

CONSUMERS BANCORP INC /OH/  
Form 10-K  
September 16, 2011

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

FORM 10-K

(Mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended June 30, 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 44657  
(330) 868-7701

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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

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

Yes " No "

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

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

Large accelerated filer " Accelerated filer " Non-accelerated filer " Smaller reporting company x  
(Do not check if small reporting company)

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

Based on the closing sales price on December 31, 2010, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$16,279,068.

The number of shares outstanding of the Registrant's common stock, without par value was 2,049,873 at September 1, 2011.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain specifically designated portions of Consumers Bancorp, Inc.'s definitive Proxy Statement dated September 16, 2011 for its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

---

## TABLE OF CONTENTS

<b>PART I</b>	
ITEM 1—BUSINESS	3
ITEM 1A—RISK FACTORS	6
ITEM 1B—UNRESOLVED STAFF COMMENTS	6
ITEM 2—PROPERTIES	7
ITEM 3—LEGAL PROCEEDINGS	7
ITEM 4—REMOVED AND RESERVED	7
<b>PART II</b>	
ITEM 5—MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	8
ITEM 6—SELECTED FINANCIAL DATA	8
ITEM 7—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	9
ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	20
ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	21
ITEM 9—CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	50
ITEM 9A—CONTROLS AND PROCEDURES	50
ITEM 9B—OTHER INFORMATION	50
<b>PART III</b>	
ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	51
ITEM 11—EXECUTIVE COMPENSATION	51
ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS	51
ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	51
ITEM 14—PRINCIPAL ACCOUNTANT FEES AND SERVICES	51
ITEM 15—EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	51

## PART I

### ITEM 1—BUSINESS

#### Business

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

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

#### Supervision and Regulation

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

#### Regulation of the Corporation:

**The Bank Holding Company Act:** As a bank holding company, the Corporation is subject to regulation under the Bank Holding Company Act of 1956, as amended (BHCA) and the examination and reporting requirements of the Board of Governors of the Federal Reserve System (Federal Reserve Board). Under the BHCA, the Corporation is subject to periodic examination by the Federal Reserve Board and required to file periodic reports regarding its operations and any additional information that the Federal Reserve Board may require.

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

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

opportunity to opt out of such disclosure. The Corporation and the Bank are also subject to certain state laws that deal with the use and distribution of non-public personal information.

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

#### Regulation of the Bank:

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

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

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

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

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

**Risk-Based Capital Requirements:** The Federal Reserve Board and the OCC employ similar risk-based capital guidelines in their examination and regulation of bank holding companies and national banks. As of the fiscal year-end 2010, the Corporation met the definition of a Small Bank Holding Company and, therefore was exempt from consolidated risk-based and coverage capital adequacy guidelines for bank holding companies. The guidelines involve a process of assigning various risk weights to different classes of assets, then evaluating the sum of the risk-weighted balance sheet structure against the capital base. If capital falls below the minimum levels established by the guidelines, the bank holding company or bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open new facilities. In addition, failure to satisfy capital guidelines could subject a banking institution to a variety of enforcement actions by federal bank regulatory authorities, including the termination of deposit insurance by the FDIC and a prohibition on the acceptance of “brokered deposits.”

Under regulations adopted under these provisions, for an institution to be well capitalized it must have a total risk-based capital ratio of at least 10%, a Tier I risk-based capital ratio of at least 6% and a Tier I leverage ratio of at least 5% and not be subject to any specific capital order or directive. The OCC and the FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the OCC or the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring prior approval of capital distributions by any bank holding company that controls the institution, requiring divestiture by the

institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers. The OCC's final supervisory judgment concerning an institution's capital adequacy could differ significantly from the conclusions that might be derived from the absolute level of an institution's risk-based capital ratios. Therefore, institutions generally are expected to maintain risk-based capital ratios that exceed the minimum ratios. At June 30, 2011, the Bank was in compliance with all regulatory capital requirements.

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

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

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

#### Recent Legislation Impacting the Financial Services Industry:

**Dodd-Frank Act:** On July 21, 2010, sweeping financial regulatory reform legislation entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (Dodd-Frank Act) was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws.
- Require the Office of the Comptroller of the Currency to seek to make its capital requirements for national banks, countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.
- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling of the Deposit Insurance Fund (DIF) and increase the floor of the DIF, which generally will reduce the level of assessments for institutions with assets below \$10 billion and increase the level of assessments for institutions with assets in excess of \$10 billion.
- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, which apply to all public companies, not just financial institutions.
- Make permanent the \$250 thousand limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from \$100 thousand to \$250 thousand and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.
-



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

- Amend the Electronic Fund Transfer Act (EFTA) to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.
- Make permanent SOX 404 (B) exemption regarding auditor attestation requirements for companies with less than \$75 million in market capitalization.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Corporation, its customers or the financial industry more generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. We will continue to monitor legislative developments and assess their potential impact on our business.

## Employees

As of June 30, 2011, the Bank employed 96 full-time and 18 part-time employees. None of the employees are represented by a collective bargaining group. Management considers its relations with employees to be good.

## Statistical Disclosure

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

Average Consolidated Balance Sheet And Net Interest Margin	10
Interest Rates and Interest Differential	11
Carrying Values Of Securities	13
Maturities And Weighted-Average Yield Of Securities	14
Loan Types	14
Selected Loan Maturities And Interest Sensitivity	15
Non-accrual, Past Due And Restructured Loans And Other Nonperforming Assets	15
Potential Problem Loans	16
Summary Of Loan Loss Experience	16
Allocation Of Allowance For Loan Losses	16
Average Amount And Average Rate Paid On Deposits	17
Time Deposits Of \$100 Thousand Or More	17
Short-Term Borrowings	17 and 42
Selected Consolidated Financial Data	8

## Available Information

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

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

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

## ITEM 1A—RISK FACTORS

Not applicable for Smaller Reporting Companies.

## ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

6

---

## ITEM 2—PROPERTIES

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

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

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

## ITEM 3—LEGAL PROCEEDINGS

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

## ITEM 4—REMOVED AND RESERVED

## PART II

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

The Corporation had 2,049,873 common shares outstanding on June 30, 2011 with 693 shareholders of record and an estimated 236 additional beneficial holders whose stock was held in nominee name.

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

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

Quarter Ended	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010
High	\$ 12.70	\$ 12.25	\$ 12.00	\$ 11.90
Low	10.10	9.51	10.65	11.10
Cash dividends paid per share	0.10	0.10	0.10	0.10

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

The Corporation’s principal source of funds for dividend payment is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. See Note 1 and Note 11 to the Consolidated Financial Statements for dividend restrictions.

The Corporation has no compensation plans under which equity securities are authorized for issuance. There were no repurchases of the Corporation’s securities during the 2011 fiscal year.

## ITEM 6—SELECTED FINANCIAL DATA

Not applicable for Smaller Reporting Companies.

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

(Dollars in thousands, except per share data)

### General

The following is management’s analysis of the Corporation’s financial condition and results of operations as of and for the years ended June 30, 2011 and 2010. This discussion is designed to provide a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the consolidated financial statements and related footnotes and the selected financial data included elsewhere in this report.

### Overview

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

### Comparison of Results of Operations for the Years Ended June 30, 2011 and June 30, 2010

**Net Income.** Net income increased by \$209, or 10.3%, from 2010 to 2011. The increase was mainly the result of an \$818, or 8.1%, increase in net interest income that was partially offset by an increase in other expenses of \$527, or 5.8%, from the previous year.

