

CONSUMERS BANCORP INC /OH/
Form 10-Q
November 14, 2016
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 September 30, 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
(Address of principal executive offices)

44657
(Zip Code)

(330) 868-7701

(Registrant's telephone number)

Not applicable

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

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

Common Stock, no par value Outstanding at November 10, 2016
2,724,956 Common Shares

CONSUMERS BANCORP, INC.

FORM 10-Q

QUARTER ENDED September 30, 2016

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

CONSUMERS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30,	June 30,
(Dollars in thousands, except per share data)	2016	2016
ASSETS		
Cash on hand and noninterest-bearing deposits in financial institutions	\$ 8,526	\$ 8,164
Federal funds sold and interest-bearing deposits in financial institutions	4,007	2,017
Total cash and cash equivalents	12,533	10,181
Certificates of deposit in other financial institutions	5,656	5,906
Securities, available-for-sale	128,310	133,369
Securities, held-to-maturity (fair value of \$4,510 at September 30, 2016 and \$3,619 at June 30, 2016)	4,399	3,494
Federal bank and other restricted stocks, at cost	1,396	1,396
Loans held for sale	1,810	1,048
Total loans	260,487	256,278
Less allowance for loan losses	(3,684)	(3,566)
Net loans	256,803	252,712
Cash surrender value of life insurance	6,867	6,819
Premises and equipment, net	13,588	13,585
Other real estate owned	10	—
Accrued interest receivable and other assets	2,052	1,880
Total assets	\$ 433,424	\$ 430,390
LIABILITIES		
Deposits		
Non-interest bearing demand	\$ 104,029	\$ 98,224
Interest bearing demand	50,338	48,810
Savings	132,584	134,606
Time	66,020	65,008
Total deposits	352,971	346,648
Short-term borrowings		
Federal Home Loan Bank advances	20,546	19,129
Accrued interest and other liabilities	12,366	17,281
Total liabilities	3,521	3,539
Commitments and contingent liabilities	389,404	386,597

SHAREHOLDERS' EQUITY

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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 September 30, 2016 and June 30, 2016)	14,630	14,630
Retained earnings	29,006	28,432
Treasury stock, at cost (130,606 and 130,375 common shares as of September 30, 2016 and June 30, 2016, respectively)	(1,658)	(1,658)
Accumulated other comprehensive income	2,042	2,389
Total shareholders' equity	44,020	43,793
Total liabilities and shareholders' equity	\$ 433,424	\$ 430,390

See accompanying notes to consolidated financial statements

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

	Three Months ended	
(Dollars in thousands, except per share amounts)	September 30, 2016	2015
Interest income		
Loans, including fees	\$3,184	\$2,795
Securities, taxable	402	457
Securities, tax-exempt	351	344
Federal funds sold and other interest bearing deposits	30	24
Total interest income	3,967	3,620
Interest expense		
Deposits	170	176
Short-term borrowings	12	8
Federal Home Loan Bank advances	58	43
Total interest expense	240	227
Net interest income	3,727	3,393
Provision for loan losses	136	92
Net interest income after provision for loan losses	3,591	3,301
Non-interest income		
Service charges on deposit accounts	330	314
Debit card interchange income	251	234
Bank owned life insurance income	49	46
Securities gains, net	103	35
Other	115	106
Total non-interest income	848	735
Non-interest expenses		
Salaries and employee benefits	1,738	1,732
Occupancy and equipment	452	342
Data processing expenses	145	144
Professional and director fees	132	97
FDIC assessments	55	58
Franchise taxes	84	82
Marketing and advertising	79	93
Telephone and network communications	81	75
Debit card processing expenses	133	116
Other	387	398
Total non-interest expenses	3,286	3,137

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Income before income taxes	1,153	899
Income tax expense	252	172
Net income	\$901	\$727
Basic and diluted earnings per share	\$0.33	\$0.27

See accompanying notes to consolidated financial statements

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

(Dollars in thousands)

	Three Months ended	
	September 30, 2016	2015
Net income	\$901	\$727
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	(423)	813
Reclassification adjustment for gains included in income	(103)	(35)
Net unrealized gain (losses)	(526)	778
Income tax effect	179	(264)
Other comprehensive income (losses)	(347)	514
Total comprehensive income	\$554	\$1,241

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	
	September 30, 2016	2015
Balance at beginning of period	\$43,793	\$41,466
Net income	901	727
Other comprehensive income (loss)	(347)	514
231 and 248 Dividend reinvestment plan shares associated with forfeited and expired restricted stock awards retired to treasury stock during the three months ended September 30, 2015 and 2016, respectively	—	—
Common cash dividends	(327)	(328)
Balance at the end of the period	\$44,020	\$42,379
Common cash dividends per share	\$0.12	\$0.12

See accompanying notes to consolidated financial statements.

