,439 | 26 | (3 |) 4,462 |
| Trust preferred security | 198 | 318 | — | 516 |
| Total available-for-sale securities | \$ 130,080 | \$ 2,524 | \$ (262 |) \$132,342 |

| Held-to-Maturity | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|-------------------|--------------------------------|---------------------------------|---------------|
| December 31, 2014 | | | | |
| Obligations of state and political subdivisions | \$ 3,690 | \$ 36 | \$ — | \$3,726 |

| Available–for-Sale | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2014 | | | | |
| Obligations of U.S. government-sponsored entities and agencies | \$ 18,345 | \$ 126 | \$ (35 |) \$18,436 |
| Obligations of state and political subdivisions | 44,645 | 1,124 | (257 |) 45,512 |
| Mortgage-backed securities – residential | 57,370 | 965 | (231 |) 58,104 |
| Collateralized mortgage obligations | 3,887 | 42 | — | 3,929 |
| Trust preferred security | 202 | 210 | — | 412 |
| Total available-for-sale securities | \$ 124,449 | \$ 2,467 | \$ (523 |) \$126,393 |

Held-to-Maturity

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| | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|-------------------|--------------------------------|---------------------------------|---------------|
| June 30, 2014 | | | | |
| Obligations of state and political subdivisions | \$ 3,000 | \$ 40 | \$ — | \$3,040 |

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

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|-----------------------|------------------------------------|----------|----------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| Proceeds | \$ 8,672 | \$ 2,765 | \$ 13,044 | \$ 2,765 |
| Gross realized gains | 154 | 33 | 191 | 33 |
| Gross realized losses | 69 | 1 | 69 | 1 |

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

(Dollars in thousands, except per share amounts)

The income tax provision applicable to these net realized gains and losses was \$29 and \$42 for the three and six months ended December 31, 2014, respectively and \$11 for the three and six months ended December 31, 2013.

The amortized cost and fair values of debt securities at December 31, 2014, 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.

| Available-for-Sale | Amortized Cost | Fair Value |
|--|-------------------|---------------|
| Due in one year or less | \$ 3,309 | \$ 3,317 |
| Due after one year through five years | 10,534 | 10,612 |
| Due after five years through ten years | 32,514 | 33,114 |
| Due after ten years | 15,957 | 16,359 |
| Total | 62,314 | 63,402 |
| Mortgage-backed securities – residential | 63,129 | 63,962 |
| Collateralized mortgage obligations | 4,439 | 4,462 |
| Trust preferred security | 198 | 516 |
| Total available-for-sale securities | \$ 130,080 | \$ 132,342 |
| Held-to-Maturity | | |
| Due after five years through ten years | 780 | 780 |
| Due after ten years | 2,910 | 2,946 |
| Total held-to-maturity securities | \$ 3,690 | \$ 3,726 |

The following table summarizes the securities with unrealized losses at December 31, 2014 and June 30, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

| Available-for-sale | Less than 12 Months | | 12 Months or more | | Total | |
|---|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| December 31, 2014 | | | | | | |
| Obligations of U.S. government- sponsored entities and agencies | \$ 5,460 | \$ (24) | \$ — | \$ — | \$5,460 | \$ (24) |
| Obligations of states and political subdivisions | 5,646 | (41) | 4,910 | (70) | 10,556 | (111) |
| Mortgage-backed securities – residential | 8,437 | (25) | 6,669 | (99) | 15,106 | (124) |
| Collateralized mortgage obligations | 1,263 | (3) | — | — | 1,263 | (3) |
| Total temporarily impaired | \$ 20,806 | \$ (93) | \$ 11,579 | \$ (169) | \$32,385 | \$ (262) |

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

(Dollars in thousands, except per share amounts)

| Available-for-sale | Less than 12 Months Fair Value | Unrealized Loss | 12 Months or more Fair Value | Unrealized Loss | Total Fair Value | Unrealized Loss |
|--|---|----------------------------|---|----------------------------|---------------------------------|----------------------------|
| June 30, 2014 | | | | | | |
| Obligation of U.S. government- sponsored entities and agencies | \$ 1,492 | \$ (7) | \$ 5,411 | \$ (28) | \$ 6,903 | \$ (35) |
| Obligations of states and political subdivisions | 9,929 | (223) | 3,719 | (34) | 13,648 | (257) |
| Mortgage-backed securities - residential | 10,403 | (210) | 2,342 | (21) | 12,745 | (231) |
| Total temporarily impaired | \$ 21,824 | \$ (440) | \$ 11,472 | \$ (83) | \$ 33,296 | \$ (523) |

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 certain point in time.

