CONSUMERS BANCORP INC /OH/
Form 10-Q
February 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2017

Commission File No. 033-79130

CONSUMERS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

(330) 868-7701

(Registrant’s telephone number)

Not applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act.

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

There were 2,729,644 shares of Registrant's common stock, no par value, outstanding as of February 9, 2018.

CONSUMERS BANCORP, INC.

FORM 10-Q

QUARTER ENDED December 31, 2017

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

CONSUMERS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except per share data)	December 31, 2017	June 30, 2017
ASSETS		
Cash on hand and noninterest-bearing deposits in financial institutions	$8,910	$9,439
Federal funds sold and interest-bearing deposits in financial institutions	231	473
Total cash and cash equivalents	9,141	9,912
Certificates of deposit in other financial institutions	3,921	3,921
Securities, available-for-sale	135,738	142,086
Securities, held-to-maturity (fair value of $4,083 at December 31, 2017 and $4,329 at June 30, 2017)	4,061	4,259
Federal bank and other restricted stocks, at cost	1,425	1,425
Loans held for sale	814	1,252
Total loans	293,594	272,867
Less allowance for loan losses	(3,225)	(3,086)
Net loans	290,369	269,781
Cash surrender value of life insurance	9,201	9,065
Premises and equipment, net	13,137	13,398
Other real estate owned	57	71
Accrued interest receivable and other assets	2,418	2,713
Total assets	$470,282	$457,883
LIABILITIES		
Deposits		
Non-interest bearing demand	$108,503	$102,683
Interest bearing demand	55,056	54,123
Savings	152,659	151,154
Time	66,771	66,511
Total deposits	382,989	374,471
Short-term borrowings	22,507	23,986
Federal Home Loan Bank advances	17,188	12,320
Accrued interest and other liabilities	3,427	3,571
Total liabilities	426,111	414,348

Commitments and contingent liabilities		
SHAREHOLDERS' EQUITY		
Preferred stock (no par value, 350,000 shares authorized, none outstanding)	—	—
Common stock (no par value, 3,500,000 shares authorized; 2,854,133 shares issued as of December 31, 2017 and June 30, 2017)	14,630	14,630
Retained earnings	31,044	30,122
Treasury stock, at cost (124,489 and 130,606 common shares as of December 31, 2017 and June 30, 2017, respectively)	(1,576)	(1,662)
Accumulated other comprehensive income	73	445
Total shareholders' equity	44,171	43,535
Total liabilities and shareholders' equity	$470,282	$457,883

See accompanying notes to consolidated financial statements

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CONSUMERS BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months ended		Six Months ended	
	December 31,		December 31,	
(Dollars in thousands, except per share amounts)	2017	2016	2017	2016
Interest income				
Loans, including fees	$3,437	$3,022	$6,665	$6,206
Securities, taxable	459	377	970	779
Securities, tax-exempt	367	357	734	708
Federal funds sold and other interest bearing deposits	28	30	65	60
Total interest income	4,291	3,786	8,434	7,753
Interest expense				
Deposits	253	183	501	353
Short-term borrowings	57	11	112	23
Federal Home Loan Bank advances	54	56	108	114
Total interest expense	364	250	721	490
Net interest income	3,927	3,536	7,713	7,263
Provision for loan losses	60	140	150	276
Net interest income after provision for loan losses	3,867	3,396	7,563	6,987
Non-interest income				
Service charges on deposit accounts	301	314	609	644
Debit card interchange income	325	285	648	536
Bank owned life insurance income	68	63	136	112
Securities gains, net	—	22	38	125
Loss on disposition of other real estate owned	—	(3)	-	(3)
Other	145	116	280	231
Total non-interest income	839	797	1,711	1,645
Non-interest expenses				
Salaries and employee benefits	1,966	1,790	3,776	3,528
Occupancy and equipment	465	478	920	930
Data processing expenses	147	145	295	290
Debit card processing expenses	188	149	368	282
Professional and director fees	122	146	239	278
FDIC assessments	46	46	92	101
Franchise taxes	84	84	168	168
Marketing and advertising	61	65	139	144
Telephone and network communications	75	76	157	157
Other	406	347	799	734

Total non-interest expenses	*3,560*	*3,326*	*6,953*	*6,612*
Income before income taxes	*1,146*	*867*	*2,321*	*2,020*
Income tax expense	*489*	*145*	*735*	*397*
Net income	$*657*	$*722*	$*1,586*	$*1,623*
Basic and diluted earnings per share	$*0.24*	$*0.27*	$*0.58*	$*0.60*

See accompanying notes to consolidated financial statements

CONSUMERS BANCORP, INC.

Consolidated statements of comprehensive income (Loss)

(Unaudited)

(Dollars in thousands)

	Three Months ended		Six Months ended	
	December 31		December 31,	
	2017	2016	2017	2016
Net income	$657	$722	$1,586	$1,623
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses) on securities available-for-sale:				
Unrealized losses arising during the period	(631)	(3,319)	(527)	(3,742)
Reclassification adjustment for gains included in income	—	(22)	(38)	(125)
Net unrealized losses	(631)	(3,341)	(565)	(3,867)
Income tax effect	215	1,136	193	1,315
Other comprehensive loss	(416)	(2,205)	(372)	(2,552)
Total comprehensive income (loss)	$241	$(1,483)	$1,214	$(929)

See accompanying notes to consolidated financial statements.

CONSUMERS BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months ended		Six Months ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Balance at beginning of period	$*44,271*	$*44,020*	$*43,535*	$*43,793*
Net income	*657*	*722*	*1,586*	*1,623*
Other comprehensive loss	*(416*)	*(2,205*)	*(372*)	*(2,552*)
6,321 shares issued associated with stock awards during the six months ended December 31, 2017	—	—	*90*	—
204 and 231 Dividend reinvestment plan shares associated with forfeited and expired restricted stock awards retired to treasury stock during the six months ended December 31, 2017 and 2016, respectively	—	—	—	—
Common cash dividends	*(341*)	*(327*)	*(668*)	*(654*)
Balance at the end of the period	$*44,171*	$*42,210*	$*44,171*	$*42,210*
Common cash dividends per share	$*0.125*	$*0.12*	$*0.245*	$*0.24*

See accompanying notes to consolidated financial statements.

CONSUMERS BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
(Dollars in thousands)	December 31,	
	2017	2016
Cash flows from operating activities		
Net cash from operating activities	$3,484	$2,152
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(5,101)	(17,368)
Maturities, calls and principal pay downs	8,848	11,753
Proceeds from sales	1,586	3,383
Securities held-to-maturity		
Purchases	—	(1,000)
Principal pay downs	198	198
Net decrease in certificates of deposits in other financial institutions	—	990
Net increase in loans	(20,967)	(9,255)
Purchase of Bank owned life insurance	—	(2,000)
Acquisition of premises and equipment	(129)	(252)
Sale of other real estate owned	71	7
Net cash from investing activities	(15,494)	(13,544)
Cash flow from financing activities		
Net increase in deposit accounts	8,518	8,797
Net change in short-term borrowings	(1,479)	223
Proceeds from Federal Home Loan Bank advances	5,400	18,325
Repayments of Federal Home Loan Bank advances	(532)	(14,630)
Dividends paid	(668)	(654)
Net cash from financing activities	11,239	12,061
Increase (decrease) in cash or cash equivalents	(771)	669
Cash and cash equivalents, beginning of period	9,912	10,181
Cash and cash equivalents, end of period	$9,141	$10,850
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	$709	$484
Federal income taxes	405	150

Non-cash items:		
Transfer from loans to other real estate owned	*57*	*10*
Transfer from loans held for sale to portfolio	*172*	—
Issuance of treasury stock for stock awards	*90*	—
Expired and forfeited dividend reinvestment plan shares associated with restricted stock awards that were retired to treasury stock	*4*	*4*

See accompanying notes to consolidated financial statements.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited)

(Dollars in thousands, except per share amounts)

Note *1* – Summary of Significant Accounting Policies:

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

Basis of Presentation: The consolidated financial statements for interim periods are unaudited and reflect all adjustments (consisting of only normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the financial position and results of operations and cash flows for the periods presented. The unaudited financial statements are presented in accordance with the requirements of Form *10*-Q and do *not* include all disclosures normally required by accounting principles generally accepted in the United States of America. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form *10*-K for the year ended *June 30, 2017.* The results of operations for the interim period disclosed herein are *not* necessarily indicative of the results that *may* be expected for a full year.

