UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

Or

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

for the transition period from ______________________ To _____________________

Commission File No. 033-79130

CONSUMERS BANCORP, INC.

(Exact name of registrant as specified in its charter)

OHIO (State or other jurisdiction of incorporation or organization)	34-1771400 (I.R.S. Employer Identification No.)
614 East Lincoln Way, P.O. Box 256, Minerva, Ohio (Address of principal executive offices)	44657 (Zip Code)

(330) 868-7701

(Registrant's telephone number)

Not applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.05 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

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

Common Stock, no par value	Outstanding at February 11, 2013
	2,063,538 Common Shares

CONSUMERS BANCORP, INC.

FORM 10-Q

QUARTER ENDED December 31, 2012

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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, 2012	June 30, 2012
ASSETS		
Cash on hand and noninterest-bearing deposits in financial institutions	$ 7,790	$ 6,663
Federal funds sold and interest-bearing deposits in financial institutions	2,524	7,082
Total cash and cash equivalents	10,314	13,745
Certificates of deposit in other financial institutions	6,625	5,645
Securities, available-for-sale	109,478	105,335
Federal bank and other restricted stocks, at cost	1,186	1,186
Loans held for sale	310	377
Total loans	205,686	197,430
Less allowance for loan losses	(2,367)	(2,335)
Net loans	203,319	195,095
Cash surrender value of life insurance	5,701	5,605
Premises and equipment, net	5,781	5,752
Accrued interest receivable and other assets	1,868	2,021
Total assets	$ 344,582	$ 334,761
LIABILITIES		
Deposits		
Non-interest bearing demand	$ 70,960	$ 65,915
Interest bearing demand	38,317	35,055
Savings	100,424	99,041
Time	82,540	84,470
Total deposits	292,241	284,481
Short-term borrowings	14,685	13,722
Federal Home Loan Bank advances	6,408	6,446
Accrued interest and other liabilities	2,152	2,222
Total liabilities	315,486	306,871
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; 2,193,283 and 2,186,791 shares issued as of December 31, 2012 and June 30, 2012, respectively)	5,304	5,205
Retained earnings	23,607	22,740

Treasury stock, at cost (129,745 and 130,442 common shares as of December 31, 2012 and June 30, 2012, respectively)	(1,650)	(1,659)
Accumulated other comprehensive income	1,835	1,604
Total shareholders’ equity	29,096	27,890
Total liabilities and shareholders’ equity	$ 344,582	$334,761

See accompanying notes to consolidated financial statements

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CONSUMERS BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share amounts)	Three Months ended December 31, 2012	Three Months ended December 31, 2011	Six Months ended December 31, 2012	Six Months ended December 31, 2011
Interest income				
Loans, including fees	$ 2,705	$ 2,562	$ 5,310	$ 5,097
Securities, taxable	334	475	717	955
Securities, tax-exempt	315	249	619	494
Federal funds sold and other interest bearing deposits	16	14	31	30
Total interest income	3,370	3,300	6,677	6,576
Interest expense				
Deposits	262	305	532	635
Short-term borrowings	5	7	11	18
Federal Home Loan Bank advances	50	69	100	129
Total interest expense	317	381	643	782
Net interest income	3,053	2,919	6,034	5,794
Provision for loan losses	56	67	81	159
Net interest income after provision for loan losses	2,997	2,852	5,953	5,635
Non-interest income				
Service charges on deposit accounts	336	367	678	723
Debit card interchange income	206	179	399	358
Bank owned life insurance income	49	49	96	100
Securities gains, net	2	106	23	155
Gain (loss) on sale of other real estate owned	—	(53)	—	(53)
Other	85	49	146	86
Total non-interest income	678	697	1,342	1,369
Non-interest expenses				
Salaries and employee benefits	1,478	1,313	3,043	2,639
Occupancy and equipment	330	258	644	516
Data processing expenses	137	140	222	279
Professional and director fees	83	97	175	191
FDIC Assessments	50	49	99	99
Franchise taxes	69	64	139	129
Marketing and advertising	45	53	162	129
Telephone and network communications	80	58	145	116
Debit card processing expenses	98	93	201	187
Amortization of intangible	—	40	—	81
Other	358	335	765	696
Total non-interest expenses	2,728	2,500	5,595	5,062
Income before income taxes	947	1,049	1,700	1,942

Income tax expense	200	258	338	464
Net Income	$ 747	$ 791	$ 1,362	$ 1,478
Basic and diluted earnings per share	$ 0.36	$ 0.39	$ 0.66	$ 0.72

See accompanying notes to consolidated financial statements

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CONSUMERS BANCORP, INC.

Consolidated statements of comprehensive income

(Unaudited)

(Dollars in thousands)

	Three Months ended December 31,		Six Months ended December 31,	
	2012	2011	2012	2011
Net Income	$ 747	$ 791	$ 1,362	$ 1,478
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses):				
Available-for-sale securities:				
Unrealized gains (losses) arising during the period	(314)	417	375	863
Reclassification adjustment for gains included in income	(2)	(106)	(23)	(155)
Net unrealized gain (losses)	(316)	311	352	708
Income tax effect	107	106	121	241
Other comprehensive income (loss)	(209)	205	231	467
Total comprehensive income	$ 538	$ 996	$ 1,593	$ 1,945

See accompanying notes to consolidated financial statements.

CONSUMERS BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months ended December 31,		Six Months ended December 31,	
	2012	2011	2012	2011
Balance at beginning of period	$ 28,760	$ 26,047	$ 27,890	$ 25,324
Net Income	747	791	1,362	1,478
Other comprehensive income (loss)	(209)	205	231	467
Issuance of 697 shares for vested restricted stock awards	-	-	9	-
Common stock issued for dividend reinvestment and stock purchase plan (2,795 shares and 6,492 shares for the three and six months in 2012, respectively)	46	-	99	-
Common cash dividends	(248)	(226)	(495)	(452)
Balance at the end of the period	$ 29,096	$ 26,817	$ 29,096	$ 26,817
Common cash dividends per share	$ 0.12	$ 0.11	$ 0.24	$ 0.22

See accompanying notes to consolidated financial statements.