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

Net Interest Income Year ended June 30,	2011	2010
Net interest income	\$ 10,868	\$ 10,050
Taxable equivalent adjustments to net interest	445	388
Net interest income, fully taxable equivalent	\$ 11,313	\$ 10,438
Net interest margin	4.05 %	4.13 %
Taxable equivalent adjustment	0.17	0.15
Net interest margin, fully taxable equivalent	4.22 %	4.28 %

Net interest income for the year of 2011 was \$10,868, an increase of \$818, or 8.1%, from \$10,050 in the year of 2010. The Corporation’s tax equivalent net interest margin for the year ended June 30, 2011 was 4.22%, a decrease of 6 basis points from 2010. Interest income for the year of 2011 was \$12,784, an increase of \$174, or 1.4%, from \$12,610 in the year of 2010. The increase in interest income was primarily the result of an increase of \$25,336, or 10.4%, in average

interest-earning assets, which was partially offset by lower market rates affecting the yield on all interest earning assets. Interest expense for the year of 2011 was \$1,916, a decrease of \$644, or 25.2%, from \$2,560 in the year of 2010. This decrease was mainly the result of lower market rates affecting the rates paid on all interest-bearing deposit accounts and borrowings.

## Average Balance Sheet and Net Interest Margin

	2011			2010		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<b>Interest earning assets:</b>						
Taxable securities	\$ 54,861	\$ 1,624	3.02 %	\$ 46,133	\$ 1,827	4.03 %
Nontaxable Securities (1)	22,463	1,314	5.85	19,144	1,143	5.98
Loans receivable (1)	176,034	10,237	5.82	167,142	9,967	5.96
Interest bearing deposits and federal funds sold	15,599	54	0.35	11,202	61	0.54
Total interest earning assets	268,957	13,229	4.94 %	243,621	12,998	5.35 %
Non-interest earning assets	12,659			11,969		
Total assets	\$ 281,616			\$ 255,590		
<b>Interest bearing liabilities:</b>						
NOW	\$ 14,102	\$ 19	0.13 %	\$ 13,387	\$ 27	0.20 %
Savings	71,968	151	0.21	59,873	184	0.31
Time deposits	90,863	1,447	1.59	90,297	2,006	2.22
Short-term borrowings	14,892	45	0.30	12,977	50	0.39
FHLB advances	7,940	254	3.20	8,883	293	3.30
Total interest bearing liabilities	199,765	1,916	0.96 %	185,417	2,560	1.38 %
Non-interest bearing liabilities	57,452			47,389		
Total liabilities	257,217			232,806		
Shareholders' equity	24,399			22,784		
Total liabilities and shareholders' equity	\$ 281,616			\$ 255,590		
Net interest income, interest rate spread (1)		\$ 11,313	3.98 %		\$ 10,438	3.97 %
Net interest margin (net interest as a percent of average interest earning assets) (1)			4.22 %			4.28 %
Federal tax exemption on non-taxable securities and loans included in interest income		\$ 445			\$ 388	
Average interest earning assets to interest bearing liabilities			134.64 %			131.39 %



---

(1)

Calculated on a fully taxable equivalent basis

10

---

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

## INTEREST RATES AND INTEREST DIFFERENTIAL

	2011 Compared to 2010			2010 Compared to 2009		
	Increase / (Decrease)			Increase / (Decrease)		
	Total	Change	Change	Total	Change	Change
	Change	due to	due to	Change	due to	due to
		Volume	Rate		Volume	Rate
	(In thousands)					
<b>Interest earning assets:</b>						
Taxable securities	\$(203 )	\$305	\$(508 )	\$(359 )	\$(19 )	\$(340 )
Nontaxable securities (1)	171	197	(26 )	27	47	(20 )
Loans receivable (2)	270	521	(251 )	(126 )	643	(769 )
Federal funds sold	(7 )	19	(26 )	(17 )	10	(27 )
Total interest income	231	1,042	(811 )	(475 )	681	(1,156 )
<b>Interest bearing liabilities:</b>						
NOW accounts	(8 )	1	(9 )	(22 )	6	(28 )
Savings deposits	(33 )	33	(66 )	(135 )	27	(162 )
Time deposits	(559 )	12	(571 )	(639 )	175	(814 )
Short-term borrowings	(5 )	7	(12 )	(162 )	(18 )	(144 )
FHLB advances	(39 )	(30 )	(9 )	(35 )	(29 )	(6 )
Total interest expense	(644 )	23	(667 )	(993 )	161	(1,154 )
Net interest income	\$875	\$1,019	\$(144 )	\$518	\$520	\$(2 )

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

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

**Provision for Loan Losses.** The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management's assessment of the estimated probable credit losses in the Corporation's loan portfolio that have been incurred at each balance sheet date. The provision for loan losses was \$435 in fiscal year 2011 compared to \$544 in fiscal year 2010. For 2011, net charge-offs were \$610, or 0.34% of total loans compared with \$260, or 0.15% of total loans, for the same period last year. Despite incurring a higher level of net charge-offs in the current year period, the provision for loan losses decreased compared to the prior year period mainly due to a decline in the level of non-performing loans and a resulting reduction in the amount of specific allowance allocations. A total of \$204 of the 2011 net charge-offs within in the commercial real estate and 1-4 family residential real estate loan portfolios were related to loans that had been specifically allocated for within the allowance for loan losses in a prior period when the probable loss had been identified. Also, general reserves declined as unemployment rates in the Corporation's primary market area of Stark, Columbiana and Carroll counties in Ohio have improved over the past 12 months. Non-performing loans were \$1,760 as of June 30, 2011 and represented 0.99% of total loans. This compared with \$2,342, or 1.34%, at June 30, 2010. The allowance for loan losses to total non-performing loans at June 30, 2011 was 119.38% compared with 97.18% at June 30, 2010. Non-performing loans have been considered in management's analysis of the appropriateness of the allowance for loan losses. Management and the Board of Directors closely monitor these loans and believe the prospect for recovery of principal, less

identified specific reserves, are favorable.

Other Income. Total other income was \$2,011 for fiscal year 2011, compared to \$2,148 for the same period last year. Adjusted for security gains, a security impairment charge, and gains or losses from the sale of other real estate owned (OREO), other income totaled \$2,308 for the 2011 fiscal year, compared with \$2,393 for the same period last year.

Service charges on deposit accounts decreased by \$248, or 16.1%, in 2011 to \$1,292 from \$1,540 mainly from a decline in overdraft account fee income due to a new rule issued by the Federal Reserve Board that became effective in August 2010 that prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine and debit card transactions, unless a consumer consents to the overdraft service for those types of transactions.

Debit card interchange income increased in 2011 to \$644 from \$524 from the previous fiscal year due to higher volume as a result of increased customer usage and an increase in the number of debit cards issued. On July 21, 2010, the Dodd-Frank Act amended the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. Because of the uncertainty as to any future rulemaking by the Federal Reserve, the Corporation cannot provide any assurance as to the ultimate impact of the Dodd-Frank Act on the amount of interchange income from debit card transactions reported in future periods.

Bank owned life insurance income increased by \$6, or 3.4%, in 2011 to \$182 from \$176 mainly as a result of an increase in the cash surrender value of life insurance. In February 2011, \$431 of single-premium life insurance was purchased following the conversion of a term life insurance policy.

Gains recognized on the sale of securities totaled \$71 during 2011 and \$218 during the same period last year. During fiscal year 2011, the Corporation sold callable agency securities that were projected to be called within a short period of time and recognized gains totaling \$98. These gains were partially offset by a \$27 loss from the sale of a collateralized mortgage obligation that was underperforming. An other-than-temporary impairment loss of \$370 related to a trust preferred security was recognized during the 2011 fiscal year and a \$410 impairment charge related to the same security was recognized during the 2010 fiscal year. As of June 30, 2011, the adjusted amortized cost of this trust preferred security was \$202. A discussion of the impairment loss is included on the following pages under the heading "Financial Condition."

Other Expenses. Total other expenses were \$9,575 for the year ended June 30, 2011; an increase of \$527, or 5.8% from \$9,048 for the year ended June 30, 2010.

Salaries and employee benefit expenses increased \$393, or 8.9%, during the fiscal year ended June 30, 2011 mainly due to staff added in fiscal year 2010 in the lending and credit administration functions and due to normal merit increases that went into effect on July 1, 2010, following the removal of a salary freeze that was in place during the preceding eighteen months.

