

CONSUMERS BANCORP INC /OH/  
Form 10-Q  
February 14, 2017  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended December 31, 2016

Or

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

for the transition period from \_\_\_\_\_ To \_\_\_\_\_

Commission File No. 033-79130

**CONSUMERS BANCORP, INC.**

(Exact name of registrant as specified in its charter)

OHIO  
(State or other jurisdiction  
of incorporation or organization)

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

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

(330) 868-7701

(Registrant's telephone number)

Not applicable

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

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

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

	Outstanding at February 10, 2017
CommonStock,no par value	2,724,956 Common Shares



**CONSUMERS  
BANCORP,  
INC.**

**FORM 10-Q**

**QUARTER  
ENDED  
December 31,  
2016**

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## PART I – FINANCIAL INFORMATION

## Item 1 – Financial Statements

## CONSUMERS BANCORP, INC.

## CONSOLIDATED BALANCE SHEETS (Unaudited)

	December 31,	June 30,
(Dollars in thousands, except per share data)	2016	2016
<b>ASSETS</b>		
Cash on hand and noninterest-bearing deposits in financial institutions	\$8,139	\$8,164
Federal funds sold and interest-bearing deposits in financial institutions	2,711	2,017
Total cash and cash equivalents	10,850	10,181
Certificates of deposit in other financial institutions	4,916	5,906
Securities, available-for-sale	131,285	133,369
Securities, held-to-maturity (fair value of \$4,293 at December 31, 2016 and \$3,619 at June 30, 2016)	4,296	3,494
Federal bank and other restricted stocks, at cost	1,396	1,396
Loans held for sale	1,774	1,048
Total loans	264,804	256,278
Less allowance for loan losses	(3,123 )	(3,566 )
Net loans	261,681	252,712
Cash surrender value of life insurance	8,930	6,819
Premises and equipment, net	13,451	13,585
Accrued interest receivable and other assets	2,856	1,880
Total assets	\$441,435	\$430,390
<b>LIABILITIES</b>		
Deposits		
Non-interest bearing demand	\$100,161	\$98,224
Interest bearing demand	48,991	48,810
Savings	140,123	134,606
Time	66,170	65,008
Total deposits	355,445	346,648
Short-term borrowings		
Federal Home Loan Bank advances	19,352	19,129
Accrued interest and other liabilities	20,976	17,281
Total liabilities	3,452	3,539
Total liabilities	399,225	386,597
Commitments and contingent liabilities		



**SHAREHOLDERS' EQUITY**

Preferred stock (no par value, 350,000 shares authorized, none outstanding)	—	—
Common stock (no par value, 3,500,000 shares authorized; 2,854,133 shares issued as of December 31, 2016 and June 30, 2016)	14,630	14,630
Retained earnings	29,405	28,432
Treasury stock, at cost (130,606 and 130,375 common shares as of December 31, 2016 and June 30, 2016, respectively)	(1,662 )	(1,658 )
Accumulated other comprehensive income	(163 )	2,389
Total shareholders' equity	42,210	43,793
Total liabilities and shareholders' equity	\$441,435	\$430,390

See accompanying notes to consolidated financial statements

**CONSUMERS BANCORP, INC.****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

	Three Months ended		Six Months ended	
(Dollars in thousands, except per share amounts)	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Interest income				
Loans, including fees	\$3,022	\$2,789	\$6,206	\$5,584
Securities, taxable	377	488	779	945
Securities, tax-exempt	357	351	708	695
Federal funds sold and other interest bearing deposits	30	30	60	54
Total interest income	3,786	3,658	7,753	7,278
Interest expense				
Deposits	183	171	353	347
Short-term borrowings	11	10	23	18
Federal Home Loan Bank advances	56	40	114	83
Total interest expense	250	221	490	448
Net interest income	3,536	3,437	7,263	6,830
Provision for loan losses	140	192	276	284
Net interest income after provision for loan losses	3,396	3,245	6,987	6,546
Non-interest income				
Service charges on deposit accounts	314	320	644	634
Debit card interchange income	285	240	536	474
Bank owned life insurance income	63	49	112	95
Securities gains, net	22	—	125	35
Loss on disposition of other real estate owned	(3 )	—	(3 )	—
Other	116	113	231	219
Total non-interest income	797	722	1,645	1,457
Non-interest expenses				
Salaries and employee benefits	1,790	1,746	3,528	3,478
Occupancy and equipment	478	352	930	694
Data processing expenses	145	143	290	287
Debit card processing expenses	149	115	282	231
Professional and director fees	146	177	278	274
FDIC assessments	46	70	101	128
Franchise taxes	84	83	168	165
Marketing and advertising	65	79	144	172
Telephone and network communications	76	75	157	150