CONSUMERS BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Six Months Ended December 31, 2012	2011
Cash flows from operating activities		
Net cash from operating activities	$2,350	$2,743
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(16,182)	(32,343)
Maturities, calls and principal pay downs	11,038	10,271
Proceeds from sales of available-for-sale securities	679	7,332
Net (increase) decrease in certificates of deposits in other financial institutions	(980)	2,450
Net increase in loans	(8,305)	(3,201)
Acquisition of premises and equipment	(320)	(88)
Sale of other real estate owned	—	23
Net cash from investing activities	(14,070)	(15,556)
Cash flow from financing activities		
Net increase in deposit accounts	7,760	14,991
Net change in short-term borrowings	963	(4,270)
Repayments of Federal Home Loan Bank advances	(38)	(1,038)
Proceeds from dividend reinvestment and stock purchase plan	99	—
Dividends paid	(495)	(452)
Net cash from financing activities	8,289	9,231
Decrease in cash or cash equivalents	(3,431)	(3,582)
Cash and cash equivalents, beginning of period	13,745	13,828
Cash and cash equivalents, end of period	$10,314	$10,246
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	$638	$792
Federal income taxes	420	200
Non-cash items:		
Issuance of treasury stock for vested restricted stock awards	$9	$—

See accompanying notes to consolidated financial statements.

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note 1 – Summary of Significant Accounting Policies:

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

Basis of Presentation: The consolidated financial statements for interim periods are unaudited and reflect all adjustments (consisting of only normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the financial position and results of operations and cash flows for the periods presented. The unaudited financial statements are presented in accordance with the requirements of Form 10-Q and do not include all disclosures normally required by accounting principles generally accepted in the United States of America. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form 10-K for the year ended June 30, 2012. 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: Consumers Bancorp, Inc. is a bank holding company engaged in the business of commercial and retail banking, which accounts for substantially all of the revenues, operating income, and assets. Accordingly, all of its operations are recorded in one segment, banking.

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

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note 2 – Securities

Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
Obligations of U.S. government-sponsored entities and agencies	$ 5,870	$ 48	$ —	$ 5,918
Obligations of state and political subdivisions	38,521	1,795	(74)	40,242
Mortgage-backed securities – residential	52,011	1,070	(123)	52,958
Collateralized mortgage obligations	10,093	147	(18)	10,222
Trust preferred security	202	—	(64)	138
Total securities	$ 106,697	$ 3,060	$ (279)	$ 109,478

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
Obligations of U.S. government-sponsored entities and agencies	$ 8,487	$ 80	$ —	$ 8,567
Obligations of state and political subdivisions	33,808	1,577	(109)	35,276
Mortgage-backed securities - residential	48,255	1,108	(32)	49,331
Collateralized mortgage obligations	12,154	25	(82)	12,097
Trust preferred security	202	—	(138)	64
Total securities	$ 102,906	$ 2,790	$ (361)	$ 105,335

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Proceeds from sales	$ 149	$ 2,381	$ 679	$ 7,332

Gross realized gains	2	106	23	155

The amortized cost and fair values of available-for-sale securities at December 31, 2012, 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.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,061	$ 4,096
Due after one year through five years	3,713	3,775
Due after five years through ten years	11,687	12,294
Due after ten years	24,930	25,995
Total	44,391	46,160
Mortgage-backed securities – residential	52,011	52,958
Collateralized mortgage obligations	10,093	10,222
Trust preferred security	202	138
Total	$ 106,697	$ 109,478

The following table summarizes the securities with unrealized losses at December 31, 2012 and June 30, 2012, aggregated by investment category and length of time that 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
December 31, 2012						
Obligations of states and political subdivisions	$ 5,143	$ (74)	$ —	$ —	$ 5,143	$ (74)
Mortgage-backed securities - residential	10,317	(123)	—	—	10,317	(123)
Collateralized mortgage obligations	1,606	(18)	—	—	1,606	(18)
Trust preferred security	—	—	138	(64)	138	(64)
Total temporarily impaired	$ 17,066	$ (215)	$ 138	$ (64)	$ 17,204	$ (279)

Description of Securities	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2012						

Obligations of states and political subdivisions	$ 6,002	$ (109)	$ —	$ —	$ 6,022	$ (109)
Mortgage-backed securities - residential	11,135	(32)	—	—	11,135	(32)
Collateralized mortgage obligations	6,411	(62)	2,314	(20)	8,725	(82)
Trust preferred security	—	—	64	(138)	64	(138)
Total temporarily impaired	$ 23,548	$ (203)	$ 2,378	$ (158)	$ 25,926	$ (361)

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.*

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

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.

Unrealized losses on obligations of state and political subdivisions, residential mortgage-backed securities and collateralized mortgage obligations have not been recognized into income because the decline in fair value is not attributed to credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. The decline in fair value of the residential mortgage-backed securities and collateralized mortgage obligations is attributable to higher than projected prepayment speeds increasing the premium amortization and the decline in fair value of obligations of state and political subdivisions is largely due to spreads for these securities being wider at December 31, 2012 than when the securities were purchased. The fair value is expected to recover as the securities approach maturity.

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

The Corporation owns a trust preferred security with an adjusted amortized cost of $202 and a fair value of $138, which represents collateralized debt obligations (CDOs) issued by other financial institutions, bank holding companies and a limited number of insurance companies. The security is part of a pool of issuers that support a more senior tranche of securities. Due to 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 December 31, 2012, the lowest credit rating on this security was Fitch’s rating of C, which is defined as highly speculative. 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. 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 December 31, 2012 analysis, the expected cash flows were above the recorded amortized cost of the trust preferred security. The accumulated other-than-temporary impairment loss that has been recognized in earnings was $780 at December 31, 2012 and June 30, 2012. If there is further deterioration in the underlying collateral of this security, other-than-temporary impairments may also occur in future periods. 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.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note 3 – Loans

Major classifications of loans were as follows:

	December 31, 2012	June 30, 2012
Commercial	$ 24,288	$ 23,041
Commercial real estate:		
Construction	2,385	1,546
Other	116,307	110,775
1 – 4 Family residential real estate:		
Owner occupied	32,794	34,000
Non-owner occupied	18,686	18,794
Construction	344	187
Consumer	11,225	9,407
Subtotal	206,029	197,750
Less: Net deferred loan fees	(343)	(320)
Allowance for loan losses	(2,367)	(2,335)
Net Loans	$ 203,319	$ 195,095