Occupancy and equipment expenses decreased by \$50, or 4.7%, mainly due to the renegotiation of miscellaneous equipment and service contracts and lower depreciation expense. Occupancy expenses are expected to increase in fiscal year 2012 as a result of the opening of the Hartville, Ohio branch location.

Federal Deposit Insurance Corporation (FDIC) assessments decreased by \$26, or 8.3%, compared to the same period last year mainly due to an industry wide change in the way FDIC insurance assessments are calculated. On April 1, 2011, the deposit insurance assessment base changed from total domestic deposits to average total assets minus average tangible equity, pursuant to a rule issued by the FDIC as required by the Dodd-Frank Act.

Marketing and advertising expenses increased by \$78, or 52.0%, compared to the same period last year mainly due to an increase in marketing efforts as a result of the opening of the Hartville, Ohio branch location.

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

Debit card processing expenses increased by \$47, or 15.9%, during the 2011 fiscal year mainly due to increased debit card usage by our customers.

Other expense totaled \$1,217 for the year ended June 30, 2011, an increase of \$141, or 13.1%, from \$1,076 for the year ended June 30, 2010. The increase was mainly due to one-time security expenses following robberies at two of the Corporation's branch locations and additional costs from a new vendor providing enhanced webhosting services and from the conversion to a new internet banking provider.

Income Tax Expense. The provision for income taxes totaled \$621 and \$567 for the years ended June 30, 2011 and 2010, respectively. The effective tax rates were 21.6% and 21.8%, respectively. The effective tax rate differed from the federal statutory rate principally as a result of tax-exempt income from obligations of states and political subdivisions, loans and earnings on bank owned life insurance.

## Financial Condition

Total assets at June 30, 2011 were \$300,140 compared to \$263,393 at June 30, 2010, an increase of \$36,747, or 14.0%. The increase in total assets is mainly attributed to an increase in securities of \$27,627 and an increase in loans of \$3,268. These increases were primarily funded by an increase of \$31,932, or 14.8%, in total deposits.

Securities. Available-for-sale securities increased by \$27,627 from \$64,262 at June 30, 2010 to \$91,889 at June 30, 2011. The securities portfolio is mainly comprised of residential mortgage-backed securities and collateralized mortgage obligations issued by Fannie Mae, Freddie Mac and Ginnie Mae, obligations of government sponsored enterprises and state and political subdivisions.

Within the securities portfolio, the Corporation owns a trust preferred security, which represents collateralized debt obligations (CDOs) issued by other financial and insurance companies. 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.

Due to an increase in principal and/or interest deferrals by the issuers of the underlying securities, the cash interest payments for the trust preferred security are being deferred. On June 30, 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 other-than-temporary impairment (OTTI) model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and all interest payment deferrals are treated as defaults with an assumed recovery rate of 15% on deferrals. In addition we use the model to "stress" the CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Corporation's note class. According to the June 30, 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 \$370 and \$410 for the fiscal year-to-date periods ended June 30, 2011 and 2010. The accumulated other-than-temporary impairment loss recognized in earnings was \$780 at June 30, 2011 and \$410 at June 30, 2010. 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.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2011</b>				
Obligations of government sponsored entities	\$16,185	\$98	\$(23 )	\$16,260
Obligations of state and political subdivisions	24,725	584	(211 )	25,098

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

Mortgage-backed securities - residential	29,424	1,172	—	30,596
Collateralized mortgage obligations	19,856	74	(62 )	19,868
Trust preferred security	202	—	(135 )	67
<b>Total securities</b>	<b>\$90,392</b>	<b>\$1,928</b>	<b>\$(431 )</b>	<b>\$91,889</b>
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
<b>Total securities</b>	<b>\$62,843</b>	<b>\$1,941</b>	<b>\$(522 )</b>	<b>\$64,262</b>

The following tables summarize the amounts and distribution of the Corporation's securities held and the weighted average yields as of June 30, 2011:

	Amortized Cost	Fair Value	Average Yield / Cost	
<b>AVAILABLE-FOR-SALE</b>				
Obligations of government sponsored entities:				
3 months or less	\$2,504	\$2,507	1.69	%
Over 3 months through 1 year	2,525	2,554	2.10	
Over 1 year through 5 years	11,156	11,199	1.76	
Total obligations of government sponsored entities	16,185	16,260	1.80	
Obligations of state and political subdivisions:				
Over 1 year through 5 years	1,045	1,091	4.86	
Over 5 years through 10 years	5,818	6,020	5.37	
Over 10 years	17,862	17,987	6.12	
Total obligations of state and political subdivisions	24,725	25,098	5.89	
Mortgage-backed securities - residential:				
Over 1 year through 5 years	27,983	29,079	3.63	
Over 5 years through 10 years	1,441	1,517	4.38	
Total mortgage-backed securities	29,424	30,596	3.67	
Collateralized mortgage obligations:				
3 months or less	\$1	\$1	(0.39	)
Over 3 months through 1 year	575	578	1.09	
Over 1 year through 5 years	19,280	19,289	2.53	
Total collateralized mortgage obligations	19,856	19,868	2.49	
Trust preferred security	202	67	—	
Total securities	\$90,392	\$91,889	3.64	%

The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount. The weighted average yield on tax-exempt obligations has been calculated on a tax equivalent basis. Average yields are based on amortized cost balances. The negative 0.39% yield on the collateralized mortgage obligations with a term of 3 months or less was a result of unexpectedly high prepayment speeds increasing the premium amortization due to the prolonged historically low mortgage rates. The yield on the trust preferred security is zero since the cash interest payments for this security are being deferred.

At June 30, 2011, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies and corporations, with an aggregate book value which exceeds 10% of shareholders' equity.

Loans. Loan receivables increased by \$3,268 to \$177,551 at June 30, 2011 compared to \$174,283 at June 30, 2010. Loan demand, particularly in the commercial real estate area and advances on established commercial lines of credit, has been lower than previous years due to the current economic conditions. Major classifications of loans, net of deferred loan fees and costs, were as follows as of June 30:

	2011	2010
Commercial	\$ 19,297	\$ 14,559
Commercial real estate:		
Construction	1,049	2,916



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

Other	97,199	99,462
1-4 Family residential real estate:		
Owner occupied	34,517	34,448
Non-owner occupied	19,047	16,750
Construction	596	328
Consumer loans	5,846	5,820
Total loans	\$ 177,551	\$ 174,283

The following is a schedule of contractual maturities and repayments of 1-4 family residential real estate construction, commercial and commercial real estate loans, as of June 30, 2011:

Due in one year or less	\$ 11,230
Due after one year but within five years	15,795
Due after five years	91,116
Total	\$ 118,141

The following is a schedule of fixed and variable rate 1-4 family residential real estate construction, commercial and commercial real estate loans due after one year (variable rate loans are those loans with floating or adjustable interest rates) as of June 30, 2011:

	Fixed Interest Rates	Variable Interest Rates
Total 1-4 family residential real estate construction, commercial and commercial real estate loans due after one year	\$ 44,599	\$ 62,312

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

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

Failure to receive principal and interest payments when due on any loan results in efforts to restore such loan to a current status. Loans are classified as non-accrual when, in the opinion of management, full collection of principal and accrued interest is not expected. The loans must be brought and kept current for six sustained payments before being considered for removal from non-accrual status. Commercial and commercial real estate loans are classified as impaired if management determines that full collection of principal and interest, in accordance with the terms of the loan documents, is not probable. If a loan is impaired, a portion of the allowance is allocated so the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that not all principal and interest amounts will be collected according to the original terms of the loan. As of June 30, 2011, impaired loans totaled \$2,536, of which \$1,745 are included in non-accrual loans. Continued unsuccessful collection efforts generally lead to initiation of foreclosure or other legal proceedings.