The unrealized losses within the securities portfolio as of December 31, 2014 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 obligations of U.S. government-sponsored entities and agencies is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

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:

| | December 31, 2014 | June 30, 2014 |
|---------------------------------------|----------------------|------------------|
| Commercial | \$ 32,079 | \$33,809 |
| Commercial real estate: | | |
| Construction | 6,868 | 3,688 |
| Other | 135,176 | 131,518 |
| 1 – 4 Family residential real estate: | | |
| Owner occupied | 29,779 | 31,044 |
| Non-owner occupied | 15,541 | 16,505 |
| Construction | 814 | 186 |
| Consumer | 8,224 | 8,604 |
| Subtotal | 228,481 | 225,354 |
| Less: Net deferred loan fees | (407) | (388) |
| Allowance for loan losses | (2,452) | (2,405) |
| Net Loans | \$ 225,622 | \$222,561 |

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 December 31, 2014:

| | Commercial | Commercial Real Estate | 1-4 Family Residential Real Estate | Consumer | Total |
|--------------------------------|------------|------------------------------|---|----------|---------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$ 300 | \$ 1,455 | \$ 289 | \$ 375 | \$2,419 |
| Provision for loan losses | 11 | 38 | (2) | 10 | 57 |
| Loans charged-off | — | — | — | (35) | (35) |
| Recoveries | — | — | 1 | 10 | 11 |
| Total ending allowance balance | \$ 311 | \$ 1,493 | \$ 288 | \$ 360 | \$2,452 |

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ending December 31, 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 | 4 | 53 | 25 | 42 | 124 |
| Loans charged-off | — | — | (33) | (68) | (101) |
| Recoveries | — | — | 2 | 22 | 24 |
| Total ending allowance balance | \$ 311 | \$ 1,493 | \$ 288 | \$ 360 | \$2,452 |

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 December 31, 2013:

| | Commercial | Commercial Real Estate | 1-4 Family Residential Real Estate | Consumer | Total |
|--------------------------------|------------|------------------------------|---|----------|---------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$ 150 | \$ 1,499 | \$ 500 | \$ 337 | \$2,486 |
| Provision for loan losses | 26 | 3 | (49) | 55 | 35 |
| Loans charged-off | (17) | (1) | — | (54) | (72) |
| Recoveries | — | — | — | 38 | 38 |
| Total ending allowance balance | \$ 159 | \$ 1,501 | \$ 451 | \$ 376 | \$2,487 |

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ending December 31, 2013:

| | Commercial | Commercial Real Estate | 1-4 Family Residential Real Estate | Consumer | Total |
|--------------------------------|------------|------------------------------|---|----------|---------|
| Allowance for loan losses: | | | | | |
| Beginning balance | \$ 161 | \$ 1,471 | \$ 614 | \$ 250 | \$2,496 |
| Provision for loan losses | 15 | 31 | (109) | 231 | 168 |
| Loans charged-off | (17) | (1) | (61) | (153) | (232) |
| Recoveries | — | — | 7 | 48 | 55 |
| Total ending allowance balance | \$ 159 | \$ 1,501 | \$ 451 | \$ 376 | \$2,487 |

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 December 31, 2014. Included in the recorded investment in loans is \$506 of accrued interest receivable net of deferred loan fees of \$407.

| | 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 | \$ — | \$ 106 | \$ 18 | \$ — | \$ 124 |
| Collectively evaluated for impairment | 311 | 1,387 | 270 | 360 | 2,328 |
| Total ending allowance balance | \$ 311 | \$ 1,493 | \$ 288 | \$ 360 | \$ 2,452 |
| Recorded investment in loans: | | | | | |
| Loans individually evaluated for impairment | \$ — | \$ 3,736 | \$ 781 | \$ — | \$ 4,517 |
| Loans collectively evaluated for impairment | 32,134 | 138,245 | 45,442 | 8,242 | 224,063 |
| Total ending loans balance | \$ 32,134 | \$ 141,981 | \$ 46,223 | \$ 8,242 | \$ 228,580 |

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, 2014. Included in the recorded investment in loans is \$491 of accrued interest receivable net of deferred loan fees of \$388.

