

# CONSUMERS

**Bancorp Inc.**

2019 Annual Report



Project Financed By

**CONSUMERS**  
National Bank

[www.consumersbank.com](http://www.consumersbank.com) • 330-823-8178



**Building Our  
Communities**

# Financial Highlights

Dollar amounts in thousands, except per share data.

Selected Items at Year-End June 30, 2019 June 30, 2018

## Financial Condition

Total assets	\$	553,936	\$	502,619
Securities, available for sale		144,010		144,028
Loans, net		365,387		315,087
Deposits		472,174		429,963
Shareholders' equity		51,166		43,761

## Share Information

Book value	\$	18.72		16.03
Cash dividends paid per share		0.520		0.495
Basic and diluted earnings per share		2.04		1.31

## Operations

Net interest income	\$	17,389	\$	15,886
Provision for loan losses		(440)		310
Noninterest income		4,268		3,391
Noninterest expenses		15,518		14,237
Net income		5,566		3,581

## Asset Quality

Net recoveries to average total loans		-0.24%		-0.01%
Non-performing assets to total assets		0.14%		0.22%
Allowance for loan losses to total loans		1.03%		1.07%

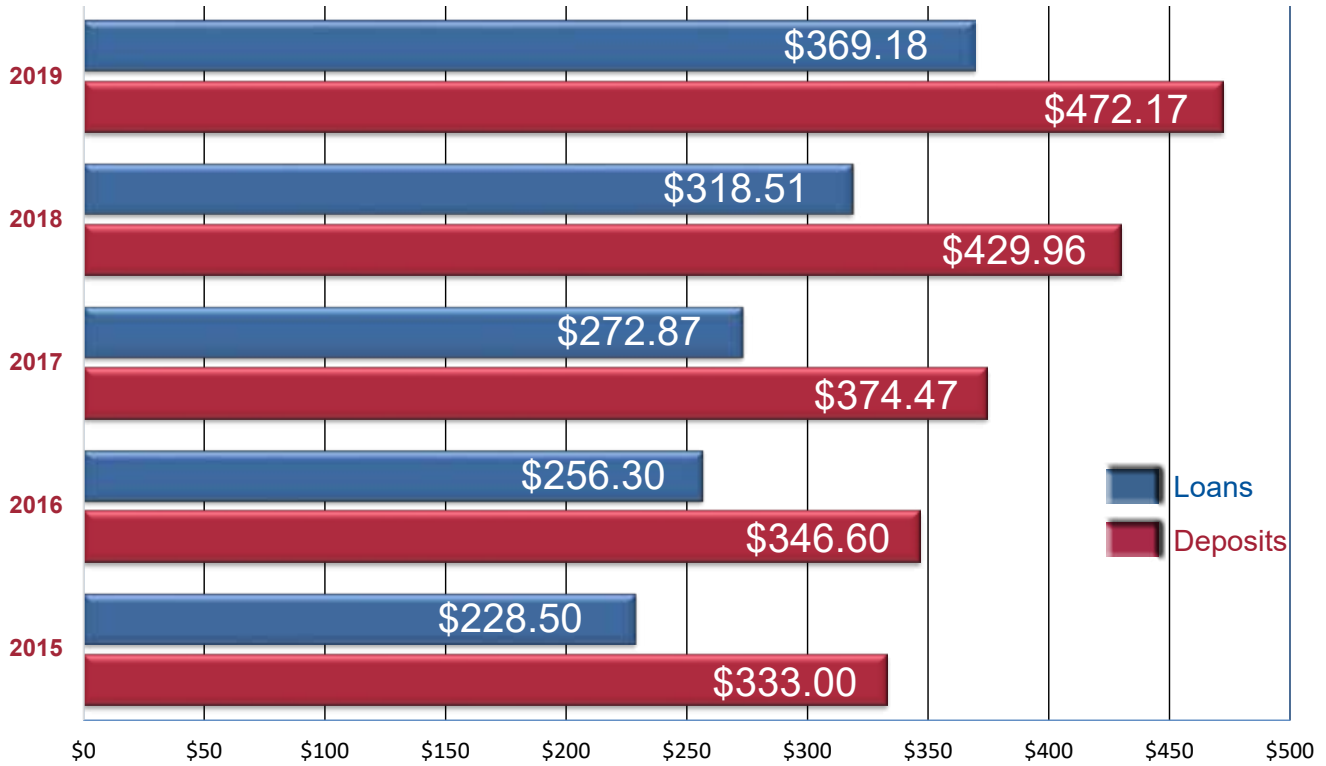
## Performance Ratios

Return on average assets		1.07%		0.75%
Return on average equity		11.96%		8.15%
Net interest margin (fully tax equivalent)		3.62%		3.67%

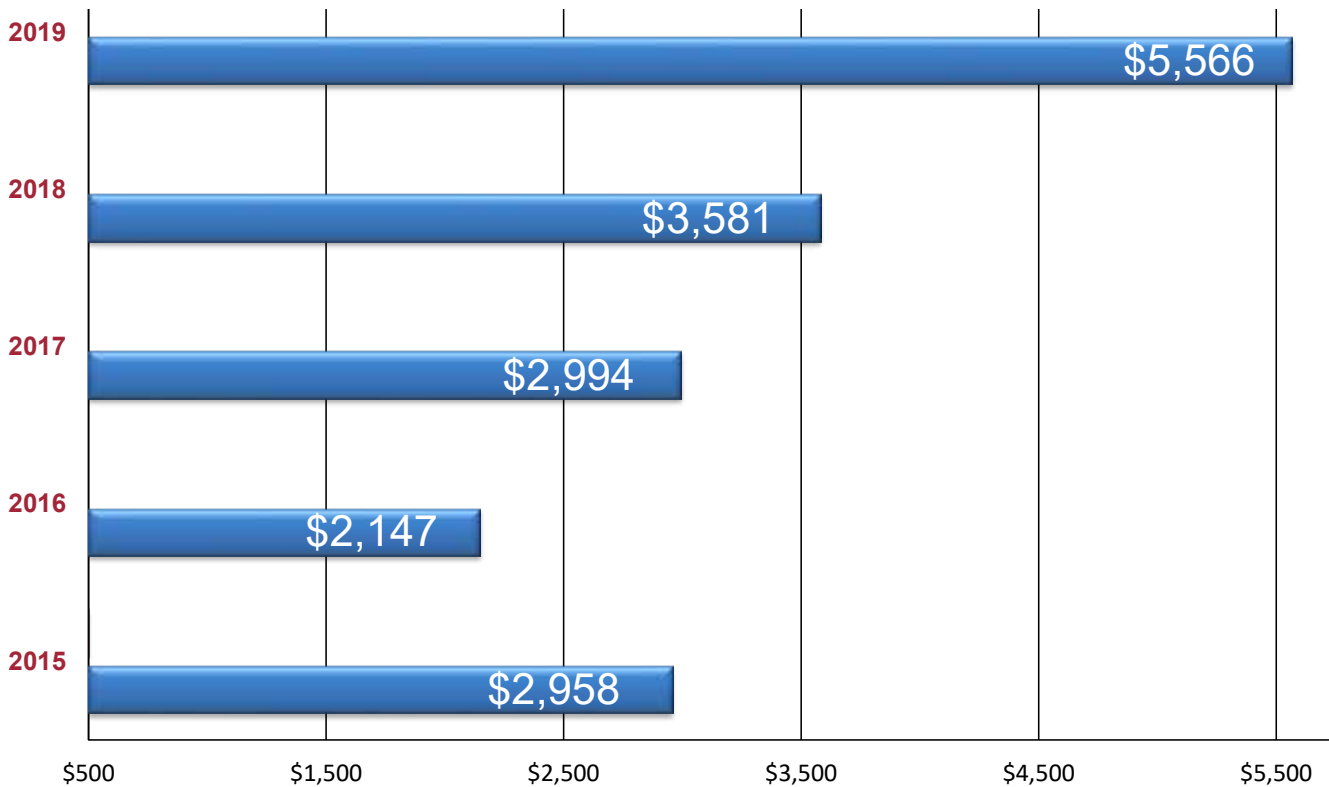
Please refer to the annual report on Form 10-K for additional financial information.

# Financial Highlights

## Total Loans and Deposits Dollars in millions.



## Net Income Dollars in thousands.



Please refer to the annual report on Form 10-K for additional financial information.

# PRESIDENT'S MESSAGE TO SHAREHOLDERS

Dear Fellow Shareholders:

## Building Shareholder Value

We are pleased with Consumers Bancorp's strong financial results and the important accomplishments achieved in the 2019 fiscal year. We realized significant increases in commercial, residential mortgage, and consumer lending; expanded our market territory; announced a strategic acquisition; further improved asset quality ratios; and set a corporate earnings record. The headline of our 2019 year-end earnings release is representative of a great year. Net income increased by \$2.0 million, or 55.4%, to \$5.6 million; loan balances increased by \$50.7 million, or 15.9%; total deposits increased by \$42.2 million, or 9.8%; and nonperforming loans declined to \$785,000, or 0.21% of total loans. These results supported the distribution of over \$1.4 million in dividends to our shareholders. Before I talk about some of the specific achievements, I want to acknowledge the 145 employees whose daily commitment to community banking made these results possible.



## Building Franchise Value

As part of our strategic expansion plan, we announced the signing of a definitive merger agreement with Peoples Bancorp of Mount Pleasant, Inc., the holding company of The Peoples National Bank of Mount Pleasant, in June 2019. Since 1903, Peoples has developed a reputation for outstanding customer service and community commitment. Mainly serving the tri-county area of Jefferson, Harrison, and Belmont counties, Peoples' customer base extends into neighboring counties in Ohio, West Virginia, and Pennsylvania. We expect to build on Peoples' strong history of outstanding customer service and community involvement by providing their customers and markets with additional products, services, and technology. When closed, we expect this transaction to provide a base for increased business development initiatives for our local business bankers throughout the market area. The proposed merger has gained regulatory approval, is pending approval by Peoples Bancorp's shareholders and is expected to close by December 31, 2019. I look forward to officially welcoming the Peoples' staff, customers, and shareholders into the Consumers' family.

We also expanded our market area with two de-novo branches in fiscal year 2019. Opened in September, the Fairlawn branch, Consumers' first full-service branch in Summit County, enables the bank to expand our banking relationships with our existing Summit County customers and facilitates business

development in Summit, Cuyahoga, and Medina counties. To date, the Fairlawn branch is responsible for commercial loan commitments of over \$48 million. In March, we turned our attention to Brewster, Ohio, in western Stark County when the Village suddenly found itself without a commercial bank. We acquired the vacated branch building in March and cut the ribbon on May 20th. The new branch, staffed by seasoned local bankers who are committed to the Consumers philosophy of community banking, has received strong support from Brewster residents and the surrounding community. Together, Fairlawn and Brewster contributed 40.0% of the deposit growth realized in fiscal year 2019.

Each of these strategic initiatives has expanded our reach to adjacent or nearby markets, strengthened our presence in the respective counties, and filled gaps in our service area. As the largest bank headquartered in our \$23 billion (deposit) six-county market, Consumers continues to capitalize as larger banks exit from smaller community markets. We continue to experience customer growth directly attributed to regional bank branch closings in Minerva, Bergholz, Carrollton, and Brewster over the last few years. We expect this trend to continue. We believe we will continue to create franchise value by acting quickly as opportunities to attract new customers in existing or new markets develop.

## Building Communities

The community bank economic model of local shareholders; local deposits; local management and directors; local lending and investment; local employment and economic growth;



stronger communities; and local dividends is the fundamental difference between our business model and those of the large national institutions—our model builds communities. To that end, our business bankers and credit administration teams worked together to originate over \$93 million in new

money commercial loans in fiscal year 2019, an increase of 16.35% over fiscal year 2018. The bank's focus on small business lending and strong partnership with the Small Business Administration was, for the third consecutive year, recognized by the Cleveland District Office of the SBA as the Top Community Bank Lender.

While this production led to a \$39.5 million, or 14.8%, increase in commercial loan balances, it also put *Project Financed by Consumers National Bank* signs across our expanding market. As illustrated in this annual report, our completed and outstanding construction commitments provided over \$40 million in critical investments that will strengthen businesses and communities across the region. Consumers' support helped an East Canton dairy farming family expand their barn and install state-of-the-art robotic milking technology. Our financing commitment helped a Canton dental practice improve their patient experience, and several community service organizations in East Liverpool, Clinton, and Malvern grow their missions. We supported manufacturing customers as they expanded production lines and increased employment in Alliance and Salem. We provided the funding for a Jackson Township housing development; supported developers'



Mass Wales, LLC, Massillon

visions to redevelop underutilized commercial properties in Canton, Medina, and Canfield; assisted private investment at the Akron-Canton Airport; and helped local entrepreneurs expand their business operations in Barberton, Brimfield, Louisville, and Canfield.

Consumers Mortgage Services originated over 280 residential mortgages (31% increase over 2018) valued at over \$45.5 million (40% increase over 2018). These loans assisted local families in the purchase or construction of a new home or refinancing of an existing mortgage. Over \$7.8 million was committed to residential construction loans and our participation in FHA, VA, and USDA residential lending programs helped 50 first-time home buyers, veterans, and

buyers in rural communities achieve homeownership. Additionally, our bridge loan program helped our customers act fast in an extraordinarily active housing market. We expect our Mortgage Services operation to grow as loan originators are added in new markets, online application capabilities are improved, and long-term market interest rates remain low.

In fiscal year 2019, we launched several strategic initiatives to increase our personal installment and consumer lending. We added management focus on consumer lending, strengthened and improved the competitiveness of our product line, increased cross-sell training, and created unique promotions. As a result, consumer loan production increased by 65% over fiscal year 2018 and outstanding balances at June 30, 2019 were 31.7% above those reported at June 30, 2018. We look for continued consumer growth as we increase retail sales training, implement online application and loan decisioning technology, and launch new consumer lending products that meet the unique needs of our markets.

### Building Relationships

Funding growth with local core deposits is a vital component of the community bank model. The opportunities noted above have resulted in nearly 600 new households, 1,850 new customer records, and more than 1,500 net new deposit accounts. These new customers have resulted in a 10.6% increase in debit card transactions, 1,087 more internet banking users, 847 new users of our remote deposit products, and a 9.1% increase in deposit account related income. We are now growing relationships with over 20,000 customers representing over 14,000 individual households and businesses. We continue to focus on ensuring that Consumers is the bank of choice as the financial needs and goals of each of these customers develop over time.

### Building the Future

While 2019 was a great year for Consumers Bancorp, our staff and management team are focused on the future. We are not complacent or satisfied with our achievements. We will be disciplined in implementing long-term initiatives and we will be flexible enough to capitalize on opportunities. We will continue to make the investments in people and technology that are necessary to grow our customer base and your franchise in a cost-effective manner. We will build our balance sheet in a manner that is responsive to the volatile rate environment and we will maintain our focus on credit fundamentals and portfolio management. Thank you for your support as we continue our mission to make a difference and our vision to be the premier community bank in northeast Ohio.

Sincerely,

Ralph J. Lober II  
President and CEO



## CHAIRMAN'S MESSAGE TO SHAREHOLDERS

Dear Shareholders:

2019 was a year of growth for Consumers National Bank and Consumers Bancorp, Inc. The bank saw increased market penetration in our existing markets, geographic expansion with the addition of two full-service branches in Fairlawn and Brewster and executed a definitive agreement with Peoples Bancorp as we plan for expanding our presence in Jefferson County. Product offerings have grown through strategic initiatives to support our expanding mortgage services, consumer lending and multiple customer interfaces.

Consumers is growing stronger as a local community bank and our community bank philosophy is sought after in new and existing markets and is filling a void in smaller communities where bigger banks have exited. The response was overwhelmingly positive in Brewster as individuals, local businesses and public entities opened new accounts and looked to Consumers to fulfill their banking needs. In Fairlawn, we brought our brand of community banking to Summit County, successfully competing with larger financial institutions by offering competitive products and services. In fiscal year 2019, loans grew by over \$50.7 million and deposits grew by over \$42.2 million, as existing customers affirmed their loyalty to Consumers and new customers saw the benefits of banking locally.



