CONSUMERS BANCORP INC /OH/
Form 10-Q
May 16, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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 x 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 (232.05 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 x

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

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 May 12, 2011 2,046,673 Common Shares

CONSUMERS BANCORP, INC.
FORM 10-Q
QUARTER ENDED March 31, 2011

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PART 1 – FINANCIAL INFORMATION
Item 1 – Financial Statements (unaudited)

CONSUMERS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	March 31, 2011	June 30, 2010
ASSETS		
Cash on hand and noninterest-bearing deposits in other banks	$5,632	$5,973
Interest-bearing deposits in other banks	9,160	7,833
Total cash and cash equivalents	14,792	13,806
Certificates of deposit in other financial institutions	4,165	980
Securities, available-for-sale	82,112	64,262
Federal bank and other restricted stocks, at cost	1,186	1,186
Total loans	176,898	174,283
Less allowance for loan losses	(2,101)	(2,276)
Net Loans	174,797	172,007
Cash surrender value of life insurance	5,365	4,798
Premises and equipment, net	4,461	3,581
Intangible assets	129	250
Other real estate owned	-	25
Accrued interest receivable and other assets	2,830	2,498
Total assets	$289,837	$263,393
LIABILITIES		
Deposits		
Non-interest bearing demand	$60,786	$47,659
Interest bearing demand	13,937	13,687
Savings	77,318	63,704
Time	89,838	91,264
Total deposits	241,879	216,314
Short-term borrowings	14,217	13,086
Federal Home Loan Bank advances	7,578	8,297
Accrued interest and other liabilities	1,959	1,980
Total liabilities	265,633	239,677
SHAREHOLDERS' EQUITY		
Preferred stock (no par value, 350,000 shares authorized)	—	—
Common stock (no par value, 3,500,000 shares authorized; 2,177,115 and 2,168,329 shares issued as of March 31, 2011 and June 30, 2010, respectively)	5,074	4,968
Retained earnings	20,547	19,470
Treasury stock, at cost (130,442 common shares)	(1,659)	(1,659)
Accumulated other comprehensive income	242	937
Total shareholders' equity	24,204	23,716
Total liabilities and shareholders' equity	$289,837	$263,393

See accompanying notes to consolidated financial statements

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CONSUMERS BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months ended March 31,		Nine Months ended March 31,	
(Dollars in thousands, except per share amounts)	2011	2010	2011	2010
Interest income				
Loans, including fees	$2,517	$2,451	$7,690	$7,392
Securities				
Taxable	391	445	1,189	1,415
Tax-exempt	227	200	658	580
Federal funds sold and other interest bearing deposits	15	9	38	54
Total interest income	3,150	3,105	9,575	9,441
Interest expense				
Deposits	373	499	1,270	1,732
Short-term borrowings	9	11	33	37
Federal Home Loan Bank advances	60	70	195	225
Total interest expense	442	580	1,498	1,994
Net interest income	2,708	2,525	8,077	7,447
Provision for loan losses	100	110	344	453
Net interest income after provision for loan losses	2,608	2,415	7,733	6,994
Non-interest income				
Service charges on deposit accounts	301	333	963	1,184
Debit card interchange income	160	133	467	377
Bank owned life insurance income	47	43	136	131
Securities gains, net	-	-	70	213
Other-than-temporary loss				
Total impairment loss	(327)	(100)	(358)	(280)
Loss recognized in other comprehensive income	177	-	158	-
Net impairment loss recognized in earnings	(150)	(100)	(200)	(280)
Gain/(Loss) on sale of OREO	-	(51)	2	(46)
Other	44	41	152	110
Total non-interest income	402	399	1,590	1,689
Non-interest expenses				
Salaries and employee benefits	1,234	1,141	3,598	3,347
Occupancy and equipment	263	266	774	800
Data processing expenses	137	135	413	399
Professional and director fees	80	74	265	265
FDIC Assessments	77	77	233	236
Franchise taxes	61	57	178	164
Telephone and network communications	57	54	167	176
Debit card processing expenses	84	73	252	215
Amortization of intangible	40	40	121	121
Other	386	375	1,160	1,061
Total non-interest expenses	2,419	2,292	7,161	6,784