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Other	347	366	734	764
Total non-interest expenses	3,326	3,206	6,612	6,343
Income before income taxes	867	761	2,020	1,660
Income tax expense	145	122	397	294
Net income	\$722	\$639	\$1,623	\$1,366
Basic and diluted earnings per share	\$0.27	\$0.23	\$0.60	\$0.50

See accompanying notes to consolidated financial statements

**CONSUMERS BANCORP, INC.****Consolidated statements of comprehensive income****(Unaudited)**

(Dollars in thousands)	Three Months ended		Six Months ended	
	December 31, 2016	2015	December 31, 2016	2015
Net income	\$722	\$639	\$1,623	\$1,366
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses) on securities available-for-sale:				
Unrealized gains (losses) arising during the period	(3,319)	(410)	(3,742)	403
Reclassification adjustment for gains included in income	(22 )	—	(125 )	(35 )
Net unrealized gain (losses)	(3,341)	(410)	(3,867)	368
Income tax effect	1,136	139	1,315	(125 )
Other comprehensive income (losses)	(2,205)	(271)	(2,552)	243
Total comprehensive income (loss)	\$(1,483)	\$368	\$(929 )	\$1,609

See accompanying notes to consolidated financial statements.

**CONSUMERS  
BANCORP, INC.**

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

(Unaudited)

(Dollars in thousands, except per share data)	Three Months ended		Six Months ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Balance at beginning of period	\$44,020	\$42,379	\$43,793	\$41,466
Net income	722	639	1,623	1,366
Other comprehensive income (loss)	(2,205 )	(271 )	(2,552 )	243
231 Dividend reinvestment plan shares associated with forfeited and expired restricted stock awards retired to treasury stock during the six months ended December 31, 2016 and 27 and 275 shares during the three and six months ended December 31, 2015, respectively	—	—	—	—
Common cash dividends	(327 )	(327 )	(654 )	(655 )
Balance at the end of the period	\$42,210	\$42,420	\$42,210	\$42,420
Common cash dividends per share	\$0.12	\$0.12	\$0.24	\$0.24

See accompanying notes to consolidated financial statements.

**CONSUMERS  
BANCORP, INC.**

**CONDENSED  
CONSOLIDATED  
STATEMENTS  
OF CASH FLOWS**

**(Unaudited)**

	Six Months Ended	
(Dollars in thousands)	December 31, 2016	2015
<b>Cash flows from operating activities</b>		
Net cash from operating activities	\$2,152	\$2,068
<b>Cash flow from investing activities</b>		
Securities available-for-sale		
Purchases	(17,368)	(14,993)
Maturities, calls and principal pay downs	11,753	12,712
Proceeds from sales of available-for-sale securities	3,383	1,990
Securities held-to-maturity		
Purchases	(1,000 )	—
Principal pay downs	198	125
Net (increase) decrease in certificates of deposits in other financial institutions	990	(945 )
Net increase in loans	(9,255 )	(12,649)
Purchase of Bank owned life insurance	(2,000 )	—
Acquisition of premises and equipment	(252 )	(1,967 )
Sale of other real estate owned	7	—
Net cash from investing activities	(13,544)	(15,727)
<b>Cash flow from financing activities</b>		
Net increase in deposit accounts	8,797	9,671
Net change in short-term borrowings	223	(184 )
Proceeds from Federal Home Loan Bank advances	18,325	4,700
Repayments of Federal Home Loan Bank advances	(14,630)	(529 )
Dividends paid	(654 )	(655 )
Net cash from financing activities	12,061	13,003
Increase (decrease) in cash or cash equivalents	669	(656 )
Cash and cash equivalents, beginning of period	10,181	10,544
<b>Cash and cash equivalents, end of period</b>	<b>\$10,850</b>	<b>\$9,888</b>

**Supplemental disclosure of cash flow information:**

Cash paid during the period:

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Interest	\$484	\$449
Federal income taxes	150	475
Non-cash items:		
Transfer from loans to other real estate owned	10	38
Expired and forfeited dividend reinvestment plan shares associated with restricted stock awards that were retired to treasury stock	4	5

See accompanying notes to consolidated financial statements.