Product lines and customer interfaces are continually reviewed and refined to provide our clients competitive products and delivery options that best meet their needs. The strategic initiative to grow consumer loans has seen positive results and will benefit Consumers' net interest

income. The bank's mortgage services operation has seen increases in the number of loans closed as it has expanded its reach. Improvements in processes, along with adding new originators, has contributed to this growth and added to noninterest income for fiscal year 2019.



We are fortunate to have talented and capable employees and a solid infrastructure to support our expanding operations. Consumers is committed to safe and sound banking, accessibility and efficient service. The growth seen in fiscal year 2019 translated into increased profitability, which is the kind of news we are pleased to deliver to our existing and growing shareholder base.

Consumers community banking philosophy makes a difference for our customers and for our communities. You too can make a difference by keeping your dollars local. If you are a current customer of Consumers, you can expand your relationship by becoming a shareholder or if you are a current shareholder, by becoming a customer. In closing, know that we are grateful to our loyal shareholders and customers and appreciate their contribution to our success in 2019. We look forward to serving you and working together to grow our community bank.

Sincerely,

Laurie McClellan  
Chairman of the Board



**Board of Directors** *Standing from left:* Thomas Kishman, Brad Goris, Richard Kiko, Jr., Frank Paden, David Johnson, Harry Schmuck, Jr., and Philip Mueller. *Seated from left:* Ralph Lober II, (President & CEO), Laurie McClellan (Chairman), and John Furey (Vice Chairman).



**Management Group** *Standing from left:* Kim Chuckalovchak, VP, IT Manager, Derek Williams, SVP, Retail Sales & Operations, Suzanne Mikes, SVP, Chief Credit Officer, and Mariah Crater, Executive Assistant. *Seated from left:* Renee Wood, EVP, Chief Financial Officer, Ralph Lober II, President & CEO, and Scott Dodds, EVP, Senior Loan Officer.



# Building Communities



Pavlak Car Wash, Brimfield



Beacon Farmers Exchange, Medina



Castle Aviation, Green



Community Action Agency, East Liverpool



Creekside Stables, Medina



CTW Development Corporation, Canfield



Enjoy's Drive-Thru, Louisville



Family Dollar, Canton



# Building Relationships



Drs. Henzel & Smith, DDS, Canton



Berkshire Farms, Jackson Township



Metal & Wire Products Co. Inc., Salem



New Destiny Treatment Center, Clinton



Pero Dairy Farm, East Canton



Saint Francis Xavier Church Hall, Malvern



Touch Free Car Wash, Canfield



The Winery at Wolf Creek, Barberton

## Consumers National Bank Market Area



### Branch Locations By County

**Carroll**  
Carrollton  
Malvern

**Columbiana**  
Hanoverton  
Lisbon  
Salem

**Jefferson**  
Bergholz

**Stark**  
Alliance  
Brewster  
East Canton  
Hartville  
Jackson-Belden  
Louisville  
Minerva  
Waynesburg

**Summit**  
Fairlawn

**Wayne**  
Wooster

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

**FORM 10-K**

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

For the fiscal year ended June 30, 2019

Commission File No. 033-79130

**CONSUMERS BANCORP, INC.**

(Exact name of registrant as specified in its charter)

OHIO  
(State or other jurisdiction of incorporation or organization)

34-1771400  
(I.R.S. Employer Identification No.)

614 East Lincoln Way,  
P.O. Box 256, Minerva, Ohio 44657  
(330) 868-7701  
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Securities registered pursuant Section 12(g) of the Act:

Common Shares, no par value  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

Based on the closing sales price on December 31, 2018, the aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant was approximately \$46,638,402.

The number of shares outstanding of the Registrant's common stock, without par value was 2,733,845 at September 6, 2019.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain specifically designated portions of Consumers Bancorp, Inc.'s definitive Proxy Statement, dated September 12, 2019, for its 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.



## TABLE OF CONTENTS

### PART I

ITEM 1—BUSINESS	3
ITEM 1A—RISK FACTORS	6
ITEM 1B—UNRESOLVED STAFF COMMENTS	6
ITEM 2—PROPERTIES	6
ITEM 3—LEGAL PROCEEDINGS	6
ITEM 4—MINE SAFETY DISCLOSURES	6

### PART II

ITEM 5—MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	7
ITEM 6—SELECTED FINANCIAL DATA	7
ITEM 7—MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	8
ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	19
ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	20
ITEM 9—CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	51
ITEM 9A—CONTROLS AND PROCEDURES	51
ITEM 9B—OTHER INFORMATION	51

### PART III

ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	52
ITEM 11—EXECUTIVE COMPENSATION	52
ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS	52
ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	52
ITEM 14—PRINCIPAL ACCOUNTING FEES AND SERVICES	53

### PART IV

ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES	53
---	----

## PART I

### ITEM 1—BUSINESS

#### Business

Consumers Bancorp, Inc. (Corporation) is a bank holding company as defined under the Bank Holding Company Act of 1956, as amended (BHCA), and is a registered bank holding company under that act, and was incorporated under the laws of the State of Ohio in 1994. In February 1995, the Corporation acquired all the issued and outstanding capital stock of Consumers National Bank (Bank), a bank chartered under the laws of the United States of America. The Corporation's activities have been limited primarily to holding the common stock of the Bank.

Consumers National Bank is a community-oriented financial institution that offers a wide range of commercial and consumer loan and deposit products, as well as mortgage, financial planning and investment services to individuals, farmers and small and medium sized businesses in our markets. Since 1965, the Bank's main office has been serving the Minerva, Ohio, and surrounding areas from its location at 614 East Lincoln Way, Minerva, Ohio. The Bank seeks to be the provider of choice for financial solutions to customers who value exceptional personalized service, local decision making, and modern banking technology. The Bank's business involves attracting deposits from businesses and individual customers and using such deposits to originate commercial, mortgage and consumer loans in its market area, consisting primarily of Carroll, Columbiana, Jefferson, Stark, Summit, Wayne and contiguous counties in Ohio. The Bank currently has 15 full-service branch locations and one loan production office. The Bank also invests in securities consisting primarily of obligations of U.S. government-sponsored entities, municipal obligations and mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

#### Supervision and Regulation

The Corporation and the Bank are subject to regulation by the Securities and Exchange Commission (SEC), the Board of Governors of the Federal Reserve System (Federal Reserve Board), the Office of the Comptroller of the Currency (OCC) and other federal and state regulators. The regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole and not for the protection of shareholders and creditors. Earnings and dividends of the Corporation are affected by state and federal laws and regulations and by policies of various regulatory authorities. Changes in applicable law or in the policies of various regulatory authorities could affect materially the business and prospects of the Corporation and the Bank. The following describes selected federal and state statutory and regulatory provisions that have, or could have, a material impact on the Corporation. The following discussion of supervision and regulation is qualified in its entirety by reference to the statutory and regulatory provisions discussed.

#### Regulation of the Corporation

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

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

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each subsidiary bank and to commit resources to support those subsidiary banks. Under this policy, the Federal Reserve Board may require a bank holding company to contribute additional capital to an undercapitalized subsidiary bank and may disapprove of the payment of dividends to shareholders if the Federal Reserve Board believes the payment of such dividends would be an unsafe or unsound practice. The Federal Reserve Board has extensive enforcement authority over bank holding companies for violations of laws and regulations and unsafe or unsound practices.

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

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

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

## **Regulation of the Bank**

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

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

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

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

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

The Basel III capital requirements for U.S. banking organizations became effective on January 1, 2015 and were fully phased in by January 1, 2019. Under Basel III, the Bank is required to maintain a minimum common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a Tier 1 leverage ratio of 4%. Basel III also established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which effectively resulted in a minimum common equity Tier 1 capital ratio of 7%, a Tier 1 capital ratio of 8.5%, a total capital ratio of 10.5% and a Tier 1 leverage ratio of 6.5%. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a common equity Tier 1 ratio to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The OCC and the FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the OCC or the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring prior approval of capital distributions by any bank holding company that controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers. The OCC's final supervisory judgment concerning an institution's capital adequacy could differ significantly from the conclusions that might be derived from the absolute level of an institution's risk-based capital ratios.



Therefore, institutions generally are expected to maintain risk-based capital ratios that exceed the minimum ratios. At June 30, 2019, the Bank exceeded minimum regulatory capital requirements to be considered well-capitalized.

**Dodd-Frank Wall Street Reform and Consumer Protection Act:** The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) created many new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (CFPB), and giving it responsibility for implementing, examining and enforcing compliance with federal consumer protection laws. The CFPB has examination and enforcement authority over all banks with more than \$10 billion in assets, as well as their affiliates. Although the CFPB does not have direct supervisory authority over banks with less than \$10 billion in assets, the CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit “unfair, deceptive or abusive” acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer’s ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer’s (i) lack of financial savvy, (ii) inability to protect himself in the selection or use of consumer financial products or services, or (iii) reasonable reliance on a covered entity to act in the consumer’s interests. The Corporation is closely monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with these regulatory requirements and assess their potential impact on our business.

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

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

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

**Cybersecurity:** In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyberattack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyberattack.

In the ordinary course of business, electronic communications and information systems are relied upon to conduct operations, to deliver services to customers and to store sensitive data. The Corporation employs a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, increasing volume of attacks, as well as due to the expanding use of internet banking, mobile banking and other technology-based products and services by the Corporation and its customers.

## **Employees**

As of June 30, 2019, the Bank employed 124 full-time and 20 part-time employees. None of the employees are represented by a collective bargaining group. Management considers its relations with employees to be good.

## Available Information

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

The Corporation's reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, are available, free of charge, on our website ([www.consumersbank.com](http://www.consumersbank.com)) as soon as reasonably practicable after such reports are filed with or furnished to the SEC. The Corporation's Code of Ethics Policy, which is applicable to all directors, officers and employees of the Corporation, and its Code of Ethics for Principal Financial Officers, which is applicable to the principal executive officer and the principal financial officer, are each available on the Investor Relations section under Corporate Governance of the Corporation's website. The Corporation intends to post amendments to or waivers from either of its Code of Ethics Policies on its website. A printed copy of any of these documents will be provided to any requesting shareholder.

## ITEM 1A—RISK FACTORS

Not applicable for Smaller Reporting Companies.

## ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

## ITEM 2—PROPERTIES

The Bank operates fifteen full service banking facilities and one loan production office (LPO) as noted below:

Location	Address	Owned	Leased
Minerva	614 E. Lincoln Way, P.O. Box 256, Minerva, Ohio, 44657	X	
Salem	141 S. Ellsworth Avenue, P.O. Box 798, Salem, Ohio, 44460	X	
Waynesburg	8607 Waynesburg Drive SE, P.O. Box 746, Waynesburg, Ohio, 44688	X	
Hanoverton	30034 Canal Street, P.O. Box 178, Hanoverton, Ohio, 44423	X	
Carrollton	1017 Canton Road NW, Carrollton, Ohio, 44615		X
Alliance	610 West State Street, Alliance, Ohio, 44601		X
Lisbon	7985 Dickey Drive, Lisbon, Ohio 44432	X	
Louisville	1111 N. Chapel Street, Louisville, Ohio 44641	X	
East Canton	440 W. Noble, East Canton, Ohio, 44730	X	
Malvern	4070 Alliance Road, Malvern, Ohio 44644		X
Hartville	1215 W. Maple Street, Hartville, Ohio 44632	X	
Jackson-Belden	4026 Dressler Road NW, Canton, Ohio 44718	X	
Bergholz	256 2nd Street, Bergholz, Ohio 43908		X
Fairlawn	3680 Embassy Parkway Suite B, Fairlawn, Ohio 44333		X
Wooster LPO	146 East Liberty Street, Wooster, Ohio 44691		X
Brewster	210 Wabash Ave S, Brewster, OH 44613	X	

The Bank considers its physical properties to be in good operating condition and suitable for the purposes for which they are being used. In management's opinion, all properties owned and operated by the Bank are adequately insured.

## ITEM 3—LEGAL PROCEEDINGS

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

## ITEM 4—MINE SAFETY DISCLOSURES

None.

## PART II

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

The Corporation had 2,733,845 common shares outstanding on June 30, 2019 with 713 shareholders of record and an estimated 575 additional beneficial holders whose stock was held in nominee name. Attention is directed to Item 12 in this Form 10-K for information regarding the Corporation’s equity incentive plans, which information is incorporated herein by reference.

The common shares of Consumers Bancorp, Inc. are quoted on the OTCQX® Best Market under the symbol CBKM. The following quoted market prices reflect inter-dealer prices, without adjustments for retail markups, markdowns, or commissions and may not represent actual transactions. The market prices represent highs and lows reported during the applicable quarterly period.

<u>Quarter Ended</u>	<u>September 30, 2018</u>	<u>December 31, 2018</u>	<u>March 31, 2019</u>	<u>June 30, 2019</u>
High	\$ 24.00	\$ 24.14	\$ 19.50	\$ 19.25
Low	23.20	16.85	16.85	18.40
Cash dividends paid per share	0.13	0.13	0.13	0.13

<u>Quarter Ended</u>	<u>September 30, 2017</u>	<u>December 31, 2017</u>	<u>March 31, 2018</u>	<u>June 30, 2018</u>
High	\$ 21.00	\$ 21.85	\$ 21.15	\$ 25.00
Low	18.51	20.26	20.00	20.25
Cash dividends paid per share	0.12	0.125	0.125	0.125

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

The Corporation’s management is currently committed to continuing to pay regular cash dividends; however, there can be no assurance as to future dividends because they are dependent on the Corporation’s future earnings, capital requirements and financial condition. The Corporation’s principal source of funds for dividend payment is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. See Note 1 and Note 12 to the Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations for dividend restrictions.

There were no repurchases of the Corporation’s securities during the 2019 fiscal year.

### ITEM 6—SELECTED FINANCIAL DATA

Not applicable for Smaller Reporting Companies.



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

*(Dollars in thousands, except per share data)*

### General

The following is management’s analysis of the Corporation’s financial condition and results of operations as of and for the years ended June 30, 2019 and 2018. This discussion is designed to provide a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the consolidated financial statements and related footnotes and the selected financial data included elsewhere in this report.

### Forward-Looking Statements

Certain statements contained in this Annual Report on Form 10-K, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include: management plans relating to the proposed merger between Consumers and Peoples (the Transaction); the expected timing of the completion of the Transaction; the ability to complete the Transaction; the ability of Peoples to obtain shareholder approval for the Transaction; statements of the plans and objectives of management for future operations, products or services, including the execution of integration plans; statements about the benefits of the Transaction; statements of expectation or belief; projections related to certain financial metrics; and statements of assumptions underlying any of the foregoing. In addition, all statements set forth in future filings by the Corporation with the SEC, or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, that are not historical in nature, including words or phrases such as “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “believe” or similar expressions are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may involve risks and uncertainties that are difficult to predict, may be beyond our control, and could cause actual results to differ materially from those described in such statements. Any such forward-looking statements are made only as of the date of this report or the respective dates of the relevant incorporated documents, as the case may be, and, except as required by law, we undertake no obligation to update these forward-looking statements to reflect subsequent events or circumstances. Factors that could cause actual results for future periods to differ materially from those anticipated or projected include, but are not limited to:

- changes in local, regional and national economic conditions becoming less favorable than we expect, resulting in a deterioration in credit quality of our loan assets, among other things;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- inflation, interest rate, securities market and monetary fluctuations;
- changes in the level of non-performing assets and charge-offs;
- declining asset values impacting the underlying value of collateral;
- the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we must comply;
- competitive pressures on product pricing and services;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- changes in the reliability of our vendors, internal control systems or information systems;
- our ability to attract and retain qualified employees;
- changes in accounting policies, rules and interpretations;
- unanticipated changes in our liquidity position, including, but not limited to, changes in the cost of liquidity and our ability to find alternative funding sources; and
- changes in consumer spending, borrowing and savings habits.