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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 three months ending December 31, 2012:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 145	$ 1,275	$ 677	$ 241	$2,338
Provision for loan losses	—	37	(33)	52	56
Loans charged-off	—	(24)	—	(21)	(45)
Recoveries	—	—	—	18	18
Total ending allowance balance	$ 145	$ 1,288	$ 644	$ 290	$2,367

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ended December 31, 2012:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 143	$ 1,283	$ 712	$ 197	$2,335
Provision for loan losses	6	29	(53)	99	81
Loans charged-off	(4)	(24)	(15)	(40)	(83)
Recoveries	—	—	—	34	34
Total ending allowance balance	$ 145	$ 1,288	$ 644	$ 290	$2,367

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ending December 31, 2011:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 97	$ 1,054	$ 845	$ 91	$2,087
Provision for loan losses	21	(89)	50	85	67
Loans charged-off	—	—	—	(50)	(50)
Recoveries	—	—	5	17	22
Total ending allowance balance	$ 118	$ 965	$ 900	$ 143	$2,126

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ending December 31, 2011:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 179	$ 882	$ 947	$ 93	$2,101
Provision for loan losses	(61)	83	17	120	159
Loans charged-off	—	—	(69)	(100)	(169)
Recoveries	—	—	5	30	35
Total ending allowance balance	$ 118	$ 965	$ 900	$ 143	$2,126

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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 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, 2012. Included in the recorded investment in loans is $528 of accrued interest receivable net of deferred loan fees of $343.

	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	$ 70	$ 269	$ —	$ 381
Collectively evaluated for impairment	103	1,218	375	290	1,986
Total ending allowance balance	$ 145	$ 1,288	$ 644	$ 290	$ 2,367
Recorded investment in loans:					
Loans individually evaluated for impairment	$ 86	$ 608	$ 1,401	$ —	$ 2,095
Loans collectively evaluated for impairment	24,264	118,112	50,535	11,208	204,119
Total ending loans balance	$ 24,350	$ 118,720	$ 51,936	$ 11,208	$ 206,214

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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 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, 2012. Included in the recorded investment in loans is $494 of accrued interest receivable net of deferred loan fees of $320.

	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	$ 50	$ 82	$ 258	$ —	$390
Collectively evaluated for impairment	93	1,201	454	197	1,945
Total ending allowance balance	$ 143	$ 1,283	$ 712	$ 197	$2,335
Recorded investment in loans:					
Loans individually evaluated for impairment	$ 148	$ 996	$ 1,417	$ —	$2,561
Loans collectively evaluated for impairment	22,940	111,352	51,683	9,388	195,363
Total ending loans balance	$ 23,088	$ 112,348	$ 53,100	$ 9,388	$197,924

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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 information related to loans individually evaluated for impairment by class of loans as of and for the six months ended December 31, 2012:

	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	$ —	$ —	$ —	$ 5	$ —	$ —
Commercial real estate:						
Other	1	1	—	60	—	—
1-4 Family residential real estate:						
Owner occupied	81	81	—	81	—	—
Non-owner occupied	57	58	—	57	2	2
With an allowance recorded:						
Commercial	86	86	42	107	8	8
Commercial real estate:						
Other	607	607	70	806	63	63
1-4 Family residential real estate:						
Owner occupied	330	328	45	315	—	—
Non-owner occupied	933	934	224	942	12	12
Total	$ 2,095	$ 2,095	$ 381	$ 2,373	$ 85	$ 85

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, 2012:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial real estate:			
Other	$ 18	$ —	$ —
1-4 Family residential real estate:			
Owner occupied	81	—	—
Non-owner occupied	57	1	1
With an allowance recorded:			
Commercial	92	8	8
Commercial real estate:			
Other	750	61	61
1-4 Family residential real estate:			
Owner occupied	316	—	—
Non-owner occupied	937	6	6
Total	$ 2,251	$ 76	$ 76

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents information related to loans individually evaluated for impairment by class of loans as of June 30, 2012 and for the six months ended December 31, 2011:

	As of June 30, 2012			Six Months ended December 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	$12	$ 12	$ —	$ 44	$ —	$ —
Commercial real estate:						
Other	144	144	—	633	3	3
1-4 Family residential real estate:						
Owner occupied	238	238	—	96	2	2
Non-owner occupied	64	65	—	54	2	2
With an allowance recorded:						
Commercial	136	136	50	61	—	—
Commercial real estate:						
Other	851	852	82	760	11	11
1-4 Family residential real estate:						
Owner occupied	160	160	13	218	6	6
Non-owner occupied	952	954	245	917	—	—
Total	$2,557	$ 2,561	$ 390	$ 2,783	$ 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, 2011:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial	$ 43	$ —	$ —
Commercial real estate:			
Other	630	—	—
1-4 Family residential real estate:			
Owner occupied	95	—	—
Non-owner occupied	65	2	2
With an allowance recorded:			
Commercial	60	—	—
Commercial real estate:			
Other	758	6	6
1-4 Family residential real estate:			
Owner occupied	218	4	4
Non-owner occupied	949	—	—
Total	$ 2,818	$ 12	$ 12

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The following table presents the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2012 and June 30, 2012:

	December 31, 2012		June 30, 2012	
	Non-accrual	Loans Past Due Over 90 Days Still Accruing	Non-accrual	Loans Past Due Over 90 Days Still Accruing
Commercial	$ 77	$ —	$ 51	$ —
Commercial real estate:				
Other	522	—	911	—
1 – 4 Family residential:				
Owner occupied	298	109	307	—
Non-owner occupied	727	—	663	—
Consumer	—	—	—	—
Total	$ 1,624	$ 109	$ 1,932	$ —

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, 2012 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	$—	$ 8	$ 77	$85	$24,265	$24,350
Commercial real estate:						
Construction	—	—	—	—	2,390	2,390
Other	—	—	20	20	116,310	116,330
1-4 Family residential:						
Owner occupied	—	—	361	361	32,547	32,908
Non-owner occupied	—	—	126	126	18,559	18,685
Construction	—	—	—	—	343	343
Consumer	43	—	—	43	11,165	11,208
Total	$43	$ 8	$ 584	$635	$205,579	$206,214

The above table of past due loans includes the recorded investment in non-accrual loans of $475 in the 90 days or greater and $1,149 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, 2012 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	$85	$—	$ 33	$118	$22,970	$23,088
Commercial real estate:						
Construction	202	—	—	202	1,345	1,547
Other	82	—	268	350	110,451	110,801
1-4 Family residential:						
Owner occupied	174	—	178	352	33,766	34,118
Non-owner occupied	43	—	—	43	18,753	18,796
Construction	—	—	—	—	186	186
Consumer	—	8	—	8	9,380	9,388
Total	$586	$ 8	$ 479	$1,073	$196,851	$197,924

The above table of past due loans includes the recorded investment in non-accrual loans of $43 in the 30 – 59 days past due category, $479 in the 90 days or greater and $1,410 in the loans not past due category.

