CONSUMERS BANCORP INC /OH/
Form 10-Q
February 14, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2007

Commission File No. 033-79130

CONSUMERS BANCORP, INC.

(Exact name of registrant as specified in its charter)

OHIO	**033-79130**	**34-1771400**
(State or other jurisdiction of	**(Commission File Number)**	**(I.R.S. Employer**

incorporation or organization) **Identification No.)**

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

(330) 868-7701

(Issuer s telephone number)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer 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, 2008**
	2,035,208 Common Shares

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CONSUMERS BANCORP, INC.

FORM 10-Q

QUARTER ENDED DECEMBER 31, 2007

Part I Financial Information

Item 1 Financial Statements (Unaudited)
Interim financial information required by Rule 10-01 of Regulation S-X is included in this Form 10-Q as referenced below:

	Page Number(s)
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Consolidated Statements of Income Three and six months ended December 31, 2007 and 2006 (Unaudited)	2
Condensed Consolidated Statements of Changes in Shareholders Equity Three and six months ended December 31, 2007 and 2006 (Unaudited)	3
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PART 1 FINANCIAL INFORMATION

Item 1 Financial Statements

CONSUMERS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	Unaudited December 31, 2007	June 30, 2007
ASSETS		
Cash and cash equivalents	$ 6,313	$ 5,558
Securities, available for sale	58,552	42,133
Federal bank and agency stocks, at cost	1,146	1,146
Total loans	147,931	141,447
Less allowance for loan losses	(1,518)	(1,381)
Net Loans	146,413	140,066
Cash surrender value of life insurance	4,370	4,290
Premises and equipment, net	4,103	4,273
Intangible assets	652	733
Other real estate owned		1,478
Accrued interest receivable and other assets	1,682	2,281
Total assets	$ 223,231	$ 201,958
LIABILITIES		
Deposits		
Non-interest bearing demand	$ 43,711	$ 42,170
Interest bearing demand	11,257	10,086
Savings	47,374	49,006
Time	76,352	68,329
Total deposits	178,694	169,591
Short-term borrowings	9,291	9,330
Federal Home Loan Bank advances	13,412	2,625
Accrued interest and other liabilities	1,907	1,630
Total liabilities	203,304	183,176
Commitments and contingent liabilities		
SHAREHOLDERS EQUITY		
Common stock (no par value, 2,500,000 shares authorized; 2,160,000 issued)	4,869	4,869
Retained earnings	16,507	15,920
Treasury stock, at cost (123,460 shares at December 31, 2007 and 94,566 shares at June 30, 2007)	(1,580)	(1,235)
Accumulated other comprehensive income (loss)	131	(772)
Total shareholders equity	19,927	18,782

Total liabilities and shareholders equity	$ 223,231	$ 201,958

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,		Six Months ended December 31,	
	2007	2006	2007	2006
Interest income				
Loans, including fees	$ 2,750	$ 2,623	$ 5,452	$ 5,224
Securities				
Taxable	448	300	835	582
Tax-exempt	175	155	339	309
Federal funds sold	21	2	26	3
Total interest income	3,394	3,080	6,652	6,118
Interest expense				
Deposits	1,050	857	1,999	1,622
Short-term borrowings	116	37	211	78
Federal Home Loan Bank advances	57	56	121	189
Total interest expense	1,223	950	2,331	1,889
Net interest income	2,171	2,130	4,321	4,229
Provision for loan losses	108	172	208	343
Net interest income after Provision for loan losses	2,063	1,958	4,113	3,886
Non-interest income				
Service charges on deposit accounts	434	382	799	762
Loss on sale of securities			(4)	
Gain (loss) on sale of other assets owned		(1)	13	(25)
Other	180	190	367	394
Total non-interest income	614	571	1,175	1,131
Non-interest expenses				
Salaries and employee benefits	1,069	1,047	2,138	2,107
Occupancy	256	294	509	554
Professional fees	75	107	156	229
Franchise taxes	55	30	110	58
Printing and supplies	34	45	63	87
Telephone and network communications	55	57	121	113
Amortization of intangible	40	40	81	81
Other	477	425	928	819
Total non-interest expenses	2,061	2,045	4,106	4,048
Income before income taxes	616	484	1,182	969

