

CONSUMERS BANCORP INC /OH/
Form 10-Q
November 16, 2015

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, 2015

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 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, 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, 2015
2,727,730 Common Shares

CONSUMERS BANCORP, INC.

FORM 10-Q

QUARTER ENDED September 30, 2015

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

CONSUMERS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except per share data)	September 30, 2015	June 30, 2015
ASSETS		
Cash on hand and noninterest-bearing deposits in financial institutions	\$ 7,543	\$8,028
Federal funds sold and interest-bearing deposits in financial institutions	6,105	2,516
Total cash and cash equivalents	13,648	10,544
Certificates of deposit in other financial institutions	5,913	4,470
Securities, available-for-sale	137,763	137,144
Securities, held-to-maturity (fair value of \$3,712 at September 30, 2015 and \$3,722 at June 30, 2015)	3,565	3,655
Federal bank and other restricted stocks, at cost	1,396	1,396
Loans held for sale	307	462
Total loans	233,914	228,519
Less allowance for loan losses	(2,514)	(2,432)
Net loans	231,400	226,087
Cash surrender value of life insurance	6,672	6,626
Premises and equipment, net	12,435	11,605
Other real estate owned	38	—
Accrued interest receivable and other assets	1,918	1,978
Total assets	\$ 415,055	\$403,967
LIABILITIES		
Deposits		
Non-interest bearing demand	\$ 93,431	\$86,651
Interest bearing demand	46,661	45,320
Savings	135,801	134,664
Time	64,998	66,361
Total deposits	340,891	332,996
Short-term borrowings	22,229	19,838
Federal Home Loan Bank advances	6,225	6,240
Accrued interest and other liabilities	3,331	3,427
Total liabilities	372,676	362,501
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 September 30, 2015 and June 30, 2015)	14,630	14,630
Retained earnings	27,992	27,589
Treasury stock, at cost (130,312 and 130,064 common shares as of September 30, 2015 and June 30, 2015, respectively)	(1,656) (1,652)
Accumulated other comprehensive income	1,413	899
Total shareholders' equity	42,379	41,466
Total liabilities and shareholders' equity	\$ 415,055	\$ 403,967

See accompanying notes to consolidated financial statements

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

(Dollars in thousands, except per share amounts)	Three Months ended	
	September 30, 2015	2014
Interest income		
Loans, including fees	\$2,795	\$2,704
Securities, taxable	457	463
Securities, tax-exempt	344	352
Federal funds sold and other interest bearing deposits	24	14
Total interest income	3,620	3,533
Interest expense		
Deposits	176	190
Short-term borrowings	8	7
Federal Home Loan Bank advances	43	48
Total interest expense	227	245
Net interest income	3,393	3,288
Provision for loan losses	92	67
Net interest income after provision for loan losses	3,301	3,221
Non-interest income		
Service charges on deposit accounts	314	320
Debit card interchange income	234	229
Bank owned life insurance income	46	44
Securities gains, net	35	37
Gain on disposition of other real estate owned	—	22
Other	106	139
Total non-interest income	735	791
Non-interest expenses		
Salaries and employee benefits	1,732	1,717
Occupancy and equipment	342	368
Data processing expenses	144	142
Professional and director fees	97	97
FDIC assessments	58	60
Franchise taxes	82	77
Marketing and advertising	93	66
Telephone and network communications	75	72
Debit card processing expenses	116	114
Other	398	359
Total non-interest expenses	3,137	3,072

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Income before income taxes	899	940
Income tax expense	172	184
Net income	\$727	\$756
Basic and diluted earnings per share	\$0.27	\$0.28

See accompanying notes to consolidated financial statements

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

(Dollars in thousands)

	Three Months ended September 30,	
	2015	2014
Net income	\$727	\$756
Other comprehensive income (loss), net of tax:		
Net change in unrealized gains (losses):		
Unrealized gains (losses) arising during the period	813	(91)
Reclassification adjustment for gains included in income	(35)	(37)
Net unrealized gain (losses)	778	(128)
Income tax effect	264	(43)
Other comprehensive income (loss)	514	(85)
Total comprehensive income	\$1,241	\$671

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,	
	2015	2014
Balance at beginning of period	\$41,466	\$40,203
Net income	727	756
Other comprehensive income (loss)	514	(85)
248 and 130 Dividend reinvestment plan shares associated with expired restricted stock awards retired to treasury stock during the three months ended September 30, 2015 and 2014, respectively	—	—
Common cash dividends	(328)	(328)
Balance at the end of the period	\$42,379	\$40,546
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)**