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

	2011	2010
Non-accrual loans	\$ 1,760	\$ 2,342
Accruing loans past due 90 days or more	—	—
Total non-performing loans	\$ 1,760	\$ 2,342
Other real estate owned	76	25
Total non-performing assets	\$ 1,836	\$ 2,367
Impaired loans	\$ 2,536	\$ 2,635
Accruing restructured loans	\$ 791	\$ 335

The non-performing loans are either in the process of foreclosure or efforts are being made to work with the borrower to bring the loan current. Properties acquired by the Corporation as a result of foreclosure, or by deed in lieu of foreclosure, are classified as "other real estate owned" until such time as they are sold or otherwise disposed. As of June 30, 2011, there was \$76, or three individual properties, classified as other real estate owned.

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

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

	2011	2010
Allowance for loan losses at beginning of year	\$ 2,276	\$ 1,992
Loans charged off:		
Commercial	9	—
Commercial real estate	510	182
1-4 Family residential real estate	62	62
1-4 Family real estate construction	—	—
Consumer loans	116	117
Total charge offs	697	361
Recoveries:		
Commercial	2	—
Commercial real estate	19	6
1-4 Family residential real estate	—	1
1-4 Family real estate construction	—	—
Consumer loans	66	94
Total recoveries	87	101
Net charge offs	610	260
Provision for loan losses charged to operations	435	544
Allowance for loan losses at end of year	\$ 2,101	\$ 2,276

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

	Allocation of the Allowance for Loan Losses					
	Allowance Amount	% of Loan		Allowance Amount	% of Loan	
		June 30, 2011	Type to Total Loans		June 30, 2010	Type to Total Loans
Commercial	\$ 179	10.9	%	\$ 183	8.4	%
Commercial real estate loans	882	55.3		1,337	58.7	
1-4 Family residential real estate	947	30.5		653	29.5	
Consumer loans	93	3.3		103	3.4	
Total	\$ 2,101	100.0	%	\$ 2,276	100.0	%

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

Cash Surrender Value of Life Insurance. The cash surrender value of life insurance increased by \$613 from June 30, 2010, to \$5,411 as of June 30, 2011. The increase was mainly due to the purchase of \$431 of single-premium life insurance following the conversion of a term life insurance policy that was originally purchased as a cost recovery component with a salary continuation agreement that was entered into with an executive officer in August 2008.

Funding Sources. Total deposits increased \$31,932, or 14.8%, from \$216,314 at June 30, 2010 to \$248,246 at June 30, 2011. Non-interest bearing deposits increased \$16,998, or 35.7%, savings deposits increased \$16,112, or 25.3%, and interest-bearing checking balances increased \$1,142, or 8.3%, from June 30, 2010 to June 30, 2011. The increase in deposits reflects a current trend in the industry where customers are turning to the safety of insured deposits during these uncertain economic times.

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

	Years Ended June 30,			
	2011		2010	
	Amount	Rate	Amount	Rate
Non-interest bearing demand deposit	\$ 55,499	—	\$ 45,582	—
Interest bearing demand deposit	14,102	0.13 %	13,387	0.20 %
Savings	71,968	0.21	59,873	0.31
Certificates and other time deposits	90,863	1.59	90,297	2.22
Total	\$ 232,432	0.70 %	\$ 209,139	1.06 %

The following table summarizes time deposits issued in amounts of \$100 thousand or more as of June 30, 2011 by time remaining until maturity:

Maturing in:	
Under 3 months	\$ 3,599
Over 3 to 6 months	11,672
Over 6 to 12 months	6,956
Over 12 months	12,480
Total	\$ 34,707

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

Shareholders' Equity. Total shareholders' equity increased by \$1,608 from \$23,716 at June 30, 2010 to \$25,324 at June 30, 2011. The increase was primarily due to net income of \$2,248 for the current fiscal year and cash of \$146 received from the dividend reinvestment and stock purchase program. These increases were partially offset by cash dividends paid of \$837.

### Liquidity

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

Net cash inflow from operating activities for the 2011 fiscal year were \$4,163 and net cash inflow from financing activities was \$34,405. Net cash outflow from investing activities was \$38,546. The major sources of cash were \$31,932 net increase in deposits, \$21,112 net increase from sales, maturities or principal pay downs on available-for-sale securities. The major uses of cash were the \$49,803 purchase of securities and a \$3,954 net increase in loans. Total cash and cash equivalents were \$13,828 as of June 30, 2011 compared to \$13,806 at June 30, 2010.

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

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

The Bank offers several forms of deposit products to its customers. The rates offered by the Bank and the fees charged for them are competitive with others available currently in the market area. While the Bank continues to be under competitive pressures in the Bank's market area as financial institutions attempt to attract and keep new deposits, we believe many commercial and retail customers have been turning to community banks in these uncertain times. Time deposit interest rates continued to decline in the 2011 fiscal year. Compared to our peers, the Corporation's core deposits consist of a large percentage of non-interest bearing demand deposits resulting in the cost of funds remaining at a low level of 0.96%.

Jumbo time deposits (those with balances of \$100 thousand and over) increased from \$33,763 at June 30, 2010 to \$34,707 at June 30, 2011. These deposits are monitored closely by the Bank and typically priced on an individual basis. When these deposits are from a municipality, certain bank-owned securities are pledged to guarantee the safety of these public fund deposits as required by Ohio law. The Corporation has the option to use a fee paid broker to obtain deposits from outside its normal service area as an additional source of funding. However, these deposits are not relied upon as a primary source of funding and the Bank can foresee no dependence on these types of deposits in the near term.

The net interest margin is monitored on a monthly basis. It is the Bank's goal to maintain the net interest margin at 4.0% or greater. The net interest margin on a tax equivalent basis for 2011 was 4.22% as compared to 4.28% for 2010.

#### Capital Resources

At June 30, 2011, management believes the Bank complied with all regulatory capital requirements. Based on the Bank's computed regulatory capital ratios, the OCC has determined the Bank to be well capitalized under the Federal Deposit Insurance Act as of its latest exam date. The Bank's actual and required capital amounts are disclosed in Note 11 of the Consolidated Financial Statements. Management is not aware of any matters occurring subsequent to that exam that would cause the Bank's capital category to change.

#### Impact of Inflation and Changing Prices

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

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

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



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

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

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

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

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

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

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

#### Contractual Obligations, Commitments and Contingent Liabilities

The following table presents, as of June 30, 2011, the Corporation's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient and do not include any unamortized premiums or discounts. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Note	2012	2013	2014	2015	2016	Thereafter	Total
------	------	------	------	------	------	------------	-------

	Reference							
Certificates of deposit	6	\$49,051	\$24,386	\$5,987	\$4,248	\$4,504	\$ 768	\$88,944
Short-term borrowings	7	17,012	—	—	—	—	—	17,012
Federal Home Loan Advances	8	596	579	69	57	559	5,675	7,535
Salary continuation plan	9	22	22	22	22	22	1,053	1,163
Operating leases	4	115	105	91	78	19	—	408
Deposits without maturity		—	—	—	—	—	—	159,302

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

### Off-Balance Sheet Arrangements

At June 30, 2011, the Corporation had no unconsolidated, related special purpose entities, nor did the Corporation engage in derivatives and hedging contracts, such as interest rate swaps, which may expose the Corporation to liabilities greater than the amounts recorded on the consolidated balance sheet. The Corporation's investment policy prohibits engaging in derivative contracts for speculative trading purposes; however, in the future, the Corporation may pursue certain contracts, such as interest rate swaps, in an effort to execute a sound and defensive interest rate risk management policy.

### Forward-Looking Statements

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

- regional and national economic conditions becoming less favorable than expected, resulting in, among other things, a deterioration in credit quality of assets and the underlying value of collateral could prove to be less valuable than otherwise assumed;
  - the nature, extent, and timing of government and regulatory actions;
  - material unforeseen changes in the financial condition or results of the Bank's customers;
  - changes in levels of market interest rates which could reduce anticipated or actual margins;
    - competitive pressures on product pricing and services; and
- a continued deterioration in market conditions causing debtors to be unable to meet their obligations.

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

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

Not applicable for Smaller Reporting Companies.

ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Management of Consumers Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U. S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management of Consumers Bancorp, Inc., including the Chief Executive Officer and the Chief Financial Officer, has assessed the Corporation's internal control over financial reporting as of June 30, 2011, based on criteria for effective internal control over financial reporting described in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that the Corporation's internal control over financial reporting was effective as of June 30, 2011, based on the specified criteria.

