

CONSUMERS BANCORP INC /OH/
Form 10-Q
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

Commission File No. 033-79130

CONSUMERS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

(330) 868-7701

(Registrant's telephone number)

Not applicable

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

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

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

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

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

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

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

There were 2,729,644 shares of Registrant’s common stock, no par value, outstanding as of May 10, 2018.

CONSUMERS BANCORP, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

CONSUMERS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2018	June 30, 2017
(Dollars in thousands, except per share data)		
ASSETS		
Cash on hand and noninterest-bearing deposits in financial institutions	\$8,727	\$9,439
Federal funds sold and interest-bearing deposits in financial institutions	9,106	473
Total cash and cash equivalents	17,833	9,912
Certificates of deposit in other financial institutions	2,973	3,921
Securities, available-for-sale	136,133	142,086
Securities, held-to-maturity (fair value of \$4,103 at March 31, 2018 and \$4,329 at June 30, 2017)	4,061	4,259
Federal bank and other restricted stocks, at cost	1,459	1,425
Loans held for sale	558	1,252
Total loans	303,441	272,867
Less allowance for loan losses	(3,323)	(3,086)
Net loans	300,118	269,781
Cash surrender value of life insurance	9,267	9,065
Premises and equipment, net	13,039	13,398
Other real estate owned	—	71
Accrued interest receivable and other assets	3,069	2,713
Total assets	\$488,510	\$457,883
LIABILITIES		
Deposits		
Non-interest bearing demand	\$107,535	\$102,683
Interest bearing demand	59,092	54,123
Savings	158,895	151,154
Time	78,534	66,511
Total deposits	404,056	374,471
Short-term borrowings	25,829	23,986
Federal Home Loan Bank advances	11,772	12,320
Accrued interest and other liabilities	3,546	3,571
Total liabilities	445,203	414,348

Commitments and contingent liabilities

SHAREHOLDERS' EQUITY

Preferred stock (no par value, 350,000 shares authorized, none outstanding)	—	—
Common stock (no par value, 3,500,000 shares authorized; 2,854,133 shares issued as of March 31, 2018 and June 30, 2017)	14,630	14,630
Retained earnings	31,601	30,122
Treasury stock, at cost (124,489 and 130,606 common shares as of March 31, 2018 and June 30, 2017, respectively)	(1,576)	(1,662)
Accumulated other comprehensive income (loss)	(1,348)	445
Total shareholders' equity	43,307	43,535
Total liabilities and shareholders' equity	\$488,510	\$457,883

See accompanying notes to consolidated financial statements

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

	Three Months ended		Nine Months ended	
	March 31, 2018	2017	March 31, 2018	2017
(Dollars in thousands, except per share amounts)				
Interest income				
Loans, including fees	\$3,526	\$2,989	\$10,191	\$9,195
Securities, taxable	475	429	1,445	1,208
Securities, tax-exempt	365	365	1,099	1,073
Federal funds sold and other interest bearing deposits	28	29	93	89
Total interest income	4,394	3,812	12,828	11,565
Interest expense				
Deposits	300	202	801	555
Short-term borrowings	64	20	176	43
Federal Home Loan Bank advances	63	60	171	174
Total interest expense	427	282	1,148	772
Net interest income	3,967	3,530	11,680	10,793
Provision for loan losses	100	255	250	531
Net interest income after provision for loan losses	3,867	3,275	11,430	10,262
Non-interest income				
Service charges on deposit accounts	286	296	895	940
Debit card interchange income	327	299	975	835
Bank owned life insurance income	66	66	202	178
Securities gains (losses), net	(5)	17	33	142
Loss on disposition of other real estate owned	(2)	—	(2)	(3)
Other	130	90	410	321
Total non-interest income	802	768	2,513	2,413
Non-interest expenses				
Salaries and employee benefits	1,950	1,801	5,726	5,329
Occupancy and equipment	481	474	1,401	1,404
Data processing expenses	153	146	448	436
Debit card processing expenses	186	172	554	454
Professional and director fees	131	156	370	434
FDIC assessments	42	29	134	130
Franchise taxes	84	85	252	253
Marketing and advertising	86	71	225	215
Telephone and network communications	76	76	233	233
Other	392	405	1,191	1,139

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Total non-interest expenses	3,581	3,415	10,534	10,027
Income before income taxes	1,088	628	3,409	2,648
Income tax expense	175	62	910	459
Net income	\$913	\$566	\$2,499	\$2,189
Basic and diluted earnings per share	\$0.33	\$0.21	\$0.92	\$0.80

See accompanying notes to consolidated financial statements

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

(Dollars in thousands)