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

### Overview

Consumers Bancorp, Inc., a bank holding company incorporated under the laws of the State of Ohio, owns all the issued and outstanding capital stock of Consumers National Bank, a bank chartered under the laws of the United States of America. The Corporation’s activities have been limited primarily to holding the common stock of the Bank. The Bank’s business involves

attracting deposits from businesses and individual customers and using such deposits to originate commercial, mortgage and consumer loans in its market area, consisting primarily of Carroll, Columbiana, Jefferson, Stark, Summit, Wayne and contiguous counties in Ohio. The Bank also invests in securities consisting primarily of U.S. government-sponsored entities, municipal obligations, mortgage-backed and collateralized mortgage obligations issued by Fannie Mae, Freddie Mac and Ginnie Mae.

On June 14, 2019, Consumers entered into an Agreement and Plan of Merger (Merger Agreement) with Peoples Bancorp of Mt. Pleasant, Inc. (Peoples) and its wholly-owned subsidiary, The Peoples National Bank of Mount Pleasant. On June 30, 2019, Peoples had approximately \$75 million in total assets, \$53.1 million in loans and \$65.7 million in deposits at its three banking centers located in Mt. Pleasant, Adena, and Dillonvale, Ohio. The transaction is expected to be completed in the second quarter of fiscal year 2020, pending the approval of shareholders of Peoples and the completion of other customary closing conditions. All necessary regulatory approvals have been received.

### Comparison of Results of Operations for the Years Ended June 30, 2019 and June 30, 2018

**Net Income.** Net income was \$5,566 for fiscal year 2019 compared with \$3,581 for fiscal year 2018. The following key factors summarize our results of operations for the year ended June 30, 2019 compared with the same prior year period:

- net interest income increased by \$1,503, or 9.5%, in fiscal year 2019, primarily as a result of an increase in average loan receivables;
- a negative provision for loan loss expense of \$440 was recorded during the 2019 fiscal year compared with a \$310 provision for loan loss expense during the 2018 fiscal year;
- total other income increased by \$877, or 25.9%, in fiscal year 2019, which includes net securities gains of \$561 in fiscal year 2019 compared to \$33 in the same prior year period; and
- total other expenses increased by \$1,281, or 9.0%, in fiscal year 2019.

Return on average equity and return on average assets were 11.96% and 1.07%, respectively, for the 2019 fiscal year-to-date period compared with 8.15% and 0.75%, respectively, for the same period 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. The federal income tax rate in effect for the 2019 fiscal year was 21.00% and for the 2018 fiscal year was 27.55%. With the enactment of the Tax Act, the statutory tax rate was changed in the second quarter of fiscal year 2018 to 27.55% by using a blended rate of the new 21.0% federal rate that went into effect on January 1, 2018 and the previous federal rate of 34.0%. All average balances are daily average balances. Non-accruing loans are included in average loan balances.

#### Net Interest Income Year ended June 30,

	<u>2019</u>	<u>2018</u>
Net interest income	\$ 17,389	\$ 15,886
Taxable equivalent adjustments to net interest	345	543
Net interest income, fully taxable equivalent	\$ 17,734	\$ 16,429
Net interest margin	3.55%	3.55%
Taxable equivalent adjustment	0.12	0.12
Net interest margin, fully taxable equivalent	<u>3.62%</u>	<u>3.67%</u>

FTE net interest income for the 2019 fiscal year was \$17,734, an increase of \$1,305 or 7.9%, from \$16,429 in the 2018 fiscal year. The Corporation's tax equivalent net interest margin for the year ended June 30, 2019 was 3.62% and for the year ended 2018 was 3.67%. FTE interest income for the 2019 fiscal year was \$20,890, an increase of \$2,790, or 15.4%, from \$18,100 in the 2018 fiscal year. Growth of \$41,289, or 14.0%, in average loan receivables positively impacted interest income as well as an increase in the yield on average interest-earning assets. Interest expense for the 2019 fiscal year was \$3,156, an increase of \$1,485 from \$1,671 in the 2018 fiscal year. This was mainly the result of an increase in short-term rates impacting the rates paid on all interest-bearing liabilities as well as a \$32,922, or 10.2%, growth in total interest-bearing liabilities.

## Average Balance Sheet and Net Interest Margin

	2019			2018		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest earning assets:						
Taxable securities	\$ 85,837	\$ 2,192	2.50%	\$ 82,481	\$ 1,916	2.30%
Nontaxable Securities (1)	60,124	1,918	3.19	60,072	1,996	3.34
Loan receivables (1)	336,384	16,601	4.94	295,095	13,956	4.73
Federal bank and other restricted stocks	1,518	86	5.67	1,434	81	5.65
Interest bearing deposits and federal funds sold	4,305	93	2.16	8,546	151	1.77
Total interest earning assets	<u>488,168</u>	<u>20,890</u>	4.26%	<u>447,628</u>	<u>18,100</u>	4.04%
Noninterest earning assets	<u>30,905</u>			<u>31,449</u>		
Total assets	<u>\$ 519,073</u>			<u>\$ 479,077</u>		
Interest bearing liabilities:						
Interest bearing demand	\$ 82,086	\$ 547	0.67%	\$ 57,272	\$ 115	0.20%
Savings	161,062	706	0.44	155,000	355	0.23
Time deposits	91,291	1,533	1.68	71,404	740	1.04
Short-term borrowings	3,521	51	1.45	24,422	240	0.98
FHLB advances	16,488	319	1.93	13,428	221	1.65
Total interest-bearing liabilities	<u>354,448</u>	<u>3,156</u>	0.89%	<u>321,526</u>	<u>1,671</u>	0.52%
Noninterest-bearing liabilities	<u>118,099</u>			<u>113,595</u>		
Total liabilities	<u>472,547</u>			<u>435,121</u>		
Shareholders' equity	<u>46,526</u>			<u>43,956</u>		
Total liabilities and shareholders' equity	<u>\$ 519,073</u>			<u>\$ 479,077</u>		
Net interest income, interest rate spread (1)		\$ 17,734	3.37%		\$ 16,429	3.52%
Net interest margin (net interest as a percent of average interest earning assets) (1)			3.62%			3.67%
Federal tax exemption on non-taxable securities and loans included in interest income		<u>\$ 345</u>			<u>\$ 543</u>	
Average interest earning assets to interest bearing liabilities			137.73%			139.22%

(1) Calculated on a fully taxable equivalent basis utilizing a statutory federal income tax rate of 21.0% in the 2019 fiscal year and 27.55% in the 2018 fiscal year.



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

## INTEREST RATES AND INTEREST DIFFERENTIAL

	2019 Compared to 2018			2018 Compared to 2017		
	Increase / (Decrease)			Increase / (Decrease)		
	Total Change	Change due to Volume	Change due to Rate	Total Change	Change due to Volume	Change due to Rate
	(In thousands)					
Interest earning assets:						
Taxable securities	\$ 276	\$ 106	\$ 170	\$ 309	\$ 178	\$ 131
Nontaxable securities (1)	(78)	13	(91)	(180)	22	(202)
Loan receivables (2)	2,645	2,018	627	1,596	1,302	294
Federal bank and other restricted stocks	5	5	—	10	2	8
Interest bearing deposits and federal funds sold	(58)	(86)	28	29	(9)	38
Total interest income	<u>2,790</u>	<u>2,056</u>	<u>734</u>	<u>1,764</u>	<u>1,495</u>	<u>269</u>
Interest bearing liabilities:						
Interest bearing demand	432	68	364	40	12	28
Savings deposits	351	14	337	168	20	148
Time deposits	793	246	547	210	39	171
Short-term borrowings	(189)	(268)	79	150	16	134
FHLB advances	98	55	43	(5)	(19)	14
Total interest expense	<u>1,485</u>	<u>115</u>	<u>1,370</u>	<u>563</u>	<u>68</u>	<u>495</u>
Net interest income	<u>\$ 1,305</u>	<u>\$ 1,941</u>	<u>\$ (636)</u>	<u>\$ 1,201</u>	<u>\$ 1,430</u>	<u>\$ (229)</u>

(1) Nontaxable income is adjusted to a fully tax equivalent basis utilizing a statutory federal income tax rate of 21.0% in the 2019 fiscal year and 27.55% in the 2018 fiscal year.

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

**Provision for Loan Losses.** The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management's assessment of the estimated probable credit losses in the Corporation's loan portfolio that have been incurred at each balance sheet date. Management considers historical loss experience, the present and prospective financial condition of borrowers, the current conditions within the markets where the Corporation originates loans, the status of nonperforming assets, the estimated underlying value of the collateral and other factors related to the ultimate collectability of the loan portfolio. A negative provision for loan loss expense of \$440 was recorded in fiscal year 2019 primarily as the result of a full principal recovery of a prior period loan charge-off. This compares with a \$310 provision for loan loss expense in fiscal year 2018.

For the 2019 fiscal year, net recoveries of \$806 were recorded compared with net recoveries of \$26 for the same period last year. Net recoveries for the 2019 fiscal year were primarily within the commercial real estate portfolio and included a full principal recovery of a prior period charge-off. The allowance for loan losses as a percentage of loans was 1.03% at June 30, 2019 and 1.07% at June 30, 2018.

Non-performing loans were \$785 as of June 30, 2019 and represented 0.21% of total loans. This compared with \$1,090, or 0.34% of total loans at June 30, 2018. Non-performing loans have been considered in management's analysis of the appropriateness of the allowance for loan losses. Management and the Board of Directors closely monitor these loans and believe the prospect for recovery of principal, less identified specific reserves, are favorable.

**Other Income.** Total other income increased by \$877, or 25.9%, to \$4,268 for the 2019 fiscal year.

Debit card interchange income increased by \$121, or 9.1%, in 2019 to \$1,454 primarily as a result of increased debit card usage. Gain on sale of mortgage loans increased by \$91, or 24.8%, in 2019 primarily as a result of an increase in volume. Net securities gains in fiscal year 2019 totaled \$561 compared to \$33 in fiscal year 2018. During the 2019 fiscal year, the pooled trust preferred security was sold because of the significant increase in the value of this security resulting in a gain of \$593. The Corporation does not own any other security of this type.

**Other Expenses.** Total other expenses were \$15,518 for the year ended June 30, 2019; an increase of \$1,281, or 9.0%, from \$14,237 for the year ended June 30, 2018.

Salaries and employee benefit expenses increased by \$663, or 8.6%, during the fiscal year ended June 30, 2019 mainly due to increases in salary and incentive expenses. Professional and director fees increased by \$276, or 52.8%, during the 2019 fiscal year from the same period last year primarily as a result of \$174 in legal and consulting fees associated with the expected acquisition of Peoples Bancorp of Mt. Pleasant, Inc. As part of the proposed acquisition, expenses related to system conversion costs, contract termination fees, legal fees, employee severance costs, accounting and auditing fees and other acquisition costs are expected in the 2020 fiscal year. Marketing and advertising expenses increased by \$116, or 37.7%, during the 2019 fiscal year from the same period last year primarily due to an increase in advertising and promotional campaigns initiated to attract core deposit customers and the opening of our new Fairlawn, Ohio and Brewster, Ohio offices.

**Income Tax Expense.** Income tax expense totaled \$1,013 and \$1,149 and the effective tax rates were 15.4% and 24.3% for the years ended June 30, 2019 and 2018, respectively. Income tax expense and the effective tax rate was higher in the 2018 fiscal year period compared to the 2019 fiscal year primarily due to the enactment of the Tax Act. Income tax expense was calculated utilizing a statutory federal income tax rate of 21.0% in the 2019 fiscal year and 27.55% in the 2018 fiscal year. Also, the enactment of the Tax Act in the 2018 fiscal year required the Corporation to revalue its deferred tax assets and liabilities based upon the lower enacted federal corporate income tax rate at which the Corporation expects to recognize the benefit. During the 2018 fiscal year, a one-time income tax expense of \$348 was recorded in conjunction with writing down its net deferred tax assets. In addition, the effective tax rate differs from the federal statutory rate as a result of tax-exempt income from obligations of states and political subdivisions, loans and earnings on bank owned life insurance.

### Financial Condition

Total assets at June 30, 2019 were \$553,936 compared with \$502,619 at June 30, 2018, an increase of \$51,317, or 10.2%. The growth in total assets was mainly attributed to an increase of \$50,666, or 15.9%, in total loans. This growth was primarily funded by a \$42,211, or 9.8%, increase in total deposits.

**Securities.** Total securities decreased by \$256 to \$147,796 at June 30, 2019, of which \$144,010 were classified as available-for-sale and \$3,786 were classified as held-to-maturity. The securities portfolio is mainly comprised of residential mortgage-backed securities and collateralized mortgage obligations issued by Fannie Mae, Freddie Mac and Ginnie Mae, state and political subdivisions and obligations of government-sponsored enterprises.

The following tables summarize the amortized cost and fair value of available-for-sale securities at June 30, 2019 and 2018 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income or loss:

<u>Available-for-sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>June 30, 2019</b>				
Obligations of U.S. government-sponsored entities and agencies	\$ 19,227	\$ 287	\$ (1)	\$ 19,513
Obligations of state and political subdivisions	56,405	1,557	(33)	57,929
U.S. Government-sponsored mortgage-backed securities - residential	56,309	450	(448)	56,311
U.S. Government-sponsored collateralized mortgage obligations - residential	10,087	198	(28)	10,257
Total available-for-sale securities	<u>\$ 142,028</u>	<u>\$ 2,492</u>	<u>\$ (510)</u>	<u>\$ 144,010</u>
<u>Available-for-sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>June 30, 2018</b>				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,488	\$ 6	\$ (372)	\$ 16,122
Obligations of state and political subdivisions	56,964	339	(713)	56,590
Mortgage-backed securities – residential	65,062	6	(1,660)	63,408
Mortgage-backed securities – commercial	1,432	—	(17)	1,415
Collateralized mortgage obligations	5,973	9	(216)	5,766
Pooled trust preferred security	178	549	—	727
Total available-for-sale securities	<u>\$ 146,097</u>	<u>\$ 909</u>	<u>\$ (2,978)</u>	<u>\$ 144,028</u>

The following tables summarize the amortized cost and fair value of held-to-maturity securities at June 30, 2019 and 2018 and the corresponding gross unrecognized gains and losses:

<b><u>Held-to-maturity</u></b>	<b>Amortized Cost</b>	<b>Gross Unrecognized Gains</b>	<b>Gross Unrecognized Losses</b>	<b>Fair Value</b>
<b>June 30, 2019</b>				
Obligations of state and political subdivisions	\$ 3,786	\$ 35	\$ —	\$ 3,821
Total held-to-maturity securities	<u>\$ 3,786</u>	<u>\$ 35</u>	<u>\$ —</u>	<u>\$ 3,821</u>
<b>June 30, 2018</b>				
Obligations of state and political subdivisions	\$ 4,024	\$ 24	\$ —	\$ 4,048
Total held-to-maturity securities	<u>\$ 4,024</u>	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ 4,048</u>

The following tables summarize the amounts and distribution of the Corporation's securities held and the weighted average yields as of June 30, 2019:

	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Average Yield / Cost</b>
<b>Available-for-sale</b>			
<b>Obligations of government-sponsored entities:</b>			
3 Months or less	\$ 5,351	\$ 5,460	2.96%
Over 3 months through 1 year	2,739	2,745	2.38
Over 1 year through 5 years	7,497	7,587	2.37
Over 5 years through 10 years	3,640	3,721	2.49
<b>Total obligations of government-sponsored entities</b>	<u>19,227</u>	<u>19,513</u>	2.56
<b>Obligations of state and political subdivisions:</b>			
3 Months or less	755	755	4.12
Over 3 months through 1 year	628	631	3.27
Over 1 year through 5 years	8,203	8,382	3.49
Over 5 years through 10 years	18,134	18,460	3.09
Over 10 years	28,683	29,701	3.59
<b>Total obligations of state and political subdivisions</b>	<u>56,404</u>	<u>57,929</u>	3.42
<b>Mortgage-backed securities - residential:</b>			
Over 3 months through 1 year			
Over 1 year through 5 years	28,512	28,310	2.20
Over 5 years through 10 years	27,797	28,001	2.90
<b>Total mortgage-backed securities - residential</b>	<u>56,309</u>	<u>56,311</u>	2.55
<b>Collateralized mortgage obligations:</b>			
Over 3 months through 1 year	889	901	2.41
Over 1 year through 5 years	8,251	8,414	2.71
Over 5 years through 10 years	947	942	2.31
<b>Total collateralized mortgage obligations</b>	<u>10,087</u>	<u>10,257</u>	2.64
<b>Total available-for-sale securities</b>	<u>\$ 142,028</u>	<u>\$ 144,010</u>	2.90%
<b>Held-to-maturity</b>			
<b>Obligations of state and political subdivisions:</b>			
Over 5 years through 10 years	\$ 451	\$ 471	2.86%
Over 10 years	3,335	3,350	2.37
<b>Total held-to-maturity securities</b>	<u>\$ 3,786</u>	<u>\$ 3,821</u>	2.43%

The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective yields considering amortization or accretion if the securities were purchased at a premium or discount. The weighted average yield on tax-exempt obligations has been calculated on a tax equivalent basis. Average yields are based on amortized cost balances.