**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Note 1 – Summary of Significant Accounting Policies:**

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

**Basis of Presentation:** The consolidated financial statements for interim periods are unaudited and reflect all adjustments (consisting of only normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the financial position and results of operations and cash flows for the periods presented. The unaudited financial statements are presented in accordance with the requirements of Form 10-Q and do not include all disclosures normally required by accounting principles generally accepted in the United States of America. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form 10-K for the year ended June 30, 2016. The results of operations for the interim period disclosed herein are not necessarily indicative of the results that may be expected for a full year.

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

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

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



**Recently Issued Accounting Pronouncements Not Yet Effective:** In June 2016, FASB Issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU adds a new Topic 326 to the Codification and removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables, and held-to-maturity debt securities. Under current U.S. GAAP, companies generally recognize credit losses when it is probable that the loss has been incurred. The revised guidance will remove all current loss recognition thresholds and will require companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the corporation expects to collect over the instrument’s contractual life. ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. The guidance in ASU 2016-13 is effective for “public business entities,” as defined, that are SEC filers for fiscal years and for interim periods with those fiscal years beginning after December 15, 2019. Early adoption of the guidance is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of the adoption of this guidance on the Corporation’s consolidated financial statements and it is too early to estimate any impact.

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Note 2 – Securities**

<b><u>Available –for-Sale</u></b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>December 31, 2016</b>				
Obligations of U.S. government-sponsored entities and agencies	\$ 10,081	\$ 69	\$ (89	) \$10,061
Obligations of state and political subdivisions	56,809	520	(668	) 56,661
Mortgage-backed securities – residential	56,055	294	(506	) 55,843
Mortgage-backed securities– commercial	1,472	—	(3	) 1,469
Collateralized mortgage obligations– residential	6,960	3	(132	) 6,831
Pooled trust preferred security	154	266	—	420
Total available-for-sale securities	\$ 131,531	\$ 1,152	\$ (1,398	) \$131,285

<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>December 31, 2016</b>				
Obligations of state and political subdivisions	\$ 4,296	\$ 8	\$ (11	) \$4,293

<b><u>Available –for-Sale</u></b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>June 30, 2016</b>				
Obligations of U.S. government-sponsored entities and agencies	\$ 9,682	\$ 362	\$ —	\$10,044
Obligations of state and political subdivisions	53,952	2,010	(8	) 55,954
Mortgage-backed securities – residential	58,702	920	(26	) 59,596

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Mortgage-backed securities – commercial	1,485	41	—	1,526
Collateralized mortgage obligations - residential	5,774	49	(3 )	5,820
Pooled trust preferred security	153	276	—	429
Total available-for-sale securities	\$ 129,748	\$ 3,658	\$ (37 )	\$ 133,369

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**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

<u>Held-to-Maturity</u>	<b>Amortized Cost</b>	<b>Gross Unrecognized Gains</b>	<b>Gross Unrecognized Losses</b>	<b>Fair Value</b>
<b>June 30, 2016</b>				
Obligations of state and political subdivisions	\$ 3,494	\$ 125	\$ —	\$3,619

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

	Three Months Ended		Six Months Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Proceeds from sales	\$1,594	\$ —	\$3,383	\$1,990
Gross realized gains	24	—	127	35
Gross realized losses	2	—	2	—

The income tax provision applicable to these net realized gains amounted to \$8 and \$43 for the three and six months ended December 31, 2016 and \$12 for the six months ended December 31, 2015.

The amortized cost and fair values of debt securities at December 31, 2016, by expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized mortgage obligations and the pooled trust preferred security are shown separately.

Amortized

<b><u>Available-for-Sale</u></b>	Cost	Estimated Fair Value
Due in one year or less	\$ 1,484	\$ 1,493
Due after one year through five years	17,504	17,684
Due after five years through ten years	26,182	26,174
Due after ten years	21,720	21,371
Total	66,890	66,722
U.S. Government-sponsored mortgage-backed and related securities	64,487	64,143
Pooled trust preferred security	154	420
Total available-for-sale securities	\$ 131,531	\$ 131,285
<b>Held-to-Maturity</b>		
Due after five years through ten years	638	645
Due after ten years	3,658	3,648
Total held-to-maturity securities	\$ 4,296	\$ 4,293

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table summarizes the securities with unrealized losses at December 31, 2016 and June 30, 2016, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