	Three Months ended		Nine Months ended	
	March 31, 2018	2017	March 31, 2018	2017
Net income	\$913	\$566	\$2,499	\$2,189
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	(1,821)	336	(2,348)	(3,406)
Reclassification adjustment for (gains) losses included in income	5	(17)	(33)	(142)
Net unrealized gains (losses)	(1,816)	319	(2,381)	(3,548)
Income tax effect	381	(109)	574	1,206
Other comprehensive income (loss)	(1,435)	210	(1,807)	(2,342)
Total comprehensive income (loss)	\$(522)	\$776	\$692	\$(153)

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		Nine Months ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Balance at beginning of period	\$44,171	\$42,210	\$43,535	\$43,793
Net income	913	566	2,499	2,189
Other comprehensive income (loss)	(1,435)	210	(1,807)	(2,342)
6,321 shares issued associated with stock awards during the nine months ended March 31, 2018	—	—	90	—
204 and 231 Dividend reinvestment plan shares associated with forfeited and expired restricted stock awards retired to treasury stock during the nine months ended March 31, 2018 and 2017, respectively	—	—	—	—
Common cash dividends	(342)	(327)	(1,010)	(981)
Balance at the end of the period	\$43,307	\$42,659	\$43,307	\$42,659
Common cash dividends per share	\$0.125	\$0.12	\$0.37	\$0.36

See accompanying notes to consolidated financial statements.

CONSUMERS BANCORP, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months Ended	
(Dollars in thousands)	March 31, 2018	2017
Cash flows from operating activities		
Net cash from operating activities	\$4,970	\$4,095
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(12,356)	(20,757)
Maturities, calls and principal pay downs	12,588	15,071
Proceeds from sales	2,644	3,946
Securities held-to-maturity		
Purchases	—	(1,000)
Principal pay downs	198	198
Net decrease in certificates of deposits in other financial institutions	948	1,740
Purchase of Federal Reserve Bank stock, at cost	(34)	—
Net increase in loans	(30,759)	(17,019)
Purchase of Bank owned life insurance	—	(2,000)
Acquisition of premises and equipment	(223)	(278)
Disposal of premises and equipment	6	—
Sale of other real estate owned	69	7
Net cash from investing activities	(26,919)	(20,092)
Cash flow from financing activities		
Net increase in deposit accounts	29,585	20,201
Net change in short-term borrowings	1,843	2,772
Proceeds from Federal Home Loan Bank advances	2,700	19,325
Repayments of Federal Home Loan Bank advances	(3,248)	(23,271)
Dividends paid	(1,010)	(981)
Net cash from financing activities	29,870	18,046
Increase in cash or cash equivalents	7,921	2,049
Cash and cash equivalents, beginning of period	9,912	10,181
Cash and cash equivalents, end of period	\$17,833	\$12,230

Supplemental disclosure of cash flow information:

Cash paid during the period:

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Interest	\$1,123	\$769
Federal income taxes	505	300
Non-cash items:		
Transfer from loans to other real estate owned	—	10
Transfer from loans held for sale to portfolio	172	342
Issuance of treasury stock for stock awards	90	—
Expired and forfeited dividend reinvestment plan shares associated with restricted stock awards that were retired to treasury stock	4	4

See accompanying notes to consolidated financial statements.

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited)

(Dollars in thousands, except per share amounts)

Note 1 – Summary of Significant Accounting Policies:

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

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

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

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

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

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

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

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

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

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

In March 2017, FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Oher Costs: Premium Amortization on Purchased Callable Debt Securities. The ASU amends the guidance related to amortization for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. The adoption of ASU 2017-08 will not have a material impact on the Corporation’s financial statements.

In February 2018, the FASB issued ASU 2018-02 – Income Statement – Reporting Comprehensive Income (Topic 220). The ASU was issued in response to the U.S. federal government enacting the Tax Cuts and Jobs Act of 2017. The ASU will require reclassifying certain income tax effects from accumulated other comprehensive income to retained earnings. The amount of that reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted 21.0 U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. 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 adopted this ASU as of March 2018 which resulted in a \$14 reclassification between retained earnings and accumulated other comprehensive income.