At June 30, 2019, there were no holdings of securities of any one issuer, other than the U.S. government-sponsored entities and agencies, with an aggregate book value which exceeds 10% of shareholders' equity.

**Loans.** Loan receivables increased by \$50,666 to \$369,175 at June 30, 2019 compared to \$318,509 at June 30, 2018. Loan demand increased, particularly in the commercial, commercial real estate and 1-4 family residential real estate segments, principally as a result of increased calling efforts within and around the Bank's markets. Commercial loans also increased as a result of the Bank's participation in a third-party residential mortgage warehouse lending program.

Major classifications of loans, net of deferred loan fees and costs, were as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Commercial	\$ 80,424	\$ 60,953
Commercial real estate:		
Construction	16,034	5,375
Other	194,839	182,966
1-4 Family residential real estate:		
Owner occupied	56,289	47,683
Non-owner occupied	14,481	15,480
Construction	1,959	1,187
Consumer loans	5,149	4,865
Total loans	<u>\$ 369,175</u>	<u>\$ 318,509</u>

The following is a schedule of contractual maturities and repayments of 1-4 family residential real estate construction, commercial and commercial real estate loans, as of June 30, 2019:

Due in one year or less	\$ 43,298
Due after one year but within five years	34,659
Due after five years	215,299
Total	<u>\$ 293,256</u>

The following is a schedule of fixed and variable rate 1-4 family residential real estate construction, commercial and commercial real estate loans due after one year (variable rate loans are those loans with floating or adjustable interest rates) as of June 30, 2019:

	<u>Fixed</u> <u>Interest Rates</u>	<u>Variable</u> <u>Interest Rates</u>
Total 1-4 family residential real estate construction, commercial and commercial real estate loans due after one year	\$ 124,931	\$ 125,027

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

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

Failure to receive principal and interest payments when due on any loan results in efforts to restore such loan to a current status. Loans are classified as non-accrual when, in the opinion of management, full collection of principal and accrued interest is not expected. The loans must be brought and kept current for six sustained payments before being considered for removal from non-accrual status. Commercial and commercial real estate loans are classified as impaired if management determines that full collection of principal and interest, in accordance with the terms of the loan documents, is not probable. If a loan is impaired, a portion of the allowance is allocated so the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that not all principal and interest amounts will be collected according to the original terms of the loan. As of June 30, 2019, impaired loans totaled \$1,189, of which \$785 are included in non-accrual loans. Continued unsuccessful collection efforts generally lead to initiation of foreclosure or other legal proceedings.

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

	<u>2019</u>	<u>2018</u>
Non-accrual loans	\$ 785	\$ 1,090
Accruing loans past due 90 days or more	—	—
Total non-performing loans	<u>\$ 785</u>	<u>\$ 1,090</u>
Other real estate owned	—	—
Total non-performing assets	<u>\$ 785</u>	<u>\$ 1,090</u>
Impaired loans	<u>\$ 1,189</u>	<u>\$ 2,060</u>
Accruing restructured loans	<u>\$ 404</u>	<u>\$ 971</u>

The non-performing loans are either in the process of foreclosure or efforts are being made to work with the borrower to bring the loan current. Properties acquired by the Corporation as a result of foreclosure, or by deed in lieu of foreclosure, are classified as "other real estate owned" until they are sold or otherwise disposed of.

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

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

	<u>2019</u>	<u>2018</u>
Allowance for loan losses at beginning of year	\$ 3,422	\$ 3,086
<b>Loans charged off:</b>		
Commercial real estate	80	4
1-4 Family residential real estate	—	33
Consumer loans	36	24
Total charge offs	<u>116</u>	<u>61</u>
<b>Recoveries:</b>		
Commercial	—	17
Commercial real estate	875	41
1-4 Family residential real estate	23	14
Consumer loans	24	15
Total recoveries	<u>922</u>	<u>87</u>
Net recoveries	(806)	(26)
Provision for loan losses charged to operations	(440)	310
Allowance for loan losses at end of year	<u>\$ 3,788</u>	<u>\$ 3,422</u>
Ratio of net recoveries to average loans outstanding	(0.24)%	(0.01)%



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

	<b>Allocation of the Allowance for Loan Losses</b>			
	<b>% of Loan</b>		<b>% of Loan</b>	
	<b>Allowance</b>	<b>Type to</b>	<b>Allowance</b>	<b>Type to</b>
	<b>Amount</b>	<b>Total Loans</b>	<b>Amount</b>	<b>Total Loans</b>
	<b>June 30, 2019</b>		<b>June 30, 2018</b>	
Commercial	\$ 660	21.8%	\$ 586	19.1%
Commercial real estate loans	2,575	57.1	2,277	59.2
1-4 Family residential real estate	494	19.7	499	20.2
Consumer loans	59	1.4	60	1.5
<b>Total</b>	<b>\$ 3,788</b>	<b>100.0%</b>	<b>\$ 3,422</b>	<b>100.0%</b>

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

**Funding Sources.** Total deposits increased by \$42,211, or 9.8%, from \$429,963 at June 30, 2018 to \$472,174 at June 30, 2019. For the fiscal year ended June 30, 2019, time deposits increased by \$33,664, or 42.9%, and noninterest-bearing demand deposits increased by \$8,320, or 7.7%, from the same prior year period. In 2019, the increase in deposit rates resulted in funds moving from lower yielding savings and money market accounts into higher yielding certificate of deposits. The overall increase in deposits is primarily from business and public fund customer relationships as a result of the continued focus on attracting low cost core deposit account relationships and from the opening of the new branch locations in Fairlawn, Ohio and Brewster, Ohio.

Short-term borrowings decreased by \$10,619 from \$13,367 at June 30, 2018 to \$3,686 at June 30, 2019. This decline was primarily the result of an \$8,881 decrease in federal funds purchased.

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

	<b>Years Ended June 30,</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>
Noninterest-bearing demand deposit	\$ 113,761	—	\$ 109,675	—
Interest-bearing demand deposit	82,086	0.67%	57,272	0.20%
Savings	161,062	0.44	155,000	0.23
Certificates and other time deposits	91,291	1.68	71,404	1.04
<b>Total</b>	<b>\$ 448,200</b>	<b>0.62%</b>	<b>\$ 393,351</b>	<b>0.31%</b>

The following table summarizes time deposits issued in amounts of \$100 or more as of June 30, 2019 by time remaining until maturity:

Maturing in:	
Under 3 months	\$ 14,178
Over 3 to 6 months	25,346
Over 6 to 12 months	8,850
Over 12 months	15,315
<b>Total</b>	<b>\$ 63,689</b>

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

## Capital Resources

Total shareholders' equity increased by \$7,405 from \$43,761 at June 30, 2018 to \$51,166 at June 30, 2019. The increase was primarily the result of \$5,566 of net income for the current fiscal year and a net increase of \$3,201 in accumulated other comprehensive income from a shift in unrealized losses on the mark-to-market of available-for-sale securities to net unrealized gains. These increases were partially offset by cash dividends paid of \$1,421. For the 2019 fiscal year, the average equity to average total assets ratio was 8.96% and the dividend payout ratio was 25.5%. For the 2018 fiscal year, the average equity to average total assets ratio was 9.18% and the dividend payout ratio was 37.7%.

At June 30, 2019, management believes the Bank complied with all regulatory capital requirements. Based on the Bank's computed regulatory capital ratios, the OCC has determined the Bank to be well capitalized under the Federal Deposit Insurance Act as of its latest exam date. The Bank's actual and required capital amounts are disclosed in Note 12-Regulatory Matters to the Consolidated Financial Statements. Management is not aware of any matters occurring subsequent to that exam that would cause the Bank's capital category to change.

## Liquidity

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

Net cash inflows from operating activities for the 2019 fiscal year were \$6,386 and net cash inflows from financing activities were \$42,053. Net cash outflows from investing activities were \$46,750. The major sources of cash were a \$42,211 net increase in deposits and an \$26,761 net increase from sales, maturities or principal pay downs on available-for-sale securities. The major uses of cash were a \$49,935 net increase in loans and the \$22,914 purchase of available-for-sale securities. Total cash and cash equivalents were \$9,461 as of June 30, 2019 compared to \$7,772 at June 30, 2018.

The Bank groups its loan portfolio into four major categories: commercial loans; commercial real estate loans; 1-4 family residential real estate loans; and consumer loans. The Bank's 1-4 family residential real estate loan portfolio primarily consists of fixed and variable rate mortgage loans for terms generally not longer than thirty years and variable rate home equity lines of credit. Commercial and commercial real estate loans are comprised of both variable rate notes subject to interest rate changes based on the prime rate or Treasury index, and fixed rate notes having maturities of generally not greater than twenty years. Consumer loans offered by the Bank are generally written for periods of up to seven years, based on the nature of the collateral. These may be either installment loans having regular monthly payments or demand type loans for short periods of time.

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

The Bank offers several forms of deposit products to its customers. We believe the rates offered by the Bank and the fees charged for them are competitive with others currently available in the market area. While the Bank continues to be under competitive pressures in the Bank's market area as financial institutions attempt to attract and keep new deposits, we believe many commercial and retail customers have been continuing to turn to community banks. Compared to our peers, the Corporation's core deposits consist of a larger percentage of noninterest-bearing demand deposits resulting in the cost of funds remaining at a relatively low level of 0.89%.

Jumbo time deposits (those with balances of \$250 and over) were \$39,034 and \$23,018 at June 30, 2019 and 2018, respectively. These deposits are monitored closely by the Bank and typically priced on an individual basis. When these deposits are from a municipality, certain bank-owned securities are pledged to guarantee the safety of these public fund deposits as required by Ohio law. The Corporation has the option to use a fee paid broker to obtain deposits from outside its normal service area as an additional source of funding. However, these deposits are not relied upon as a primary source of funding.

Dividends from the Bank are the primary source of funds for payment of dividends to our shareholders. However, there are statutory limits on the amount of dividends the Bank can pay without regulatory approval. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. Additionally, the Bank may not declare or pay any dividend if, after making the dividend, the Bank would be "undercapitalized," as defined in the federal regulations. As of June 30, 2019, the Bank could, without prior approval, declare a dividend of approximately \$7,286.

## Impact of Inflation and Changing Prices

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

## Critical Accounting Policies and Use of Significant Estimates

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

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

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

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

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

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

## Contractual Obligations, Commitments and Contingent Liabilities

The following table presents, as of June 30, 2019, the Corporation's significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient and do not include any unamortized premiums or discounts. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

	<u>Note Reference</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Thereafter</u>	<u>Total</u>
Certificates of deposit	6	\$ 69,401	\$ 29,840	\$ 7,396	\$ 4,873	\$ 515	\$ 180	\$ 112,205
Short-term borrowings	7	3,686	—	—	—	—	—	3,686
Federal Home Loan advances	8	13,000	1,500	1,700	—	6,500	—	22,700
Salary continuation plan	9	146	146	146	146	142	1,749	2,475
Operating leases	5	85	78	71	53	12	—	299
Deposits without maturity		—	—	—	—	—	—	359,969

Note 13-Commitments with Off-Balance Sheet Risk to the Consolidated Financial Statements discusses in greater detail other commitments and contingencies and the various obligations that exist under those agreements. These commitments and contingencies consist primarily of commitments to extend credit to borrowers under lines of credit.

### Off-Balance Sheet Arrangements

At June 30, 2019, the Corporation had no unconsolidated, related special purpose entities, nor did the Corporation engage in derivatives and hedging contracts, such as interest rate swaps, which may expose the Corporation to liabilities greater than the amounts recorded on the consolidated balance sheet. The Corporation's investment policy prohibits engaging in derivative contracts for speculative trading purposes; however, in the future, the Corporation may pursue certain contracts, such as interest rate swaps, to execute a sound and defensive interest rate risk management policy.

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

Not applicable for Smaller Reporting Companies.

## ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

#### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Consumers Bancorp, Inc. (the "Company") as of June 30, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

Crowe LLP

We have served as the Company's auditor since 1998.

Cleveland, Ohio  
September 12, 2019



**CONSOLIDATED BALANCE SHEETS**  
As of June 30, 2019 and 2018  
(Dollar amounts in thousands, except per share data)

	<b>2019</b>	<b>2018</b>
<b>ASSETS:</b>		
Cash on hand and noninterest-bearing deposits in financial institutions	\$ 9,322	\$ 7,615
Federal funds sold and interest-bearing deposits in financial institutions	139	157
Total cash and cash equivalents	9,461	7,772
Certificate of deposits in financial institutions	1,983	2,973
Securities, available-for-sale	144,010	144,028
Securities, held-to-maturity (fair value 2019 \$3,821 and 2018 \$4,048)	3,786	4,024
Federal bank and other restricted stocks, at cost	1,723	1,459
Loans held for sale	1,657	1,448
Total loans	369,175	318,509
Less allowance for loan losses	(3,788)	(3,422)
Net loans	365,387	315,087
Cash surrender value of life insurance	9,606	9,335
Premises and equipment, net	14,155	13,315
Accrued interest receivable and other assets	2,168	3,178
Total assets	\$ 553,936	\$ 502,619
<b>LIABILITIES:</b>		
Deposits:		
Noninterest-bearing demand	\$ 116,239	\$ 107,919
Interest bearing demand	81,469	81,299
Savings	162,261	162,204
Time	112,205	78,541
Total deposits	472,174	429,963
Short-term borrowings	3,686	13,367
Federal Home Loan Bank advances	22,700	11,756
Accrued interest payable and other liabilities	4,210	3,772
Total liabilities	502,770	458,858
Commitments and contingent liabilities (Note 13)		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, no par value; 350,000 shares authorized	—	—
Common shares, no par value; 3,500,000 shares authorized; 2,854,133 shares issued as of June 30, 2019 and 2018	14,656	14,630
Retained earnings	36,487	32,342
Treasury stock, at cost (120,288 and 124,489 common shares at June 30, 2019 and 2018, respectively)	(1,543)	(1,576)
Accumulated other comprehensive income (loss)	1,566	(1,635)
Total shareholders' equity	51,166	43,761
Total liabilities and shareholders' equity	\$ 553,936	\$ 502,619

*See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2019 and 2018

(Dollar amounts in thousands, except per share data)