This annual report does not include an attestation report of the Corporation's independent registered public accounting firm regarding internal control over financial reporting because management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Corporation to provide only management's report.

/s/ Ralph J. Lober, II

Ralph J. Lober, II  
Chief Executive Officer

/s/ Renee K. Wood

Renee K. Wood  
Chief Financial Officer & Treasurer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Consumers Bancorp, Inc.  
Minerva, Ohio

We have audited the accompanying consolidated balance sheets of Consumers Bancorp, Inc. as of June 30, 2011 and 2010 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumers Bancorp, Inc. as of June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in conformity with U. S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Cleveland, Ohio  
September 16, 2011

## CONSOLIDATED BALANCE SHEETS

As of June 30, 2011 and 2010

(Dollar amounts in thousands, except per share data)

	2011	2010
<b>ASSETS:</b>		
Cash on hand and noninterest-bearing deposits in financial institutions	\$5,944	\$5,973
Federal funds sold and interest-bearing deposits in financial institutions	7,884	7,833
Total cash and cash equivalents	13,828	13,806
Certificate of deposits in financial institutions	4,900	980
Securities, available-for-sale	91,889	64,262
Federal bank and other restricted stocks, at cost	1,186	1,186
Total loans	177,551	174,283
Less allowance for loan losses	(2,101 )	(2,276 )
Net loans	175,450	172,007
Cash surrender value of life insurance	5,411	4,798
Premises and equipment, net	4,776	3,581
Intangible assets, net	89	250
Other real estate owned	76	25
Accrued interest receivable and other assets	2,535	2,498
Total assets	\$300,140	\$263,393
<b>LIABILITIES:</b>		
<b>Deposits:</b>		
Non-interest bearing demand	\$64,657	\$47,659
Interest bearing demand	14,829	13,687
Savings	79,816	63,704
Time	88,944	91,264
Total deposits	248,246	216,314
Short-term borrowings	17,012	13,086
Federal Home Loan Bank advances	7,535	8,297
Accrued interest payable and other liabilities	2,023	1,980
Total liabilities	274,816	239,677
Commitments and contingent liabilities	—	—
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, no par value; 350,000 shares authorized	—	—
Common shares, no par value; 3,500,000 shares authorized; 2,180,315 and 2,168,329 shares issued as of June 30, 2011 and 2010, respectively	5,114	4,968
Retained earnings	20,881	19,470
Treasury stock, at cost (130,442 common shares at June 30, 2011 and 2010)	(1,659 )	(1,659 )
Accumulated other comprehensive income	988	937
Total shareholders' equity	25,324	23,716
Total liabilities and shareholders' equity	\$300,140	\$263,393

See accompanying notes to consolidated financial statements.





## CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2011 and 2010

(Dollar amounts in thousands, except per share data)

	2011	2010
<b>Interest income:</b>		
Loans, including fees	\$10,212	\$9,939
Federal funds sold and interest-bearing deposits in financial institutions	54	61
<b>Securities:</b>		
Taxable	1,624	1,827
Tax-exempt	894	783
<b>Total interest income</b>	<b>12,784</b>	<b>12,610</b>
<b>Interest expense:</b>		
Deposits	1,617	2,217
Short-term borrowings	45	50
Federal Home Loan Bank advances	254	293
<b>Total interest expense</b>	<b>1,916</b>	<b>2,560</b>
<b>Net interest income</b>	<b>10,868</b>	<b>10,050</b>
Provision for loan losses	435	544
<b>Net interest income after provision for loan losses</b>	<b>10,433</b>	<b>9,506</b>
<b>Other income:</b>		
Service charges on deposit accounts	1,292	1,540
Debit card interchange income	644	524
Bank owned life insurance income	182	176
Securities gains, net	71	218
Other-than-temporary loss		
<b>Total impairment loss</b>	<b>(370 )</b>	<b>(410 )</b>
Loss recognized in other comprehensive income	—	—
<b>Net impairment loss recognized in earnings</b>	<b>(370 )</b>	<b>(410 )</b>
Gain (loss) on disposition or direct write-down of other real estate owned	2	(53 )
<b>Other</b>	<b>190</b>	<b>153</b>
<b>Total other income</b>	<b>2,011</b>	<b>2,148</b>
<b>Other expenses:</b>		
Salaries and employee benefits	4,827	4,434
Occupancy and equipment	1,019	1,069
Data processing expenses	553	534
Professional and director fees	346	370
Federal Deposit Insurance Corporation assessments	287	313
Franchise taxes	242	223
Marketing and advertising	228	150
Loan and collection expenses	121	189
Amortization of intangible	161	161
Telephone and communications	231	233
Debit card processing expenses	343	296
<b>Other</b>	<b>1,217</b>	<b>1,076</b>
<b>Total other expenses</b>	<b>9,575</b>	<b>9,048</b>
<b>Income before income taxes</b>	<b>2,869</b>	<b>2,606</b>

Income tax expense	621	567
Net income	\$2,248	\$2,039
Basic earnings per share	\$1.10	\$1.00

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN COMPREHENSIVE INCOME

Years Ended June 30, 2011 and 2010

(Dollar amounts in thousands, except per share data)

	2011	2010
Net Income	\$2,248	\$2,039
Other comprehensive income (loss), net of tax:		
Net change in unrealized gains (losses):		
Other-than-temporarily impaired securities:		
Unrealized gains (loss) on other-than-temporarily impaired securities	(355 )	66
Reclassification adjustment for losses included in income	370	410
Net unrealized gain	15	476
Income tax effect	5	162
	10	314
Available-for-sale securities which are not other-than-temporarily impaired:		
Unrealized gains arising during the period	134	1,151
Reclassification adjustment for gains included in income	(71 )	(218 )
Net unrealized gain	63	933
Income tax effect	22	317
	41	616
Other comprehensive income	51	930
Total comprehensive income	\$2,299	\$2,969

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended June 30, 2011 and 2010

(Dollar amounts in thousands, except per share data)

	Common Shares	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, June 30, 2009	\$4,869	\$18,244	\$(1,659 )	\$ 7	\$ 21,461
Comprehensive Income:					
Net income		2,039			2,039
Other comprehensive income				930	930
Total comprehensive income					2,969
Issuance of 8,329 shares for dividend reinvestment and stock purchase plan	99				99
Cash dividends declared (\$0.40 per share)		(813 )			(813 )
Balance, June 30, 2010	4,968	19,470	(1,659 )	937	23,716
Comprehensive Income:					
Net income		2,248			2,248
Other comprehensive income				51	51
Total comprehensive income					2,299
Issuance of 11,986 shares for dividend reinvestment and stock purchase plan	146				146
Cash dividends declared (\$0.41 per share)		(837 )			(837 )
Balance, June 30, 2011	\$5,114	\$20,881	\$(1,659 )	\$ 988	\$ 25,324

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

(Dollar amounts in thousands, except per share data)