Income before income taxes	591	522	2,162	1,899
Income tax expense	109	97	473	408
Net Income	$482	$425	$1,689	$1,491
Basic earnings per share	$0.24	$0.21	$0.83	$0.73

See accompanying notes to consolidated financial statements

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

(Dollars in thousands)

	Three Months ended March 31, 2011	Three Months ended March 31, 2010	Nine Months ended March 31, 2011	Nine Months ended March 31, 2010
Net income	$482	$425	$1,689	$1,491
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses):				
Other-than-temporarily impaired securities:				
Unrealized gains (losses) on other-than-temporarily impaired securities	(327)	(22)	(358)	115
Reclassification adjustment for losses included in income	150	100	200	280
Net unrealized gain (loss)	(177)	78	(158)	395
Income tax effect	60	27	54	134
	(117)	51	(104)	261
Available-for-sale securities:				
Unrealized gains (losses) arising during the period	346	145	(824)	682
Reclassification adjustment for gains included in income	—	—	(70)	(213)
Net unrealized gain (losses)	346	145	(894)	469
Income tax effect	118	50	(303)	160
	228	95	(591)	309
Other comprehensive income (loss)	111	146	(695)	570
Total comprehensive income	$593	$571	$994	$2,061

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 March 31,		Nine Months ended March 31,	
	2011	2010	2011	2010
Balance at beginning of period	$23,778	$22,582	$23,716	$21,461
Comprehensive income				
Net income	482	425	1,689	1,491
Other comprehensive income (loss)	111	146	(695)	570
Total comprehensive income	593	571	994	2,061
Common stock issued for dividend reinvestment and stock purchase plan (3,117 shares and 8,786 shares for the three and nine months in 2011 and 2,587 shares and 5,743 shares for the three and nine months in 2010, respectively)	38	30	106	68
Common cash dividends	(205)	(203)	(612)	(610)
Balance at the end of the period	$24,204	$22,980	$24,204	$22,980
Common cash dividends per share	$0.10	$0.10	$0.30	$0.30

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Nine Months Ended March 31, 2011	2010
Cash flows from operating activities		
Net cash from operating activities	$3,037	$1,476
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(36,572)	(23,218)
Maturities, calls and principal pay downs	11,822	12,188
Proceeds from sales of available-for-sale securities	5,123	6,009
Net (increase) decrease in certificates of deposits in other financial institutions	(3,185)	1,423
Net increase in loans	(3,134)	(10,366)
Purchase of Bank owned life insurance	(431)	-
Acquisition of premises and equipment	(1,172)	(153)
Sale of other real estate owned	27	170
Net cash from investing activities	(27,522)	(13,947)
Cash flow from financing activities		
Net increase in deposit accounts	25,565	7,209
Net change in short-term borrowings	1,131	(1,624)
Repayments of Federal Home Loan Bank advances	(719)	(1,000)
Proceeds from dividend reinvestment and stock purchase plan	106	68
Dividends paid	(612)	(610)
Net cash from financing activities	25,471	4,043
Increase/(decrease) in cash or cash equivalents	986	(8,428)
Cash and cash equivalents, beginning of period	13,806	18,891
Cash and cash equivalents, end of period	$14,792	$10,463
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	$1,525	$2,041
Federal income taxes	680	605
Non-cash items:		
Transfer from loans to repossessed assets	$-	$137

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)

Note 1 – Summary of Significant Accounting Policies:

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

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 Consumers Bancorp, Inc.'s Form 10-K for the year ended June 30, 2010. 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 Consumers Bancorp, Inc. (the "Corporation") and its wholly owned subsidiary, Consumers National Bank (the "Bank"). All significant inter-company transactions and accounts have been eliminated in consolidation.