	2019	2018
<b>Interest income:</b>		
Loans, including fees	\$ 16,590	\$ 13,937
Securities, taxable	2,192	1,916
Securities, tax-exempt	1,584	1,472
Federal bank and other restricted stocks	86	81
Federal funds sold and interest-bearing deposits	93	151
Total interest and dividend income	20,545	17,557
<b>Interest expense:</b>		
Deposits	2,786	1,210
Short-term borrowings	51	240
Federal Home Loan Bank advances	319	221
Total interest expense	3,156	1,671
Net interest income	17,389	15,886
Provision for loan losses	(440)	310
Net interest income after provision for loan losses	17,829	15,576
<b>Other income:</b>		
Service charges on deposit accounts	1,264	1,200
Debit card interchange income	1,454	1,333
Bank owned life insurance income	271	270
Gain on sale of mortgage loans	458	367
Securities gains, net	561	33
Other	260	188
Total other income	4,268	3,391
<b>Other expenses:</b>		
Salaries and employee benefits	8,355	7,692
Occupancy and equipment	2,096	1,867
Data processing expenses	621	601
Professional and director fees	799	523
Federal Deposit Insurance Corporation assessments	149	168
Franchise taxes	361	343
Marketing and advertising	424	308
Loan and collection expenses	101	117
Telephone and communications	268	307
Debit card processing expenses	765	754
Other	1,579	1,557
Total other expenses	15,518	14,237
Income before income taxes	6,579	4,730
Income tax expense	1,013	1,149
<b>Net income</b>	\$ 5,566	\$ 3,581
<b>Basic and diluted earnings per share</b>	\$ 2.04	\$ 1.31

*See accompanying notes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended June 30, 2019 and 2018

(Dollar amounts in thousands, except per share data)

	<u>2019</u>	<u>2018</u>
Net income	\$ 5,566	\$ 3,581
Other comprehensive income, net of tax:		
Net change in unrealized gains (losses):		
Unrealized gains (losses) arising during the period	4,612	(2,711)
Reclassification adjustment for gains included in income	<u>(561)</u>	<u>(33)</u>
Net unrealized gain (loss)	4,051	(2,744)
Income tax effect	<u>(850)</u>	<u>650</u>
Other comprehensive income (loss)	<u>3,201</u>	<u>(2,094)</u>
Total comprehensive income	<u>\$ 8,767</u>	<u>\$ 1,487</u>

*See accompanying notes to consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Years Ended June 30, 2019 and 2018

(Dollar amounts in thousands, except per share data)

	<u>Common Shares</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders' Equity</u>
<b>Balance, June 30, 2017</b>	\$ 14,630	\$ 30,122	\$ (1,662)	\$ 445	\$ 43,535
Net income		3,581			3,581
Other comprehensive loss				(2,094)	(2,094)
Reclassification of disproportionate income tax effects		(14)		14	—
6,321 shares issued associated with stock awards			90		90
204 Dividend reinvestment plan shares associated with expired and forfeited restricted stock awards retired to treasury		4	(4)		—
Cash dividends declared (\$0.495 per share)		(1,351)			(1,351)
<b>Balance, June 30, 2018</b>	<u>\$ 14,630</u>	<u>\$ 32,342</u>	<u>\$ (1,576)</u>	<u>\$ (1,635)</u>	<u>\$ 43,761</u>
Net income		5,566			5,566
Other comprehensive income				3,201	3,201
2,614 shares associated with vested stock awards	26		33		59
Cash dividends declared (\$0.52 per share)		(1,421)			(1,421)
<b>Balance, June 30, 2019</b>	<u>\$ 14,656</u>	<u>\$ 36,487</u>	<u>\$ (1,543)</u>	<u>\$ 1,566</u>	<u>\$ 51,166</u>

*See accompanying notes to consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 and 2018

(Dollar amounts in thousands, except per share data)

	2019	2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,566	\$ 3,581
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	797	771
Securities amortization and accretion, net	784	963
Provision for loan losses	(440)	310
Gain on disposal of fixed assets	(11)	(6)
Loss on disposition or direct write-down of other real estate owned	—	2
Net gain on sale of loans	(458)	(367)
Deferred income tax expense	173	462
Gain on sale of securities	(561)	(33)
Origination of loans held for sale	(29,473)	(22,336)
Proceeds from loans held for sale	29,797	22,760
Increase in cash surrender value of life insurance	(271)	(270)
Change in other assets and other liabilities	483	14
Net cash flows from operating activities	6,386	5,851
<b>Cash flows from investing activities:</b>		
Securities available-for-sale:		
Purchases	(22,914)	(23,878)
Maturities, calls and principal pay downs	19,091	15,618
Proceeds from sales of available-for-sale securities	7,670	2,644
Securities held-to-maturity:		
Principal pay downs	238	235
Net decrease in certificates of deposit with other financial institutions	990	948
Purchase of Federal Home Loan Stock	(264)	(34)
Net increase in loans	(49,935)	(45,869)
Acquisition of premises and equipment	(1,671)	(688)
Disposal of premises and equipment	45	6
Proceeds from sale of other real estate owned	—	69
Net cash flows from investing activities	(46,750)	(50,949)
<b>Cash flows from financing activities:</b>		
Net increase in deposit accounts	42,211	55,492
Proceeds from Federal Home Loan Bank advances	13,000	2,700
Repayments of Federal Home Loan Bank advances	(2,056)	(3,264)
Change in short-term borrowings	(9,681)	(10,619)
Dividends paid	(1,421)	(1,351)
Net cash flows from financing activities	42,053	42,958
Increase (decrease) in cash and cash equivalents	1,689	(2,140)
Cash and cash equivalents, beginning of year	7,772	9,912
<b>Cash and cash equivalents, end of year</b>	\$ 9,461	\$ 7,772

*See accompanying notes to consolidated financial statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

(Dollar amounts in thousands, except per share data)

### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

**Use of Estimates:** To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

**Cash Flows:** Cash and cash equivalents include cash, deposits with other financial institutions with original maturities of less than 90 days and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions and short-term borrowings. Additional cash flow information was as follows:

	<b>Year Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Cash paid for interest	\$ 3,092	\$ 1,643
Cash paid for Federal income taxes	820	730
Non-cash transactions:		
Transfer from loans to repossessed assets	—	—
Transfer from loans held for sale to portfolio	75	253
Issuance of treasury stock for stock awards	59	90
Expired and forfeited dividend reinvestment plan shares associated with restricted stock awards that were retired to treasury stock	—	4

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

**Certificates of Deposit in Financial Institutions:** Certificates of deposit in other financial institutions are carried at cost.

**Cash Reserves:** The Bank is required to maintain cash on hand and noninterest-bearing balances on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements. The required reserve balance at June 30, 2019 and 2018 was \$456 and \$329, respectively.

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

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Loans Held for Sale:** Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Mortgage loans held for sale are generally sold with servicing rights released. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

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

Interest income on commercial, commercial real estate and 1-4 family residential loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is determined by the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

*1-4 Family Residential Real Estate:* Residential real estate loans are secured by one to four family residential properties and include both owner occupied, non-owner occupied and home equity loans. Credit approval for residential real estate loans requires

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

demonstration of sufficient income to repay the principal and interest and the real estate taxes and insurance, stability of employment, an established credit record and an appropriately appraised value of the real estate securing the loan that generally requires that the residential real estate loan amount be no more than 85% of the purchase price or the appraised value of the real estate securing the loan unless the borrower provides private mortgage insurance.

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

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

**Transfers of Financial Assets:** Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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

**Cash Surrender Value of Life Insurance:** The Bank has purchased single-premium life insurance policies to insure the lives of current and former participants in the salary continuation plan. As of June 30, 2019, the Bank had policies with total death benefits of \$19,806 and total cash surrender values of \$9,606. As of June 30, 2018, the Bank had policies with total death benefits of \$19,776 and total cash surrender values of \$9,335. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Tax-exempt income is recognized from the periodic increases in cash surrender value of these policies.

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

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

**Retirement Plans:** The Bank maintains a 401(k) savings and retirement plan covering all eligible employees and matching contributions are expensed as made. Salary continuation plan expense allocates the benefits over years of service.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Earnings per Common Share:** Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable upon the vesting of restricted stock awards.

**Stock-Based Compensation:** Compensation cost is recognized for restricted stock awards issued to employees over the required service period, generally defined as the vesting period. The fair value of restricted stock awards is estimated by using the market price of the Corporation's common stock at the date of grant. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

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

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

**Fair Value of Financial Instruments:** Fair value of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 14 of the Consolidated Financial Statements. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, discounted cash flows, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

**Dividend Restrictions:** Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

**Reclassifications:** Certain reclassifications have been made to the June 30, 2018 financial statements to be comparable to the June 30, 2019 presentation. The reclassifications had no impact on prior year net income or shareholders' equity.

**Recently Issued Accounting Pronouncements Not Yet Effective:** In June 2016, Financial Accounting Standards Board (FASB) issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU adds a new Topic 326 to the codification and removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities. Under current U.S. generally accepted accounting principles, companies generally recognize credit losses when it is probable that the loss has been incurred. The revised guidance will remove all current loss recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the corporation expects to collect over the instrument's contractual life. ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. The guidance in ASU 2016-13 is effective for "public business entities," as defined in the guidance, that are SEC filers for fiscal years and for interim periods within those fiscal years beginning after December 15, 2019. Early adoption of the guidance is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. However, during July 2019, FASB unanimously voted for a proposal to delay this ASU to January 2023 for smaller reporting companies. While there is a thirty-day comment period starting in August, the proposed delay is widely expected to be adopted. Management is currently evaluating the impact of the adoption of this guidance on the Corporation's consolidated financial statements and is in the midst of gathering critical data to evaluate the impact. However, it is too early to estimate the impact.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). This ASU will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can understand more about the nature of an entity's leasing activities. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Corporation has several lease agreements, such as branch locations, which are currently considered operating leases, and therefore, not recognized on the Corporation's consolidated condensed statements of financial condition. The Corporation expects the new guidance to require these lease agreements to now be recognized on the consolidated condensed statements of financial condition as a right-of-use asset and a corresponding lease liability. Therefore, the Corporation's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Corporation's consolidated condensed statements of financial condition, along with our regulatory capital ratios. The definition of a lease and the cash flows required to be evaluated will change. Upon adoption of ASU 2016-02 on July 1, 2019, the Corporation expects to recognize right-of-use assets and related lease liabilities totaling approximately \$582.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 2—ACQUISITION**

On June 14, 2019, Consumers entered into a Merger Agreement with Peoples Bancorp of Mt. Pleasant, Inc. (Peoples) and its wholly-owned subsidiary, The Peoples National Bank of Mount Pleasant. Each Peoples shareholder will receive 63.16 common shares of Consumers common stock or \$1,200.00 in cash, subject to total consideration being paid 50% in Consumers common share and 50% cash as provided in the Merger Agreement. Based on Consumers' 20 day average closing price of \$19.07 on June 13, 2019, the aggregate implied transaction value was approximately \$10.3 million. On June 30, 2019, Peoples had approximately \$75 million in total assets, \$53.1 million in loans and \$65.7 million in deposits at its three banking centers located in Mt. Pleasant, Adena, and Dillonvale, Ohio. The transaction is expected to be completed in the second quarter of fiscal year 2020, pending the approval of shareholders of Peoples and the completion of other customary closing conditions. All necessary regulatory approvals have been received.

**NOTE 3—SECURITIES**

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at June 30, 2019 and 2018 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b><u>Available-for-sale</u></b>				
<b>June 30, 2019</b>				
Obligations of U.S. government-sponsored entities and agencies	\$ 19,227	\$ 287	\$ (1)	\$ 19,513
Obligations of state and political subdivisions	56,405	1,557	(33)	57,929
U.S. Government-sponsored mortgage-backed securities - residential	56,309	450	(448)	56,311
U.S. Government-sponsored collateralized mortgage obligations - residential	10,087	198	(28)	10,257
Total available-for-sale securities	<u>\$ 142,028</u>	<u>\$ 2,492</u>	<u>\$ (510)</u>	<u>\$ 144,010</u>
	<u>Amortized Cost</u>	<u>Gross Unrecognized Gains</u>	<u>Gross Unrecognized Losses</u>	<u>Fair Value</u>
<b><u>Held-to-maturity</u></b>				
<b>June 30, 2019</b>				
Obligations of state and political subdivisions	\$ 3,786	\$ 35	\$ —	\$ 3,821
Total held-to-maturity securities	<u>\$ 3,786</u>	<u>\$ 35</u>	<u>\$ —</u>	<u>\$ 3,821</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b><u>Available-for-sale</u></b>				
<b>June 30, 2018</b>				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,488	\$ 6	\$ (372)	\$ 16,122
Obligations of state and political subdivisions	56,964	339	(713)	56,590
U.S. Government-sponsored mortgage-backed securities - residential	65,062	6	(1,660)	63,408
U.S. Government-sponsored mortgage-backed securities - commercial	1,432	—	(17)	1,415
U.S. Government-sponsored collateralized mortgage obligations - residential	5,973	9	(216)	5,766
Pooled trust preferred security	178	549	—	727
Total available-for-sale securities	<u>\$ 146,097</u>	<u>\$ 909</u>	<u>\$ (2,978)</u>	<u>\$ 144,028</u>
	<u>Amortized Cost</u>	<u>Gross Unrecognized Gains</u>	<u>Gross Unrecognized Losses</u>	<u>Fair Value</u>
<b><u>Held-to-maturity</u></b>				
<b>June 30, 2018</b>				
Obligations of state and political subdivisions	\$ 4,024	\$ 24	\$ —	\$ 4,048
Total held-to-maturity securities	<u>\$ 4,024</u>	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ 4,048</u>

Proceeds from sales of available-for-sale securities during fiscal year 2019 and fiscal year 2018 were as follows:



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>2019</u>	<u>2018</u>
Proceeds from sales	\$ 7,670	\$ 2,644
Gross realized gains	606	40
Gross realized losses	45	7

The income tax provision related to these net realized gains amounted to \$118 in fiscal year 2019 and \$12 in fiscal year 2018.

The amortized cost and fair values of debt securities at June 30, 2019 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 and collateralized mortgage obligations are shown separately.

<u>Available-for-sale</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 9,473	\$ 9,592
Due after one year through five years	15,700	15,969
Due after five years through ten years	21,774	22,179
Due after ten years	28,685	29,702
Total	<u>75,632</u>	<u>77,442</u>
U.S. Government-sponsored mortgage-backed and related securities	66,396	66,568
Total	<u>\$ 142,028</u>	<u>\$ 144,010</u>

<u>Held-to-maturity</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due after five years through ten years	\$ 451	\$ 471
Due after ten years	3,335	3,350
Total	<u>\$ 3,786</u>	<u>\$ 3,821</u>

Securities with a carrying value of approximately \$72,600 and \$71,673 were pledged at June 30, 2019 and 2018, respectively, to secure public deposits and commitments as required or permitted by law. At June 30, 2019 and 2018, there were no holdings of securities of any one issuer, other than obligations of U.S. government-sponsored entities and agencies, with an aggregate book value greater than 10% of shareholders' equity.

The following table summarizes the securities with unrealized and unrecognized losses at June 30, 2019 and 2018, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position:

	<u>Less than 12 Months</u>		<u>12 Months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<b><u>Available-for-sale</u></b>						
<b><u>June 30, 2019</u></b>						
Obligations of U.S. government-sponsored entities and agencies	\$ —	\$ —	\$ 998	\$ (1)	\$ 998	\$ (1)
Obligations of states and political subdivisions	—	—	5,201	(33)	5,201	(33)
Mortgage-backed securities - residential	—	—	36,362	(448)	36,362	(448)
Collateralized mortgage obligations - residential	—	—	3,277	(28)	3,277	(28)
Total temporarily impaired	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 45,838</u>	<u>\$ (510)</u>	<u>\$ 45,838</u>	<u>\$ (510)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Available-for-sale</u>	<u>Less than 12 Months</u>		<u>12 Months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<b>June 30, 2018</b>						
Obligations of U.S. government-sponsored entities and agencies	\$ 12,400	\$ (224)	\$ 2,747	\$ (148)	\$ 15,147	\$ (372)
Obligations of states and political subdivisions	26,775	(369)	7,975	(344)	34,750	(713)
Mortgage-backed securities - residential	31,038	(581)	29,716	(1,079)	60,754	(1,660)
Mortgage-backed securities - commercial	1,415	(17)	—	—	1,415	(17)
Collateralized mortgage obligations - residential	—	—	4,821	(216)	4,821	(216)
Total temporarily impaired	<u>\$ 71,628</u>	<u>\$ (1,191)</u>	<u>\$ 45,259</u>	<u>\$ (1,787)</u>	<u>\$ 116,887</u>	<u>\$ (2,978)</u>

Management evaluates securities for other-than-temporary impairment (OTTI) on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities are generally evaluated for OTTI under FASB ASC Topic 320, *Accounting for Certain Investments in Debt and Equity Securities*.