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

	Three Months Ended	
	September 30, 2016	2015
(Dollars in thousands)		
Cash flows from operating activities		
Net cash from operating activities	\$581	\$1,021
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(3,229)	(7,438)
Maturities, calls and principal pay downs	5,796	5,346
Proceeds from sales of available-for-sale securities	1,789	1,990
Securities held-to-maturity		
Purchases	(1,000)	—
Principal pay downs	95	90
Net (increase) decrease in certificates of deposits in other financial institutions	250	(1,443)
Net increase in loans	(4,237)	(5,443)
Acquisition of premises and equipment	(191)	(962)
Net cash from investing activities	(727)	(7,860)
Cash flow from financing activities		
Net increase in deposit accounts	6,323	7,895
Net change in short-term borrowings	1,417	2,391
Proceeds from Federal Home Loan Bank advances	9,700	—
Repayments of Federal Home Loan Bank advances	(14,615)	(15)
Dividends paid	(327)	(328)
Net cash from financing activities	2,498	9,943
Increase in cash or cash equivalents	2,352	3,104
Cash and cash equivalents, beginning of period	10,181	10,544
Cash and cash equivalents, end of period	\$12,533	\$13,648
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	\$242	\$229
Federal income taxes	—	200

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	4

See accompanying notes to consolidated financial statements.

CONSUMER 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.

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

(Dollars in thousands, except per share amounts)

Note 2 – Securities

<u>Available –for-Sale</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016				
Obligations of U.S. government-sponsored entities and agencies	\$ 10,078	\$ 250	\$ —	\$ 10,328
Obligations of state and political subdivisions	54,131	1,737	(9)	55,859
Mortgage-backed securities – residential	54,013	832	(33)	54,812
Mortgage-backed securities– commercial	1,479	24	—	1,503
Collateralized mortgage obligations– residential	5,360	29	(1)	5,388
Pooled trust preferred security	154	266	—	420
Total available-for-sale securities	\$ 125,215	\$ 3,138	\$ (43)	\$ 128,310

<u>Held-to-Maturity</u>	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2016				
Obligations of state and political subdivisions	\$ 4,399	\$ 111	\$ —	\$ 4,510

<u>Available–for-Sale</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
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
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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CONSUMER BANCORP, INC.**Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

<u>Held-to-Maturity</u>	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
June 30, 2016				
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	
	September 30, 2016	September 30, 2015
Proceeds from sales	\$1,789	\$1,990
Gross realized gains	103	35
Gross realized losses	—	—

The income tax provision applicable to these net realized gains amounted to \$35 for the three months ended September 30, 2016 and \$12 for the three months ended September 30, 2015.

The amortized cost and fair values of debt securities at September 30, 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.

<u>Available-for-Sale</u>	Amortized Cost	Estimated Fair
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		Value
Due in one year or less	\$ 3,697	\$3,724
Due after one year through five years	14,804	15,287
Due after five years through ten years	27,972	28,917
Due after ten years	17,736	18,259
Total	64,209	66,187
U.S. Government-sponsored mortgage-backed and related securities	60,852	61,703
Pooled trust preferred security	154	420
Total available-for-sale securities	\$ 125,215	\$ 128,310

Held-to-Maturity

Due after five years through ten years	674	702
Due after ten years	3,725	3,808
Total held-to-maturity securities	\$ 4,399	\$ 4,510

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 September 30, 2016 and June 30, 2016, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

<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
September 30, 2016						
Obligations of states and political subdivisions	\$2,018	\$ (6)	\$275	\$ (3)	\$2,293	\$ (9)
Mortgage-backed securities - residential	7,573	(15)	3,427	(18)	11,000	(33)
Collateralized mortgage obligations – residential ⁸¹⁶⁽¹⁾ — ⁸¹⁶⁽¹⁾	—	—	1,103	(1)	1,103	(1)
Total temporarily impaired	\$9,591	\$ (21)	\$4,805	\$ (22)	\$14,396	\$ (43)

<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, 2016						
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)

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.

CONSUMER 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 September 30, 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 of the mortgage-backed securities, obligations of state and political subdivisions and collateralized mortgage obligations is largely due to changes in interest rates. 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:

	September 30, 2016	June 30, 2016
Commercial	\$ 44,855	\$ 43,156
Commercial real estate:		
Construction	7,170	7,755
Other	153,375	152,766
1 – 4 Family residential real estate:		
Owner occupied	32,150	31,091
Non-owner occupied	15,093	14,438
Construction	2,348	1,269
Consumer	5,496	5,803
Subtotal	260,487	256,278
Allowance for loan losses	(3,684)	(3,566)
Net Loans	\$ 256,803	\$ 252,712

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

(Dollars in thousands, except per share amounts)

Loans presented above are net of deferred loan fees and costs of \$342 and \$360 for September 30, 2016 and June 30, 2016, respectively.

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 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	5	125	27	(21)	136
Loans charged-off	—	—	(21)	(4)	(25)
Recoveries	—	—	3	4	7
Total ending allowance balance	\$ 510	\$ 2,643	\$ 411	\$ 120	\$3,684

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 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	71	70	(11)	(38)	92

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Loans charged-off	—	(3)	—	(18)	(21)
Recoveries	—	—	—	—	11	—	11	—
Total ending allowance balance	\$ 387	\$ 1,727	\$ 278	\$ 122	\$ 122	\$ 122	\$ 2,514	\$ 2,514

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CONSUMERS BANCORP, INC.**Notes to 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 September 30, 2016. Included in the recorded investment in loans is \$578 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	\$ —	\$ 895	\$ 6	\$ —	\$901
Collectively evaluated for impairment	510	1,748	405	120	2,783
Total ending allowance balance	\$ 510	\$ 2,643	\$ 411	\$ 120	\$3,684
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ —	\$ 2,612	\$ 510	\$	