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

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

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

(Dollars in thousands, except per share amounts)

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans not individually evaluated for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: commercial, commercial real estate, residential real estate and consumer.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified and for which the borrower is experiencing financial difficulties, are considered trouble debt restructurings and classified as impaired. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer loans and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that not all principal and interest amounts will be collected according to the original terms of the loan. Troubled debt restructures are measured at the present value of estimated future cash flows using the loans’s effective interest rate at inception.

Earnings per Share: Earnings per common share are computed based on the weighted average common shares outstanding. The weighted average number of outstanding shares was 2,044,179 and 2,033,289 for the quarters ended March 31, 2011 and 2010, respectively. The weighted average number of outstanding shares was 2,041,402 and 2,031,498 for the nine months ended March 31, 2011 and 2010, respectively. The Corporation’s capital structure contains no dilutive securities.

Reclassifications: Certain items in prior financial statements have been reclassified to conform to the current presentation.

New Accounting Standards Updates: On July 21, 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and non-accrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio’s risk and performance. This ASU is effective for interim and annual reporting periods after December 15, 2010. See Note 3 - Loans.

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

(Dollars in thousands, except per share amounts)

On April 5, 2011, the FASB issued ASU No. 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," to assist creditors in determining whether a modification of the terms of a receivable meets the definition of a troubled debt restructuring (TDR). This statement does not change the long-standing guidance that a restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The ASU provides clarifications for evaluating whether a concession has been granted and whether a debtor is experiencing financial difficulties. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applied retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The effect of adopting this new guidance is not expected to have a significant impact on the Corporation's financial statements.

Note 2 – Securities

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011				
Obligations of government sponsored entities	$12,311	$45	$(57)	$12,299
Obligations of state and political subdivisions	23,144	247	(503)	22,888
Mortgage-backed securities – residential	31,826	1,055	(48)	32,833
Collateralized mortgage obligations	14,092	35	(99)	14,028
Trust preferred security	372	—	(308)	64
Total securities	$81,745	$1,382	$(1,015)	$82,112

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

(Dollars in thousands, except per share amounts)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010				
Obligations of government sponsored entities	$10,771	$236	$(3)	$11,004
Obligations of state and political subdivisions	20,073	392	(218)	20,247
Mortgage-backed securities - residential	24,333	1,279	—	25,612
Collateralized mortgage obligations	7,094	34	(151)	6,977
Trust preferred security	572	—	(150)	422
Total securities	$62,843	$1,941	$(522)	$64,262

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Proceeds from sales	$ —	—	$ 5,123	$ 6,009
Gross realized gains	—	—	97	213
Gross realized losses	—	—	27	—

The amortized cost and fair values of available-for-sale securities at March 31, 2011, by expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized mortgage obligations and the trust preferred security are shown separately.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,022	$ 4,044
Due after one year through five years	6,812	6,853
Due after five years through ten years	7,758	7,738
Due after ten years	16,863	16,552
Total	35,455	35,187
Mortgage-backed securities - residential	31,826	32,833
Collateralized mortgage obligations	14,092	14,028
Trust preferred security	372	64
Total	$ 81,745	$ 82,112

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 March 31, 2011 and June 30, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or more		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2011						
Obligations of government sponsored entities	$7,133	$(57)	$—	$—	$7,133	$(57)
Obligations of states and political subdivisions	10,845	(315)	1,163	(188)	12,008	(503)
Mortgage-backed securities - residential	10,288	(48)	—	—	10,288	(48)
Collateralized mortgage obligations	10,163	(99)	—	—	10,163	(99)
Trust preferred security	—	—	64	(308)	64	(308)
Total temporarily impaired	$38,429	$(519)	$1,227	$(496)	$39,656	$(1,015)