Income tax expense	140	104	266	209
Net Income	$ 476	$ 380	$ 916	$ 760
Basic earnings per share	$ 0.23	$ 0.18	$ 0.45	$ 0.36

See accompanying notes to consolidated financial statements

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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,	
	2007	2006	2007	2006
Balance at beginning of period	$ 19,363	$ 19,804	$ 18,782	$ 19,102
Comprehensive income				
Net Income	476	380	916	760
Other comprehensive income/(loss)	435	(306)	903	502
Total comprehensive income	911	74	1,819	1,262
Purchase of treasury stock (15,894 and 1,475 shares for the three months and 28,894 and 31,725 shares for the six month periods ending December 31, 2007 and 2006, respectively)	(183)	(19)	(345)	(398)
Common cash dividends	(164)	(147)	(329)	(254)
Balance at the end of the period	$ 19,927	$ 19,712	$ 19,927	$ 19,712
Common cash dividends per share	$ 0.08	$ 0.07	$ 0.16	$ 0.12

See accompanying notes to consolidated financial statements.

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CONSUMERS BANCORP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six Months Ended December 31, 2007	Six Months Ended December 31, 2006
Cash flows from operating activities		
Net cash from operating activities	$ 1,719	$ 1,654
Cash flow from investing activities		
Securities available for sale		
Purchases	(18,176)	(3,159)
Maturities and principal pay downs	2,647	2,580
Proceeds from sales of available for sale securities	489	
Net (increase) decrease in loans	(6,580)	3,234
Acquisition of premises and equipment	(99)	(117)
Disposal of premises and equipment	1	
Sale of other real estate owned	1,577	272
Net cash from investing activities	(20,141)	2,810
Cash flow from financing activities		
Net increase in deposit accounts	9,103	3,480
Net change in short-term borrowings	(39)	(408)
Proceeds of Federal Home Loan Bank advances	10,885	5,610
Repayments of Federal Home Loan Bank advances	(98)	(12,402)
Purchase of treasury stock	(345)	(398)
Dividends paid	(329)	(254)
Net cash from financing activities	19,177	(4,372)
Decrease in cash or cash equivalents	755	92
Cash and cash equivalents, beginning of period	5,558	5,941
Cash and cash equivalents, end of period	$ 6,313	$ 6,033
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	$ 2,338	$ 1,909
Federal income taxes	120	15
Non-cash items:		
Transfer from loans to repossessed assets	$ 25	$ 3

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:

Basis of Presentation:

The consolidated financial statements for interim periods are unaudited and reflect all adjustments (consisting of only normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the financial position and results of operations and cash flows for the periods presented. The unaudited financial statements are presented in accordance with the requirements of Form 10-Q and do not include all disclosures normally required by accounting principles generally accepted in the United States of America. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Consumers Bancorp, Inc. s Form 10-K for the year ended June 30, 2007. The results of operations for the interim period disclosed herein are not necessarily indicative of the results that may be expected for a full year.

The consolidated financial statements include the accounts of Consumers Bancorp, Inc. (the Corporation) and its wholly owned subsidiary, Consumers National Bank (the Bank). All significant inter-company transactions and accounts have been eliminated in consolidation.

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

Earnings per Share: Earnings per common share are computed based on the weighted average common shares outstanding. The weighted average number of outstanding shares was 2,048,422 and 2,110,040 for the quarters ended December 31, 2007 and 2006, respectively. The weighted average number of outstanding shares was 2,055,134 and 2,123,624 for the six months ended December 31, 2007 and 2006, respectively. The Corporation s capital structure contains no dilutive securities.

Adoption of New Accounting Standards: Effective July 1, 2007, the Corporation adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, (FIN 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in the Corporation s Consolidated Financial Statements in accordance with FASB Statement 109. Upon adoption of FIN No. 48, no material reserves for uncertain tax positions were recorded. The adoption of this pronouncement had no material effect on the Corporation s Consolidated Financial Statements.