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

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

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

Recently Issued Accounting Pronouncements *Not* Yet Effective: In *May 2014,* FASB issued Accounting Standards Update (ASU) *2014-09,* Revenue from Contracts with Customers (Topic *606*). The ASU creates a new topic, Topic *606,* to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after *December 15, 2017.* Most of the Corporation's revenue is derived from loans and financial instruments, which is not part of the scope of this ASU. The adoption of ASU *2014-09* as it relates to non-interest income, such as service charges and debit card interchange income, is *not* expected to have a material effect on the Corporation's financial statements.

In *January 2016,* the FASB issued ASU *2016-01,* Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The main provisions of ASU *2016-01* address the valuation and impairment of certain equity investments along with simplified disclosures about those investments. Equity securities with readily determinable fair values will be treated in the same manner as other financial instruments. ASU *2016-01* is effective for fiscal years beginning after *December 15, 2017,* including interim periods within those fiscal years. The adoption of ASU *2016-01* is *not* expected to have a material impact on the Corporation's financial statements.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

In *June 2016,* FASB Issued ASU *2016-13,* Financial Instruments—Credit Losses (Topic *326*): Measurement of Credit Losses on Financial Instruments. This ASU adds a new Topic *326* to the codification and removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities. Under current U.S. GAAP, companies generally recognize credit losses when it is probable that the loss has been incurred. The revised guidance will remove all current loss recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the corporation expects to collect over the instrument’s contractual life. ASU *2016-13* also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. The guidance in ASU *2016-13* is effective for “public business entities,” as defined, that are SEC filers for fiscal years and for interim periods with those fiscal years beginning after *December 15, 2019.* Early adoption of the guidance is permitted for fiscal years beginning after *December 15, 2018,* including interim periods within those fiscal years. Management is currently evaluating the impact of the adoption of this guidance on the Corporation’s consolidated financial statements, and are in the midst of gathering critical data to evaluate the impact. However, it is too early to estimate the impact.

In *February 2016,* the FASB issued ASU *2016-02* - Leases (Topic *842*). The ASU will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can understand more about the nature of an entity’s leasing activities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after *December 15, 2018.* Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on the Corporation’s consolidated financial statements and expects to recognize an increase in other assets and other liabilities for the rights and obligations created by leasing of branch offices. Management also expects minimal impact in the income statement with respect to occupancy expense related to leases.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note *2* – Securities

Available –for-Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
December 31, 2017				
Obligations of U.S. government-sponsored entities and agencies	$ *13,752*	$ *30*	$ *(146*)	$ *13,636*
Obligations of state and political subdivisions	*56,718*	*746*	*(283*)	*57,181*
Mortgage-backed securities – residential	*58,051*	*98*	*(631*)	*57,518*
Mortgage-backed securities– commercial	*1,446*	—	*(10*)	*1,436*
Collateralized mortgage obligations– residential	*5,483*	—	*(137*)	*5,346*
Pooled trust preferred security	*178*	*443*	—	*621*
Total available-for-sale securities	$ *135,628*	$ *1,317*	$ *(1,207*)	$ *135,738*

Held-to-Maturity	**Amortized Cost**	**Gross Unrecognized Gains**	**Gross Unrecognized Losses**	**Fair Value**
December 31, 2017				
Obligations of state and political subdivisions	$ *4,061*	$ *22*	$ —	$ *4,083*

Available–for-Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
June 30, 2017				
Obligations of U.S. government-sponsored entities and agencies	$ *12,571*	$ *90*	$ *(74*)	$ *12,587*
Obligations of state and political subdivisions	*56,824*	*890*	*(254*)	*57,460*
Mortgage-backed securities – residential	*64,092*	*184*	*(438*)	*63,838*
Mortgage-backed securities – commercial	*1,459*	—	*(1*)	*1,458*
Collateralized mortgage obligations - residential	*6,310*	*1*	*(100*)	*6,211*
Pooled trust preferred security	*155*	*377*	—	*532*
Total available-for-sale securities	$ *141,411*	$ *1,542*	$ *(867*)	$ *142,086*

<u>Held-to-Maturity</u>	**Amortized Cost**	**Gross Unrecognized Gains**	**Gross Unrecognized Losses**	**Fair Value**
June 30, 2017				
Obligations of state and political subdivisions	$ *4,259*	$ *73*	$ *(3*)	$*4,329*

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

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

	Three Months Ended December 31		Six Months Ended December 31,	
	2017	2016	2017	2016
Proceeds from sales	$—	$*1,594*	$*1,586*	$*3,383*
Gross realized gains	—	*24*	*39*	*127*
Gross realized losses	—	*2*	*1*	*2*

The income tax provision related to these net realized gains and losses amounted to *$13* for the *six* months ended *December 31, 2017* and *$8* and *$43* for the *three* and *six* months ended *December 31, 2016.*

The amortized cost and fair values of debt securities at *December 31, 2017,* by expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers *may* have the right to call or prepay obligations with or without call or prepayment penalties. Securities *not* due at a single maturity date, primarily mortgage-backed securities, collateralized mortgage obligations and the pooled trust preferred security are shown separately.

<u>**Available-for-Sale**</u>	Amortized Cost	Estimated Fair Value
Due in one year or less	$ *2,170*	$ *2,192*
Due after one year through five years	*18,053*	*18,167*
Due after five years through ten years	*28,838*	*28,992*

Due after ten years	*21,409*	*21,466*
Total	*70,470*	*70,817*
U.S. Government-sponsored mortgage-backed and related securities	*64,980*	*64,300*
Pooled trust preferred security	*178*	*621*
Total available-for-sale securities	$ *135,628*	$ *135,738*
Held-to-Maturity		
Due after five years through ten years	*564*	*579*
Due after ten years	*3,497*	*3,504*
Total held-to-maturity securities	$ *4,061*	$ *4,083*

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

The following table summarizes the securities with unrealized losses at *December 31, 2017* and *June 30, 2017,* aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(Dollars in thousands, except per share amounts)

	Less than 12 Months		**12 Months or more**		**Total**	
Available-for-sale	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
December 31, 2017						
Obligations of US government-sponsored entities and agencies	$ *9,901*	$ *(146*)	$ *—*	$ *—*	$ *9,901*	$ *(146*)
Obligations of states and political subdivisions	*11,862*	*(93*)	*8,179*	*(190*)	*20,041*	*(283*)
Mortgage-backed securities - residential	*27,316*	*(243*)	*22,415*	*(388*)	*49,731*	*(631*)
Mortgage-backed securities - commercial	*1,435*	*(10*)	*—*	*—*	*1,435*	*(10*)
Collateralized mortgage obligations – residential	*—*	*—*	*5,346*	*(137*)	*5,346*	*(137*)
Total temporarily impaired	$ *50,514*	$ *(492*)	$ *35,940*	$ *(715*)	$ *86,454*	$ *(1,207*)

	Less than 12 Months		**12 Months or more**		**Total**	
Available-for-sale	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
June 30, 2017						
Obligations of US government-sponsored entities and agencies	$ *4,336*	$ *(74*)	$ *—*	$ *—*	$ *4,336*	$ *(74*)
Obligations of states and political subdivisions	*13,881*	*(241*)	*834*	*(13*)	*14,715*	*(254*)
Mortgage-backed securities - residential	*42,071*	*(391*)	*2,805*	*(47*)	*44,876*	*(438*)
Mortgage-backed securities - commercial	*1,458*	*(1*)	*—*	*—*	*1,458*	*(1*)
Collateral mortgage obligation - residential	*5,417*	*(88*)	*654*	*(12*)	*6,071*	*(100*)
Total temporarily impaired	$ *67,163*	$ *(795*)	$ *4,293*	$ *(72*)	$ *71,456*	$ *(867*)

Management evaluates securities for other-than-temporary impairment (OTTI) on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The securities portfolio is evaluated for

OTTI by segregating the portfolio into *two* general segments and applying the appropriate OTTI model. Investment securities are generally evaluated for OTTI under FASB ASC Topic *320, Accounting for Certain Investments in Debt and Equity Securities*.