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

As of June 30, 2019, the Corporation's securities portfolio consisted of 251 available-for-sale and three held-to-maturity securities. There were 71 available-for-sale securities in an unrealized loss position at June 30, 2019, all of which were in a continuous loss position for twelve or more months. There were no held-to-maturity securities in an unrealized loss position at June 30, 2019. The unrealized losses within the securities portfolio were primarily attributed to a change in market rates. At June 30, 2019, all the mortgage-backed securities and collateralized mortgage obligations held by the Corporation were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Also, management monitors the financial condition of the individual municipal securities to ensure they meet minimum credit standards. Since the Corporation does not intend to sell these securities and it is not likely the Corporation will be required to sell these securities at an unrealized loss position prior to any anticipated recovery in fair value, which may be maturity, management does not believe there is any OTTI related to these securities at June 30, 2019. Also, there was no OTTI recognized at June 30, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 4—LOANS**

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

	<u>2019</u>	<u>2018</u>
Commercial	\$ 80,453	\$ 60,995
Commercial real estate:		
Construction	16,120	5,394
Other	195,269	183,383
1 – 4 Family residential real estate:		
Owner occupied	55,941	47,433
Non-owner occupied	14,517	15,516
Construction	1,931	1,171
Consumer	5,150	4,873
Subtotal	<u>369,381</u>	<u>318,765</u>
Net deferred loan fees and costs	(206)	(256)
Allowance for loan losses	<u>(3,788)</u>	<u>(3,422)</u>
Net loans	<u>\$ 365,387</u>	<u>\$ 315,087</u>

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended June 30, 2019:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>1-4 Family Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:					
Beginning balance	\$ 586	\$ 2,277	\$ 499	\$ 60	\$ 3,422
Provision for loan losses	74	(498)	(28)	12	(440)
Loans charged-off	—	(80)	—	(36)	(116)
Recoveries	—	876	23	23	922
Total ending allowance balance	<u>\$ 660</u>	<u>\$ 2,575</u>	<u>\$ 494</u>	<u>\$ 59</u>	<u>\$ 3,788</u>

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended June 30, 2018:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>1-4 Family Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:					
Beginning balance	\$ 518	\$ 2,038	\$ 473	\$ 57	\$ 3,086
Provision for loan losses	51	202	45	12	310
Loans charged-off	—	(4)	(33)	(24)	(61)
Recoveries	17	41	14	15	87
Total ending allowance balance	<u>\$ 586</u>	<u>\$ 2,277</u>	<u>\$ 499</u>	<u>\$ 60</u>	<u>\$ 3,422</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2019. Included in the recorded investment in loans is \$891 of accrued interest receivable.

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ 2	\$ 7	\$ —	\$ —	\$ 9
Collectively evaluated for impairment	<u>658</u>	<u>2,568</u>	<u>494</u>	<u>59</u>	<u>3,779</u>
Total ending allowance balance	<u>\$ 660</u>	<u>\$ 2,575</u>	<u>\$ 494</u>	<u>\$ 59</u>	<u>\$ 3,788</u>
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 174	\$ 658	\$ 357	\$ —	\$ 1,189
Loans collectively evaluated for impairment	<u>80,413</u>	<u>210,709</u>	<u>72,591</u>	<u>5,164</u>	<u>368,877</u>
Total ending loans balance	<u>\$ 80,587</u>	<u>\$ 211,367</u>	<u>\$ 72,948</u>	<u>\$ 5,164</u>	<u>\$ 370,066</u>

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, 2018. Included in the recorded investment in loans is \$732 of accrued interest receivable.

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ —	\$ 29	\$ —	\$ —	\$ 29
Collectively evaluated for impairment	<u>586</u>	<u>2,248</u>	<u>499</u>	<u>60</u>	<u>3,393</u>
Total ending allowance balance	<u>\$ 586</u>	<u>\$ 2,277</u>	<u>\$ 499</u>	<u>\$ 60</u>	<u>\$ 3,422</u>
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 100	\$ 1,562	\$ 398	\$ —	\$ 2,060
Loans collectively evaluated for impairment	<u>60,979</u>	<u>187,191</u>	<u>64,135</u>	<u>4,876</u>	<u>317,181</u>
Total ending loans balance	<u>\$ 61,079</u>	<u>\$ 188,753</u>	<u>\$ 64,533</u>	<u>\$ 4,876</u>	<u>\$ 319,241</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the year ended June 30, 2019:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash Basis Interest Recognized</u>
With no related allowance recorded:						
Commercial	\$ —	\$ —	\$ —	\$ 86	\$ 6	\$ 6
Commercial real estate:						
Other	580	436	—	1,051	28	28
1-4 Family residential real estate:						
Owner occupied	124	93	—	97	—	—
Non-owner occupied	297	264	—	279	—	—
With an allowance recorded:						
Commercial real estate:						
Other	221	222	7	226	14	14
Commercial	173	174	2	44	2	2
Total	<u>\$ 1,395</u>	<u>\$ 1,189</u>	<u>\$ 9</u>	<u>\$ 1,783</u>	<u>\$ 50</u>	<u>\$ 50</u>

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the year ended June 30, 2018:

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash Basis Interest Recognized</u>
With no related allowance recorded:						
Commercial	\$ 100	\$ 100	\$ —	\$ 111	\$ 5	\$ 5
Commercial real estate:						
Other	1,330	1,330	—	1,102	17	17
1-4 Family residential real estate:						
Owner occupied	101	101	—	71	—	—
Non-owner occupied	297	297	—	314	—	—
With an allowance recorded:						
Commercial real estate:						
Other	231	232	29	285	28	28
Total	<u>\$ 2,059</u>	<u>\$ 2,060</u>	<u>\$ 29</u>	<u>\$ 1,883</u>	<u>\$ 50</u>	<u>\$ 50</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2019 and 2018:

	June 30, 2019		June 30, 2018	
	Loans Past Due Over 90 Days Still		Loans Past Due Over 90 Days Still	
	Non-accrual	Accruing	Non-accrual	Accruing
Commercial real estate:				
Other	\$ 436	\$ —	\$ 702	\$ —
1 – 4 Family residential:				
Owner occupied	85	—	90	—
Non-owner occupied	264	—	298	—
Total	<u>\$ 785</u>	<u>\$ —</u>	<u>\$ 1,090</u>	<u>\$ —</u>

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

The following table presents the aging of the recorded investment in past due loans as of June 30, 2019 by class of loans:

	Days Past Due			Total Past Due	Loans Not Past Due	Total
	30 - 59 Days	60 - 89 Days	90 Days or Greater			
Commercial	\$ —	\$ —	\$ —	\$ —	\$ 80,587	\$ 80,587
Commercial real estate:						
Construction	—	—	—	—	16,075	16,075
Other	199	—	—	199	195,093	195,292
1-4 Family residential:						
Owner occupied	40	—	80	120	56,347	56,467
Non-owner occupied	—	—	—	—	14,518	14,518
Construction	—	—	—	—	1,963	1,963
Consumer	1	—	—	1	5,163	5,164
Total	<u>\$ 240</u>	<u>\$ —</u>	<u>\$ 80</u>	<u>\$ 320</u>	<u>\$ 369,746</u>	<u>\$ 370,066</u>

The above table of past due loans includes the recorded investment in non-accrual loans of \$198 in the 30-59 days, \$80 in the 90 days or greater category and \$507 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, 2018 by class of loans:

	Days Past Due			Total Past Due	Loans Not Past Due	Total
	30 - 59 Days	60 - 89 Days	90 Days or Greater			
Commercial	\$ —	\$ —	\$ —	\$ —	\$ 61,079	\$ 61,079
Commercial real estate:						
Construction	—	—	—	—	5,386	5,386
Other	238	—	—	238	183,129	183,367
1-4 Family residential:						
Owner occupied	11	—	80	91	47,738	47,829
Non-owner occupied	—	—	—	—	15,514	15,514
Construction	—	—	—	—	1,190	1,190
Consumer	7	—	—	7	4,869	4,876
Total	<u>\$ 256</u>	<u>\$ —</u>	<u>\$ 80</u>	<u>\$ 336</u>	<u>\$ 318,905</u>	<u>\$ 319,241</u>

The above table of past due loans includes the recorded investment in non-accrual loans of \$249 in the 30-59 days, \$80 in the 90 days or greater category and \$761 in the loans not past due category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Troubled Debt Restructurings (TDR):**

The Corporation has certain loans that have been modified in order to maximize collection of loan balances. A modified loan is classified as a TDR if, for economic reasons, management grants a concession to the original terms and conditions of the loan to a borrower who is experiencing financial difficulties that it would not have otherwise considered.

At June 30, 2019 and 2018, the Corporation had \$725 and \$1,269, respectively, of loans classified as TDRs which are included in impaired loans above. At June 30, 2019 and 2018, the Corporation had \$9 and \$29, respectively, of specific reserves allocated to these loans.

During the fiscal year ended June 30, 2019, the terms of certain loans were modified as a troubled debt restructuring. The modification of the terms of such loans included a combination of forgiveness of a portion of the principal amount owed, which resulted in a reduction in the monthly payment amount, an extension of the maturity date and the extension of additional credit to provide operating funds. As of June 30, 2019, the Corporation had not committed to lend any additional funds to customers with outstanding loans that were classified as troubled debt restructurings. The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended June 30, 2019:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	\$ 38	\$ 176
Commercial real estate:			
Other	1	161	59
Total	2	\$ 199	\$ 235

The troubled debt restructuring described above increased the allowance for loan losses and resulted in a charge-off of \$80 during the twelve months ended June 30, 2019.

During the fiscal year ended June 30, 2018, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included a combination of an extension of the maturity date and the extension of additional credit to provide operating funds. The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended June 30, 2018:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	2	\$ 518	\$ 518
Commercial real estate:			
Other	1	512	512
Total	3	\$ 1,030	\$ 1,030

The troubled debt restructurings completed in the 2018 fiscal year described above did not increase the allowance for loan losses or result in any charge-offs. As of June 30, 2018, the Corporation had committed to lend an additional \$175 as part of the restructurings described above. There were no loans classified as troubled debt restructurings that were modified within the last twelve months for which there was a payment default.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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. This analysis is performed on a monthly 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 was discussed previously.

As of June 30, 2019, and based on the most recent analysis performed, the recorded investment by risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$ 74,393	\$ 4,942	\$ 1,012	\$ —	\$ 240
Commercial real estate:					
Construction	16,075	—	—	—	—
Other	179,952	8,071	5,337	436	1,496
1-4 Family residential real estate:					
Owner occupied	2,245	—	24	5	54,193
Non-owner occupied	13,413	205	318	263	319
Construction	—	—	—	—	1,963
Consumer	32	—	—	—	5,132
Total	<u>\$ 286,110</u>	<u>\$ 13,218</u>	<u>\$ 6,691</u>	<u>\$ 704</u>	<u>\$ 63,343</u>

As of June 30, 2018, and based on the most recent analysis performed, the recorded investment by risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$ 59,214	\$ 288	\$ 1,162	\$ —	\$ 415
Commercial real estate:					
Construction	5,386	—	—	—	—
Other	172,471	7,061	1,878	702	1,255
1-4 Family residential real estate:					
Owner occupied	2,577	—	27	11	45,214
Non-owner occupied	14,025	195	417	298	579
Construction	8	—	—	—	1,182
Consumer	93	—	—	—	4,783
Total	<u>\$ 253,774</u>	<u>\$ 7,544</u>	<u>\$ 3,484</u>	<u>\$ 1,011</u>	<u>\$ 53,428</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 5—PREMISES AND EQUIPMENT**

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

	<u>2019</u>	<u>2018</u>
Land	\$ 1,511	\$ 1,469
Land improvements	344	344
Building and leasehold improvements	13,013	12,636
Furniture, fixture and equipment	<u>5,872</u>	<u>5,164</u>
Total premises and equipment	20,740	19,613
Accumulated depreciation and amortization	<u>(6,585)</u>	<u>(6,298)</u>
Premises and equipment, net	<u>\$ 14,155</u>	<u>\$ 13,315</u>

Depreciation expense was \$797 and \$771 for the years ended June 30, 2019 and 2018, respectively.

The Corporation is obligated under non-cancelable operating leases for branch properties and equipment. Rent expense incurred was \$159 during each of the years ended June 30, 2019 and 2018. The approximate minimum annual rentals and commitments under these leases with remaining terms in excess of one year, before considering renewal options that generally are present, were as follows:

<u>Twelve Months Ending June 30</u>	
2020	\$ 109
2021	106
2022	96
2023	79
Thereafter	<u>22</u>
Total	<u>\$ 412</u>

**NOTE 6—DEPOSITS**

The aggregate amount of time deposits that meet or exceed the FDIC Insurance limit of \$250 were \$39,034 and \$23,018 as of June 30, 2019 and 2018, respectively. Scheduled maturities of time deposits at June 30, 2019 were as follows:

<u>Twelve Months Ending June 30</u>	
2020	\$ 69,401
2021	29,840
2022	7,396
2023	4,873
2024	515
Thereafter	<u>180</u>
	<u>\$ 112,205</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 7—SHORT-TERM BORROWINGS**

Short-term borrowings consisted of repurchase agreements and federal fund purchased. Information concerning all short-term borrowings at June 30, 2019 and 2018, maturing in less than one year is summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance at June 30	\$ 3,686	\$ 13,367
Average balance during the year	3,521	24,422
Maximum month-end balance	3,975	28,621
Average interest rate during the year	1.45%	0.98%
Weighted average rate, June 30	1.39%	1.02%

Securities sold under agreements to repurchase are utilized to facilitate the needs of our customers. Physical control is maintained for all securities pledged to secure repurchase agreements. Securities available-for-sale pledged for repurchase agreements as of June 30, 2019 and 2018 are presented in the following table:

	<b>Overnight and Continuous</b>	
	<u>2019</u>	<u>2018</u>
U.S. government-sponsored entities and agencies pledged	\$ 998	\$ —
Residential mortgage-backed securities pledged	3,938	5,294
Total pledged	<u>\$ 4,936</u>	<u>\$ 5,294</u>
Repurchase agreements	\$ 3,686	\$ 4,486

Total interest expense on short-term borrowings was \$51 and \$240 for the years ended June 30, 2019 and 2018, respectively.

**NOTE 8—FEDERAL HOME LOAN BANK ADVANCES**

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

Advance Type	Stated Interest Rate Range		<u>June 30, 2019</u>		<u>June 30, 2018</u>	
			Amount	Weighted Average Rate	Amount	Weighted Average Rate
Fixed rate, amortizing	—%	—%	\$ —	—%	\$ 56	4.30%
Fixed rate	1.18	1.97	11,200	1.59	11,700	1.46
Variable rate	2.56	2.56	11,500	2.56	—	—

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 a comparable new advance. The following table is a summary of the scheduled principal payments for all advances:

<u>Twelve Months Ending June 30</u>	<u>Principal Payments</u>
2020	\$ 13,000
2021	1,500
2022	1,700
2023	—
Thereafter	6,500
Total	<u>\$ 22,700</u>

Pursuant to collateral agreements with the FHLB, advances are secured by all the stock invested in the FHLB and certain qualifying first mortgage and multi-family loans. The advances were collateralized by \$61,812 and \$53,572 of first mortgage and multi-family loans under a blanket lien arrangement at June 30, 2019 and 2018, respectively. Based on this collateral and the Corporation's holdings of FHLB stock, the Bank was eligible to borrow up to a total of \$23,283 in additional advances at June 30, 2019.