Troubled Debt Restructurings:

As of December 31, 2012, the recorded investment of loans classified as troubled debt restructurings was $1,712 with $250 of specific reserves allocated to these loans. As of June 30, 2012, the recorded investment of loans classified as troubled debt restructurings was $1,973 with $258 of specific reserves allocated to these loans. As of December 31, 2012 and June 30, 2012, the Corporation had not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

During the six months ended December 31, 2012 and during the year ended June 30, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; a permanent reduction of the principal balance of the loan; or a temporary reduction in the payment amount to interest only.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 25 years. Modifications involving an extension of the maturity date were for a period of 5 years to 25 years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the six months ended December 31, 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
1 – 4 Family residential:			
Owner occupied	1	$ 21	$ 21
Total	1	$ 21	$ 21

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended June 30, 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	$ 85	$ 85
Commercial real estate:			

Other	2	137	137
1 – 4 Family residential:			
Owner occupied	1	114	114
Non-owner occupied	7	534	466
Total	11	$ 870	$ 802

Troubled debt restructurings increased the allowance for loan losses by $2 for the three and six month periods ending December 31, 2012. There were no charge offs from troubled debt restructurings during the three or six month periods ending December 31, 2012. There was no increase to the allowance for loan losses or any charge offs from troubled debt restructurings during the three month period ended December 31, 2011. Troubled debt restructurings increased the allowance for loan losses by $20 and resulted in charge offs of $63 during the six month period ended December 31, 2011.

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

There were no loans classified as troubled debt restructurings for which there was a payment default during the three or six month periods ending December 31, 2012 or December 31, 2011. 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, 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 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.

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:

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

	As of December 31, 2012				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	$23,044	$149	$ 28	$86	$1,043
Commercial real estate:					
Construction	2,299	91	—	—	—
Other	106,864	5,451	2,708	608	699
1-4 Family residential real estate:					
Owner occupied	4,204	—	—	409	28,295
Non-owner occupied	15,365	1,359	772	992	197
Construction	166	—	—	—	177
Consumer	—	—	—	—	11,208
Total	$151,942	$7,050	$ 3,508	$2,095	$41,619

	As of June 30, 2012				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	$21,642	$240	$ 14	$148	$1,044
Commercial real estate:					
Construction	1,353	163	—	—	31
Other	98,942	7,332	2,657	996	874
1-4 Family residential real estate:					
Owner occupied	4,256	—	99	398	29,365
Non-owner occupied	14,205	2,197	875	1,019	500
Construction	47	—	—	—	139
Consumer	—	—	—	—	9,388
Total	$140,445	$9,932	$ 3,645	$2,561	$41,341

<u>Note 4 - Fair Value</u>

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.

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

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

Securities available-for-sale: When available, the fair values of available-for-sale securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For securities where quoted market prices are not available, fair values are calculated based on market prices of similar securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3 inputs). The fair value of the Level 3 security is obtained from a third-party pricing service. 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 the individual security is reviewed and incorporated into the calculation.

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, 2012	Fair Value Measurements at December 31, 2012 Using Level 1	Level 2	Level 3
Assets:				
Obligations of U.S. government-sponsored entities and agencies	$ 5,918	$ —	$ 5,918	$ —
Obligations of states and political subdivisions	40,242	—	40,242	—
Mortgage-backed securities – residential	52,958	—	52,958	—
Collateralized mortgage obligations	10,222	—	10,222	—
Trust preferred security	138	—	—	138

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

	Balance at	Fair Value Measurements at June 30, 2012 Using		
	June 30, 2012	Level 1	Level 2	Level 3
Assets:				
Obligations of U.S. government-sponsored entities and agencies	$ 8,567	$ —	$ 8,567	$ —
Obligations of states and political subdivisions	35,276	—	35,276	—
Mortgage-backed securities - residential	49,331	—	49,331	—
Collateralized mortgage obligations	12,097	—	12,097	—
Trust preferred security	64	—	—	64

There were no transfers between Level 1 and Level 2 during the first six months of the 2013 fiscal year or the during the 2012 fiscal year.

The following table presents a reconciliation of the trust preferred security measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended December 31, 2012 and 2011:

	2012	2011
Beginning balance	$64	$ 67
Change in fair value included in other comprehensive income	74	(3)
Ending balance, December 31	$138	$ 64

The significant unobservable inputs used in the fair value measurement of the Corporation’s trust preferred security are probabilities of specific-issuer defaults and deferrals and specific-issuer recovery assumptions. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a significantly lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement.

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

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

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

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

	Balance at December 31, 2012	Fair Value Measurements at December 31, 2012 Using Level 1	Level 2	Level 3
Impaired loans:				
Commercial	$ 36	$ —	$ —	$ 36
Commercial real estate:				
Other	59	—	—	59
1-4 Family				
Owner occupied	160	—	—	160
Non-owner occupied	440	—	—	440

	Balance at June 30, 2012	Fair Value Measurements at June 30, 2012 Using Level 1	Level 2	Level 3
Impaired loans:				
Commercial	$ 11	$ —	$ —	$ 11
Commercial real estate:				
Other	647	—	—	647
1-4 Family				
Owner occupied	40	—	—	40
Non-owner occupied	438	—	—	438

Impaired loans, which are generally measured for impairment using the fair value of the collateral for collateral dependant loans, had a principal balance of $988, with a valuation allowance of $293 at December 31, 2012. As of June 30, 2012, impaired loans with a principal balance of $1,479 had a valuation allowance of $343. The resulting impact to the provision for loan losses was a reduction of $23 and $50 being recorded for the three and six month periods ended December 31, 2012. The resulting impact to the provision for loan losses was $73 being recorded for the three and six month periods ended December 31, 2011.