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

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The unrealized losses within the securities portfolio as of *December 31, 2017* have *not* been recognized into income because the decline in fair value is *not* attributed to credit quality, management does *not* intend to sell and it is *not* likely that management will be required to sell the securities prior to their anticipated recovery. The decline in fair value within the securities portfolio is largely due to changes in interest rates and the fair value is expected to recover as the securities approach maturity. The mortgage-backed securities and collateralized mortgage obligations were primarily issued by Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. The Corporation does *not* own any private label mortgage-backed securities.

Note *3* – Loans

Major classifications of loans were as follows:

	December 31, 2017	June 30, 2017
Commercial	$*49,561*	$*46,336*
Commercial real estate:		
Construction	*5,936*	*5,588*
Other	*169,692*	*157,861*
1 – 4 Family residential real estate:		
Owner occupied	*45,351*	*41,581*
Non-owner occupied	*16,163*	*14,377*
Construction	*1,931*	*1,993*
Consumer	*4,960*	*5,131*
Subtotal	*293,594*	*272,867*
Allowance for loan losses	*(3,225*)	*(3,086*)
Net Loans	$*290,369*	$*269,781*

Loans presented above are net of deferred loan fees and costs of $*313* and *$294* for *December 31, 2017* and *June 30, 2017,* respectively.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents the activity in the allowance for loan losses by portfolio segment for the *three* months ended *December 31, 2017:*

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ *572*	$ *2,081*	$ *473*	$ *68*	$*3,194*
Provision for loan losses	*(17*)	*57*	*20*	—	*60*
Loans charged-off	—	—	*(33*)	*(5*)	*(38*)
Recoveries	—	*6*	*1*	*2*	*9*
Total ending allowance balance	$ *555*	$ *2,144*	$ *461*	$ *65*	$*3,225*

The following table presents the activity in the allowance for loan losses by portfolio segment for the *six* months ended *December 31, 2017:*

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ *518*	$ *2,038*	$ *473*	$ *57*	$*3,086*
Provision for loan losses	*35*	*82*	*20*	*13*	*150*
Loans charged-off	—	—	*(33*)	*(8*)	*(41*)
Recoveries	*2*	*24*	*1*	*3*	*30*
Total ending allowance balance	$ *555*	$ *2,144*	$ *461*	$ *65*	$*3,225*

The following table presents the activity in the allowance for loan losses by portfolio segment for the *three* months ended *December 31, 2016:*

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ *510*	$ *2,643*	$ *411*	$ *120*	$*3,684*
Provision for loan losses	*(14*)	*157*	*51*	*(54*)	*140*
Loans charged-off	—	*(700*)	*(23*)	*(8*)	*(731*)
Recoveries	*1*	—	*26*	*3*	*30*
Total ending allowance balance	$ *497*	$ *2,100*	$ *465*	$ *61*	$*3,123*

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents the activity in the allowance for loan losses by portfolio segment for the *six* months ended *December 31, 2016:*

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ *505*	$ *2,518*	$ *402*	$ *141*	$*3,566*
Provision for loan losses	*(9*)	*282*	*78*	*(75*)	*276*
Loans charged-off	—	*(700*)	*(44*)	*(12*)	*(756*)
Recoveries	*1*	—	*29*	*7*	*37*
Total ending allowance balance	$ *497*	$ *2,100*	$ *465*	$ *61*	$*3,123*

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of *December 31, 2017*. Included in the recorded investment in loans is *$695* 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	$ —	$ *30*	$ —	$ —	$*30*
Collectively evaluated for impairment	*555*	*2,114*	*461*	*65*	*3,195*
Total ending allowance balance	$ *555*	$ *2,144*	$ *461*	$ *65*	$*3,225*
Recorded investment in loans:					
Loans individually evaluated for impairment	$ *122*	$ *1,303*	$ *340*	$ —	$*1,765*
Loans collectively evaluated for impairment	*49,553*	*174,707*	*63,293*	*4,971*	*292,524*

Total ending loans balance	$ *49,675*	$ *176,010*	$ *63,633*	$ *4,971*	$*294,289*

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of *June 30, 2017.* Included in the recorded investment in loans is *$581* 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	$ —	$ *42*	$ *2*	$ —	$*44*
Collectively evaluated for impairment	*518*	*1,996*	*471*	*57*	*3,042*
Total ending allowance balance	$ *518*	$ *2,038*	$ *473*	$ *57*	$*3,086*
Recorded investment in loans:					
Loans individually evaluated for impairment	$ *444*	$ *1,587*	$ *203*	$ —	$*2,234*
Loans collectively evaluated for impairment	*45,993*	*162,176*	*57,901*	*5,144*	*271,214*
Total ending loans balance	$ *46,437*	$ *163,763*	$ *58,104*	$ *5,144*	$*273,448*

The following table presents information related to unpaid principal balance, recorded investment and interest income associated with loans individually evaluated for impairment by class of loans as of *December 31, 2017* and for the *six* months ended *December 31, 2017:*

	As of December 31, 2017			Six Months ended December 31, 2017		
	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	$122	$ 122	$ —	$117	$ 3	$ 3
Commercial real estate:						
Other	973	976	—	1,057	16	16
1-4 Family residential real estate:						
Owner occupied	25	25	—	80	—	—
Non-owner occupied	315	315	—	322	—	—
With an allowance recorded:						
Commercial real estate:						
Other	327	327	30	337	5	5
Total	$1,762	$ 1,765	$ 30	$1,913	$ 24	$ 24

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents information related to average recorded investment and interest income associated with loans individually evaluated for impairment by class of loans for the *three* months ended *December 31, 2017:*

	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial	$ *120*	$ *1*	$ *1*
Commercial real estate:			
Other	*1,061*	*6*	*6*
1-4 Family residential real estate:			
Owner occupied	*318*	—	—
Non-owner occupied	*58*	—	—
With an allowance recorded:			
Commercial real estate:			
Other	*330*	*5*	*5*
Total	$ *1,887*	$ *12*	$ *12*

The following table presents information related to unpaid principal balance, recorded investment and interest income associated with loans individually evaluated for impairment by class of loans as of *June 30, 2017* and for the *six* months ended *December 31, 2016:*

	As of June 30, 2017			Six Months ended December 31, 2016		
	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	$*482*	$ *444*	$ —	$*330*	$ *80*	$ *80*

Commercial real estate:						
Construction	—	—	—	170	6	6
Other	1,928	1,039	—	1,081	105	105
1-4 Family residential real estate:						
Owner occupied	104	103	—	127	—	—
Non-owner occupied	—	—	—	205	—	—
With an allowance recorded:						
Commercial	—	—	—	7	—	—
Commercial real estate:						
Other	548	548	42	2,030	15	15
1-4 Family residential real estate:						
Owner occupied	99	100	2	139	3	3
Total	$3,161	$ 2,234	$ 44	$4,089	$ 209	$ 209

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents information related to average recorded investment and interest income associated with loans individually evaluated for impairment by class of loans for the *three* months ended *December 31, 2016:*