The Corporation s practice is to recognize potential interest and penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2007, the Corporation did not record an accrual for either interest or penalties related to unrecognized tax benefits.

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The Corporation files U.S. federal and Ohio state income tax returns. Tax years 2003-2006 remain open to examination by major taxing jurisdictions to which the Corporation is subject.

Note 2 Securities

December 31, 2007	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Securities available for sale:			
Obligations of government sponsored entities	$ 11,800	$ 202	$ (10)
Obligations of states and political subdivisions	18,135	69	(112)
Mortgage backed securities	27,665	216	(119)
Equity securities	952		(48)
Total Securities	$ 58,552	$ 487	$ (289)

June 30, 2007	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Securities available for sale:			
U.S. Treasury	$ 998	$	$ (2)
Obligations of government sponsored entities	9,892		(209)
Obligations of states and political subdivisions	14,638	8	(503)
Mortgage backed securities	15,598	7	(477)
Equity securities	1,007	7	
Total Securities	$ 42,133	$ 22	$ (1,191)

The estimated fair values of securities at December 31, 2007, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

	Estimated Fair Value
Due in one year or less	$ 3,237
Due after one year through five years	2,868
Due after five years through ten years	11,778
Due after ten years	12,052
Total	29,935
Mortgage-backed securities	27,665
Equity securities	952
Total	$ 58,552

At December 31, 2007, available for sale securities included municipal securities issued by Farmersville, Texas school district that are insured by Permanent School Fund Guarantee with an aggregate book value of $2,170, or 10.9%, of shareholders equity. Other than this issue, there were no other holdings of securities of any one issuer, other than the U.S. government and its agencies and corporations, with an aggregate book value which exceeds 10% of shareholders equity. As of December 31, 2007, any unrealized losses on securities have not been recognized into income because the issuer(s) securities are of high credit quality and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach their maturity dates.

Note 3 Loans

Major classifications of loans were as follows:

	December 31, 2007	June 30, 2007
Real estate residential mortgage	$ 48,541	$ 50,988
Real estate construction	4,301	2,184
Commercial, financial and agriculture	87,636	82,075
Consumer	7,453	6,200
Total Loans	$ 147,931	$ 141,447

	December 31, 2007	June 30, 2007	December 31, 2006
Loans past due over 90 days and still accruing	$	$ 73	$
Loans on non-accrual	1,178	886	2,272
Impaired loans	1,068	706	2,255

Amount of allowance allocated to impaired loans	146	136	546

For each of the periods listed above, all of the impaired loans were also included in non-accrual loans.

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CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note 4 Allowance for Loan Losses

A summary of activity in the allowance for loan losses for the six months ended December 31, 2007, and 2006, were as follows:

	2007	2006
Beginning of period	$ 1,381	$ 1,557
Provision	208	343
Charge-offs	(111)	(222)
Recoveries	40	51
Balance at December 31,	$ 1,518	$ 1,729

Note 5 Federal Home Loan Bank Advances

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

Maturity	Term	Interest Rate	Balance December 31, 2007	Interest Rate	Balance June 30, 2007
09/24/2007	Floating			5.37	1,250
03/19/2008	Floating	4.28	350		
03/21/2008	Floating	4.28	2,600		
03/26/2008	Floating	4.28	1,050		
03/28/2008	Floating	4.28	1,135		
05/02/2008	Fixed	4.72	1,000		
10/02/2008	Fixed	4.80	1,000		
07/01/2010	Fixed	6.90	34	6.90	41
10/01/2010	Fixed	7.00	36	7.00	51
12/01/2010	Fixed	6.10	157	6.10	181
04/01/2014	Fixed	2.54	441	2.54	473
12/07/2017	Fixed	3.24	5,000		
04/01/2019	Fixed	4.30	609	4.30	629
			$ 13,412		$ 2,625

Each fixed rate advance has a prepayment penalty equal to the present value of 100% of the lost cash flow based upon the difference between the contract rate on the advance and the current rate on the new advance. Each floating rate advance can be prepaid, without penalty, at each interest rate reset date. The $5 million advance with the maturity date of December 7, 2017 can be called, at the option of the FHLB, on December 7, 2010 and then quarterly thereafter until maturity.