	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$2,248	\$2,039
<b>Adjustments to reconcile net income to net cash flows from operating activities:</b>		
Depreciation	382	430
Securities amortization and accretion, net	843	431
Provision for loan losses	435	544
(Gain) loss on disposition or direct write-down of other real estate owned	(2 )	53
Deferred income taxes	81	(316 )
Gain on sale of securities	(71 )	(218 )
Impairment loss on securities	370	410
Intangible amortization	161	161
Increase in cash surrender value of life insurance	(182 )	(176 )
<b>Change in:</b>		
Accrued interest receivable	(37 )	95
Accrued interest payable	(40 )	(62 )
Other assets and other liabilities	(25 )	(776 )
<b>Net cash flows from operating activities</b>	<b>4,163</b>	<b>2,615</b>
<b>Cash flows from investing activities:</b>		
<b>Securities available-for-sale</b>		
Purchases	(49,803 )	(27,330 )
Maturities, calls and principal pay downs	15,989	16,956
Proceeds from sales of available for sale securities	5,123	7,672
Net (increase)/decrease in certificates of deposit with other financial institutions	(3,920 )	1,032
Net increase in loans	(3,954 )	(14,622 )
Purchase of Bank owned life insurance	(431 )	—
Acquisition of premises and equipment	(1,577 )	(235 )
Proceeds from sale of other real estate owned	27	323
<b>Net cash flows from investing activities</b>	<b>(38,546 )</b>	<b>(16,204 )</b>
<b>Cash flows from financing activities:</b>		
Net increase in deposit accounts	31,932	12,263
Proceeds from FHLB advances	1,000	—
Repayments of FHLB advances	(1,762 )	(1,076 )
Change in short-term borrowings	3,926	(1,969 )
Proceeds from dividend reinvestment and stock purchase plan	146	99
Dividends paid	(837 )	(813 )
<b>Net cash flows from financing activities</b>	<b>34,405</b>	<b>8,504</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>22</b>	<b>(5,085 )</b>
Cash and cash equivalents, beginning of year	13,806	18,891
<b>Cash and cash equivalents, end of year</b>	<b>\$13,828</b>	<b>\$13,806</b>
<b>Supplemental noncash disclosures:</b>		
Transfers from loans to repossessed assets	\$76	\$220

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

(Dollar amounts in thousands, except per share data)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

**Cash Flows:** Cash and cash equivalents include cash, deposits with other financial institutions with original maturities of less than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions and short-term borrowings. Cash paid for interest was \$1,956 and \$2,622 for the years ending June 30, 2011 and 2010, respectively. Cash paid for income taxes was \$830 and \$785 for the years ending June 30, 2011 and 2010, respectively.

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

**Cash Reserves:** The Bank is required to maintain cash on hand and non-interest bearing balances on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements. The required reserve balance at June 30, 2011 and 2010 was \$3,075 and \$1,768, respectively.

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

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

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of collection. Consumer loans are typically charged off no later than 90 days past due. Past due status is determined by the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

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

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

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Cash Surrender Value of Life Insurance:** The Bank has purchased single-premium life insurance policies to insure the lives of current and former participants in the salary continuation plan. As of June 30, 2011, the Bank had policies with total death benefits of \$11,944 and total cash surrender values of \$5,411. As of June 30, 2010, the Bank had policies with total death benefits of \$10,328 and total cash surrender values of \$4,798. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other changes or other amounts due that are probable at settlement. Tax-exempt income is recognized from the periodic increases in cash surrender value of these policies. The amount included in income (net of policy commissions and mortality costs) was \$182, and \$176 for the years ended June 30, 2011 and 2010, respectively.

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

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

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

**Profit Sharing Plan:** The Bank maintains a 401(k) profit sharing plan covering all eligible employees. Matching contributions are made and expensed annually.

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

**Earnings per Common Share:** Earnings per common share is net income divided by the weighted average common shares outstanding during the period. The weighted average number of common shares outstanding was 2,042,874 and 2,032,588 for the years ended June 30, 2011 and 2010, respectively. The Corporation's capital structure contains no dilutive securities.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Dividend Restrictions:** Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders. As of June 30, 2011 the Bank could, without prior approval, declare a dividend of approximately \$3,519.

**Newly Issued But Not Yet Effective Accounting Standards:** In April 2011, the Financial Accounting Standards Board (FASB) amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the Accounting Standards Update (ASU) clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. Management is currently reviewing this guidance to determine the impact, if any, to the Corporation's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures"; to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Corporation's financial statements.

In June 2011, the FASB issued No. ASU 2011-05, "Comprehensive Income (Topic 220) — Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income", to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Corporation's financial statements.

Reclassifications: Certain reclassifications have been made to the June 30, 2010 financial statements to be comparable to the June 30, 2011 presentation.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2—SECURITIES

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

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2011</b>				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,185	\$ 98	\$(23 )	\$ 16,260
Obligations of state and political subdivisions	24,725	584	(211 )	25,098
Mortgage-backed securities - residential	29,424	1,172	—	30,596
Collateralized mortgage obligations	19,856	74	(62 )	19,868
Trust preferred security	202	—	(135 )	67
<b>Total securities</b>	<b>\$ 90,392</b>	<b>\$ 1,928</b>	<b>\$(431 )</b>	<b>\$ 91,889</b>

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2010</b>				
Obligations of U.S. government sponsored entities and agencies	\$ 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
<b>Total securities</b>	<b>\$ 62,843</b>	<b>\$ 1,941</b>	<b>\$(522 )</b>	<b>\$ 64,262</b>

Proceeds from sales of debt securities during 2011 and 2010 were as follows:

	2011	2010
Proceeds from sales	\$ 5,123	\$ 7,672
Gross realized gains	77	219
Gross realized gains from calls	21	—
Gross realized losses	27	1

The amortized cost and fair values of available-for-sale securities at June 30, 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	Fair Value
Due in one year or less	\$ 5,029	\$ 5,061
Due after one year through five years	12,201	12,290
Due after five years through ten years	5,818	6,020

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

Due after ten years	17,862	17,987
<b>Total</b>	<b>40,910</b>	<b>41,358</b>
Mortgage-backed securities – residential	29,424	30,596
<b>Collateralized mortgage obligations</b>	<b>19,856</b>	<b>19,868</b>
Trust preferred security	202	67
<b>Total</b>	<b>\$ 90,392</b>	<b>\$ 91,889</b>

33

---

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities with a carrying value of approximately \$43,262 and \$40,901 were pledged at June 30, 2011 and 2010, respectively, to secure public deposits and commitments as required or permitted by law. At June 30, 2011 and 2010, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, with an aggregate book value greater than 10% of shareholders' equity.

The following table summarizes the securities with unrealized losses at June 30, 2011 and 2010, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position:

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

Description of Securities	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>June 30, 2010</b>						
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.

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.

As of June 30, 2011, the Corporation's security portfolio consisted of \$91,889, of which \$17,697 were in an unrealized loss position. The unrealized losses are related to the Corporation's U.S. government-sponsored entities, obligations of states and political subdivisions, collateralized mortgage obligations and the trust preferred security, as discussed below:

**Collateralized Mortgage Obligations:** At June 30, 2011, all of the collateralized mortgage obligations held by the Corporation were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Corporation does not have the intent to sell nor is it likely that it will be required to sell the securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired at June 30, 2011.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Obligations of States and Political Subdivisions: At June 30, 2011, approximately 91.1% of the obligations of states and political subdivisions held by the Corporation were general obligation bonds and 8.9% were revenue bonds. The decline in fair value of these securities is mainly attributable to temporary illiquidity and the turmoil within the municipal bond insurance industry, not credit quality. The recent credit concerns within the municipal bond insurance industry have reduced the liquidity of these securities and, as a result, have caused a decline in the value for some municipal securities. The Corporation owns general obligation warrants issued by Tallapoosa County, Alabama with an amortized cost of \$985 and fair value of \$865 that have been in a continuous unrealized loss position for more than 12 months. Standard & Poor's assigned a credit rating of A with a stable outlook. An A credit rating is defined as having a strong capacity to meet its financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. Standard & Poor assigned its rating to reflect the county's stable economic base with employment opportunities across the manufacturing, education and healthcare sectors, strong financial position and low overall debt levels. Tallapoosa County, Alabama has a low debt to assessed ratio of 2.36% and a low per capita debt of \$370. Management monitors the financial data of the individual municipalities to ensure they meet minimum credit standards. Since the Corporation does not intend to sell these securities and it is not likely the Corporation will be required to sell these securities at an unrealized loss position prior to any anticipated recovery in fair value, which may be maturity, management does not believe there is any other-than-temporary impairment related to these securities at June 30, 2011.