| | 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 | \$ — | \$ 110 | \$ 8 | \$ — | \$ 118 |
| Collectively evaluated for impairment | 307 | 1,330 | 286 | 364 | 2,287 |
| Total ending allowance balance | \$ 307 | \$ 1,440 | \$ 294 | \$ 364 | \$ 2,405 |
| Recorded investment in loans: | | | | | |
| Loans individually evaluated for impairment | \$ — | \$ 2,404 | \$ 798 | \$ — | \$ 3,202 |
| Loans collectively evaluated for impairment | 33,855 | 132,760 | 47,019 | 8,621 | 222,255 |
| Total ending loans balance | \$ 33,855 | \$ 135,164 | \$ 47,817 | \$ 8,621 | \$ 225,457 |

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 December 31, 2014 and for the six months ended December 31, 2014:

| | As of December 31, 2014 | | | Six Months ended December 31, 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 | \$ 2,973 | \$ 2,973 | \$ — | \$ 1,426 | \$ — | \$ — |
| 1-4 Family residential real estate: | | | | | | |
| Owner occupied | 119 | 119 | — | 120 | — | — |
| Non-owner occupied | 74 | 74 | — | 37 | — | — |
| With an allowance recorded: | | | | | | |
| Commercial real estate: | | | | | | |
| Other | 762 | 762 | 106 | 763 | 18 | 18 |
| 1-4 Family residential real estate: | | | | | | |
| Owner occupied | 125 | 125 | 4 | 126 | 4 | 4 |
| Non-owner occupied | 464 | 463 | 14 | 505 | 10 | 10 |
| Total | \$ 4,517 | \$ 4,516 | \$ 124 | \$ 2,977 | \$ 32 | \$ 32 |

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 for the three months ended December 31, 2014:

| | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Recognized |
|-------------------------------------|-----------------------------------|----------------------------------|--------------------------------------|
| With no related allowance recorded: | | | |
| Commercial real estate: | | | |
| Other | \$ 1,502 | \$ — | \$ — |
| 1-4 Family residential real estate: | | | |
| Owner occupied | 120 | — | — |
| Non-owner occupied | 74 | — | — |
| With an allowance recorded: | | | |
| Commercial real estate: | | | |
| Other | 760 | 9 | 9 |
| 1-4 Family residential real estate: | | | |
| Owner occupied | 125 | 2 | 2 |
| Non-owner occupied | 465 | 5 | 5 |
| Total | \$ 3,046 | \$ 16 | \$ 16 |

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, 2014 and for the six months ended December 31, 2013:

| | As of June 30, 2014 | | | Six Months ended December 31, 2013 | | |
|-------------------------------------|--------------------------------|------------------------|---|------------------------------------|----------------------------------|--------------------------------------|
| | 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 | \$— | \$ — | \$ — | \$ 3 | \$ — | \$ — |
| Commercial real estate: | | | | | | |
| Other | 1,642 | 1,635 | — | 1,009 | — | — |
| 1-4 Family residential real estate: | | | | | | |
| Owner occupied | 121 | 121 | — | 124 | — | — |
| Non-owner occupied | 472 | 472 | — | 132 | 2 | 2 |
| With an allowance recorded: | | | | | | |
| Commercial | — | — | — | 15 | 3 | 3 |
| Commercial real estate: | | | | | | |
| Other | 768 | 769 | 110 | 787 | 10 | 10 |
| 1-4 Family residential real estate: | | | | | | |
| Owner occupied | 127 | 127 | 4 | 280 | — | — |
| Non-owner occupied | 78 | 78 | 4 | 690 | 9 | 9 |
| Total | \$3,208 | \$ 3,202 | \$ 118 | \$ 3,040 | \$ 24 | \$ 24 |

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 for the three months ended December 31, 2013:

| | Average Recorded Investment | Interest Income Recognized | Cash Basis Interest Recognized |
|-------------------------------------|-----------------------------------|----------------------------------|--------------------------------------|
| With no related allowance recorded: | | | |
| Commercial | \$ 3 | \$ — | \$ — |
| Commercial real estate: | | | |
| Other | 1,480 | — | — |
| 1-4 Family residential real estate: | | | |
| Owner occupied | 123 | — | — |
| Non-owner occupied | 121 | 1 | 1 |
| With an allowance recorded: | | | |
| Commercial | — | — | |
| Commercial real estate: | | | |
| Other | 784 | 5 | 5 |
| 1-4 Family residential real estate: | | | |
| Owner occupied | 279 | — | — |
| Non-owner occupied | 541 | 3 | 3 |
| Total | \$ 3,331 | \$ 9 | \$ 9 |