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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, 2007, compared to the same period in 2006, and the consolidated balance sheets at December 31, 2007 compared to June 30, 2007. 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, 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 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 agency obligations, municipal obligations and mortgage-backed securities.

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 th 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 or experience to differ from results discussed in the forward-looking statements 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; changes in levels of market interest rates which could reduce anticipated or actual margins; credit risks, competitive and regulatory factors affecting lending activities; government regulation, and material unforeseen changes in the financial condition or results of Consumers National Bank s customers could affect the Corporation s financial performance and could cause the Corporation s actual results for future periods to differ materially from those anticipated or projected.

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CONSUMERS BANCORP, INC.

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.

Results of Operations

Three and Six Months Ended December 31, 2007 and 2006

Net Income

Net income increased by $96 and $156 for the three and six month periods ended December 31, 2007, respectively, as compared to the same periods last year. The increase in net income was mainly attributable to an increase in net interest income and service charges on deposit accounts along with a decline in provision for loan losses. Earnings per common share were $0.23 and $0.45 for the three and six month periods ended December 31, 2007, respectively, as compared to $0.18 and $0.36, respectively, for the same periods last year.

Return on average equity (ROE) and return on average assets (ROA) were 9.64% and 0.88%, respectively, for the second quarter of fiscal year 2008 compared to 7.61% and 0.75%, respectively, for the second quarter of fiscal year 2007.

Return on average equity (ROE) and return on average assets (ROA) were 9.43% and 0.87%, respectively, for the 2008 fiscal year-to-date period compared to 7.69% and 0.75%, respectively, for the same periods last year.

Net Interest Income

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

The Corporation s net interest margin for the three months ended December 31, 2007 was 4.47%, compared to 4.70% for the same period last year. Net interest income for the three months ended December 31, 2007 increased by $41, or 1.9%, to $2,171 from $2,130 for the same period last year. The increase in net interest income was primarily due to an increase in the yield on interest-earning assets from 6.74% for the three months ended December 31, 2006 to 6.90% for the same period in 2007, as well as an increase in average interest-earning assets. The increase in the yield on interest-earning assets was mainly due to a 30 basis point increase in the

CONSUMERS BANCORP, INC.

Management s Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

yield on loans resulting from adjustable rate loans repricing to higher rates. The Corporation s cost of funds increased from 2.75% for the three months ended December 31, 2006 to 3.25% for the three months ended December 31, 2007 mainly due to higher rates affecting the rates paid on short-term borrowings and time deposits.

The Corporation s net interest margin for the six months ended December 31, 2007 was 4.57%, compared to 4.66% for the same period last year. Net interest income for the six months ended December 31, 2007 increased by $92, or 2.2%, to $4,321 from $4,229 for the same period last year. The increase in the net interest income was primarily due to an increase in the yield on interest-earning assets from 6.68% for the six months ended December 31, 2006 to 6.95% for the same period in 2007. The increase in the yield on interest-earning assets was mainly due to a 41 basis point increase in the yield on loans resulting from adjustable rate loans repricing to higher rates. The Corporation s cost of funds increased from 2.70% for the six months ended December 31, 2006 to 3.17% for the six months ended December 31, 2007 mainly due to higher rates affecting the rates paid on short-term borrowings and time deposits.