The valuation technique used by an independent third party appraiser in the fair value measurement of collateral for collateral-dependent 1-4 family non-owner occupied impaired loans primarily consisted of the sales comparison and income approach. The significant unobservable inputs used in the fair value measurement relate to adjustments made to the value set forth in the appraisal by deducting a distressed sale adjustment. For the December 31, 2012 period, collateral discounts for commercial real estate impaired loans was 31%, for 1-4 family owner occupied impaired loans ranged from 31% to 32% and for 1-4 family non-owner occupied impaired loans ranged from 13% to 31%. For the June 30, 2012 period, collateral discounts for commercial real estate impaired loans ranged from 33% to 41% and for 1-4 family non-owner occupied impaired loans ranged from 15% to 39%.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Estimated fair value for cash and cash equivalents, certificates of deposits in other financial institutions, accrued interest receivable and payable, demand and savings deposits and short-term borrowings were considered to approximate carrying value. The methodologies for other financial assets and financial liabilities are discussed below:

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 3 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.

Time deposits: Fair value of fixed-maturity certificates of deposit was estimated using the rates offered at December 31, 2012 and June 30, 2012, for deposits of similar remaining maturities. Estimated fair value does not include the benefit that result from low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market resulting in a Level 2 classification.

Federal Home Loan Bank advances: Fair value of Federal Home Loan Bank advances was estimated using current rates at December 31, 2012 and June 30, 2012 for similar financing resulting in a Level 2 classification.

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. 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 following table.

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, 2012		June 30, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Level 1 inputs:				
Cash and cash equivalents	$10,314	$10,314	$13,745	$13,745
Level 2 inputs:				
Certificates of deposits in other financial institutions	6,625	6,625	5,645	5,645
Accrued interest receivable	1,080	1,080	1,043	1,043
Level 3 inputs:				
Loans held for sale	310	317	377	387
Loans	203,319	203,762	195,095	196,592
Financial Liabilities:				
Level 2 inputs:	209,701	209,701	200,011	200,011
Demand and savings deposits				
Time deposits	82,540	83,257	84,470	85,262
Short-term borrowings	14,685	14,685	13,722	13,722
Federal Home Loan Bank advances	6,408	7,013	6,446	7,398
Accrued interest payable	61	61	56	56

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note 5 – Earnings Per Share

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period and is equal to net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares that may be issued upon the vesting of restricted stock awards. The following table details the calculation of basic and diluted earnings per share:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2012	2011	2012	2011
Basic:				
Net income available to common shareholders	$747	$791	$1,362	$1,478
Weighted average common shares outstanding	2,062,658	2,050,176	2,060,034	2,050,075
Basic income per share	$0.36	$0.39	$0.66	$0.72
Diluted:				
Net income available to common shareholders	$747	$791	$1,362	$1,478
Weighted average common shares outstanding	2,062,658	2,050,176	2,060,034	2,050,075
Dilutive effect of restricted stock	530	368	496	308
Total common shares and dilutive potential common shares	2,063,188	2,050,544	2,060,530	2,050,383
Dilutive income per share	$0.36	$0.39	$0.66	$0.72

CONSUMERS BANCORP, INC.

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 month periods ended December 31, 2012, compared to the same periods in 2011, and the consolidated balance sheet at December 31, 2012 compared to June 30, 2012. 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 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, Freddie Mac and Ginnie Mae.

Results of Operations

Three and Six Months Ended December 31, 2012 and December 31, 2011

Net Income

In the second quarter of fiscal year 2013, net income was $747, or $0.36 per common share, compared with $791, or $0.39 per common share, in the prior year period. The following key factors summarize our results of operations for the three months ending December 31, 2012:

- net interest income increased by $134, or 4.6%, in fiscal year 2013 from the same prior year period;
- noninterest income declined by $19, or 2.7%, in fiscal year 2013 from the same prior year period. In the prior year, a $104 net gain on the sale of securities and a $53 loss on the sale of other real estate acquired through loan foreclosure was recognized; and
- noninterest expenses increased by $228, or 9.1%, in fiscal year 2013 principally as a result of higher salary and employee benefits due to staff hired in the lending area and new staff for the Jackson-Belden office that opened July 31, 2012.

In the first six months of fiscal year 2013, net income was $1,362, or $0.66 per common share, compared with $1,478, or $0.72 per common share, in the prior year period. The following key factors summarize our results of operations for the six months ending December 31, 2012:

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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)

- net interest income increased by $240, or 4.1%, in fiscal year 2013 from the same prior year period;
- loan loss provision expense in fiscal year 2013 totaled $81 compared to $159 from the same prior year period;
- noninterest income declined by $27, or 2.0%, in fiscal year 2013 from the same prior year period mainly as a result of a decrease of $132 in the net gains on the sale of securities; and
- noninterest expenses increased by $533, or 10.5%, in fiscal year 2013 principally as a result of higher salary and employee benefits due to staff hired in the lending area and new staff for the Jackson-Belden office that opened July 31, 2012. Also, occupancy and equipment expense increased primarily as a result of higher depreciation expense associated with the Minerva, Ohio location since a new facility is planned to replace the current facility by spring of 2015.

Return on average equity (ROE) and return on average assets (ROA) were 10.21% and 0.86%, respectively, for the second quarter of fiscal year 2013 compared to 11.99% and 1.00%, respectively, for the second quarter of fiscal year 2012. ROE and ROA were 9.46% and 0.79%, respectively, for the first six months of fiscal year 2013 compared to 11.27% and 0.95%, respectively, for the same prior year period.

Net Interest Income

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

The Corporation’s net interest margin for the three months ended December 31, 2012 was 3.94%, compared to 4.05% for the same year ago period. Net interest income for the three months ended December 31, 2012 increased by $134, or 4.6%, to $3,053 from $2,919 for the same year ago period. The increase in net interest income was primarily the result of a decline in the Corporation’s cost of funds and an increase in average interest-earning assets.