**NOTE 9—EMPLOYEE BENEFIT PLANS**

The Bank maintains a 401(k) savings and retirement plan that permits eligible employees to make before- or after-tax contributions to the plan, subject to the dollar limits from Internal Revenue Service regulations. The Bank matches 100% of the employee’s voluntary contributions to the plan based on the amount of each participant’s contributions up to a maximum of 4% of eligible compensation. All regular full-time and part-time employees who complete six months of service and are at least 21 years of age are eligible to participate. Amounts charged to operations were \$236 and \$206 for the years ended June 30, 2019 and 2018, respectively.

The Bank maintains a nonqualified Salary Continuation Plan (SCP) to reward and encourage certain Bank executives to remain employees of the Bank. The SCP is considered an unfunded plan for tax and Employee Retirement Income Security Act (ERISA) purposes and all obligations arising under the SCP are payable from the general assets of the Corporation. The estimated present value of future benefits to be paid to certain current and former executives totaled \$2,475 as of June 30, 2019 and \$2,321 as of June 30, 2018 and is included in other liabilities. For purposes of calculating the present value of future benefits, the discount rate in effect at June 30, 2019 and 2018 was 4.5%. For the years ended June 30, 2019 and 2018, \$230 and \$225, respectively, have been charged to expense in connection with the SCP. Distributions to participants were \$76 and \$56 for the years ended June 30, 2019 and 2018, respectively.

The 2010 Omnibus Incentive Plan (2010 Plan) is a nonqualified share based compensation plan. The 2010 Plan was established to promote alignment between key employees’ performance and the Corporation’s shareholder interests by motivating performance through the award of stock-based compensation. The 2010 Plan is intended to attract, retain and motivate talented employees and compensate outside directors for their service to the Corporation. The 2010 Plan has been approved by the Corporation’s shareholders. The Compensation Committee of the Corporation’s Board of Directors has sole authority to select the employees, establish the awards to be issued, and approve the terms and conditions of each award contract.

Under the 2010 Plan, the Corporation may grant, among other things, nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, or any combination thereof to any employee and outside director. Each award is evidenced by an award agreement that specifies the number of shares awarded, the vesting period, the performance requirements, and such other provisions as the Compensation Committee determines. Upon a change-in-control of the Corporation, as defined in the 2010 Plan, all outstanding awards immediately vest.

The Corporation has granted restricted stock awards to certain employees and directors. Restricted stock awards are issued at no cost to the recipient and can be settled only in shares at the end of the vesting period. Awards are made at the end of the measurement period of certain specified performance targets once those performance targets as established by the Compensation Committee are achieved. Some awards, primarily the awards made to directors, vest on the date of grant. Other awards, primarily the awards made to executive management, 25% vest on the grant date, which is the end of the performance period, with the remaining vesting 25% per year over a three-year period. Restricted stock awards provide the holder with full voting rights and dividends during the vesting period. Cash dividends are reinvested into shares of stock and are subject to the same restrictions and vesting as the initial award. All dividends are forfeitable in the event the shares do not vest. The fair value of the restricted stock awards, which is used to measure compensation expense, is the closing market price of the Corporation’s common stock on the date of the grant and compensation expense is recognized over the vesting period of the awards.

The following table summarizes the status of the restricted stock awards:

	<b>Restricted Stock Awards</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Outstanding at June 30, 2018	2,062	\$ 21.00
Granted	4,201	23.40
Vested	(2,614)	22.77
Non-vested at June 30, 2019	<u>3,649</u>	<u>\$ 22.49</u>

There was \$74 in expense recognized in the 2019 fiscal year and \$101 in expense recognized in the 2018 fiscal year in connection with the restricted stock awards. As of June 30, 2019, there was \$57 of total unrecognized compensation expense related to non-vested shares and the expense is expected to be recognized over the next three years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 10—INCOME TAXES**

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act). The Tax Act significantly revised the future ongoing U.S. corporate income tax structure by, among other things, decreasing U.S. corporate income tax rates to 21.0% from a maximum of 35.0%. As the Corporation has a June 30 fiscal year-end, the lower corporate income tax rate was phased in, resulting in a blended U.S. statutory federal rate of approximately 27.55% for the Corporation's fiscal year ending June 30, 2018, and 21.0% for subsequent fiscal years. The provision for income taxes consisted of the following for the years ended June 30, calculated utilizing a statutory federal income tax rate of 21.0% in the 2019 fiscal year and 27.55% in the 2018 fiscal year:

	<u>2019</u>	<u>2018</u>
Current income taxes	\$ 840	\$ 687
Deferred income tax expense	173	114
Change in corporate tax rate	—	348
Total income tax expense	<u>\$ 1,013</u>	<u>\$ 1,149</u>

The reduction of the corporate tax rate required the Corporation to revalue its deferred tax assets and liabilities during the 2018 fiscal year based on the lower federal tax rate of 21.0%. As a result of the new legislation, during the 2018 fiscal year, the Corporation recorded a charge to income tax expense of \$348 in conjunction with writing down its net deferred tax assets. The net deferred income tax asset consisted of the following components at June 30:

	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Allowance for loan losses	\$ 701	\$ 632
Deferred compensation	616	514
Recognized loss on impairment of security	—	164
Deferred income	55	68
Non-accrual loan interest income	50	42
Other	7	—
Net unrealized securities loss	—	435
Gross deferred tax asset	<u>1,429</u>	<u>1,855</u>
Deferred tax liabilities:		
Depreciation	(645)	(489)
Loan fees	(278)	(238)
FHLB stock dividends	(102)	(102)
Prepaid expenses	(42)	(56)
Net unrealized securities gain	(416)	—
Gross deferred tax liabilities	<u>(1,483)</u>	<u>(885)</u>
Net deferred asset (liability)	<u>\$ (54)</u>	<u>\$ 970</u>

The difference between the provision for income taxes and amounts computed by applying the statutory income tax rate of 21.0% for 2019 and 27.55% for 2018 to income before taxes consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Income taxes computed at the statutory rate on pretax income	\$ 1,382	\$ 1,303
Tax exempt income	(319)	(408)
Cash surrender value income	(57)	(75)
Tax credit	(28)	(27)
Change in corporate tax rate	—	348
Other non-deductible expenses	35	8
Total income tax expense	<u>\$ 1,013</u>	<u>\$ 1,149</u>

The effective tax rate was 15.4% for the year ended June 30, 2019 compared to 24.3% for the year ended June 30, 2018. At June 30, 2019 and June 30, 2018, the Corporation had no unrecognized tax benefits recorded. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. There were no interest or penalties

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

recorded for the years ended June 30, 2019 and 2018 and there were no amounts accrued for interest and penalties at June 30, 2019 and 2018.

The Corporation and the Bank are subject to U.S. federal income tax as an income-based tax and a capital-based franchise tax in the State of Ohio. The Corporation and the Bank are no longer subject to examination by taxing authorities for years before 2015.

**NOTE 11—RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Bank has granted loans to certain executive officers, directors and their affiliates. A summary of activity during the year ended June 30, 2019 of related party loans were as follows:

Principal balance, July 1	\$	11,138
New loans, net of refinancing		687
Repayments		(1,195)
Changes due to changes in related parties		(68)
Principal balance, June 30	\$	<u>10,562</u>

Deposits from executive officers, directors and their affiliates totaled \$3,800 at June 30, 2019 and \$5,897 at June 30, 2018.

**NOTE 12—REGULATORY MATTERS**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective-action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

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

As of fiscal year-end 2019 and 2018, the Corporation met the definition of a Small Bank Holding Company and, therefore, was exempt from maintaining consolidated regulatory capital ratios. Instead, regulatory capital ratios only apply at the subsidiary bank level. The Basel III Capital Rules became effective for the Bank on January 1, 2015 and certain provisions were subject to a phase-in period. The implementation of the capital conservation buffer was phased in from 0.625% on January 1, 2016 to 2.5% on January 1, 2019. The capital conservation buffer for 2019 was 2.50% and for 2018 was 1.875%. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of June 30, 2019, the Bank met all capital adequacy requirements to which it was subject.

The following table presents actual and required capital ratios as of June 30, 2019 and June 30, 2018 for the Bank:

	<u>Actual</u>		<u>Minimum Capital Required – Basel III (1)</u>		<u>Minimum Required To Be Considered Well Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>June 30, 2019</b>						
Common equity Tier 1 to risk-weighted assets	\$ 48.0	11.68%	\$ 18.5	4.50%	\$ 26.7	6.50%
Tier 1 capital to risk weighted assets	48.0	11.68	24.6	6.00	32.9	8.00
Total capital to risk weighted assets	51.8	12.60	32.9	8.00	41.1	10.00
Tier 1 capital to average assets	48.0	8.88	21.6	4.00	27.0	5.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Actual		Minimum Capital Required - Basel III (1)		Minimum Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>June 30, 2018</b>						
Common equity Tier 1 to risk-weighted assets \$	43.7	12.20%	\$ 16.1	4.50%	\$ 23.3	6.50%
Tier 1 capital to risk weighted assets	43.7	12.20	21.5	6.00	28.7	8.00
Total capital to risk weighted assets	47.1	13.15	28.7	8.00	35.8	10.00
Tier 1 capital to average assets	43.7	8.74	20.0	4.00	25.0	5.00

(1) These amounts exclude the capital conservation buffer.

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

The Corporation's principal source of funds for dividend payment is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. As of June 30, 2019 the Bank could, without prior approval, declare a dividend of approximately \$7,286.

**NOTE 13—COMMITMENTS WITH OFF-BALANCE SHEET RISK**

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

The Bank evaluates each customer's credit on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. The amount of commitments to extend credit and the exposure to credit loss for non-performance by the customer was \$83,702 and \$62,764 as of June 30, 2019 and 2018, respectively. Of the June 30, 2019 commitments, \$67,722 carried variable rates and \$15,980 carried fixed rates of interest ranging from 3.50% to 6.75% with maturity dates from July 2019 to July 2050. Of the June 30, 2018 commitments, \$53,082 carried variable rates and \$9,682 carried fixed rates of interest ranging from 3.375% to 6.50% with maturity dates from August 2018 to June 2048. Financial standby letters of credit were \$2,563 as of June 30, 2019 and \$1,090 as of June 30, 2018. In addition, commitments to extend credit of \$8,840 and \$8,493 as of June 30, 2019 and 2018, respectively, were available to checking account customers related to the overdraft protection program. Since some loan commitments expire without being used, the amount does not necessarily represent future cash commitments.

**NOTE 14—FAIR VALUE**

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

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

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

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

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other unobservable inputs (Level 3 inputs).

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

	Balance at June 30, 2019	Fair Value Measurements at June 30, 2019 Using		
		Level 1	Level 2	Level 3
Assets:				
Securities available-for-sale:				
Obligations of government-sponsored entities	\$ 19,513	\$ —	\$ 19,513	\$ —
Obligations of states and political subdivisions	57,929	—	57,929	—
Mortgage-backed securities - residential	56,311	—	56,311	—
Collateralized mortgage obligations	10,257	—	10,257	—

	Balance at June 30, 2018	Fair Value Measurements at June 30, 2018 Using		
		Level 1	Level 2	Level 3
Securities available-for-sale:				
Obligations of government-sponsored entities	\$ 16,122	\$ —	\$ 16,122	\$ —
Obligations of states and political subdivisions	56,590	—	56,590	—
Mortgage-backed securities - residential	63,408	—	63,408	—
Mortgage-backed securities - commercial	1,415	—	1,415	—
Collateralized mortgage obligations	5,766	—	5,766	—
Pooled trust preferred security	727	—	727	—

There were no transfers between Level 1 and Level 2 during the 2019 or the 2018 fiscal year.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

There were no financial assets measured at fair value on a non-recurring basis at June 30, 2018. Financial assets and financial liabilities measured at fair value on a non-recurring basis at June 30, 2019 are summarized below:

	Balance at June 30, 2019	Fair Value Measurements at June 30, 2019 Using		
		Level 1	Level 2	Level 3
Impaired loans:				
Commercial Real Estate - Other	\$ 59	\$ —	\$ —	\$ 59

Impaired loans, measured for impairment using the fair value of the collateral, had a recorded investment of \$59, with no valuation allowance at June 30, 2019. The resulting impact to the provision for loan losses was an increase of \$80 for the twelve months ended June 30, 2019. There were no impaired loans measured at fair value on a non-recurring basis at June 30, 2018 and the resulting impact to the provision for loan losses was a decrease of \$17 being recorded for the twelve months ended June 30, 2018.

There was no other real estate owned at June 30, 2019 and 2018.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2019:

	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Impaired loans:					
Commercial Real Estate – Other	\$ 59	Settlement Agreement	N/A	0.0%	0.0%

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:

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial Assets:</b>				
Level 1 inputs:				
Cash and cash equivalents	\$ 9,461	\$ 9,461	\$ 7,772	\$ 7,772
Level 2 inputs:				
Certificates of deposits in other financial institutions	1,983	1,983	2,973	2,976
Loans held for sale	1,657	1,687	1,448	1,474
Accrued interest receivable	1,607	1,607	1,404	1,404
Level 3 inputs:				
Securities held-to-maturity	3,786	3,821	4,024	4,048
Loans, net	365,387	366,911	315,087	311,642
<b>Financial Liabilities:</b>				
Level 2 inputs:				
Demand and savings deposits	359,969	359,969	351,422	351,422
Time deposits	112,205	112,841	78,541	78,332
Short-term borrowings	3,686	3,686	13,367	13,367
Federal Home Loan Bank advances	22,700	22,596	11,756	11,146
Accrued interest payable	132	132	68	68

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 15—PARENT COMPANY FINANCIAL STATEMENTS**

The condensed financial information of Consumers Bancorp. Inc. (parent company only) follows:

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b>Condensed Balance Sheets</b>		
Assets		
Cash	\$ 38	\$ 46
Securities, available-for-sale	1,646	1,622
Other assets	75	73
Investment in subsidiary	49,545	42,089
Total assets	<u>\$ 51,304</u>	<u>\$ 43,830</u>
Liabilities		
Other liabilities	\$ 138	\$ 69
Shareholders' equity	51,166	43,761
Total liabilities & shareholders' equity	<u>\$ 51,304</u>	<u>\$ 43,830</u>
	<b>Year Ended June 30, 2019</b>	<b>Year Ended June 30, 2018</b>
<b>Condensed Statements of Income and Comprehensive Income</b>		
Cash dividends from Bank subsidiary	\$ 1,620	\$ 1,400
Other income	40	39
Other expense	408	222
Income before income taxes and equity in undistributed net income of subsidiary	1,252	1,217
Income tax benefit	(49)	(52)
Income before equity in undistributed net income of Bank subsidiary	1,301	1,269
Equity in undistributed net income of subsidiary	4,265	2,312
Net income	<u>\$ 5,566</u>	<u>\$ 3,581</u>
Comprehensive income	<u>\$ 8,767</u>	<u>\$ 1,487</u>
	<b>Year Ended June 30, 2019</b>	<b>Year Ended June 30, 2018</b>
<b>Condensed Statements of Cash Flows</b>		
Cash flows from operating activities		
Net income	\$ 5,566	\$ 3,581
Equity in undistributed net income of Bank subsidiary	(4,265)	(2,312)
Securities amortization and accretion, net	(10)	(10)
Change in other assets and liabilities	63	12
Net cash flows from operating activities	1,354	1,271
Cash flows from financing activities		
Dividend paid	(1,421)	(1,351)
Issuance of treasury stock for stock awards	59	90
Net cash flows from financing activities	(1,362)	(1,261)
Change in cash and cash equivalents	(8)	10
Beginning cash and cash equivalents	46	36
Ending cash and cash equivalents	<u>\$ 38</u>	<u>\$ 46</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 16—EARNINGS PER SHARE**

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period and is equal to net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares that may be issued upon the vesting of restricted stock awards. There were 1,103 shares of restricted stock that were anti-dilutive for the year ending June 30, 2019. There were 1,828 shares of restricted stock that were anti-dilutive for the year ending June 30, 2018. The following table details the calculation of basic and diluted earnings per share:

	<b>For the year Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Basic:</b>		
Net income available to common shareholders	\$ 5,566	\$ 3,581
Weighted average common shares outstanding	2,731,247	2,726,926
Basic income per share	<u>\$ 2.04</u>	<u>\$ 1.31</u>
<b>Diluted:</b>		
Net income available to common shareholders	\$ 5,566	\$ 3,581
Weighted average common shares outstanding	2,731,247	2,726,926
Dilutive effect of restricted stock	—	—
Total common shares and dilutive potential common shares	<u>2,731,247</u>	<u>2,726,926</u>
Dilutive income per share	<u>\$ 2.04</u>	<u>\$ 1.31</u>

**NOTE 17—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The components of other comprehensive income related to unrealized gains and losses on available-for-sale securities for the periods ended June 30, 2019 and June 30, 2018, were as follows:

	Pretax	Tax Effect	After-tax	Affected Line Item in Consolidated Statements of Income
Balance as of June 30, 2017	\$ 675	\$ (230)	\$ 445	
Unrealized holding loss on available-for-sale securities arising during the period	(2,711)	638	(2,073)	
Amounts reclassified from accumulated other comprehensive income	(33)	12	(21)	(a)(b)
Net current period other comprehensive loss	<u>(2,744)</u>	<u>650</u>	<u>(2,094)</u>	
Reclassification of disproportional tax effect	—	14	14	
<b>Balance as of June 30, 2018</b>	<u>\$ (2,069)</u>	<u>\$ 434</u>	<u>\$ (1,635)</u>	
Unrealized holding gain on available-for-sale securities arising during the period	4,612	(968)	3,644	
Amounts reclassified from accumulated other comprehensive income	(561)	118	(443)	(a)(b)
Net current period other comprehensive income	<u>4,051</u>	<u>(850)</u>	<u>3,201</u>	
<b>Balance as of June 30, 2019</b>	<u>\$ 1,982</u>	<u>\$ (416)</u>	<u>\$ 1,566</u>	

- (a) Securities gain, net
- (b) Income tax expense

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 18 – REVENUE RECOGNITION**

On July 1, 2018, the Corporation adopted ASU 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606. Interest income, net securities gains (losses), gains from the sale of mortgage loans and bank-owned life insurance are not included within the scope of Topic 606. For the revenue streams in the scope of Topic 606, service charges on deposits and electronic banking fees, there are no significant judgments related to the amount and timing of revenue recognition. All of the Corporation's revenue from contracts with customers is recognized within noninterest income.