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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 Three Months Ended December 31,

(In thousands, except percentages)

	2007			2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Taxable securities	$ 35,366	$ 448	5.04%	$ 25,602	$ 300	4.65%
Nontaxable securities (1)	16,698	247	5.88	14,997	220	5.82
Loans receivable (1)	146,173	2,755	7.50	144,633	2,626	7.20
Federal funds sold	1,925	21	4.34	114	2	6.96
Total interest-earning assets	200,162	3,471	6.90%	185,346	3,148	6.74%
Noninterest-earning assets	14,533			14,482		
Total Assets	$ 214,695			$ 199,828		
Interest-bearing liabilities:						
NOW	$ 9,595	$ 12	0.50%	$ 10,232	$ 12	0.47%
Savings	47,988	138	1.14	49,837	101	0.80
Time deposits	76,137	900	4.70	67,525	744	4.37
Short-term borrowings	10,675	116	4.32	5,060	37	2.90
FHLB advances	5,503	57	4.12	4,367	56	5.09
Total interest-bearing liabilities	149,898	1,223	3.25%	137,021	950	2.75%
Noninterest-bearing liabilities:						
Noninterest-bearing checking accounts	43,359			41,857		
Other liabilities	1,795			1,158		
Total liabilities	195,052			180,036		
Shareholders equity	19,643			19,792		
Total liabilities and shareholders equity	$ 214,695			$ 199,828		
Net interest income, interest rate spread (1)		$ 2,248	3.65%		$ 2,198	3.99%
Net interest margin (net interest as a percent of average interest-earning assets (1)			4.47%			4.70%

Average interest-earning assets to interest-bearing liabilities	133.53%	135.27%

(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)

	2007			2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Taxable securities	$ 33,239	$ 835	5.00%	$ 25,184	$ 582	4.58%
Nontaxable securities (1)	15,928	476	5.94	14,914	438	5.83
Loans receivable (1)	144,279	5,466	7.54	145,578	5,231	7.13
Federal funds sold	1,142	26	4.53	86	3	6.92
Total interest-earning assets	194,588	6,803	6.95%	185,762	6,254	6.68%
Noninterest-earning assets	15,107			14,992		
Total Assets	$ 209,695			$ 200,754		
Interest-bearing liabilities:						
NOW	$ 10,047	$ 18	0.36%	$ 10,035	$ 14	0.28%
Savings	48,051	263	1.09	50,074	210	0.83
Time deposits	73,121	1,718	4.67	66,371	1,398	4.18
Short-term borrowings	9,845	211	4.26	5,285	78	2.93
FHLB advances	5,333	121	4.51	7,204	189	5.20
Total interest-bearing liabilities	146,397	2,331	3.17%	138,969	1,889	2.70%
Noninterest-bearing liabilities:						
Noninterest-bearing checking accounts	42,300			41,115		
Other liabilities	1,675			1,083		
Total liabilities	190,372			181,167		
Shareholders equity	19,323			19,587		
Total liabilities and shareholders equity	$ 209,695			$ 200,754		
Net interest income, interest rate spread (1)		$ 4,472	3.78%		$ 4,365	3.98%
Net interest margin (net interest as a percent of average interest-earning assets (1)			4.57%			4.66%

Average interest-earning assets to interest-bearing liabilities	132.92%	133.67%

(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 credit losses inherent in the Bank s loan portfolio that have been incurred at each balance sheet date. The provision for loan losses decreased to $108 for the three month period ended December 31, 2007 compared to $172 for the same period last year. The provision for loan losses decreased to $208 for the six month period ended December 31, 2007 compared to $343 for the same period last year.

The lower provision for loan losses for the three and six month periods ended December 31, 2007 resulted mainly from a decrease in net charge-offs as well as a significant reduction in non-performing loans from the prior year. Net charge-offs and the net charge-off ratio were $71 and 0.10%, respectively, for the 2008 fiscal year-to-date period compared with $171 and 0.24%, respectively, for the same period last year. Non-performing loans were $1,178, $959 and $2,272 as of December 31, 2007, June 30, 2007 and December 31, 2006, respectively. Within the $1,178 of non-performing loans, it is anticipated during the third fiscal quarter of 2008 that the principal balance outstanding of $237 will be paid off in full by the borrower from the proceeds of the sale of the collateral. Non-performing loans as of December 31, 2006 included one large loan relationship that was secured by two multi-family rental unit properties that were sold during first fiscal quarter of 2008.