	Less than 12 Months		12 Months or more		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2010						
Obligations of government sponsored entities	$764	$(3)	$—	$—	$764	$(3)
Obligations of states and political subdivisions	5,331	(179)	649	(39)	5,980	(218)
Collateralized mortgage obligations	4,763	(151)	—	—	4,763	(151)
Trust preferred security	—	—	422	(150)	422	(150)
Total temporarily impaired	$10,858	$(333)	$1,071	$(189)	$11,929	$(522)

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

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

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

(Dollars in thousands, except per share amounts)

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

The Corporation owns a trust preferred security, which represents collateralized debt obligations (CDOs) issued by other financial and insurance companies. The following table summarizes the relevant characteristics of the pooled-trust-preferred security at March 31, 2011. The security is part of a pool of issuers that support a more senior tranche of securities. Due to the illiquidity in the market, it is unlikely the Corporation would be able to recover its investment in this security if the Corporation sold the security at this time.

Deal Name	Par Value	Book Value	Fair Value	Unrealized Loss	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a % of Original Collateral	Expected Defaults as a % of Remaining Collateral	Excess Subordination (2)
Pre Tsl XXII (1)	$982	$372	$ 64	$ 308	62/98	31.7 %	12.8 %	—

(1) Security was determined to have other-than-temporary impairment. As such, the book value is net of recorded credit impairment.

(2) Excess subordination percentage represents the additional defaults in excess of both current and projected defaults that the security can absorb before the bond experiences credit impairment. Excess subordinated percentage is calculated by: (a) determining what percentage of defaults a deal can experience before the bond has credit impairment, and (b) subtracting from this default breakage percentage both total current and expected future default percentages.

Due to an increase in principal and/or interest deferrals by the issuers of the underlying securities, the cash interest payments for the trust preferred security are being deferred. On March 31, 2011, the lowest credit rating on this security was Fitch's rating of C, which is defined as highly speculative. The issuers in this security are primarily banks, bank holding companies and a limited number of insurance companies. The investment security is evaluated using a model to compare the present value of expected cash flows to prior periods expected cash flows to determine if there has been an adverse change in cash flows during the period. The discount rate used to calculate the cash flows is the coupon rate of the security, based on the forward LIBOR curve. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and all interest payment deferrals are treated as defaults with an assumed recovery rate of 15% on deferrals. In addition we use the model to "stress" the CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Corporation’s note class. According to the March 31, 2011 analysis, the expected cash flows were below the recorded amortized cost of the trust preferred security. Therefore, management determined it was appropriate to record an other-than-temporary impairment loss of $150 during the three month period ended March 31, 2011, bringing the total impairment loss to $200 for the nine month period ended March 31, 2011. Management has reviewed this security and these conclusions with an independent third party. If there is further deterioration in the underlying collateral of this security, other-than-temporary impairments may also occur in future periods.

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:

	March 31, 2011	June 30, 2010
Commercial	$ 17,097	$ 14,559
Commercial real estate:		
Construction	475	2,916
Other	99,762	99,761
1 – 4 Family residential real estate:		
Owner occupied	34,468	34,428
Non-owner occupied	19,312	16,738
Construction	555	328
Consumer	5,492	5,824
Subtotal	177,161	174,554
Less: Net deferred loan fees	(263)	(271)
Allowance for loan losses	(2,101)	(2,276)
Net Loans	$ 174,797	$ 172,007

A summary of activity in the allowance for loan losses for the nine months ended March 31, 2011, and the three and nine months ended March 31, 2010, was as follows:

	Nine Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2010
Beginning of period	$ 2,276	$ 2,169	$ 1,992
Provision	344	110	453
Charge-offs	(568)	(45)	(267)
Recoveries	49	36	92
Balance at March 31,	$ 2,101	$ 2,270	$ 2,270

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 March 31, 2011:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 80	$ 1,110	$ 1,007	$ 69	$ 2,266
Provision for loan losses	54	14	6	26	100
Loans charged-off	(9)	(238)	—	(36)	(283)
Recoveries	—	—	—	18	18
Total ending allowance balance	$ 125	$ 886	$ 1,013	$ 77	$ 2,101

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 March 31, 2011. Included in the recorded investment in loans is $(263) of net deferred loan fess and $468 of accrued interest receivable.