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 December 31, 2014 and June 30, 2014:

| | December 31, 2014 | | June 30, 2014 | |
|---------------------------|-------------------|---|---------------|---|
| | | Loans Past Due Over 90 Days Still | | Loans Past Due Over 90 Days Still |
| | Non-accrual | Accruing | Non-accrual | Accruing |
| Commercial | \$ — | \$ — | \$ — | \$ — |
| Commercial real estate: | | | | |
| Other | 811 | — | 1,683 | — |
| 1 – 4 Family residential: | | | | |
| Owner occupied | 289 | — | 276 | — |
| Non-owner occupied | — | — | — | — |
| Consumer | — | — | — | — |
| Total | \$ 1,100 | \$ — | \$ 1,959 | \$ — |

Non-accrual loans 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 December 31, 2014 by class of loans:

| | Days Past Due | | | | | |
|-------------------------|--------------------|-----------------|-----------------------|-------------------|-----------------------|-----------|
| | 30 - 59 Days | 60 - 89 Days | 90 Days or Greater | Total Past Due | Loans Not Past Due | Total |
| Commercial | \$— | \$ — | \$ — | \$ — | \$ 32,134 | \$32,134 |
| Commercial real estate: | | | | | | |
| Construction | — | — | — | — | 6,844 | 6,844 |
| Other | — | — | 756 | 756 | 134,381 | 135,137 |
| 1-4 Family residential: | | | | | | |
| Owner occupied | 72 | 69 | 223 | 364 | 29,504 | 29,868 |
| Non-owner occupied | — | — | — | — | 15,535 | 15,535 |
| Construction | — | — | — | — | 820 | 820 |
| Consumer | 58 | 43 | — | 101 | 8,141 | 8,242 |
| Total | \$ 130 | \$ 112 | \$ 979 | \$ 1,221 | \$ 227,359 | \$228,580 |

The above table of past due loans includes the recorded investment in non-accrual loans of \$56 in the 60-89 days category, \$979 in the 90 days or greater category and \$65 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, 2014 by class of loans:

| | Days Past Due | | | | | |
|-------------------------|--------------------|-----------------|-----------------------|-------------------|-----------------------|----------|
| | 30 - 59 Days | 60 - 89 Days | 90 Days or Greater | Total Past Due | Loans Not Past Due | Total |
| Commercial | \$66 | \$ — | \$ — | \$ 66 | \$ 33,789 | \$33,855 |
| Commercial real estate: | | | | | | |
| Construction | — | — | — | — | 3,679 | 3,679 |
| Other | — | — | 1,625 | 1,625 | 129,860 | 131,485 |

1-4 Family residential:

| | | | | | | |
|--------------------|-------|--------|----------|----------|------------|------------|
| Owner occupied | 111 | 122 | 81 | 314 | 30,817 | 31,131 |
| Non-owner occupied | — | 39 | — | 39 | 16,462 | 16,501 |
| Construction | — | — | — | — | 185 | 185 |
| Consumer | 106 | — | — | 106 | 8,515 | 8,621 |
| Total | \$283 | \$ 161 | \$ 1,706 | \$ 2,150 | \$ 223,307 | \$ 225,457 |

The above table of past due loans includes the recorded investment in non-accrual loans of \$40 in the 30-59 days past due category, \$122 in the 60-90 days past due category, \$1,706 in the 90 days or greater and \$91 in the loans not past due category.

Troubled Debt Restructurings:

As of December 31, 2014, the recorded investment of loans classified as troubled debt restructurings was \$1,507 with \$124 of specific reserves allocated to these loans. As of June 30, 2014, the recorded investment of loans classified as troubled debt restructurings was \$1,528 with \$118 of specific reserves allocated to these loans. As of December 31, 2014 and June 30, 2014, 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 and six months ended December 31, 2014 and 2013 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 and six month periods ended December 31, 2014 and 2013.

There were no loans classified as troubled debt restructurings for which there was a payment default during the three or six month periods ending December 31, 2014 or 2013. 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 December 31, 2014 | | | | |
|-------------------------------------|-------------------------|--------------------|-------------|----------|--------------|
| | Pass | Special Mention | Substandard | Doubtful | Not Rated |
| Commercial | \$27,297 | \$ 3,830 | \$ 126 | \$ — | \$881 |
| Commercial real estate: | | | | | |
| Construction | 6,791 | — | 53 | — | — |
| Other | 124,291 | 2,636 | 5,614 | 1,526 | 1,070 |
| 1-4 Family residential real estate: | | | | | |
| Owner occupied | 4,315 | — | — | 244 | 25,309 |
| Non-owner occupied | 13,682 | 500 | 582 | 537 | 234 |
| Construction | 716 | — | — | — | 104 |
| Consumer | — | — | — | — | 8,242 |
| Total | \$177,092 | \$ 6,966 | \$ 6,375 | \$ 2,307 | \$35,840 |