Given the recent uncertainty in the housing market, management completed a review of the Bank s residential real estate mortgage portfolio to determine its exposure to subprime loans. The Bank, by definition, has not participated in either the subprime first mortgage market or in predatory lending. In addition, a detailed review of the Bank s home equity portfolio was completed since this portfolio would be the most effected by a decline in home values. The Bank has been conservative in its home equity lending practices with most loans originated at 85% or less of the home value and a small number of loans originated at 90% of the home value with more stringent credit and debt-to- income qualifications. The provision for loan losses as of December 31, 2007 was considered sufficient by management for maintaining an appropriate allowance for loan losses.

Non-Interest Income

Non-interest income increased to $614 during the second quarter of fiscal year 2008, compared to $571 for the same period last year. Within non-interest income, service charges on deposits increased by $52 mainly due to an increase in overdraft charges. Other income declined by $10 mainly due to a decline of $45 in alternative investment income that was partially offset by a $25 increase in debit card interchange income.

Non-interest income increased to $1,175 during the first six months of fiscal year 2008, compared to $1,131 for the same period last year. Within non-interest income, service charges on deposits increased by $37 mainly due to an increase in overdraft charges. Other

CONSUMERS BANCORP, INC.

Management s Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

income declined by $27 mainly due to a decline of $88 in alternative investment income that was partially offset by a $40 increase in debit card interchange income and a $25 increase in loan fee income. Also, within non-interest income there was a $13 gain on the sale of other real estate property acquired through loan foreclosure as compared to a loss of $25 for the same six month period last year.

Non-Interest Expenses

Non-interest expenses increased by 0.8%, to $2,061 during the second quarter of fiscal year 2008, compared to $2,045 during the same period last year. Within non-interest expenses, salaries and employee benefits increased by $22 mainly due to increased expense for incentives and other expenses increased by $52 mainly due to higher debit card interchange fees (due to increased customer volume) and higher loan collection expenses. These increases were partially offset by a $32 decrease in professional fees for the three months ended December 31, 2007 as compared to the same period last year. Professional fees for 2006 included one time expenses related to a new product introduction and an operations review.

Non-interest expenses increased by 1.4%, to $4,106 during the first six months of fiscal year 2008, compared to $4,048 during the same period last year. Within non-interest expenses, other expenses increased by $109 mainly due to higher debit card interchange fees (due to increased customer volume) and higher loan collection expenses. These increases were partially offset by a $73 decrease in professional fees for the six months ended December 31, 2007 as compared to the same period last year. Professional fees for 2006 included one time expenses related to a new product introduction and an operations review.

The Corporation will be completing a data system upgrade of its main core processing system during the third quarter of fiscal year 2008. Initial costs will be incurred to complete the upgrade with the long-term projection of cost savings through reduced personnel expense and lower future capital expenditures.

Income Taxes

Income tax expense for the three months ended December 31, 2007 increased by $36, to $140 from $104, compared to the same period in 2006. The effective tax rate was 22.7% for the current quarter as compared to 21.5% for the same period last year. Income tax expense for the six months ended December 31, 2007 was $266 compared to $209 for the same period last year. The effective tax rate was 22.5% for the current six month period as compared to 21.6% for the same period last year. 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.

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Management s Discussion and Analysis of Financial Condition

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Financial Condition

Total assets at December 31, 2007 were $223,231 compared to $201,958 at June 30, 2007, an increase of $21,273, or 10.5%. The increase in total assets was mainly attributed to an increase in available for sale securities as well as an increase in loan receivables.

Available for sale securities increased by $16,419 from $42,133 at June 30, 2007 to $58,552 at December 31, 2007 mainly due to two specific strategies that were implemented in the second quarter of fiscal year 2008. First, the Bank implemented a leveraged transaction in order to take advantage of low cost funding available through the FHLB to purchase $4,000 of mortgage-backed securities and $1,300 of municipal securities. The FHLB funding is at a cost of 3.24% and is callable two years from the date of issue. The securities purchased have a projected average tax equivalent yield of 5.30%.

The second main strategy the Bank implemented was the purchase of securities at a time management believed rates were at their peak in anticipation of cash flow that will be received from the securities portfolio in calendar year 2008. As part of this strategy, a $1,500 U.S. Government agency security, $4,700 of mortgage-backed securities and $800 of municipal securities were purchased at a projected average tax equivalent yield of 5.60%.