<b><u>Available-for-sale</u></b>	<b>Less than 12 Months</b>		<b>12 Months or more</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
<b>December 31, 2016</b>						
Obligations of US government-sponsored entities and agencies	\$6,303	\$ (89 )	\$ —	\$ —	\$6,303	\$ (89 )
Obligations of states and political subdivisions	28,565	(663 )	271	(5 )	28,836	(668 )
Mortgage-backed securities - residential	35,797	(449 )	3,197	(57 )	38,994	(506 )
Mortgage-backed securities - commercial	1,469	(3 )	—	—	1,469	(3 )
Collateralized mortgage obligations – residential 816(1)—816(1)	5,590	(117 )	988	(15 )	6,578	(132 )
Total temporarily impaired	\$77,724	\$ (1,321 )	\$4,456	\$ (77 )	\$82,180	\$ (1,398 )

<b><u>Held-to-Maturity</u></b>	<b>Less than 12 Months</b>		<b>12 Months or more</b>		<b>Total</b>	
	<b>Cost</b>	<b>Gross Amortized Unrecognized Loss</b>	<b>Cost</b>	<b>Gross Amortized Unrecognized Loss</b>	<b>Cost</b>	<b>Gross Amortized Unrecognized Loss</b>
<b>December 31, 2016</b>						
Obligations of states and political subdivisions	\$933	\$ (11 )	\$ —	\$ —	\$933	\$ (11 )
Total temporarily impaired	\$933	\$ (11 )	\$ —	\$ —	\$933	\$ (11 )

<b><u>Available-for-sale</u></b>	<b>Less than 12 Months</b>	<b>12 Months or more</b>	<b>Total</b>
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	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
<b>June 30, 2016</b>						
Obligations of states and political subdivisions	\$572	\$ (6 )	\$641	\$ (2 )	\$1,213	\$ (8 )
Mortgage-backed securities - residential	4,899	(12 )	4,836	(14 )	9,735	(26 )
Collateral mortgage obligation - residential	—	—	1,212	(3 )	1,212	(3 )
Total temporarily impaired	\$5,471	\$ (18 )	\$6,689	\$ (19 )	\$12,160	\$ (37 )

**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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.

The unrealized losses within the securities portfolio as of December 31, 2016 have not been recognized into income because the decline in fair value is not attributed to credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery. The decline in fair value within the securities portfolio is largely due to changes in interest rates and the fair value is expected to recover as the securities approach maturity. The mortgage-backed securities and collateralized mortgage obligations were primarily issued by Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. The Corporation does not own any private label mortgage-backed securities.

**Note 3 – Loans**

Major classifications of loans were as follows:

June 30,



	December 2016	
	31,	
	2016	
Commercial	\$41,938	\$43,156
Commercial real estate:		
Construction	8,831	7,755
Other	153,563	152,766
1 – 4 Family residential real estate:		
Owner occupied	37,652	31,091
Non-owner occupied	14,489	14,438
Construction	2,981	1,269
Consumer	5,350	5,803
Subtotal	264,804	256,278
Allowance for loan losses	(3,123 )	(3,566 )
Net Loans	\$261,681	\$252,712

Loans presented above are net of deferred loan fees and costs of \$310 and \$360 for December 31, 2016 and June 30, 2016, respectively.

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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

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

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

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 505	\$ 2,518	\$ 402	\$ 141	\$3,566
Provision for loan losses	(9 )	282	78	(75 )	276
Loans charged-off	—	(700 )	(44 )	(12 )	(756 )

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Recoveries	1	—	29	7	37
Total ending allowance balance	\$ 497	\$ 2,100	\$ 465	\$ 61	\$3,123

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**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended December 31, 2015:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 387	\$ 1,727	\$ 278	\$ 122	\$2,514
Provision for loan losses	10	3	149	30	192
Loans charged-off	—	(2 )	(120 )	(33 )	(155 )
Recoveries	—	—	—	4	4
Total ending allowance balance	\$ 397	\$ 1,728	\$ 307	\$ 123	\$2,555

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ended December 31, 2015:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 316	\$ 1,660	\$ 289	\$ 167	\$2,432
Provision for loan losses	81	73	138	(8 )	284
Loans charged-off	—	(5 )	(120 )	(51 )	(176 )
Recoveries	—	—	—	15	15
Total ending allowance balance	\$ 397	\$ 1,728	\$ 307	\$ 123	\$2,555



**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2016. Included in the recorded investment in loans is \$614 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	\$ 4	\$ 56	\$ 2	\$ —	\$ 62
Collectively evaluated for impairment	493	2,044	463	61	3,061
Total ending allowance balance	\$ 497	\$ 2,100	\$ 465	\$ 61	\$ 3,123
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 41	\$ 1,482	\$ 427	\$ —	\$ 1,950
Loans collectively evaluated for impairment	41,992	161,271	54,843	5,362	263,468
Total ending loans balance	\$ 42,033	\$ 162,753	\$ 55,270	\$ 5,362	\$ 265,418

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2016. Included in the recorded investment in loans is \$549 of accrued interest receivable net of deferred loans fees and cost of \$360.