Trust Preferred Security: 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 June 30, 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	Expected	Excess Subordination (2)
						Deferrals and Defaults as a % of Original Collateral	Defaults as a % of Remaining Collateral	
Pre Tsl XXII (1)	\$982	\$202	\$67	\$ 135	59/95	32.7 %	17.0 %	—

(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 June 30, 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 June 30, 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 \$370 and \$410 for the fiscal year-to-date periods ended June 30, 2011 and 2010. The accumulated other-than-temporary impairment loss recognized in earnings was \$780 at June 30, 2011 and \$410 at June 30, 2010. No other-than-temporary impairment was recorded in prior years. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3—LOANS

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

	2011	2010
Commercial	\$ 19,297	\$ 14,559
Commercial real estate:		
Construction	1,057	2,916
Other	97,403	99,761
1 – 4 Family residential real estate:		
Owner occupied	34,488	34,428
Non-owner occupied	19,098	16,738
Construction	597	328
Consumer	5,874	5,824
Subtotal	177,814	174,554
Less: Deferred loan fees and costs	(263 )	(271 )
Allowance for loan losses	(2,101 )	(2,276 )
Net loans	\$ 175,450	\$ 172,007

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

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

The change in the allowance for loan losses consists of the following for the year ended June 30, 2010:

	2010
Balance at beginning of year	\$ 1,992
Provision for loan losses	544
Loans charged-off	(361 )
Recoveries	101
Balance at end of year	\$ 2,276

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ 13	\$ 126	\$ 293	\$—	\$ 432
Collectively evaluated for impairment	166	756	654	93	1,669
Total ending allowance balance	\$ 179	\$ 882	\$ 947	\$ 93	\$ 2,101
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 82	\$ 1,405	\$ 1,042	\$—	\$ 2,529
Loans collectively evaluated for impairment	19,254	97,093	53,279	5,868	175,494
Total ending loans balance	\$ 19,336	\$ 98,498	\$ 54,321	\$ 5,868	\$ 178,023



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	\$ 18	\$ 18	\$ —	\$ 20	\$—	\$—
Commercial real estate:						
Other	413	412	—	502	—	—
With an allowance recorded:						
Commercial	64	64	13	61	—	—
Commercial real estate:						
Other	997	993	126	1,238	23	18
1-4 Family residential real estate:						
Owner occupied	320	319	3	302	6	—
Non-owner occupied	724	723	290	738	—	—
Total	\$2,536	\$2,529	\$ 432	\$2,861	\$29	\$18

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

	2010
Loans with no allocated allowance for loan losses	\$ 717
Loans with allocated allowance for loan losses	1,918
Total impaired loans	\$ 2,635
Amount of allowance for loan losses allocated	543
	2010
Average of impaired loans during the year	\$ 2,323
Interest income recognized during impairment	—
Cash-basis interest income recognized	—

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Non-accrual	Loans Past Due Over 90 Days Still Accruing
Commercial	\$ 64	\$ —
Commercial real estate:		
Other	754	—
1 – 4 Family residential:		
Owner occupied	219	—
Non-owner occupied	723	—
Consumer	—	—
Total	\$ 1,760	\$ —

The following table presents non-accrual and loans past due over 90 days still on accrual as of June 30, 2010:

	2010
Loans on non-accrual	\$ 2,342
Loans past due over 90 days and still accruing	—

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

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

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

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

**Troubled Debt Restructurings:**

The Corporation allocated \$229 and \$3 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2011 and 2010. As of June 30, 2011 and 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 thousand 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:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Bank has granted loans to certain of its executive officers, directors and their affiliates. A summary of activity during the year ended June 30, 2011 of related party loans were as follows:

	2010
Principal balance at beginning of year	\$ 1,446
New loans	103
Repayments	(376 )
Principal balance at end of year	\$ 1,173

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4—PREMISES AND EQUIPMENT

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

	2011	2010
Land	\$ 1,174	\$ 953
Land improvements	368	327
Building and leasehold improvements	4,174	3,433
Furniture, fixture and equipment	4,278	5,076
Total premises and equipment	9,994	9,789
Accumulated depreciation and amortization	(5,218 )	(6,208 )
Premises and equipment, net	\$ 4,776	\$ 3,581

Depreciation expense was \$382 and \$430 for the years ended June 30, 2011 and 2010, respectively.

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

2012	115
2013	105
2014	91
2015	78
2016	19
Thereafter	—
	\$408

Rent expense incurred was \$111 and \$99 during the years ended June 30, 2011 and 2010, respectively.

## NOTE 5—INTANGIBLE ASSETS

The following summarizes the original balance and accumulated amortization of core deposit intangible assets at June 30, 2011 and 2010:

	2011	2010
Original balance	\$ 1,927	\$ 1,927
Less: accumulated amortization	1,838	1,677
Net balance, June 30	\$ 89	\$ 250

Amortization expense for the years ended June 30, 2011 and 2010 was \$161 for each year. Amortization expense is estimated to be \$89 for the year ending June 30, 2012.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6—DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of \$100 thousand was \$34,707 and \$33,763 as of June 30, 2011 and 2010, respectively.

Scheduled maturities of time deposits at June 30, 2011 were as follows:

2012	\$49,051
2013	24,386
2014	5,987
2015	4,248
2016	4,504
Thereafter	768
	\$88,944

Related party deposits totaled \$4,178 as of June 30, 2011 and \$4,088 as of June 30, 2010.

## NOTE 7—SHORT-TERM BORROWINGS

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

	2011		2010	
Balance at June 30	\$	17,012	\$	13,086
Average balance during the year		14,892		12,977
Maximum month-end balance		18,169		14,267
Average interest rate during the year		0.30 %		0.39 %
Weighted average rate June 30		0.27 %		0.38 %

Repurchase agreements mature daily. The Bank has pledged obligations of government-sponsored entities and mortgage-backed securities with a carrying value of \$18,055 and \$14,823 at June 30, 2011 and 2010, respectively, as collateral for the repurchase agreements. Total interest expense on short-term borrowings was \$45 and \$50 for the years ended June 30, 2011 and 2010, respectively.

## NOTE 8—FEDERAL HOME LOAN BANK ADVANCES

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

Advance Type	Maturity	Term	Interest Rate	Balance June 30, 2011	Balance June 30, 2010
Principal and interest, mortgage matched	07/01/2010	Fixed	6.90 %	\$ —	\$ 1
Principal and interest, mortgage matched	10/01/2010	Fixed	7.00	—	3
Principal and interest, mortgage matched	12/01/2010	Fixed	6.10	—	28
Interest-only, single maturity	01/18/2011	Fixed	3.14	—	625
Interest-only, single maturity	01/24/2011	Fixed	3.09	—	500
Interest-only, single maturity	07/22/2011	Fixed	3.24	—	500

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

Interest-only, single maturity	01/24/2012	Fixed	3.37	500	500
Interest-only, single maturity	07/24/2012	Fixed	3.50	500	500
Principal and interest, mortgage matched	04/01/2014	Fixed	2.54	84	141
Interest-only, single maturity	10/09/2015	Fixed	1.43	500	—
Interest-only, single maturity	10/12/2017	Fixed	2.07	500	—
Interest-only, putable	12/07/2017	Fixed	3.24	5,000	5,000
Principal and interest, mortgage matched	04/01/2019	Fixed	4.30	451	499
				\$ 7,535	\$ 8,297

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Twelve Months Ending June 30	Principal Payments
2012	\$ 596
2013	579
2014	69
2015	57
2016	559
Thereafter	5,675
	\$ 7,535

During fiscal year 2011, the Corporation prepaid two \$500 thousand fixed rate single maturity advances and replaced them with two \$500 thousand fixed rate single maturity advances with lower rates. Because the present value of the cash flows of the new debt including the prepayment penalty was not more than 10% different than the old debt, the transaction is considered to be an exchange rather than an extinguishment of debt. As such, prepayment penalties totaling \$16 were capitalized and are being amortized over the life of the new debt. Unamortized capitalized prepayment penalties totaled \$13 at June 30, 2011.

Pursuant to collateral agreements with the FHLB, advances are secured by all the stock invested in the FHLB and certain qualifying first mortgage loans. The advances were collateralized by \$39,180 and \$36,211 of first mortgage loans under a blanket lien arrangement at June 30, 2011 and 2010, respectively. Based on this collateral and the Corporation's holdings of FHLB stock, the Bank is eligible to borrow up to a total of \$19,027 in advances at June 30, 2011.