Loan receivables increased by $6,484 to $147,931 at December 31, 2007 compared to $141,447 at June 30, 2007, with the commercial, financial and agriculture loan portfolio increasing by $5,561. The current increase in loan receivables is mainly attributable to more favorable rate environment and more aggressive calling efforts by the lending officers.

Total shareholders equity increased by $1,145 from June 30, 2007, to $19,927 as of December 31, 2007. This increase was mainly due to net income for the current six month period and an increase in the fair market value of available for sale securities as a result of changes in interest rates. These increases were partially offset by cash dividends paid during the period as well as an increase in treasury stock.

In June 2007, the Board of Directors authorized a share repurchase program for up to 75,000 shares that can be repurchased through June 2008. As part of this repurchase program, 28,894 shares were repurchased during the six month period ended December 31, 2007.

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Non-Performing Assets

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

	December 31, 2007	June 30, 2007	December 31, 2006
Non-accrual loans	$ 1,178	$ 886	$ 2,272
Loans past due over 90 days and still accruing		73	
Total non-performing loans	1,178	959	2,272
Other real estate owned		1,478	455
Total non-performing assets	$ 1,178	$ 2,437	$ 2,727
Non-performing loans to total loans	0.80%	0.68%	1.57%
Allowance for loan losses to total non-performing loans	128.86%	144.00%	76.10%
Loans 90 days or more past due and still accruing to total loans		0.05%	

Following is a breakdown of non-accrual loans as of December 31, 2007 by collateral:

	December 31, 2007
Commercial non-mortgage collateral	$ 544
Multifamily residential properties	98
1-4 family residential properties	536
Total	$ 1,178

As of December 31, 2007, impaired loans totaled $1,068, all of which 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 good.

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.

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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.

The Corporation offers several deposit products to its customers. The rates offered by the Corporation and the fees charged for these products are competitive with others available currently in the market area. Interest rates on savings deposits have remained at historical low levels, while rates on demand deposits and time deposits have increased in recent months due to current market conditions.

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, 2007, FHLB advances totaled $13,412 as compared with $5,147 at September 30, 2007. FHLB advances increased mainly due to security purchases that were made during the first six months of fiscal year 2008. The Corporation considers the FHLB to be a reliable source of liquidity funding, secondary to its deposit base.

Jumbo time deposits (those with balances of $100 thousand and over) increased from $20,837 at September 30, 2007 to $22,352 at December 31, 2007. These deposits are monitored closely by the Corporation and 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.

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Management s Discussion and Analysis of Financial Condition

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(Dollars in thousands, except per share data)

Capital Resources

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 is considered well capitalized under the Federal Deposit Insurance Act at December 31, 2007. Management is not aware of any matters occurring subsequent to December 31, 2007 that would cause the Bank s capital category to change.

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 Company 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. Footnote one (Allowance for Loan Losses), footnote three (Loans) and Management Discussion and Analysis of Financial Condition and Results from Operation (Critical Accounting Policies and Allowance for Loan Losses) of the 2007 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, 2007.

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Item 3 Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk that a financial institution s earnings and capital, or its ability to meet its business objectives, will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices. Within the Bank, the dominant market risk exposure is fluctuation in interest rates. The negative effect of this exposure is felt through the net interest margin and the market value of various assets and liabilities.

The Bank measures interest-rate risk from the perspectives of earnings at risk and value at risk. The primary purpose of both the loan and investment portfolios is the generation of income, but credit risk is the principal focus of risk analysis in the loan portfolio and interest-rate risk is the principal focus in the investment portfolio. Because of the greater liquidity of the investment portfolio, it is the vehicle for managing interest-rate risk in the entire balance sheet. The Bank manages its interest rate risk position using simulation analysis of net interest income and net income over a two-year period. The Bank also calculates the effect of an instantaneous change in market interest rates on the economic value of equity or net portfolio value. Once these analyses are complete, management reviews the results, with an emphasis on the income-simulation results for purposes of managing interest-rate risk. The rate sensitivity position is managed to avoid wide swings in net interest margins. Measurement and identification of current and potential interest rate risk exposures are conducted quarterly, with reporting and monitoring also occurring quarterly. The Bank applies interest rate shocks to its financial instruments up and down 100 and 200 basis points.