	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial real estate:			
Construction	$ *10*	$ —	$ —
Other	*607*	—	—
1-4 Family residential real estate:			
Owner occupied	*127*	—	—
Non-owner occupied	*202*	—	—
With an allowance recorded:			
Commercial	*14*	—	—
Commercial real estate:			
Other	*1,612*	*7*	*7*
1-4 Family residential real estate:			
Owner occupied	*101*	*1*	*1*
Total	$ *2,673*	$ *8*	$ *8*

The following table presents the recorded investment in non-accrual and loans past due over *90* days still on accrual by class of loans as of *December 31, 2017* and *June 30, 2017:*

	December 31, 2017		June 30, 2017	
	Non-accrual	Loans Past Due Over 90 Days Still Accruing	Non-accrual	Loans Past Due Over 90 Days Still Accruing
Commercial	$ —	$ —	$ *368*	$ —

Commercial real estate:				
Other	*537*	—	*729*	—
1 – 4 Family residential:				
Owner occupied	*13*	—	*90*	—
Non-owner occupied	*315*	—	—	—
Total	$ *865*	$ —	$ *1,187*	$ —

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

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents the aging of the recorded investment in past due loans as of *December 31, 2017* by class of loans:

	Days Past Due					
	30 - 59 Days	60 - 89 Days	90 Days or Greater	Total Past Due	Loans Not Past Due	Total
Commercial	$—	$ —	$ —	$—	$*49,675*	$*49,675*
Commercial real estate:						
Construction	—	—	—	—	*5,943*	*5,943*
Other	*230*	—	—	*230*	*169,837*	*170,067*
1-4 Family residential:						
Owner occupied	*12*	—	—	*12*	*45,477*	*45,489*
Non-owner occupied	—	—	—	—	*16,210*	*16,210*
Construction	—	—	—	—	*1,934*	*1,934*
Consumer	*4*	*2*	—	*6*	*4,965*	*4,971*
Total	$*246*	$ *2*	$ —	$*248*	$*294,041*	$*294,289*

The above table of past due loans includes the recorded investment in non-accrual loans of *$865* in the loans *not* past due category.

The following table presents the aging of the recorded investment in past due loans as of *June 30, 2017* by class of loans:

	Days Past Due				
	30 - 59	60 - 89	90 Days	Total	Loans Not

	Days	Days	or Greater	Past Due	Past Due	Total
Commercial	$—	$ —	$ *35*	$*35*	$*46,402*	$*46,437*
Commercial real estate:						
Construction	—	—	—	—	*5,596*	*5,596*
Other	—	—	*130*	*130*	*158,037*	*158,167*
1-4 Family residential:						
Owner occupied	*13*	—	*74*	*87*	*41,605*	*41,692*
Non-owner occupied	—	—	—	—	*14,416*	*14,416*
Construction	—	—	—	—	*1,996*	*1,996*
Consumer	*22*	—	—	*22*	*5,122*	*5,144*
Total	$*35*	$ —	$ *239*	$*274*	$*273,174*	$*273,448*

The above table of past due loans includes the recorded investment in non-accrual loans of *$239* in the *90* days or greater category and *$948* in the loans *not* past due category.

Troubled Debt Restructurings:

As of *December 31, 2017,* the recorded investment of loans classified as troubled debt restructurings was *$1,582* with *$30* of specific reserves allocated to these loans. As of *December 31, 2017,* the Corporation had committed to lend an additional *$192* to customers with outstanding loans that were classified as troubled debt restructurings. As of *June 30, 2017,* the recorded investment of loans classified as troubled debt restructurings was *$1,740* with *$33* of specific reserves allocated to these loans. As of *June 30, 2017,* the Corporation had committed to lend an additional *$175* to customers with outstanding loans that were classified as troubled debt restructurings.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

During the *three* and *six* months ended *December 31, 2017* and *2016*, there were *no* loan modifications completed that were classified as troubled debt restructurings. There were *no* charge offs from troubled debt restructurings that were completed during the *three* and *six* month periods ended *December 31, 2017* and *2016.*

There were *no* loans classified as troubled debt restructurings for which there was a payment default within *12* months following the modification during the *three* and *six* month periods ended *December 31, 2017* and *2016.* A loan is considered to be in payment default once it is *90* days contractually past due under the modified terms.

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, current economic trends and other relevant information. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with a total outstanding loan relationship greater than *$100* and non-homogeneous loans, such as commercial and commercial real estate loans. Management monitors the loans on an ongoing basis for any changes in the borrower's ability to service their debt and affirm the risk ratings for the loans and leases in their respective portfolio on an annual basis. The Corporation uses the following definitions for risk ratings:

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

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

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

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Loans *not* meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as *not* rated are either less than *$100* or are included in groups of homogeneous loans. These loans are evaluated based on delinquency status, which are disclosed in the previous table within this footnote. Based on the most recent analysis performed, the recorded investment by risk category of loans by class of loans was as follows:

	As of December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	$*48,091*	$*883*	$ *339*	$ —	$*362*
Commercial real estate:					
Construction	*5,941*	—	*2*	—	—
Other	*156,415*	*10,365*	*1,772*	*537*	*978*
1-4 Family residential real estate:					
Owner occupied	*2,661*	*58*	*14*	*13*	*42,743*
Non-owner occupied	*14,669*	*203*	*433*	*315*	*590*
Construction	*765*	—	—	—	*1,169*
Consumer	*119*	—	—	—	*4,852*
Total	$*228,661*	$*11,509*	$ *2,560*	$ *865*	$*50,694*

	As of June 30, 2017				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	$*44,435*	$ *907*	$ *642*	$ —	$*453*
Commercial real estate:					
Construction	*4,514*	*1,035*	—	*4*	*43*
Other	*150,460*	*5,110*	*1,566*	*470*	*561*
1-4 Family residential real estate:					
Owner occupied	*2,668*	—	*11*	*30*	*38,983*
Non-owner occupied	*13,633*	*210*	*261*	*187*	*125*
Construction	*1,223*	—	—	—	*773*
Consumer	*145*	—	—	—	*4,999*
Total	$*217,078*	$ *7,262*	$ *2,480*	$ *691*	$*45,937*

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note *4* - Fair Value

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

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

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

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

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

Securities available-for-sale: When available, the fair values of available-for-sale securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level *1* inputs). For securities where quoted market prices are *not* available, fair values are calculated based on market prices of similar securities (Level *2* inputs). For securities where quoted prices or market prices of similar securities are *not* available, fair values are calculated using discounted cash flows or other unobservable inputs (Level *3* inputs).

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

	Balance at December 31, 2017	Fair Value Measurements at December 31, 2017 Using Level 1	Level 2	Level 3
Assets:				
Obligations of U.S. government-sponsored entities and agencies	$ *13,636*	$—	$ *13,636*	$ —
Obligations of states and political subdivisions	*57,181*	—	*57,181*	—
Mortgage-backed securities – residential	*57,518*	—	*57,518*	—
Mortgage-backed securities – commercial	*1,436*	—	*1,436*	—
Collateralized mortgage obligations - residential	*5,346*	—	*5,346*	—
Pooled trust preferred security	*621*	—	*621*	—

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

	Balance at June 30, 2017	Fair Value Measurements at June 30, 2017 Using Level 1	Level 2	Level 3
Assets:				
Obligations of U.S. government-sponsored entities and agencies	$*12,587*	$—	$*12,587*	$ —
Obligations of states and political subdivisions	*57,460*	—	*57,460*	—
Mortgage-backed securities - residential	*63,838*	—	*63,838*	—
Mortgage-backed securities - commercial	*1,458*	—	*1,458*	—
Collateralized mortgage obligations - residential	*6,211*	—	*6,211*	—
Pooled trust preferred security	*532*	—	*532*	—

There were *no* transfers between Level *1* and Level *2* during the *three* or *six* month periods ended *December 31, 2017* or *2016.*

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

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

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

There were *no* financial assets measured at fair value on a non-recurring basis at *December 31, 2017.* Financial assets measured at fair value on a non-recurring basis at *June 30, 2017* are summarized below:

	Balance at June 30, 2017	Fair Value Measurements at June 30, 2017 Using Level 1	Level 2	Level 3
Impaired loans:				
Commercial Real Estate - Other	$ *130*	$ —	$ —	$ *130*
Other Real Estate Owned:				
1-4 Family residential real estate	*71*	—	—	*71*

There were *no* impaired loans measured at fair value on a non-recurring basis at *December 31, 2017* and there was *no* impact to the provision for loan losses for the *three* months ended *December 31, 2017.* The resulting impact to the provision for loan losses was a decrease of *$17* being recorded for the *six* months ended *December 31, 2017.* Impaired loans, measured for impairment using the fair value of the collateral, had a recorded investment of *$130,* with *no* valuation allowance at *June 30, 2017.* The resulting impact to the provision for loan losses was a decrease of *$87* and *$47* being recorded for the *three* and *six* months ended *December 31, 2016,* respectively.