Interest income for the three months ended December 31, 2012 increased by $70, or 2.1%, from the same year ago period. An increase of $26,650, or 8.9%, in average interest-earning assets more than offset the impact the low interest rate environment has had on the yield of average interest-earning assets. Interest expense for the three months ended December 31, 2012 decreased by $64, or 16.8%, from the same year ago period. The Corporation's cost of funds decreased to 0.52% for the three month period ended December 31, 2012 from 0.69% for the same year ago period mainly due to lower market rates affecting the rates paid on most all interest-bearing deposit accounts and borrowings.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

The Corporation’s net interest margin for the six months ended December 31, 2012 was 3.94%, compared to 4.08% for the same year ago period. Net interest income for the six months ended December 31, 2012 increased by $240, or 4.1%, to $6,034 from $5,794 for the same year ago period. The increase in net interest income was primarily the result of a decline in the Corporation’s cost of funds and an increase in average interest-earning assets.

Interest income for the six months ended December 31, 2012 increased by $101, or 1.5%, from the same year ago period. An increase of $26,485, or 8.9%, in average interest-earning assets more than offset the impact the low interest rate environment has had on the yield of average interest-earning assets. Interest expense for the six months ended December 31, 2012 decreased by $139, or 17.8%, from the same year ago period. The Corporation’s cost of funds decreased to 0.53% for the six month period ended December 31, 2012 from 0.72% for the same year ago period mainly due to lower market rates affecting the rates paid on most all interest-bearing deposit accounts and borrowings. The Corporation has introduced a NOW checking account product that pays a higher rate of interest to customers who meet certain qualifications, with one of the main qualifications being the frequent use of a debit card. As a result, debit card interchange income has increased (see discussion in “Non-Interest Income” section) and the cost of the NOW checking account increased from 0.14% to 0.22% from 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)

	2012 Average Balance	Interest	Yield/ Rate	2011 Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Taxable securities	$67,736	$334	1.99 %	$76,669	$475	2.49 %
Nontaxable securities (1)	39,842	468	4.90	26,253	368	5.76
Loans receivable (1)	203,652	2,712	5.28	179,675	2,567	5.68
Interest bearing deposits and federal funds sold	15,507	16	0.41	17,490	14	0.32
Total interest-earning assets	326,737	3,530	4.33 %	300,087	3,424	4.56 %
Noninterest-earning assets	18,259			13,244		
Total Assets	$344,996			$313,331		
Interest-bearing liabilities:						
NOW	$35,408	$22	0.25 %	$21,318	$7	0.13 %
Savings	102,558	21	0.08	89,191	27	0.12
Time deposits	85,207	219	1.02	85,881	271	1.26
Short-term borrowings	13,791	5	0.14	15,694	7	0.18
FHLB advances	6,415	50	3.09	6,710	69	4.09
Total interest-bearing liabilities	243,379	317	0.52 %	218,794	381	0.69 %
Noninterest-bearing liabilities:						
Noninterest-bearing checking accounts	70,238			66,170		
Other liabilities	2,325			2,134		
Total liabilities	315,942			287,098		
Shareholders’ equity	29,054			26,233		
Total liabilities and shareholders’ equity	$344,996			$313,331		

Net interest income, interest rate spread (1)		$3,213	3.81 %		$3,043	3.87 %
Net interest margin (net interest as a percent of average interest-earning assets) (1)			3.94 %			4.05 %
Federal tax exemption on non-taxable securities and loans included in interest income		$160			$124	
Average interest-earning assets to interest-bearing liabilities	134.25 %			137.16 %		

(1) calculated on a fully taxable equivalent basis

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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)

	2012 Average Balance	Interest	Yield/ Rate	2011 Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Taxable securities	$68,328	$717	2.12 %	$73,033	$955	2.64 %
Nontaxable securities (1)	38,671	920	4.95	25,925	730	5.77
Loans receivable (1)	201,411	5,325	5.24	179,016	5,108	5.68
Interest bearing deposits and federal funds sold	14,058	31	0.44	18,009	30	0.33
Total interest-earning assets	322,468	6,993	4.34 %	295,983	6,823	4.61 %
Noninterest-earning assets	18,007			13,355		
Total Assets	$340,475			$309,338		
Interest-bearing liabilities:						
NOW	$35,376	$40	0.22 %	$18,519	$13	0.14 %
Savings	101,307	48	0.09	85,958	63	0.15
Time deposits	84,769	444	1.04	87,196	559	1.28
Short-term borrowings	13,811	11	0.16	16,252	18	0.22
FHLB advances	6,424	100	3.09	7,117	129	3.61
Total interest-bearing liabilities	241,687	643	0.53 %	215,042	782	0.72 %
Noninterest-bearing liabilities:						
Noninterest-bearing checking accounts	67,811			66,193		
Other liabilities	2,393			2,029		
Total liabilities	311,891			283,264		
Shareholders’ equity	28,584			26,074		
Total liabilities and shareholders’ equity	$340,475			$309,338		

Net interest income, interest rate spread (1)		$6,350	3.81 %		$6,041	3.89 %
Net interest margin (net interest as a percent of average interest-earning assets) (1)			3.94 %			4.08 %
Federal tax exemption on non-taxable securities and loans included in interest income		$316			$247	
Average interest-earning assets to interest-bearing liabilities	133.42 %			137.64 %		

(1) calculated on a fully taxable equivalent basis

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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)

Provision for Loan Losses

The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management's assessment of the estimated probable incurred credit losses in the Bank's loan portfolio that have been incurred at each balance sheet date. For the three month period ended December 31, 2012, the provision for loan losses was $56, a decrease of $11 from the same prior year period. For the six month period ended December 31, 2012, the provision for loan losses was $81, a decrease of $78 from the same prior year period.

The allowance for loan losses as a percentage of loans was 1.18% at June 30, 2012 and 1.15% at December 31, 2012. From June 30, 2012 to December 31, 2012, there was a reduction in the recorded investment of loans classified as special mention, substandard and doubtful and the percentage of loans classified as pass credits increased from 70.96% at June 30, 2012 to 73.68% at December 31, 2012. The improvement in the risk classifications of the loan portfolio was the primary reason for the reduction in the allowance for loan losses as a percentage of total loans from June 30, 2012.

Net charge-offs for the six month period ending December 31, 2012 were $49, or 0.05% of total average loans on an annualized basis, compared with $134, or 0.15% of total average loans, for the same period last year. The provision for the 1-4 family residential real estate loan portfolio was a negative $53 for the current six month period primarily as a result of improvement in the three year historical loss ratio for this portfolio.