*Service charges on deposit accounts:* The Corporation earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop payment charges, statement rendering and other fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

*Interchange income:* The Corporation earns interchange income from cardholder transactions conducted through the various payment networks. Interchange income from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The gross amount of these fees is processed through noninterest income.

The following table presents the Corporation's sources of noninterest income for the year ended June 30, 2019 and 2018.

	<b>For the year Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Noninterest income		
In scope of Topic 606:		
Service charges on deposit accounts	\$ 1,264	\$ 1,200
Debit card interchange income	1,454	1,333
Other income	260	188
Noninterest income (in scope of Topic 606)	2,978	\$ 2,721
Noninterest income (out-of-scope of Topic 606)	1,290	670
Total noninterest income	<u>\$ 4,268</u>	<u>\$ 3,391</u>

**ITEM 9—CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A—CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

With the participation of the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the Corporation's disclosure controls and procedures (as defined under Rule 13a-15(e) of the Securities Exchange Act of 1934) was performed, as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective.

*Management's Report on Internal Control Over Financial Reporting*

The management of Consumers Bancorp, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by the board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2019 based on the criteria for effective internal control over financial reporting established in “Internal Control-Integrated Framework,” issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in 2013. Based on that assessment, we have concluded that, as of June 30, 2019, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Corporation’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Corporation’s registered public accounting firm pursuant to rules of the SEC that permit the Corporation to provide only management’s report in this annual report.

*Changes In Internal Control Over Financial Reporting*

There were no changes in the Corporation’s internal controls over financial reporting that occurred during the fourth quarter of fiscal year 2019 that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal controls over financial reporting.

**ITEM 9B—OTHER INFORMATION**

None.

## PART III

### ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is set forth in the Corporation’s Proxy Statement dated September 12, 2019, under the captions “Election of Directors,” “Directors and Executive Officers,” “The Board of Directors and its Committees,” “Delinquent Section 16(a) Reports,” and “Certain Transactions and Relationships and Legal Proceedings,” and is incorporated herein by reference.

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

### ITEM 11—EXECUTIVE COMPENSATION

The information required by this item is set forth in the Corporation’s Proxy Statement dated September 12, 2019 under the captions “Director Compensation,” “Executive Compensation,” “Defined Contribution Plan,” “Outstanding Equity Awards at Fiscal Year-End,” and “Salary Continuation Program,” and is incorporated herein by reference.

### ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

#### Equity Compensation Plan Information

The following table sets forth information about common stock authorized for issuance, segregated between stock-based compensation plans approved by shareholders and stock-based compensation plans not approved by shareholders, as of June 30, 2019. Additional information regarding stock-based compensation plans is presented in Note 9 - Employee Benefit Plans to the Consolidated Financial Statements located elsewhere in this report.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities issuable under outstanding options, warrants and rights)</u>
Plans approved by shareholders	—	—	88,787
Plans not approved by shareholders	—	—	—
Total	—	—	88,787

The remaining information required by this item is set forth in the Corporation’s Proxy Statement, dated September 12, 2019, under the caption “Security Ownership of Certain Beneficial Owners,” and is incorporated herein by reference.

### ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is set forth in the Corporation’s Proxy Statement, dated September 12, 2019, under the caption “Certain Transactions and Relationships and Legal Proceedings,” and is incorporated herein by reference.

#### **ITEM 14—PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this item is set forth in the Corporation's Proxy Statement, dated September 12, 2019, under the caption "Principal Accounting Fees and Services," and is incorporated herein by reference.

#### **PART IV**

#### **ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a) The following documents are filed as part of this report:
  - (1) The report of independent registered accounting firm and the consolidated financial statements appearing in Item 8.
  - (2) Financial statement schedules are omitted as they are not required or are not applicable, or the required information is included in the financial statements.
  - (3) The exhibits required by this item are listed in the Exhibit Index of this Form 10-K.
- (b) The exhibits to this Form 10-K begin on page 54 of this report.
- (c) See Item 15(a)(2) above.



## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description of Document</b>
2.1	Agreement and Plan of Merger by and among Consumers Bancorp, Inc., Consumers National Bank, Peoples Bancorp of Mt. Pleasant, Inc., and The Peoples National Bank of Mount Pleasant, dated June 14, 2019. Reference is made to the Registration Statement on S-4 (File No. 333-233306) filed on August 15, 2019.
3.1	Amended and Restated Articles of Incorporation of the Corporation. Reference is made to Form 10-K (File No. 033-79130) of the Corporation filed September 22, 2010, which is incorporated herein by reference.
3.2	Amended and Restated Code of Regulations of the Corporation. Reference is made to Form 10-K (File No. 033-79130) of the Corporation filed September 15, 2008, which is incorporated herein by reference.
4	Form of Certificate of Common Shares. Reference is made to Form 10-KSB (File No. 033-79130) of the Corporation filed September 30, 2002, which is incorporated herein by reference.
10.1	Amendment No. 3, October 3, 2016 to the Salary Continuation agreement entered into with Mr. Lober on February 11, 2011. Reference is made to Form 10-Q of the Corporation filed February 14, 2017, which is incorporated herein by reference.
10.2	Salary Continuation agreement entered into with Mr. Dodds on November 4, 2016. Reference is made to Form 8-K of the Corporation filed November 9, 2016, which is incorporated herein by reference.
10.3	Lease Agreement entered into between Furey Holdings, LLC and Consumers National Bank on December 23, 2005. Reference is made to Form 10-Q (File No. 033-79130) of the Corporation filed February 14, 2006, which is incorporated herein by reference.
10.6	2011 Amendment and Restatement of Salary Continuation agreement entered into with Mr. Lober on February 11, 2011. Reference is made to Form 10-Q (File No. 033-79130) of the Corporation filed February 11, 2011, which is incorporated herein by reference.
10.8	Consumers Bancorp 2010 Omnibus Incentive Plan Form of Restricted Stock Award Agreement. Reference is made to Form 8-K (File No. 033-79130) of the Corporation filed September 16, 2011, which is incorporated herein by reference.
10.9	Salary Continuation Agreement with Ms. Wood on December 30, 2015. Reference is made to Form 8-K of the Corporation filed on December 30, 2015, which is incorporated herein by reference.
10.10	First Amendment dated June 13, 2018, to Lease Agreement entered into between Furey Holdings, LLC and Consumers National Bank on December 23, 2005. Reference is made to Form 8-K (File No. 033-79130) of the Corporation filed June 15, 2018, which is incorporated herein by reference.
11	Computation of Earnings per Share. Reference is made to this Annual Report on Form 10-K Note 16 to the Consolidated Financial Statements, which is incorporated herein by reference.
21	Subsidiaries of Consumers Bancorp, Inc. Filed with this Annual Report on Form 10-K.
23	Consent of Crowe LLP
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer and Treasurer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.
101	The following material from Consumers Bancorp, Inc.'s Form 10-K Report for the year ended June 30, 2019, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Consolidated Balance Sheets, (2) Consolidated Statements of Income, (3) Consolidated Statements of Comprehensive Income, (4) Consolidated Statement of Changes in Shareholders' Equity, (5) Consolidated Statements of Cash Flows, and (6) the Notes to Consolidated Financial Statements.



## Independent Registered Public Accounting Firm

Crowe LLP  
600 Superior Avenue, Ste. 902  
Cleveland, Ohio 44114

## Legal Counsel

Squire Patton Boggs (US) LLP  
4900 Key Tower  
127 Public Square  
Cleveland, Ohio 44114  
(216) 479-8500

## Stock Transfer Agent and Registrar

Computershare Shareholder Services  
PO Box 505005  
Louisville, KY 40233-5005  
(800) 522-6645

## Market Maker

Thomas L. Dooley  
Nick Bicking  
D.A. Davidson & Co.  
5050 Blazer Parkway, Suite 103  
Dublin, OH 43017  
(614) 710-7061  
(800) 394-9230

## Common Stock Listing

Consumers Bancorp, Inc. common stock trades on the OTCQB Bulletin Board under the symbol CBKM. The CUSIP is 210509105. As of June 30, 2019, there were 2,733,845 shares outstanding with 713 shareholders of record and an estimated 575 additional beneficial holders whose stock was held in nominee name.

## Dividend Reinvestment and Stock Purchase Plan

Existing holders of common stock may elect to have all or a portion of cash dividends automatically invested in additional shares of common stock without payment of any brokerage or service charge. Additionally, shareholders may elect to purchase shares of common stock with optional cash payments of \$100 to \$5,000 per quarter without payment of any brokerage commission or service charge. Shareholders should contact Computershare to execute these convenient options at [www-us.computershare.com](http://www-us.computershare.com) or (800) 368-5948 or a participating broker.

## Dividend Payments

Subject to the approval of the Board of Directors, quarterly cash dividends are typically paid on or about the 15th day of September, December, March, and June.

## Direct Deposit of Cash Dividends

Shareholders may elect to have their cash dividends deposited directly into their savings or checking account. Shareholders should contact Computershare Shareholder Services at [www-us.computershare.com](http://www-us.computershare.com) or (800) 368-5948 or a participating broker.

## Shareholder Relations

[shareholderrelations@consumersbank.com](mailto:shareholderrelations@consumersbank.com)

## Website

[www.consumersbancorp.com](http://www.consumersbancorp.com)

## Annual Meeting

The 2019 annual meeting of shareholders will be held at 12:00 p.m. on Thursday, October 17, 2019, at Hartville Kitchen, 1015 Edison Street NW, Hartville, OH 44632.

## Annual Report on Form 10-K

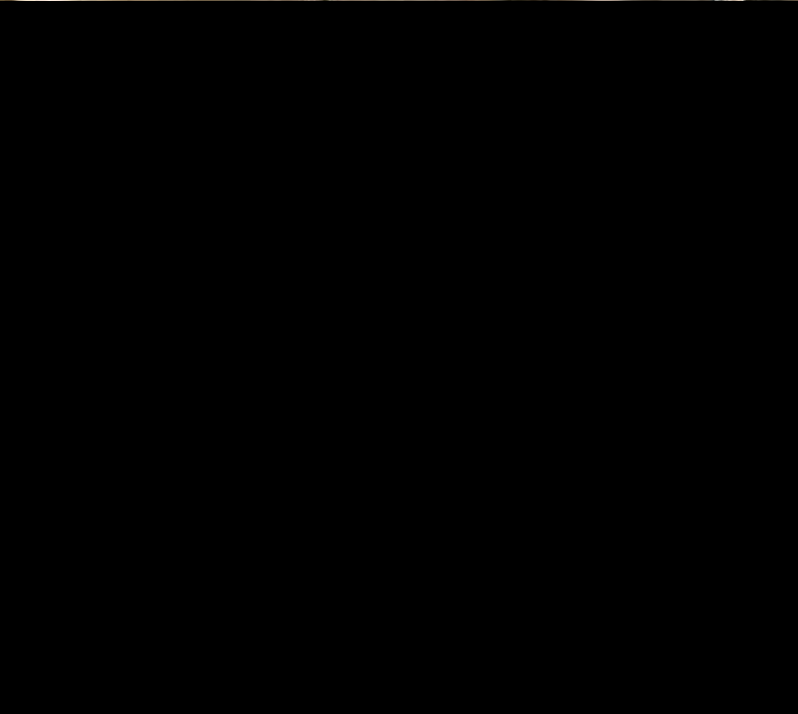
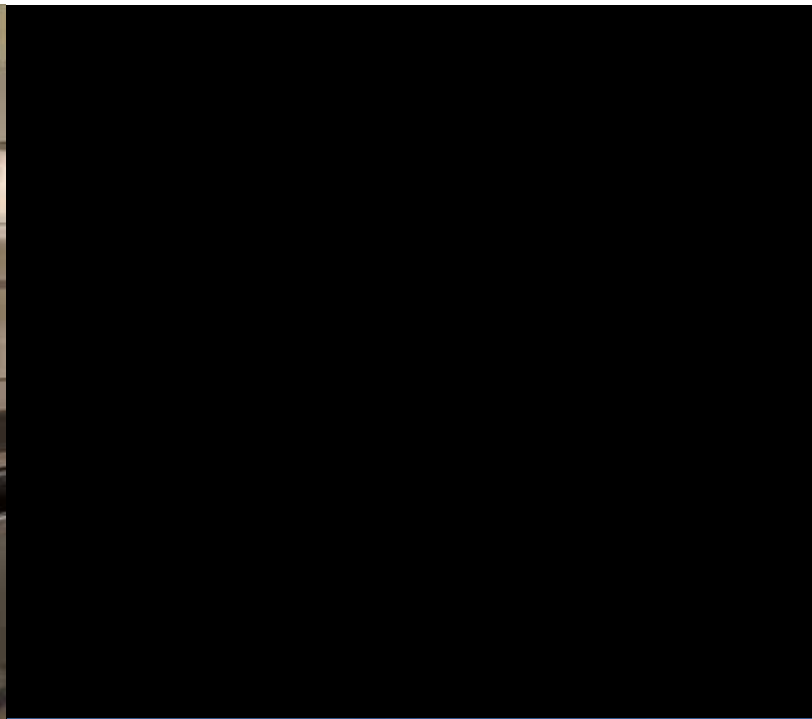
**A copy of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2019, as filed with the Securities and Exchange Commission, will be furnished without charge to shareholders upon written request to Theresa J. Linder, Corporate Secretary, at 614 East Lincoln Way, P.O. Box 256, Minerva, Ohio 44657. An electronic version is also available on our website at [www.consumersbancorp.com](http://www.consumersbancorp.com).**

## Directors Emeriti

James V. Hanna  
James R. Kiko, Sr.  
John E. Tonti

Our 2019 annual report was printed by our customer Davis Graphic Communication Solutions in Summit County, Ohio.





# CONSUMERS

**Bancorp Inc.**

614 E. Lincoln Way, Minerva, Ohio 44657  
ConsumersBank.com