## NOTE 9—EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) savings and retirement plan available for substantially all eligible employees. Under the plan, the Bank is required to match each participant's voluntary contribution to the plan but not to exceed 4% of the individual's compensation. Amounts charged to operations were \$115 and \$109, for the years ended June 30, 2011 and 2010, respectively.

The Bank has adopted a Salary Continuation Plan (the Plan) to encourage Bank executives to remain employees of the Bank. The Plan provides such executives (and, in the event of the executive's death, surviving beneficiary) with 180 months of salary continuation payments equal to a certain percentage of an executive's average compensation, as defined within each agreement, for the three full calendar years prior to Normal Retirement Age. For purposes of the Plan, "Normal Retirement Age" means the executive's 65th birthday. Vesting under the Plan commences at age 50 and is prorated until age 65. If an executive dies during active service, the executive's beneficiary is entitled to the Normal Retirement Benefit. The executive can become fully vested in the Accrual Balance upon termination of employment following a disability or a change in control of the Bank. For purposes of the Plan, "Accrual Balance" means the liability that should be accrued by the Corporation for the Corporation's obligation to the executive under the Plan. For purposes of calculating the Accrual Balance, the discount rate in effect at June 30, 2011 was 5.25%. The accrued liability for the salary continuation plan was \$1,163 as of June 30, 2011 and \$1,002 as of June 30, 2010. For the years ended June 30, 2011 and 2010, approximately \$183 and \$166, respectively, have been charged to expense in



connection with the Plan. Distributions to participants were \$22 for both of the years ending June 30, 2011 and 2010, respectively.

NOTE 10—INCOME TAXES

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

	2011	2010
Current income taxes	\$ 540	\$ 883
Deferred income taxes (benefits)	81	(316 )
	\$ 621	\$ 567

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2011	2010
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 520	\$ 610
Deferred compensation	413	354
Recognized loss on impairment of security	265	139
Intangibles	122	111
OREO deferred gain	18	19
OREO valuation allowance	—	6
Nonaccrual loan interest income	47	49
Gross deferred tax asset	1,385	1,288
<b>Deferred tax liabilities:</b>		
Depreciation	(270 )	(135 )
Loan fees	(202 )	(184 )
Prepaid expenses	(113 )	(88 )
FHLB stock dividends	(165 )	(165 )
Net unrealized securities gain	(509 )	(483 )
Gross deferred tax liabilities	(1,259 )	(1,055 )
Net deferred asset	\$ 126	\$ 233

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

	2011	2010
Income taxes computed at the statutory rate on pretax income	\$ 975	\$ 886
Tax exempt income	(304 )	(270 )
Cash surrender value income	(62 )	(60 )
Other	12	11
	\$ 621	\$ 567

At June 30, 2011 and June 30, 2010, the Corporation had no unrecognized tax benefits recorded. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. There were no interest or penalties recorded for the years ended June 30, 2011 and 2010 and there were no amounts accrued for interest and penalties at June 30, 2011 and 2010.

The Corporation and the Bank are subject to U.S. federal income tax as an income-based tax and a capital-based franchise tax in the state of Ohio. The Corporation and the Bank are no longer subject to examination by taxing authorities for years before 2007.

## NOTE 11—REGULATORY MATTERS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective-action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors and the regulators

can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements. Management believes as of June 30, 2011, the Bank has met all capital adequacy requirements to which it is subject.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of fiscal year-end 2011, the Corporation met the definition of a small bank holding company and, therefore, was exempt from consolidated risk-based and leverage capital adequacy guidelines for bank holding companies. At year-end 2011 and 2010, actual Bank capital levels (in millions) and minimum required levels were as follows:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>June 30, 2011</b>						
Total capital (to risk weighted assets)						
Bank	\$26.3	14.0 %	\$15.0	8.0 %	\$18.8	10.0 %
Tier 1 capital (to risk weighted assets)						
Bank	22.2	11.8	7.5	4.0	11.3	6.0
Tier 1 capital (to average assets)						
Bank	22.2	7.5	11.8	4.0	14.8	5.0
<b>June 30, 2010</b>						
Total capital (to risk weighted assets)						
Bank	\$24.7	13.4 %	\$14.8	8.0 %	\$18.5	10.0 %
Tier 1 capital (to risk weighted assets)						
Bank	20.4	11.1	7.4	4.0	11.1	6.0
Tier 1 capital (to average assets)						
Bank	20.4	7.8	10.5	4.0	13.1	5.0

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

The Corporation's principal source of funds for dividend payment is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. As of June 30, 2011 the Bank could, without prior approval, declare a dividend of approximately \$3,519.

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

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

The Bank evaluates each customer's credit on a case by case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. The amount of commitments to extend credit and the exposure to credit loss for non-performance by the customer was \$27,528 and \$23,435 as of June 30, 2011 and 2010, respectively. Of the June 30, 2011 commitments, \$25,119 carried variable rates of interest ranging from 2.00% to 7.25% and

\$2,409 carried fixed rates of interest ranging from 2.75% to 7.75%. Of the June 30, 2010 commitments, \$22,690 carried variable rates of interest ranging from 2.00% to 10.00% and \$745 carried fixed rates of interest ranging from 2.25% to 8.12%. Financial standby letters of credit were \$579 and \$477 as of June 30, 2011 and 2010, respectively. In addition, commitments to extend credit of \$7,759 and \$6,333 as of June 30, 2011 and 2010, respectively, were available to checking account customers related to the overdraft protection program. Since some loan commitments expire without being used, the amount does not necessarily represent future cash commitments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 13—FAIR VALUE

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

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

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

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques.

The Corporation used the following methods and significant assumptions to estimate the fair value of items:

**Securities:** 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). Discounted cash flows are calculated using spread to the swap and LIBOR curves. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

**Federal bank and other restricted stocks** includes 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.

**Impaired Loans:** The fair value of impaired loans with specific allocations of the allowance for loan losses is generally 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.

**Other Real Estate Owned:** Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property. These appraisals may use 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 independent 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.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Balance at June 30, 2010	Fair Value Measurements at June 30, 2010 Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Obligations of government sponsored entities	\$ 11,004	\$—	\$11,004	\$—
Obligations of states and political subdivisions	20,247	—	20,247	—
Mortgage-backed securities - residential	25,612	—	25,612	—
Collateralized mortgage obligations	6,977	—	6,977	—
Trust preferred security	422	—	—	422

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2011 and 2010:

	Trust Preferred Security	
	2011	2010
Beginning balance	\$ 422	\$ 356
Realized losses included in other income	(370 )	(410 )
Change in fair value included in other comprehensive income	15	476
Ending balance, June 30	\$ 67	\$ 422

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

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

	Balance at June 30, 2010	Fair Value Measurements at June 30, 2010 Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Impaired loans	\$ 1,375	\$—	\$—	\$1,375
Other real estate owned, net	5	—	—	5

Impaired loans, which are generally measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$2,105, with a valuation allowance of \$432 at June 30, 2011, resulting in an additional provision for loan losses of \$272 being recorded for the twelve month period ended June 30, 2011. As of June 30, 2010, impaired loans with a principal balance of \$1,918, with a valuation allowance of \$543, resulting in an additional provision for loan losses of \$344 being recorded for the twelve month period ended June 30, 2010.



There were no other real estate owned being carried at fair value as of June 30, 2011. Other real estate owned which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of \$5, which was made up of the outstanding balance of \$22, net of a valuation allowance of \$17 at June 30, 2010, resulting in a write-down of \$17 for the year ended June 30, 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Fair Value of Financial Instruments

The following table shows the estimated fair value at June 30, 2011 and 2010, and the related carrying value of financial instruments:

	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 13,828	\$ 13,828	\$ 13,806	\$ 13,806
Certificates of deposits in other financial institutions	4,900	4,900	980	980
Securities available-for-sale	91,889	91,889	64,262	64,262
Loans, net				