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 *$71,* which was made up of the outstanding balance of *$103,* net of a valuation allowance of *$32* at *June 30, 2017.* There were *no* other real estate owned being carried at fair value as of *December 31, 2017.*

The following tables present quantitative information about Level *3* fair value measurements for financial instruments measured at fair value on a non-recurring basis at *June 30, 2017:*

June 30, 2017	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Range**		**Weighted Average**	
Impaired loans:							
Commercial Real Estate – Other	$ *130*	Bid Indications	*N/A*	*0.0*	*%*	*0.0*	*%*
Other Real Estate Owned:							
1-4 Family residential real estate	$ *71*	Bid Indications	*N/A*	*0.0*	*%*	*0.0*	*%*

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

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

	December 31, 2017		**June 30, 2017**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial Assets:				
Level 1 inputs:				
Cash and cash equivalents	$*9,141*	$*9,141*	$*9,912*	$*9,912*
Level 2 inputs:				
Certificates of deposits in other financial institutions	*3,921*	*3,924*	*3,921*	*3,927*
Loans held for sale	*814*	*833*	*1,252*	*1,286*
Accrued interest receivable	*1,310*	*1,310*	*1,212*	*1,212*
Level 3 inputs:				
Securities held-to-maturity	*4,061*	*4,083*	*4,259*	*4,329*
Loans, net	*290,369*	*284,618*	*269,781*	*266,041*
Financial Liabilities:				
Level 2 inputs:				
Demand and savings deposits	*316,218*	*316,218*	*307,960*	*307,960*
Time deposits	*66,771*	*66,676*	*66,511*	*66,535*
Short-term borrowings	*22,507*	*22,507*	*23,986*	*23,986*
Federal Home Loan Bank advances	*17,188*	*16,796*	*12,320*	*12,054*
Accrued interest payable	*74*	*74*	*40*	*40*

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

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

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

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

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

Loans: Fair value for loans was estimated for portfolios of loans with similar financial characteristics. For adjustable rate loans that reprice at least annually and for fixed rate commercial loans with maturities of *six* months or less which possess normal risk characteristics, carrying value was determined to be fair value. Fair value of other types of loans (including adjustable rate loans which reprice less frequently than annually and fixed rate term loans or loans which possess higher risk characteristics) was estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar anticipated maturities resulting in a Level *3* classification. The methods utilized to estimate the fair value of loans do *not* necessarily represent an exit price.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Securities held-to-maturity: The held-to-maturity securities are general obligation and revenue bonds made to local municipalities. The fair values of these securities are estimated using a spread to the applicable municipal fair market curve resulting in a Level *3* classification.

Time deposits: Fair value of fixed-maturity certificates of deposit was estimated using the rates offered at *December 31, 2017* and *June 30, 2017,* for deposits of similar remaining maturities, resulting in a Level *2* classification. Estimated fair value does *not* include the benefit that results from low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Federal Home Loan Bank advances: Fair value of Federal Home Loan Bank advances was estimated using current rates at *December 31, 2017* and *June 30, 2017* for similar financing resulting in a Level *2* classification.

Federal bank and other restricted stocks, at cost: Federal bank and other restricted stocks include stock acquired for regulatory purposes, such as Federal Home Loan Bank stock and Federal Reserve Bank stock that are accounted for at cost due to restrictions placed on their transferability; and therefore, are *not* subject to the fair value disclosure requirements.

Off-balance sheet commitments: The Corporation's lending commitments have variable interest rates and "escape" clauses if the customer's credit quality deteriorates. Therefore, the fair values of these items are *not* significant and are *not* included in the above table.

Note 5 – Earnings Per Share

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period and is equal to net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares that *may* be issued upon the vesting of restricted stock awards. There were *2,062* shares of restricted stock that were anti-dilutive for the *three* and *six* months ended *December 31, 2017.* There were *no* equity instruments that were anti-dilutive for the *three* and *six* months ended *December 31, 2016.* The following table details the calculation of basic and diluted earnings per share:

	For the Three Months Ended		**For the Six Months Ended**	
	December 31,		**December 31,**	
	2017	**2016**	**2017**	**2016**
Basic:				
Net income available to common shareholders	$*657*	$*722*	$*1,586*	$*1,623*
Weighted average common shares outstanding	*2,727,666*	*2,724,061*	*2,725,859*	*2,723,988*
Basic income per share	$*0.24*	$*0.27*	$*0.58*	$*0.60*
Diluted:				
Net income available to common shareholders	$*657*	$*722*	$*1,586*	$*1,623*
Weighted average common shares outstanding	*2,727,666*	*2,724,061*	*2,725,859*	*2,723,988*
Dilutive effect of restricted stock	—	*19*	—	*13*
Total common shares and dilutive potential common shares	*2,727,666*	*2,724,080*	*2,725,859*	*2,724,001*
Dilutive income per share	$*0.24*	$*0.27*	$*0.58*	$*0.60*

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note *6* –Accumulated Other Comprehensive Income

The components of other comprehensive income related to unrealized gains and losses on available-for-sale securities for the *three* and *six* month period ended *December 31, 2017* and *2016,* were as follows:

	Pretax	Tax Effect	After-tax	Affected Line Item in Consolidated Statements of Income
Balance as of September 30, 2017	$*741*	$*(252*)	$ *489*	
Unrealized holding loss on available-for-sale securities arising during the period	*(631*)	*215*	*(416*)	
Balance as of December 31, 2017	$*110*	$*(37*)	$ *73*	
Balance as of September 30, 2016	$*3,095*	$*(1,053*)	$ *2,042*	
Unrealized holding loss on available-for-sale securities arising during the period	*(3,319*)	*1,128*	*(2,191*)	
Amounts reclassified from accumulated other comprehensive income	*(22*)	*8*	*(14*)	(a)(b)
Net current period other comprehensive loss	*(3,341*)	*1,136*	*(2,205*)	
Balance as of December 31, 2016	$*(246*)	$*83*	$ *(163*)	

(a) Securities gains, net

(b) Income tax expense

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

	Pretax	Tax Effect	After-tax	Affected Line Item in Consolidated Statements of Income
Balance as of June 30, 2017	$*675*	$*(230*)	$*445*	
Unrealized holding loss on available-for-sale securities arising during the period	*(527*)	*180*	*(347*)	
Amounts reclassified from accumulated other comprehensive income	*(38*)	*13*	*(25*)	(a)(b)
Net current period other comprehensive loss	*(565*)	*193*	*(372*)	
Balance as of December 31, 2017	$*110*	$*(37*)	$*73*	
Balance as of June 30, 2016	$*3,621*	$*(1,232*)	$*2,389*	
Unrealized holding loss on available-for-sale securities arising during the period	*(3,742*)	*1,272*	*(2,470*)	
Amounts reclassified from accumulated other comprehensive income	*(125*)	*43*	*(82*)	(a)(b)
Net current period other comprehensive loss	*(3,867*)	*1,315*	*(2,552*)	
Balance as of December 31, 2016	$*(246*)	$*83*	$*(163*)	

(a) Securities gains, net

(b) Income tax expense

Note *7* –Income Taxes

On *December 22, 2017,* the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, decreasing U.S. corporate income tax rates to *21.0%* from *35.0%.* As the Corporation has a *June 30* fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a blended U.S. statutory federal rate of approximately *27.55%* for the Corporation's fiscal year ending *June 30, 2018,* and *21.0%* for subsequent fiscal years. In addition, the reduction of the corporate tax rate required the Corporation to revalue its deferred tax assets and liabilities based on the lower federal tax rate of *21.0%.*

As a result of the new legislation, during the quarter ended *December 31, 2017,* the Corporation recorded a *one*-time income tax expense of $*348* in conjunction with writing down its net deferred tax assets. The impact of using the *27.55%* blended federal tax rate for the quarter ended *December 31, 2017* versus a *34.0%* rate reduced the income tax expense by approximately *$95.* Therefore, the effective tax rate was *42.7%* and *31.7%* for the *three* and *six* months ended *December 31, 2017,* respectively, compared to *16.7%* and *19.7%* for the *three* and *six* months ended *December 31, 2016,* respectively.