Non-performing loans were $1,733 as of December 31, 2012 and represented 0.84% of total loans. This compared with $1,932, or 0.98%, at June 30, 2012 and $2,030, or 1.12%, as of December 31, 2011. The allowance for loan losses to total non-performing loans at December 31, 2012 was 136.58% compared with 120.86% at June 30, 2012 and 104.73% at December 31, 2011.

The provision for loan losses for the period ending December 31, 2012 was considered sufficient by management for maintaining an appropriate allowance for loan losses for probable incurred credit losses.

Non-Interest Income

Non-interest income totaled $678 for the second quarter of fiscal year 2013, compared to $697 for the same period last year. Non-interest income for the second quarter of fiscal year 2013 included a net gain from the sale of securities of $2 compared with a net gain of $106 recognized during the same prior year period. Also included in non-interest income during the second quarter of fiscal year 2012 was a $53 loss from the sale of other real estate that was acquired through loan foreclosure.

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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)

Service charges on deposits decreased by $31, or 8.4%, during the second quarter of fiscal year 2013 due to a decline in overdraft fee income from the same period last year. The decline in overdraft income was partially offset by an increase in service charge income on personal checking accounts as a result of product changes that went into effect in December 2011. Debit card interchange income increased by $27, or 15.1%, from the same period last year mainly due to an increase in debit card usage by our customers as a result of the new NOW checking account product previously discussed.

Other non-interest income increased by $36, or 73.5%, during the second quarter of fiscal year 2013 primarily as a result of increases in investment advisory and brokerage income and gain on the sale of loans.

Non-interest income totaled $1,342 for the first six months of fiscal year 2013, compared to $1,369 for the same period last year. Non-interest income for the first six months of fiscal year 2013 included a net gain from the sale of securities of $23 compared with a net gain of $155 recognized during the same prior year period. Also included in non-interest income during the 2012 fiscal year was a $53 loss from the sale of other real estate that was acquired through loan foreclosure.

Service charges on deposits decreased by $45, or 6.2%, during the first six months of fiscal year 2013 mainly due to a decline in overdraft fee income from the same period last year. The decline in overdraft income was partially offset by an increase in service charge income on personal checking accounts as a result of product changes that went into effect in December 2011. Debit card interchange income increased by $41, or 11.5%, from the same period last year mainly due to an increase in debit card usage by our customers as a result of the new NOW checking account product previously discussed.

Other non-interest income increased by $60, or 69.8%, during the first six months of fiscal year 2013 primarily as a result of increases in the gain on the sale of loans and investment advisory and brokerage income.

Non-Interest Expenses

Total non-interest expenses increased to $2,728, or by 9.1%, during the second quarter of fiscal year 2013, compared with $2,500 during the same year ago period.

Salaries and employee benefits increased by $165, or 12.6%, during the second quarter of fiscal year 2013. The increase was primarily associated with staff additions in the lending area and new staff for the Jackson-Belden office that was opened July 31, 2012.

Occupancy and equipment increased by $72, or 27.9%, during the second quarter of fiscal year 2013 mainly due to an increase in building depreciation expense associated with the Minerva, Ohio corporate headquarters and branch location. The remaining book value of this location is being expensed over the remaining useful life as a new facility is planned to replace the current facility by spring of 2015. Occupancy and equipment expenses also increased as a result of the new Jackson-Belden office that opened on July 31, 2012.

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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)

Telephone and network communications expenses increased by $22, or 37.9%, during the second quarter of fiscal year 2013 mainly as a result of one-time costs associated with the switch to a fiber optic communications network.

Total non-interest expenses increased to $5,595, or by 10.5%, during the first six months of fiscal year 2013, compared with $5,062 during the same year ago period.

Salaries and employee benefits increased by $404, or 15.3%, during the first six months of fiscal year 2013. The increase was primarily associated with staff additions in the lending area and new staff for the Jackson-Belden office that was opened July 31, 2012.

Occupancy and equipment increased by $128, or 24.8%, during the first six months of fiscal year 2013 mainly due to an increase in building depreciation expense associated with the Minerva, Ohio corporate headquarters and branch location. The remaining book value of this location is being expensed over the remaining useful life as a new facility is planned to replace the current facility by spring of 2015. Occupancy and equipment expenses also increased as a result of the new Jackson-Belden office that opened on July 31, 2012.

Marketing and advertising expenses increased by $33, or 25.6%, to $162 compared to the same period last year mainly due to an increase in marketing efforts as a result of the opening of the Jackson-Belden branch location.

Telephone and network communications expenses increased by $29, or 25.0%, during the first six months of fiscal year 2013 mainly as a result of one-time costs associated with the switch to a fiber optic communications network.

Debit card processing expenses increased by $14, or 7.5%, during the first six months of fiscal year 2013 mainly as a result of increased debit card usage by our customers.

The amortization of intangible expense declined from the previous year since the core deposit purchase premium of the Lisbon, Ohio branch that was purchased in January 2000 is fully amortized.

Total other expenses increased by $69, or 9.9%, during the first six months of fiscal year 2013, mainly as a result of higher internet banking expenses as a result of an increased number of personal and business customers using the internet banking product and higher education and development expenses from the introduction of a management development program.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Income Taxes

Income tax expense for the three month period ended December 31, 2012 decreased by $58, to $200 from $258, compared to a year ago. The effective tax rate was 21.1% for the current quarter as compared to 24.6% for the same period last year.

Income tax expense for the six month period ended December 31, 2012 decreased by $126, to $338 from $464, compared to a year ago. The effective tax rate was 19.9% for the current period as compared to 23.9% for the same period last year. The decline in the effective tax rate was primarily the result of an increase in tax-exempt municipal income.

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 December 31, 2012 were $344,582 compared to $334,761 at June 30, 2012, an increase of $9,821, or an annualized 5.8%.

Available-for-sale securities increased by $4,143 from $105,335 at June 30, 2012 to $109,478 at December 31, 2012. Within the securities portfolio, the Corporation owns a trust preferred security with an adjusted amortized cost of $202 and a fair value of $138, which represents collateralized debt obligations (CDOs) issued by other financial institutions, bank holding companies and a limited number of insurance companies. The security is part of a pool of issuers that support a more senior tranche of securities. Due to 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 December 31, 2012, the lowest credit rating on this security was Fitch’s rating of C, which is defined as highly speculative. 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. 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 December 31, 2012 analysis, the expected cash flows were above the recorded amortized cost of the trust preferred security. The accumulated other-than-temporary impairment loss that has been recognized in earnings was $780 at December 31, 2012 and June 30, 2012. If there is further deterioration in the underlying collateral of this security, other-than-temporary impairments may also occur in future periods. 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.