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

(Dollars in thousands, except per share amounts)

Note 2 – Securities**Available –for-Sale**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Obligations of U.S. government-sponsored entities and agencies	\$ 13,543	\$ 2	\$ (282)	\$ 13,263
Obligations of state and political subdivisions	55,229	372	(715)	54,886
Mortgage-backed securities – residential	62,198	19	(1,392)	60,825
Mortgage-backed securities– commercial	1,439	—	(17)	1,422
Collateralized mortgage obligations– residential	5,252	—	(194)	5,058
Pooled trust preferred security	178	501	—	679
Total available-for-sale securities	\$ 137,839	\$ 894	\$ (2,600)	\$ 136,133

Held-to-Maturity

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
March 31, 2018				
Obligations of state and political subdivisions	\$ 4,061	\$ 42	\$ —	\$ 4,103
Total held-to-maturity securities	\$ 4,061	\$ 42	\$ —	\$ 4,103

Available–for-Sale

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

Total available-for-sale securities	\$ 141,411	\$ 1,542	\$ (867) \$142,086
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Held-to-Maturity

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
June 30, 2017				
Obligations of state and political subdivisions	\$ 4,259	\$ 73	\$ (3) \$4,329
Total held-to-maturity securities	\$ 4,259	\$ 73	\$ (3) \$4,329

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

(Dollars in thousands, except per share amounts)

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

	Three Months Ended		Nine Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Proceeds from sales	\$1,058	\$563	\$2,644	\$3,946
Gross realized gains	1	17	40	144
Gross realized losses	6	—	7	2

The income tax benefit related to the net realized losses amounted to \$1 for the three months ended March 31, 2018 and the income tax provision related to the net realized gains amounted to \$9 for the nine months ended March 31, 2018. The income tax provision related to the net realized gains amounted to \$5 and \$48 for the three and nine months ended March 31, 2017, respectively.

The amortized cost and fair values of debt securities at March 31, 2018, 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 Cost	Estimated Fair Value
<u>Available-for-Sale</u>		
Due in one year or less	\$ 1,879	\$ 1,894
Due after one year through five years	19,664	19,595
Due after five years through ten years	25,464	25,260

Due after ten years	21,765	21,400
Total	68,772	68,149
U.S. Government-sponsored mortgage-backed and related securities	68,889	67,305
Pooled trust preferred security	178	679
Total available-for-sale securities	\$ 137,839	\$ 136,133

Held-to-Maturity

Due after five years through ten years	564	566
Due after ten years	3,497	3,537
Total held-to-maturity securities	\$ 4,061	\$ 4,103

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

The following table summarizes the securities with unrealized losses at March 31, 2018 and June 30, 2017, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(Dollars in thousands, except per share amounts)

<u>Available-for-sale</u>	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2018						
Obligations of US government-sponsored entities and agencies	\$12,030	\$ (282)	\$—	\$ —	\$12,030	\$ (282)
Obligations of states and political subdivisions	25,456	(366)	7,995	(349)	33,451	(715)
Mortgage-backed securities - residential	29,403	(625)	23,416	(767)	52,819	(1,392)
Mortgage-backed securities - commercial	1,422	(17)	—	—	1,422	(17)
Collateralized mortgage obligations – residential	—	—	5,058	(194)	5,058	(194)
Total temporarily impaired	\$68,311	\$ (1,290)	\$36,469	\$ (1,310)	\$104,780	\$ (2,600)

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

Less than 12 Months	12 Months or more	Total
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<u>Held-to-maturity</u>	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2017						
Obligations of states and political subdivisions	\$933	\$ (3)	\$ —	\$ —	\$933	\$ (3)
Total temporarily impaired	\$933	\$ (3)	\$ —	\$ —	\$933	\$ (3)

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

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

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

(Dollars in thousands, except per share amounts)

The unrealized losses within the securities portfolio as of March 31, 2018 have not been recognized into income because the decline in fair value is not attributed to credit quality, management does not intend to sell and it is not likely that management will be required to sell the securities prior to their anticipated recovery. The decline in fair value within the securities portfolio is largely due to changes in interest rates and the fair value is expected to recover as the securities approach maturity. The mortgage-backed securities and collateralized mortgage obligations were primarily issued by Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. The Corporation does not own any private label mortgage-backed securities.

Note 3 – Loans

Major classifications of loans were as follows:

	March 31, 2018	June 30, 2017
Commercial	\$48,830	\$46,336
Commercial real estate:		
Construction	6,701	5,588
Other	177,984	157,861
1 – 4 Family residential real estate:		
Owner occupied	47,262	41,581
Non-owner occupied	16,054	14,377
Construction	1,817	1,993
Consumer	4,793	5,131
Subtotal	303,441	272,867
Allowance for loan losses	(3,323)	(3,086)
Net Loans	\$300,118	\$269,781

Loans presented above are net of deferred loan fees and costs of \$286 and \$294 for March 31, 2018 and June 30, 2017, respectively.

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

(Dollars in thousands, except per share amounts)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2018:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 555	\$ 2,144	\$ 461	\$ 65	\$3,225
Provision for loan losses	4	96	15	(15)	100
Loans charged-off	—	(4)	—	(11)	(15)
Recoveries	—	1	2	10	