The changes included in the Tax Act are broad and complex. The final transition impacts of the Tax Act *may* differ from the above estimates, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, and any changes in accounting standards for income taxes or related interpretations in response to the Tax Act.

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in thousands, except per share data)

General

The following is management's analysis of the Corporation's results of operations for the three and six months ended December 31, 2017, compared to the same period in 2016, and the consolidated balance sheet at December 31, 2017, compared to June 30, 2017. This discussion is designed to provide a more comprehensive review of the operating results and financial condition than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the consolidated financial statements and related footnotes and the selected financial data included elsewhere in this report.

Overview

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

Results of Operations

Three and Six Months Ended December 31, 2017 and December 31, 2016

In the second quarter of fiscal year 2018, pre-tax income increased by $279, or 32.2% from the same period last year. Net income for the second quarter of fiscal year 2018 was $657, or $0.24 per common share, compared to $722, or $0.27 per common share for the three months ended December 31, 2016. The following are key highlights of our results of operations for the three months ended December 31, 2017:

- the estimated impact of the enactment of the Tax Act resulted in a net increase of $253 in income tax expense;
- net interest income increased by $391 to $3,927, or by 11.1%, in the second quarter of fiscal year 2018 from the same prior year period;

- the provision for loan losses in the second quarter of fiscal year 2018 totaled $60 compared to $140 in the same prior year period;
- non-interest income increased by $42, or 5.3%, in the second quarter of fiscal year 2018 from the same prior year period; and
- non-interest expenses increased by $234, or 7.0%, in the second quarter of fiscal year 2018 from the same prior year period.

In the first six months of fiscal year 2018, pre-tax income increased by $301, or 14.9% from the same period last year. Net income for the six months ended December 31, 2017 was $1,586, or $0.58 per common share, compared to $1,623, or $0.60 per common share for the six months ended December 31, 2016. The following are key highlights of our results of operations for the six months ended December 31, 2017:

- net interest income increased by $450, or 6.2%, in fiscal year 2018 from the same prior year period;
- the provision for loan losses totaled $150 in fiscal year 2018 compared to $276 in the same prior year period;
- non-interest income increased by $66, or 4.0% in fiscal year 2018 from the same prior year period;
- non-interest expenses increased by $341, or 5.2% in fiscal year 2018 from the same prior year period; and
- the estimated impact of the enactment of the Tax Act resulted in a net increase of $253 in income tax expense in fiscal year 2018.

Return on average equity and return on average assets were 7.09% and 0.67%, respectively, for the first six months of fiscal year 2018 compared to 7.34% and 0.74%, respectively, for the same prior year period.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Net Interest Income

Net interest income, the difference between interest income earned on interest-earning assets and interest expense incurred on interest-bearing liabilities, is the largest component of the Corporation’s earnings. Net interest income is affected by changes in the volumes, rates and composition of interest-earning assets and interest-bearing liabilities. Net interest margin is calculated by dividing net interest income on a fully tax equivalent basis (FTE) by total average interest-earning assets. FTE income includes tax-exempt income, restated to a pre-tax equivalent, based on the statutory federal income tax rate. The federal income tax rate in effect for the 2018 fiscal year was 27.55% and for the 2017 fiscal year was 34.0%. With the enactment of the Tax Act, the statutory tax rate was changed in the second quarter of fiscal year 2018 to 27.55% by using a blended rate of the new 21.0% federal rate that went into effect on January 1, 2018 and the previous federal rate of 34.0%. All average balances are daily average balances. Non-accruing loans are included in average loan balances.

The Corporation’s net interest margin was 3.61% for the three months ended December 31, 2017, compared with 3.62% for the same period in 2016. FTE net interest income for the three months ended December 31, 2017 increased by $290, or 7.8%, to $4,011 from $3,721 for the same year ago period.

Tax-equivalent interest income for the three months ended December 31, 2017 increased by $404, or 10.2%, from the same year ago period. Interest income was positively impacted by a $31,513, or 7.7%, increase in average interest-earning assets from the same prior year period. The Corporation’s yield on average interest-earning assets increased to 3.94% for the three months ended December 31, 2017 from 3.86% for the same period last year. The yield on average interest-earning assets increased despite a decline in the tax-equivalent yield on nontaxable securities which occurred as a result of the decline in the statutory federal tax rate. The increase in the yield on average interest-earning assets was primarily a result of a positive change in the earning asset mix with higher yielding loans increasing faster than lower yielding securities as well as an increase in interest rates.

Interest expense for the three months ended December 31, 2017 increased by $114 from the same year ago period. The Corporation’s cost of funds was 0.46% for the three months ended December 31, 2017 compared with 0.34% for the same year ago period. The increase in short term market interest rates has impacted the rates paid on money market accounts, short-term borrowings and time deposits.

The Corporation's net interest margin was 3.62% for the six months ended December 31, 2017 compared with 3.74% for the same period in 2016. FTE net interest income for the six months ended December 31, 2017 increased by $356, or 4.7%, to $7,985 from $7,629 for the same year ago period.

Tax-equivalent interest income for the six months ended December 31, 2017 increased by $587, or 7.2%, from the same year ago period. The Corporation's yield on average interest-earning assets declined to 3.95% for the six months ended December 31, 2017 from 3.98% for the same period last year. For the six months ended December 31, 2017, the tax-equivalent yield on nontaxable securities was negatively impacted by 0.36% due to the enactment of the Tax Act and the resulting decline in the statutory federal tax rate. Interest expense for the six months ended December 31, 2017 increased by $231 from the same year ago period. The Corporation's cost of funds was 0.46% for the six months ended December 31, 2017 compared with 0.34% for the same year ago period.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Average Balance Sheets and Analysis of Net Interest Income for the Three Months Ended December 31,

(In thousands, except percentages)

	2017 Average Balance	Interest	Yield/ Rate	2016 Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Taxable securities	$81,941	$459	2.22 %	$75,524	$377	2.01 %
Nontaxable securities (1)	60,556	448	2.97	60,326	535	3.58
Loans receivable (1)	292,149	3,440	4.67	263,909	3,029	4.55
Interest bearing deposits and federal funds sold	6,533	28	1.70	9,907	30	1.20
Total interest-earning assets	441,179	4,375	3.94 %	409,666	3,971	3.86 %
Noninterest-earning assets	31,646			29,148		
Total Assets	$472,825			$438,814		
Interest-bearing liabilities:						
NOW	$53,913	$20	0.15 %	$48,960	$19	0.15 %
Savings	152,502	78	0.20	138,402	36	0.10
Time deposits	66,770	155	0.92	66,425	128	0.76
Short-term borrowings	26,249	57	0.86	20,481	11	0.21
FHLB advances	12,829	54	1.67	14,042	56	1.58
Total interest-bearing liabilities	312,263	364	0.46 %	288,310	250	0.34 %
Noninterest-bearing liabilities:						
Noninterest-bearing checking accounts	112,039			103,143		
Other liabilities	3,956			3,695		
Total liabilities	428,258			395,148		
Shareholders' equity	44,567			43,666		
Total liabilities and shareholders' equity	$472,825			$438,814		
Net interest income, interest rate spread (1)		$4,011	3.48 %		$3,721	3.52 %