	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	\$ —	\$ 868	\$ 6	\$ —	\$874
Collectively evaluated for impairment	505	1,650	396	141	2,692
Total ending allowance balance	\$ 505	\$ 2,518	\$ 402	\$ 141	\$3,566
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 1,029	\$ 5,105	\$ 758	\$ —	\$6,892
Loans collectively evaluated for impairment	42,219	155,734	46,166	5,816	249,935
Total ending loans balance	\$ 43,248	\$ 160,839	\$ 46,924	\$ 5,816	\$256,827

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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

	As of December 31, 2016			Six Months ended December 31, 2016		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	\$—	\$ —	\$ —	\$330	\$ 80	\$ 80
Commercial real estate:						
Construction	7	7	—	170	6	6
Other	1,779	891	—	1,081	105	105
1-4 Family residential real estate:						
Owner occupied	127	127	—	127	—	—
Non-owner occupied	200	199	—	205	—	—
With an allowance recorded:						
Commercial	41	41	4	7	—	—
Commercial real estate:						
Other	583	584	56	2,030	15	15
1-4 Family residential real estate:						
Owner occupied	101	101	2	139	3	3
Total	\$2,838	\$ 1,950	\$ 62	\$4,089	\$ 209	\$ 209



**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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

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

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents information related to average recorded investment and interest income associated with loans individually evaluated for impairment by class of loans as of June 30, 2016 and for the six months ended December 31, 2015:

	As of June 30, 2016			Six Months ended December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Recorded Interest Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	\$ 1,033	\$ 1,029	\$ —	\$ —	\$ —	\$ —
Commercial real estate:						
Construction	386	384	—	17	—	—
Other	2,121	2,106	—	2,177	—	—
1-4 Family residential real estate:						
Owner occupied	175	174	—	282	—	—
Non-owner occupied	722	407	—	341	—	—
With an allowance recorded:						
Commercial real estate:						
Other	2,802	2,615	868	984	18	18
1-4 Family residential real estate:						
Owner occupied	177	177	6	188	4	4
Non-owner occupied	—	—	—	229	4	4
Total	\$ 7,416	\$ 6,892	\$ 874	\$ 4,218	\$ 26	\$ 26

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents information related to average recorded investment and interest income associated with loans individually evaluated for impairment by class of loans for the three months ended December 31, 2015:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial real estate:			
Construction	\$ 22	\$ —	\$ —
Other	2,202	—	—
1-4 Family residential real estate:			
Owner occupied	280	—	—
Non-owner occupied	604	—	—
With an allowance recorded:			
Commercial real estate:			
Other	1,122	9	9
1-4 Family residential real estate:			
Owner occupied	187	2	2
Total	\$ 4,417	\$ 11	\$ 11

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2016 and June 30, 2016:

	December 31, 2016		June 30, 2016	
	Loans Past Due Over 90 Days Still Non-accruing	Loans Past Due Over 90 Days Still Accruing	Loans Past Due Over 90 Days Still Non-accruing	Loans Past Due Over 90 Days Still Accruing
Commercial	\$41	\$ —	\$ 1,009	\$ —
Commercial real estate:				
Construction	7	—	384	—
Other	1,229	—	4,000	—
1 – 4 Family residential:				
Owner occupied	112	—	234	—
Non-owner occupied	200	—	407	—
Consumer	—	—	—	—
Total	\$ 1,589	\$ —	\$ 6,034	\$ —

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

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2016 by class of loans:

	Days Past Due			Total	Loans Not Past Due	Total
	30 - 59 Days	60 - 89 Days	90 Days or Greater			
Commercial	\$97	\$72	\$ —	\$169	\$41,864	\$42,033
Commercial real estate:						
Construction	—	—	—	—	8,845	8,845
Other	—	—	879	879	153,029	153,908
1-4 Family residential:						
Owner occupied	—	14	112	126	37,628	37,754
Non-owner occupied	—	—	—	—	14,531	14,531
Construction	—	—	—	—	2,985	2,985
Consumer	16	16	—	32	5,330	5,362
Total	\$113	\$102	\$ 991	\$1,206	\$264,212	\$265,418