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 15	$ 191	$ 335	$ —	$ 541
Collectively evaluated for impairment	110	695	678	77	1,560
Total ending allowance balance	$ 125	$ 886	$ 1,013	$ 77	$ 2,101
Recorded investment in loans:					
Loans individually evaluated for impairment	$ 88	$ 1,740	$ 1,049	$ —	$ 2,877
Loans collectively evaluated for impairment	17,044	98,524	53,432	5,489	174,489
Total ending loans balance	$ 17,132	$ 100,264	$ 54,481	$ 5,489	$ 177,366

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 and for the three months ended March 31, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	$ 19	$ 19	$ —	$ 18	$ —	$ —
Commercial real estate:						
Other	551	550	—	550	—	—
With an allowance recorded:						
Commercial	69	69	15	70	—	—
Commercial real estate:						
Other	1,193	1,190	191	1,217	8	—
1-4 Family residential real estate:						
Owner occupied	324	322	39	324	2	—
Non-owner occupied	727	727	296	727	—	—
Total	$ 2,883	$ 2,877	$ 541	$ 2,906	$ 10	$ —

The following table presents information related to loans individually evaluated for impairment as of June 30, 2010:

	June 30, 2010
Period-end loans with no allocated allowance for loan losses	$ 717
Period-end loans with allocated allowance for loan losses	1,918
Total	$ 2,635
Amount of allowance allocated to impaired loans	$ 543

CONSUMERS BANCORP, INC.
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(Dollars in thousands, except per share amounts)

The following table presents information for loans individually evaluated for impairment:

	Nine Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2010
Average of impaired loans during period	$ 2,909	$ 2,401	$ 2,261
Interest income recognized during impairment	37	—	—
Cash-basis interest income recognized	18	—	—

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 March 31, 2011:

	Non-accrual	Loans Past Due Over 90 Days Still Accruing
Commercial	$ 69	$ —
Commercial real estate:		
Other	1,057	—
1 – 4 Family residential:		
Owner occupied	244	—
Non-owner occupied	727	—
Consumer	—	—
Total	$ 2,097	$ —

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

(Dollars in thousands, except per share amounts)

Non-accrual loans and loans past due 90 days still on accrual were as follows:

	June 30, 2010	March 31, 2010
Loans past due over 90 days and still accruing	$ —	$ 20
Non-accrual loans	2,342	2,607

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

The following table presents the aging of the recorded investment in past due loans as of March 31, 2011 by class of loans:

	Days Past Due					
	30 – 59 Days	60 - 89 Days	90 Days or Greater & Non-accrual	Total Past Due	Loans Not Past Due	Total
Commercial	$5	$—	$—	$5	$17,127	$17,132
Commercial real estate:						
Construction	—	—	—	—	470	470
Other	648	—	729	1,377	98,417	99,794
1-4 Family residential:						
Owner occupied	321	—	22	343	34,269	34,612
Non-owner occupied	—	—	727	727	18,584	19,311
Construction	—	—	—	—	558	558
Consumer	3	—	—	3	5,486	5,489
Total	$977	$—	$1,478	$2,455	$174,911	$177,366

The above table of past due loans includes the recorded investment in non-accrual loans of $420 in the 30-59 days past due category and $199 in the loans not past due category.

Troubled Debt Restructurings:

The Corporation allocated $50 and $3 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2011 and June 30, 2010. As of March 31, 2011 and June 30, 2010, the Corporation had not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

Credit Quality Indicators:
The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with a total outstanding loan relationship greater

than $100,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a monthly basis. The Corporation uses the following definitions for risk ratings:

CONSUMERS BANCORP, INC.
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(Dollars in thousands, except per share amounts)

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than $100,000 or are included in groups of homogeneous loans. As of March 31, 2011, and based on the most recent analysis performed, the recorded investment by risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	$15,741	$767	$382		