Net interest margin (net interest as a percent of average interest-earning assets) (1)	3.61 %	3.62 %
Federal tax exemption on non-taxable securities and loans included in interest income	$ 84	$ 185
Average interest-earning assets to interest-bearing liabilities	141.28 %	142.09 %

(1) calculated on a fully taxable equivalent basis utilizing a statutory federal income tax rate of 27.55% in the 2018 fiscal year and 34.0% in the 2017 fiscal year

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CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Average Balance Sheets and Analysis of Net Interest Income for the Six Months Ended December 31,

(In thousands, except percentages)

	2017 Average Balance	Interest	Yield/ Rate	2016 Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Taxable securities	$83,578	$970	2.30 %	$75,745	$779	2.07 %
Nontaxable securities (1)	60,635	997	3.30	59,710	1,061	3.61
Loans receivable (1)	286,273	6,674	4.62	262,296	6,219	4.70
Interest bearing deposits and federal funds sold	7,546	65	1.71	9,225	60	1.29
Total interest-earning assets	438,032	8,706	3.95 %	406,976	8,119	3.98 %
Noninterest-earning assets	31,699			28,008		
Total Assets	$469,731			$434,984		
Interest-bearing liabilities:						
NOW	$53,556	$40	0.15 %	$48,770	$36	0.15 %
Savings	152,080	158	0.21	135,957	67	0.10
Time deposits	66,595	303	0.90	66,216	250	0.75
Short-term borrowings	26,197	112	0.85	19,965	23	0.23
FHLB advances	12,915	108	1.66	14,583	114	1.55
Total interest-bearing liabilities	311,343	721	0.46 %	285,491	490	0.34 %
Noninterest-bearing liabilities:						
Noninterest-bearing checking accounts	110,111			102,144		
Other liabilities	3,920			3,507		
Total liabilities	425,374			391,142		
Shareholders’ equity	44,357			43,842		
Total liabilities and shareholders’ equity	$469,731			$434,984		
Net interest income, interest rate spread (1)		$7,985	3.49 %		$7,629	3.64 %

Net interest margin (net interest as a percent of average interest-earning assets) (1)	3.62 %	3.74 %
Federal tax exemption on non-taxable securities and loans included in interest income	$ 272	$ 366
Average interest-earning assets to interest-bearing liabilities	140.69 %	142.55 %

(1) calculated on a fully taxable equivalent basis utilizing a statutory federal income tax rate of 27.55% in the 2018 fiscal year and 34.0% in the 2017 fiscal year

Provision for Loan Losses

The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management's assessment of the estimated probable incurred credit losses in the Bank's loan portfolio that have been incurred at each balance sheet date. For the three months ended December 31, 2017, the provision for loan losses was $60 compared to $140 for the same prior year period. For the six-month period ended December 31, 2017, the provision for loan losses was $150 compared to $276 for the same prior year period.

Non-performing loans were $865 as of December 31, 2017 compared with $1,187 as of June 30, 2017 and $1,589 as of December 31, 2016. For the six months ended December 31, 2017 net charge-offs totaled $11 compared with net charge-offs of $719 for the same prior year period. The allowance for loan losses as a percentage of loans was 1.10% at December 31, 2017 and 1.13% at June 30, 2017. The provision for loan losses for the period ended December 31, 2017 was considered sufficient by management for maintaining an appropriate allowance for probable incurred credit losses.

Non-Interest Income

Non-interest income increased by $42, or 5.3%, for the second quarter of fiscal year 2018 from the same period last year and by $66, or 4.0%, for the first six months of fiscal year 2018 from the same period last year. Non-interest income was positively impacted by increases in debit card interchange income, gains from the sale of mortgage loans and earnings on bank owned life insurance. These increases were partially offset by a decline in gains from the sale of securities.

Non-Interest Expenses

Total non-interest expenses increased to $3,560, or by 7.0%, during the second quarter of fiscal year 2018, compared with $3,326 during the same year ago period. Total non-interest expenses increased to $6,953, or by 5.2%, during the first six months of fiscal year 2018, compared with $6,612 during the same year ago period. Total non-interest expenses were impacted by increases in salary, incentive and debit card processing expenses.

Income Taxes

Income tax expense was $489 and $735 for the three and six months ended December 31, 2017, respectively, compared to $145 and $397 for the three and six months ended December 31, 2016, respectively. The effective tax rate was 42.7% and 31.7% for the three and six months ended December 31, 2017, respectively, compared to 16.7% and 19.7% for the three and six months ended December 31, 2016, respectively. Income tax expense and the effective tax rate was higher in the 2018 fiscal year compared to the same prior year periods primarily due to the enactment of the Tax Act and increased income before income taxes. As a result of the enactment of the Tax Act, a one-time income tax expense of $253 was recorded in conjunction with revaluing the Company's net deferred tax assets and utilization of a blended tax rate. The enactment of the Tax Act required the Corporation to revalue its deferred tax assets and liabilities based upon the lower enacted federal corporate income tax rate at which the Corporation expects to recognize the benefit. During the three months ended December 31, 2017 a one-time income tax expense of $348 was recorded in conjunction with writing down its net deferred tax assets. In addition, the Company will utilize a blended tax rate for its fiscal year ending June 30, 2018 given the Tax Act lowered the federal corporate tax rate beginning January 1, 2018. As a result of utilizing a blended tax rate for its fiscal year ending June 30, 2018, the Company recognized a $95 benefit to income tax expense for both the three and six months ended December 31, 2017.

Financial Condition

Total assets at December 31, 2017 were $470,282 compared to $457,883 at June 30, 2017, an increase of $12,399, or an annualized 5.4%.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Total loans increased by $20,727, or an annualized 15.2%, from $272,867 at June 30, 2017 to $293,594 at December 31, 2017. The growth in the loan portfolio was primarily related to growth within the commercial real estate and 1-4 family residential real estate segments to borrowers within the Bank’s primary market area. The loan growth was primarily funded by an increase of $8,518, or an annualized 4.5%, in total deposits and a decline of $6,348 in available-for-sale securities.

Non-Performing Assets

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

	December 31, 2017	June 30, 2017	December 31, 2016
Non-accrual loans	$ 865	$ 1,187	$ 1,589
Loans past due over 90 days and still accruing	—	—	—
Total non-performing loans	865	1,187	1,589
Other real estate owned	57	71	—
Total non-performing assets	$ 922	$ 1,258	$ 1,589
Non-performing loans to total loans	0.29 %	0.44 %	0.60 %
Allowance for loan losses to total non-performing loans	372.83 %	259.98 %	196.54 %

As of December 31, 2017, impaired loans totaled $1,765, of which $865 are included in non-accrual loans. Commercial and commercial real estate loans are classified as impaired if management determines that full collection of principal and interest, in accordance with the terms of the loan documents, is not probable. Impaired loans and non-performing loans have been considered in management’s analysis of the appropriateness of the allowance for loan losses. Management and the Board of Directors are closely monitoring these loans and believe that the prospects for recovery of principal and interest, less identified specific reserves, are favorable.