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 $8,256, or an annualized 8.3%, to $205,686 at December 31, 2012 compared to $197,430 at June 30, 2012 mainly as a result of expanded calling efforts.

Non-Performing Assets

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

	December 31, 2012	June 30, 2012	December 31, 2011
Non-accrual loans	$ 1,624	$ 1,932	$ 2,030
Loans past due over 90 days and still accruing	109	—	—
Total non-performing loans	1,733	1,932	2,030
Other real estate owned	—	—	—
Total non-performing assets	$ 1,733	$ 1,932	$ 2,030
Non-performing loans to total loans	0.84 %	0.98 %	1.12 %
Allowance for loan losses to total non-performing loans	136.58 %	120.86 %	104.73 %

As of December 31, 2012, impaired loans totaled $2,095, of which $1,477 are included in non-accrual loans. Commercial and commercial real estate loans are classified as impaired if management determines that full collection of principal and interest, in accordance with the terms of the loan documents, is not probable. Impaired loans and non-performing loans have been considered in management’s analysis of the appropriateness of the allowance for loan losses. Management and the Board of Directors are closely monitoring these loans and believe that the prospects for recovery of principal and interest, less identified specific reserves, are favorable.

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

Liquidity

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

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Net cash inflow from operating activities for the six month period ended December 31, 2012 was $2,341, net cash outflows from investing activities was $14,070 and net cash inflows from financing activities was $8,298. A major source of cash was $11,038 from sales, maturities, calls or principal pay downs on available-for-sale securities and a $7,760 increase in deposits. A major use of cash included the $16,182 purchase of securities and an $8,305 increase in loans. Total cash and cash equivalents was $10,314 as of December 31, 2012 compared to $13,745 at June 30, 2012 and $10,246 at December 31, 2011.

The Bank offers several types of deposit products to its customers. The rates offered by the Bank and the fees charged for them are competitive with others currently available in the market area. Deposits totaled $292,241 at December 31, 2012 compared with $284,481 at June 30, 2012. The overall cost for funds decreased by 19 basis points from the same year ago period.

To provide an additional source of liquidity, the Corporation has entered into an agreement with the Federal Home Loan Bank (FHLB) of Cincinnati. At December 31, 2012, FHLB advances totaled $6,408 as compared with $6,446 at June 30, 2012. As of December 31, 2012, the Bank had the ability to borrow an additional $21,702 from the FHLB based on a blanket pledge of qualifying first mortgage loans. The Corporation considers the FHLB to be a reliable source of liquidity funding, secondary to its deposit base.

Short-term borrowings consisted of repurchase agreements which is a financing arrangement that matures daily and federal funds purchased from correspondent banks. The Bank pledges securities as collateral for the repurchase agreements. Short-term borrowings increased to $14,685 at December 31, 2012 from $13,722 at June 30, 2012.

Jumbo time deposits (those with balances of $100 thousand and over) totaled $33,676 at December 31, 2012 and $34,422 at June 30, 2012. 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)

Capital Resources

Total shareholders’ equity increased by $1,206 from June 30, 2012 to $29,096 as of December 31, 2012. The increase was mainly due to net income for the current six month period and an increase in the fair value of available-for-sale securities offset by cash dividends paid during the period.

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.

The Bank’s leverage and risk-based capital ratios as of December 31, 2012 were 7.3% and 13.4%, respectively. This compares to leverage and risk-based capital ratios of 7.4% and 13.4%, respectively, as of June 30, 2012. 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, 2012 that would cause the Bank’s capital category to change.

Regulatory reforms continue to be adopted which impose additional restrictions on current business practices and one such proposal is the Federal Reserve BASEL III capital plan rules. In June 2012, the Federal Reserve Board, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the Agencies) each issued notices of proposed rulemaking that would revise and replace the Agencies’ current capital rules to align with the BASEL III capital standards and meet certain requirements of the Dodd-Frank Act. Certain requirements of the notices of proposed rulemaking would establish more restrictive capital definitions, higher risk-weightings for certain asset classes, capital buffers and higher minimum capital ratios. The notices of proposed rulemaking were in a comment period through October 22, 2012, and are subject to further modification by the Agencies. We are currently evaluating the impact of the proposals on our regulatory capital ratios. There can be no guarantee that Basel III will be adopted in its current form, what changes may be made before adoption, or when ultimate adoption will occur.

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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)

Critical Accounting Policies

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

The Corporation has identified the appropriateness of the allowance for loan losses and the valuation of securities as critical accounting policies and an understanding of these policies are necessary to understand the financial statements. Critical accounting policies are those policies that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Footnote one (Securities and Allowance for Loan Losses), footnote two (Securities), footnote three (Loans) and Management Discussion and Analysis of Financial Condition and Results from Operation (Critical Accounting Policies) of the 2012 Form 10-K provide detail with regard to the Corporation's accounting for the allowance for loan losses and valuation of securities and other-than-temporary impairment. There have been no significant changes in the application of accounting policies since June 30, 2012.

Forward-Looking Statements

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

- regional and national economic conditions becoming less favorable than expected, resulting in, among other things, a deterioration in credit quality of assets and the underlying value of collateral could prove to be less valuable than otherwise assumed;
- 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;
- an extended period in which market levels of interest rates remain at historical low levels which could reduce, or put pressure on our ability to maintain, anticipated or actual margins;
- the nature, extent, and timing of government and regulatory actions;

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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)

- material unforeseen changes in the financial condition or results of Consumers National Bank’s customers;
- competitive pressures on product pricing and services; and
- a deterioration in market conditions causing debtors to be unable to meet their obligations.

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

CONSUMERS BANCORP, INC.

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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 has materially affected, or is reasonably likely to materially affect, 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 1 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 material from Consumers Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language) includes: (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.

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CONSUMERS BANCORP, INC.

SIGNATURES

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

	CONSUMERS BANCORP, INC. (Registrant)
Date: February 14, 2013	/s/ Ralph J. Lober Ralph J. Lober, II President & Chief Executive Officer (principal executive officer)
Date: February 14, 2013	/s/ Renee K. Wood Renee K. Wood Chief Financial Officer & Treasurer (principal financial officer)