| | As of June 30, 2014 | | | | |
|-------------------------------------|---------------------|--------------------|-------------|----------|--------------|
| | Pass | Special Mention | Substandard | Doubtful | Not Rated |
| Commercial | \$29,337 | \$ 3,503 | \$ 62 | \$ — | \$953 |
| Commercial real estate: | | | | | |
| Construction | 3,619 | — | 60 | — | — |
| Other | 121,659 | 3,040 | 3,526 | 2,404 | 856 |
| 1-4 Family residential real estate: | | | | | |
| Owner occupied | 3,959 | — | — | 248 | 26,924 |
| Non-owner occupied | 14,632 | 565 | 599 | 550 | 155 |
| Construction | — | — | — | — | 185 |
| Consumer | — | — | — | — | 8,621 |
| Total | \$173,206 | \$ 7,108 | \$ 4,247 | \$ 3,202 | \$37,694 |

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 December 31, 2014 | Fair Value Measurements at December 31, 2014 Using | | |
|--|------------------------------------|---|-----------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Obligations of U.S. government-sponsored entities and agencies | \$ 17,512 | \$ — | \$ 17,512 | \$ — |
| Obligations of states and political subdivisions | 45,890 | — | 45,890 | — |
| Mortgage-backed securities – residential | 63,962 | — | 63,962 | — |
| Collateralized mortgage obligations | 4,462 | — | 4,462 | — |
| Trust preferred security | 516 | — | 516 | — |

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

(Dollars in thousands, except per share amounts)

| | Balance at June 30, 2014 | Fair Value Measurements at June 30, 2014 Using | | |
|--|-----------------------------|---|-----------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Obligations of U.S. government-sponsored entities and agencies | \$ 18,436 | \$ — | \$ 18,436 | \$ — |
| Obligations of states and political subdivisions | 45,512 | — | 45,512 | — |
| Mortgage-backed securities - residential | 58,104 | — | 58,104 | — |
| Collateralized mortgage obligations | 3,929 | — | 3,929 | — |
| Trust preferred security | 412 | — | 412 | — |

There were no transfers between Level 1 and Level 2 during the six month periods ended December 31, 2014 or 2013.

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:

| | | Fair Value Measurements at December 31, 2014 Using | | |
|------------------------------------|--------|---|---------|---------|
| Balance at December 31, 2014 | | Level 1 | Level 2 | Level 3 |
| Impaired loans: | | | | |
| Commercial Real Estate - Other | \$ 101 | \$ — | \$ — | \$ 101 |

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

(Dollars in thousands, except per share amounts)

| | Balance at June 30, 2014 | Fair Value Measurements at June 30, 2014 Using | | |
|--------------------------------|-----------------------------|---|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Impaired loans: | | | | |
| Commercial Real Estate - Other | \$ 101 | \$ — | \$ — | \$ 101 |

Impaired loans included in the tables above are measured for impairment using the fair value of the collateral and had a carrying amount of \$101, with no valuation allowance at December 31, 2014 and June 30, 2014. The resulting impact to the provision for loan losses was an increase of \$25 being recorded for the three month period ended December 31, 2013 and a reduction of \$63 being recorded for the six month period ended December 31, 2013. There was no provision for loan loss recorded related to impaired loans measured at fair value for the three or six month periods ended December 31, 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 December 31, 2014 and June 30, 2014:

| | Fair Value | Valuation Technique | Unobservable Inputs | Range | Weighted Average |
|--------------------------------|---------------|---------------------------|---|-------------------|---------------------|
| Impaired loans: | | | | | |
| Commercial Real Estate - Other | \$ 101 | Sales comparison approach | Adjustment for differences between comparable sales | -14.00% to 31.90% | 22.52 % |

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:

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

(Dollars in thousands, except per share amounts)

| | December 31, 2014 | | June 30, 2014 | |
|--|--------------------|----------------------------|--------------------|----------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial Assets: | | | | |
| Level 1 inputs: | | | | |
| Cash and cash equivalents | \$ 12,030 | \$ 12,030 | \$ 11,125 | \$ 11,125 |
| Level 2 inputs: | | | | |
| Certificates of deposits in other financial institutions | 5,456 | 5,456 | 2,703 | 2,703 |
| Loans held for sale | 625 | 635 | 559 | 570 |
| Accrued interest receivable | 1,059 | 1,059 | 1,048 | 1,048 |
| Level 3 inputs: | | | | |
| Securities held-to-maturity | 3,690 | 3,726 | 3,000 | 3,040 |
| Loans, net | 225,622 | 226,567 | 222,561 | 223,128 |
| Financial Liabilities: | | | | |
| Level 2 inputs: | | | | |
| Demand and savings deposits | 256,705 | 256,705 | 243,222 | 243,222 |
| Time deposits | 67,933 | 68,050 | 70,675 | 70,583 |
| Short-term borrowings | 16,435 | 16,435 | 19,489 | 19,489 |
| Federal Home Loan Bank advances | 12,768 | 13,022 | 6,296 | 6,655 |
| Accrued interest payable | 46 | 46 | 44 | 44 |

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, accrued interest receivable and payable, demand and savings deposits and short-term borrowings: The carrying value of certificates of deposits in other financial institutions, 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.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

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 security is a revenue bond made to a local municipality. The fair value of this security is calculated using a spread to the Bloomberg municipal fair market health care curve resulting in a Level 3 classification.

Time deposits: Fair value of fixed-maturity certificates of deposit was estimated using the rates offered at December 31, 2014 and June 30, 2014, 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 December 31, 2014 and June 30, 2014 for similar financing resulting in a Level 2 classification.

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.

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

(Dollars in thousands, except per share amounts)

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. The following table details the calculation of basic and diluted earnings per share:

| | For the Three Months Ended December 31, | | For the Six Months Ended December 31, | |
|--|--|-----------|--|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Basic: | | | | |
| Net income available to common shareholders | \$808 | \$755 | \$1,564 | \$1,376 |
| Weighted average common shares outstanding | 2,728,686 | 2,726,687 | 2,728,114 | 2,674,816 |
| Basic income per share | \$0.30 | \$0.28 | \$0.57 | \$0.51 |
| Diluted: | | | | |
| Net income available to common shareholders | \$808 | \$755 | \$1,564 | \$1,376 |
| Weighted average common shares outstanding | 2,728,686 | 2,726,687 | 2,728,114 | 2,674,816 |
| Dilutive effect of restricted stock | 271 | 364 | 342 | 296 |
| Total common shares and dilutive potential common shares | 2,728,957 | 2,727,051 | 2,728,456 | 2,675,112 |
| Dilutive income per share | \$0.30 | \$0.28 | \$0.57 | \$0.51 |

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 and six month periods ended December 31, 2014 and 2013, were as follows:

| | Pretax | Tax Expense (Benefit) | After-tax | Affected Line Item in Consolidated Statements of Income |
|--|----------|-----------------------------|-----------|---|
| Balance as of September 30, 2014 | \$1,816 | \$ (618) | \$ 1,198 | |
| Unrealized holding gain on available-for-sale securities arising during the period | 531 | (180) | 351 | |
| Amounts reclassified from accumulated other comprehensive income | (85) | 29 | (56) | (a)(b) |
| Net current period other comprehensive income | 446 | (151) | 295 | |
| Balance as of December 31, 2014 | \$2,262 | \$ (769) | \$ 1,493 | |
| Balance as of September 30, 2013 | \$278 | \$ (95) | \$ 183 | |
| Net current period other comprehensive income | (627) | 214 | (413) | |
| Balance as of December 31, 2013 | \$(349) | \$ 119 | \$ (230) | |

| | Pretax | Tax Expense (Benefit) | After-tax | Affected Line Item in Consolidated Statements of Income |
|--|---------|-----------------------------|-----------|---|
| Balance as of June 30, 2014 | \$1,944 | \$ (661) | \$ 1,283 | |
| Unrealized holding gain on available-for-sale securities arising during the period | 440 | (150) | 290 | |
| Amounts reclassified from accumulated other comprehensive income | (122) | 42 | (80) | (a)(b) |
| Net current period other comprehensive income | 318 | (108) | 210 | |
| Balance as of December 31, 2014 | \$2,262 | \$ (769) | \$ 1,493 | |

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| | | | |
|---|----------|--------|---------|
| Balance as of June 30, 2013 | \$(24) | \$ 8 | \$(16) |
| Net current period other comprehensive income | (325) | 111 | (214) |
| Balance as of December 31, 2013 | \$(349) | \$ 119 | |