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

Liquidity

The objective of liquidity management is to ensure adequate cash flows to accommodate the demands of our customers and provide adequate flexibility for the Corporation to take advantage of market opportunities under both normal operating conditions and under unpredictable circumstances of industry or market stress. Cash is used to fund loans, purchase investments, fund the maturity of liabilities, and at times to fund deposit outflows and operating activities. The Corporation's principal sources of funds are deposits; amortization and prepayments of loans; maturities, sales and principal receipts from securities; borrowings; and operations. Management considers the asset position of the Corporation to be sufficiently liquid to meet normal operating needs and conditions. The Corporation's earning assets are mainly comprised of loans and investment securities. Management continually strives to obtain the best mix of loans and investments to both maximize yield and insure the soundness of the portfolio, as well as to provide funding for loan demand as needed.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

For the six months ended December 31, 2017, net cash inflow from operating activities was $3,484, net cash outflows from investing activities was $15,494 and net cash inflows from financing activities was $11,239. A major source of cash was $10,434 from sales, maturities, calls or principal pay downs on available-for-sale securities, $8,518 increase in deposits and $5,400 proceeds from FHLB advances. The major use of cash was a $20,967 increase in loans. Total cash and cash equivalents was $9,141 as of December 31, 2017, compared to $9,912 at June 30, 2017 and $10,850 at December 31, 2016.

The Bank offers several types of deposit products to its customers. We believe the rates offered by the Bank and the fees charged for them are competitive with others currently available in the market area. Deposits totaled $382,989 at December 31, 2017 compared with $374,471 at June 30, 2017.

To provide an additional source of liquidity, the Corporation has entered into an agreement with the FHLB of Cincinnati. At December 31, 2017, advances from the FHLB of Cincinnati totaled $17,188 compared with $12,320 at June 30, 2017. As of December 31, 2017, the Bank had the ability to borrow an additional $17,032 from the FHLB of Cincinnati based on a blanket pledge of qualifying first mortgage and multi-family loans. The Corporation considers the FHLB of Cincinnati to be a reliable source of liquidity funding, secondary to its deposit base.

Short-term borrowings consisted of repurchase agreements, which are financing arrangements that mature daily, and federal funds purchased from correspondent banks. The Bank pledges securities as collateral for the repurchase agreements. Short-term borrowings totaled $22,507 at December 31, 2017 and $23,986 at June 30, 2017.

Jumbo time deposits (those with balances of $250 and over) totaled $13,754 at December 31, 2017 and $14,252 at June 30, 2017. These deposits are monitored closely by the Corporation and are mainly priced on an individual basis. When these deposits are from a municipality, certain bank-owned securities are pledged to guarantee the safety of these public fund deposits as required by Ohio law. The Corporation has the option to use a fee-paid broker to obtain deposits from outside its normal service area as an additional source of funding. The Corporation, however, does not rely upon these deposits as a primary source of funding. Although management monitors interest rates on an ongoing basis, a quarterly rate sensitivity report is used to determine the effect of interest rate changes on the financial statements. In the opinion of management, enough assets or liabilities could be repriced over the near term (up to three years) to compensate for such changes. The spread on interest rates, or the difference between the average earning assets and the average interest-bearing liabilities, is monitored quarterly.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Off-Balance Sheet Arrangements

In the normal course of business, to meet the financial needs of our customers, we are a party to financial instruments with off-balance sheet risk. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the Consolidated Balance Sheets. The maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Since commitments to extend credit have a fixed expiration date or other termination clause, some commitments will expire without being drawn upon and the total commitment amounts do not necessarily represent future cash requirements. The same credit policies are used in making commitments as are used for on-balance sheet instruments and collateral is required in instances where deemed necessary. Undisbursed balances of loans closed include funds not disbursed but committed for construction projects. Unused lines of credit include funds not disbursed, but committed for home equity, commercial and consumer lines of credit. Financial standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Total unused commitments were $62,158 at December 31, 2017 and $53,742 at June 30, 2017.

Capital Resources

Total shareholders' equity increased to $44,171 as of December 31, 2017 from $43,535 as of June 30, 2017. The increase was the result of net income of $1,586 for the 2018 fiscal year which was partially offset by $668 in cash dividends paid and a $372 other comprehensive loss from a decline in unrealized gains on available-for-sale securities.

The Bank is subject to various regulatory capital requirements administered by federal regulatory agencies. Capital adequacy guidelines and prompt corrective-action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the Corporation's financial statements.

As of December 31, 2017, the Bank's common equity tier 1 capital and tier 1 capital ratios were 12.64% and the leverage and total capital ratios were 9.00% and 13.60%, respectively. This compares with common equity tier 1 capital and tier 1 capital ratios of 13.21% and leverage and total risk-based capital ratios of 9.06% and 14.20%, respectively, as of June 30, 2017. The Bank exceeded minimum regulatory capital requirements to be considered well-capitalized for both periods. Management is not aware of any matters occurring subsequent to December 31, 2017 that would cause the Bank's capital category to change.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Critical Accounting Policies

The financial condition and results of operations for the Corporation presented in the Consolidated Financial Statements, accompanying notes to the Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations are, to a large degree, dependent upon the Corporation’s accounting policies. The selection and application of these accounting policies involve judgments, estimates and uncertainties that are susceptible to change.

The Corporation has identified the appropriateness of the allowance for loan losses as a critical accounting policy and an understanding of this policy is necessary to understand the financial statements. Critical accounting policies are those policies that require management’s most difficult, subjective or complex judgments often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Note one (Summary of Significant Accounting Policies - Allowance for Loan Losses), note three (Loans) and Management’s Discussion and Analysis of Financial Condition and Results of Operation (Critical Accounting Policies and Use of Significant Estimates) of the 2017 Form 10-K provide detail with regard to the Corporation’s accounting for the allowance for loan losses. There have been no significant changes in the application of accounting policies since June 30, 2017.

Forward-Looking Statements

When used in this report (including information incorporated by reference in this report), the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “believe” or similar expressions are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may involve risks and uncertainties that are difficult to predict, may be beyond the Corporation’s control, and could cause actual results to differ materially from those described in such statements. Any such forward-looking statements are made only as of the date of this report or the respective dates of the relevant incorporated documents, as the case may be, and, except as required by law, the Corporation undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances. Factors that could cause actual results for future periods to differ materially from those anticipated or projected include, but are not limited to:

- material unforeseen changes in the financial condition or results of Consumers National Bank's customers;
- regional and national economic conditions becoming less favorable than expected, resulting in, among other things, a deterioration in credit quality of assets and the underlying value of collateral could prove to be less valuable than otherwise assumed or debtors being unable to meet their obligations;
- rapid fluctuations in market interest rates could result in changes in fair market valuations and net interest income;
- pricing and liquidity pressures that may result in a rising market rate environment;
- competitive pressures on product pricing and services;
- the economic impact from the oil and gas activity in the region could be less than expected or the timeline for development could be longer than anticipated; and
- the nature, extent, and timing of government and regulatory actions.

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

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by the report, an evaluation was performed under the supervision and with the participation of the Corporation’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15e. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation’s disclosure controls and procedures were effective as of December 31, 2017.

Changes in Internal Controls Over Financial Reporting

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

CONSUMERS BANCORP, INC.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

None

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

None

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not Applicable

Item 5 – Other Information

None

Item 6 – Exhibits

Exhibit Number	Description
Exhibit 11	Statement regarding Computation of Per Share Earnings (included in Note 5 to the Consolidated Financial Statements).

Exhibit 31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
Exhibit 31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
Exhibit 101	The following materials from Consumers Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended December 31, 2017, formatted in XBRL (Extensible Business Reporting Language) include: (1) Unaudited Consolidated Balance Sheets, (2) Unaudited Consolidated Statements of Income, (3) Unaudited Consolidated Statements of Comprehensive Income, (4) Unaudited Consolidated Statement of Changes in Shareholders' Equity, (5) Unaudited Condensed Consolidated Statements of Cash Flows, and (6) the Notes to Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

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

	CONSUMERS BANCORP, INC.
	(Registrant)
	/s/ Ralph J. Lober
Date: February 14, 2018	Ralph J. Lober, II President & Chief Executive Officer (principal executive officer)
	/s/ Renee K. Wood
Date: February 14, 2018	Renee K. Wood Chief Financial Officer & Treasurer (principal financial officer)