The following table presents an analysis of the potential sensitivity of the Bank s annual net interest income and present value of the Bank s financial instruments to a sudden and sustained increase and decrease change in market interest rates of 200 and 100 basis points:

	Maximum Change 2007	Guidelines
One Year Net Interest Income Change		
+200 Basis Points	(2.8)%	>(20.0)%
+100 Basis Points	(1.2)%	>(12.5)%
-100 Basis Points	0.9%	>(12.5)%
-200 Basis Points	1.6%	>(20.0)%
Net Present Value of Equity Change		
+200 Basis Points	(21.1)%	>(25)%
+100 Basis Points	(9.7)%	>(20)%
-100 Basis Points	(1.0)%	>(20)%
-200 Basis Points	(6.7)%	>(25)%

The projected volatility of net interest income and net present value of equity shown in the table falls within Board of Directors guidelines in right hand column.

The preceding analysis is based on numerous assumptions, including relative levels of market interest rates, loan prepayments and reactions of depositors to changes in interest rates, and should not be relied upon as being indicative of actual results. Further, the analysis does not necessarily contemplate all actions the Bank may undertake in response to changes in interest rates.

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Item 4T Controls and Procedures

As of December 31, 2007, an evaluation was carried out 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 Corporation s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2007, the Corporation s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Corporation, in reports that it files or submits under the Exchange Act (1) was recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to the Corporation s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

There were no changes in the Corporation s internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect its internal control over financial reporting.

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CONSUMERS BANCORP, INC.

PART II OTHER INFORMATION

Item 1A Risk Factors

There were no material changes to the risk factors as presented in the Corporation s Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
October 1, 2007 October 31, 2007	750	12.50	750	
November 1, 2007 November 30, 2007	144	12.50	144	
December 1, 2007 December 31, 2007	15,000	11.50	15,000	46,106
	15,894	11.56	15,894	46,106

In June 2007, the Corporation announced a share repurchase program for up to 75,000 shares that can be repurchased through June 2008. The purchases made in second fiscal quarter 2008 were accomplished through an open-market transaction and through two privately negotiated transactions.

Item 4 Submission of Matters to a Vote of Security Holders

Consumers Bancorp, Inc. held its Annual Meeting of Shareholders on October 17, 2007, for the purpose of electing three directors and to transact such other business as would properly come before the meeting. Shareholders elected three Class I Directors, consisting of James V. Hanna, James R. Kiko, Sr., and John E. Tonti, each have been elected to serve a term ending in 2010. The Class II Directors, consisting of Harry W. Schmuck, David W. Johnson, and Laurie L. McClellan each have been elected to serve a term ending in 2008. The remaining Class III Directors, consisting of John P. Furey, Thomas M. Kishman, and Steven L. Muckley each have been elected to serve a term ending in 2009.

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CONSUMERS BANCORP, INC.

Results of shareholder voting for the election of Directors were as follows:

	James V. Hanna	James R. Kiko, Sr.	John E. Tonti
For	1,606,477	1,607,671	1,608,121
Withheld	4,836	3,642	3,192
Abstentions			

Item 5 Other Information

On February 13, 2008, the Board of Directors of Consumers Bancorp, Inc., declared a $0.08 per share cash dividend for shareholders of record on February 25, 2008 that will be paid on March 13, 2008.

Item 6 Exhibits

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 & Treasurer

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Exhibit 32.1 Certification of Chief Financial Officer & Treasurer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSUMERS BANCORP, INC.
(Registrant)

Date: February 14, 2008

/s/ Steven L. Muckley
Steven L. Muckley
Chief Executive Officer

Date: February 14, 2008

/s/ Renee K. Wood
Renee K. Wood
Chief Financial Officer & Treasurer