The above table of past due loans includes the recorded investment in non-accrual loans of \$41 in the 30-59 days category, \$991 in the 90 days or greater category and \$557 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, 2016 by class of loans:

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

	or			Past	Past Due	Total
	Days	Days	Greater	Due		
Commercial	\$123	\$ —	\$—	\$123	\$43,125	\$43,248
Commercial real estate:						
Construction	—	—	—	—	7,764	7,764
Other	59	—	2,110	2,169	150,906	153,075
1-4 Family residential:						
Owner occupied	15	—	218	233	30,947	31,180
Non-owner occupied	—	—	196	196	14,278	14,474
Construction	—	—	—	—	1,270	1,270
Consumer	7	—	—	7	5,809	5,816
Total	\$204	\$ —	\$2,524	\$2,728	\$254,099	\$256,827

The above table of past due loans includes the recorded investment in non-accrual loans of \$2,524 in the 90 days or greater category and \$3,510 in the loans not past due category.

#### **Troubled Debt Restructurings:**

As of December 31, 2016, the recorded investment of loans classified as troubled debt restructurings was \$362 with \$34 of specific reserves allocated to these loans. As of December 31, 2016, the Corporation had not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings. As of June 30, 2016, the recorded investment of loans classified as troubled debt restructurings was \$3,529 with \$43 of specific reserves allocated to these loans. As of June 30, 2016, the Corporation had committed to lend an additional \$207 to customers with outstanding loans that were classified as troubled debt restructurings.

**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

During the three and six months ended December 31, 2016 and 2015 there were no loan modifications completed that were classified as troubled debt restructurings. There were no charge offs from troubled debt restructurings that were completed during the three and six month periods ended December 31, 2016 and 2015.

There were no loans classified as troubled debt restructurings for which there was a payment default within 12 months following the modification during the three and six month periods ended December 31, 2016 and 2015. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

**Credit Quality Indicators:**

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

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

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

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



**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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

	As of December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$40,230	\$ 1,115	\$ 116	\$ 4	\$568
Commercial real estate:					
Construction	8,792	—	—	7	46
Other	145,302	5,017	1,118	1,229	1,242
1-4 Family residential real estate:					
Owner occupied	3,050	—	12	47	34,645
Non-owner occupied	13,713	178	268	200	172
Construction	601	—	—	—	2,384
Consumer	145	—	—	—	5,217
Total	\$211,833	\$ 6,310	\$ 1,514	\$ 1,487	\$44,274

	As of June 30, 2016				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$35,243	\$ 6,190	\$ 1,162	\$ —	\$653
Commercial real estate:					
Construction	7,305	—	384	—	75
Other	144,101	2,482	4,026	2,150	316
1-4 Family residential real estate:					
Owner occupied	3,506	72	349	47	27,206
Non-owner occupied	12,999	406	486	196	387
Construction	235	—	—	—	1,035
Consumer	210	—	6	—	5,600
Total	\$203,599	\$ 9,150	\$ 6,413	\$ 2,393	\$35,272



**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Note 4 - Fair Value**

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

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

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

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

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

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

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

	Balance at December 31, 2016	Fair Value Measurements at December 31, 2016 Using		
		Level 1	Level 2	Level 3
Assets:				
Obligations of U.S. government-sponsored entities and agencies	\$ 10,061	\$—	\$10,061	\$ —
Obligations of states and political subdivisions	56,661	—	56,661	—
Mortgage-backed securities – residential	55,843	—	55,843	—
Mortgage-backed securities – commercial	1,469	—	1,469	—
Collateralized mortgage obligations - residential	6,831	—	6,831	—
Pooled trust preferred security	420	—	420	—

**CONSUMERS BANCORP, INC.****Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

	Balance at June 30, 2016	Fair Value Measurements at June 30, 2016 Using		
		Level 1	Level 2	Level 3
Assets:				
Obligations of U.S. government-sponsored entities and agencies	\$ 10,044	\$—	\$10,044	\$ —
Obligations of states and political subdivisions	55,954	—	55,954	—
Mortgage-backed securities - residential	59,596	—	59,596	—
Mortgage-backed securities - commercial	1,526	—	1,526	—
Collateralized mortgage obligations - residential	5,820	—	5,820	—
Pooled trust preferred security	429	—	429	—

There were no transfers between Level 1 and Level 2 during the three or six month periods ended December 31, 2016 or 2015.

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

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

and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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

Fair Value Measurements			
at			
December 31, 2016 Using			
Balance			
at			
December	Level	Level	Level
31,	1	2	3
2016			