(Dollars in thousands)	Three Months Ended September,	
	2015	2014
Cash flows from operating activities		
Net cash from operating activities	\$ 1,021	\$ 1,766
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(7,438)	(15,545)
Maturities, calls and principal pay downs	5,346	3,840
Proceeds from sales of available-for-sale securities	1,990	4,372
Securities held-to-maturity		
Principal pay downs	90	90
Net increase in certificates of deposits in other financial institutions	(1,443)	(1,503)
Net (increase) decrease in loans	(5,443)	1,730
Acquisition of premises and equipment	(962)	(1,328)
Proceeds from sale of other real estate owned	—	128
Net cash from investing activities	(7,860)	(8,216)
Cash flow from financing activities		
Net increase in deposit accounts	7,895	2,304
Net change in short-term borrowings	2,391	2,075
Proceeds from Federal Home Loan Bank advances	—	2,000
Repayments of Federal Home Loan Bank advances	(15)	(14)
Dividends paid	(328)	(328)
Net cash from financing activities	9,943	6,037
Increase (decrease) in cash or cash equivalents	3,104	(413)
Cash and cash equivalents, beginning of period	10,544	11,125
Cash and cash equivalents, end of period	\$ 13,648	\$ 10,712
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	\$ 229	\$ 244
Federal income taxes	200	200
Non-cash items:		
Transfer from loans to repossessed assets	38	—
Expired and forfeited dividend reinvestment plan shares associated		

with restricted stock awards that were retired to treasury stock 4 2

See accompanying notes to consolidated financial statements.

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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, 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, 2015. 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.

CONSUMERS 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, 2015				
Obligations of U.S. government-sponsored entities and agencies	\$ 15,979	\$ 326	\$ —	\$ 16,305
Obligations of state and political subdivisions	50,718	1,015	(144)	51,589
Mortgage-backed securities – residential	61,945	708	(121)	62,532
Mortgage-backed securities– commercial	1,486	9	—	1,495
Collateralized mortgage obligations– residential	5,320	21	(16)	5,325
Pooled trust preferred security	174	343	—	517
Total available-for-sale securities	\$ 135,622	\$ 2,422	\$ (281)	\$ 137,763

<u>Held-to-Maturity</u>	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2015				
Obligations of state and political subdivisions	\$ 3,565	\$ 147	\$ —	\$ 3,712

<u>Available–for-Sale</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,411	\$ 178	\$ (31)	\$ 16,558
Obligations of state and political subdivisions	48,557	811	(405)	48,963
Mortgage-backed securities – residential	64,441	699	(226)	64,914
Mortgage-backed securities – commercial	1,485	1	—	1,486
Collateralized mortgage obligations - residential	4,703	14	(34)	4,683
Pooled trust preferred security	184	356	—	540
Total available-for-sale securities	\$ 135,781	\$ 2,059	\$ (696)	\$ 137,144

<u>Held-to-Maturity</u>	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
June 30, 2015				
Obligations of state and political subdivisions	\$ 3,655	\$ 67	\$ —	\$3,722

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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 September 30,	
	2015	2014
Proceeds from sales	\$ 1,990	\$ 4,372
Gross realized gains	35	37

The income tax provision applicable to realized gains amounted to \$12 in 2015 and 2014.

The amortized cost and fair values of debt securities at September 30, 2015, 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	\$ 6,210	\$ 6,231
Due after one year through five years	13,742	14,068
Due after five years through ten years	29,146	29,752
Due after ten years	17,599	17,843
Total	66,697	67,894
U.S. Government-sponsored mortgage-backed and related securities	68,751	69,352
Pooled trust preferred security	174	517
Total available-for-sale securities	\$ 135,622	\$ 137,763

Held-to-Maturity

Due after five years through ten years	745	777
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Due after ten years	2,820	2,935
Total held-to-maturity securities	\$3,565	\$3,712

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, 2015 and June 30, 2015, 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, 2015						
Obligations of states and political subdivisions	11,562	(116)	1,661	(28)	13,223	(144)
Mortgage-backed securities - residential	20,393	(96)	3,155	(25)	23,548	(121)
Collateralized mortgage obligations	3,036	(16)	—	—	3,036	(16)
Total temporarily impaired	\$ 34,991	\$ (228)	\$ 4,816	\$ (53)	\$ 39,807	\$ (281)

<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, 2015						
Obligation of U.S. government- sponsored entities and agencies	\$ 3,719	\$ (31)	\$ —	\$ —	\$ 3,719	\$ (31)
Obligations of states and political subdivisions	18,796	(352)	2,145	(53)	20,941	(405)
Mortgage-backed securities - residential	24,322	(200)	2,031	(26)	26,353	(226)
Collateral mortgage obligation - residential	3,321	(34)	—	—	3,321	(34)
Total temporarily impaired	\$ 50,158	\$ (617)	\$ 4,176	\$ (79)	\$ 54,334	\$ (696)

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 September 30, 2015 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 residential 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.

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

(Dollars in thousands, except per share amounts)

Note 3 – Loans

Major classifications of loans were as follows:

	September 30, 2015	June 30, 2015
Commercial	\$ 36,890	\$ 32,155
Commercial real estate:		
Construction	3,118	1,295
Other	142,702	143,680
1 – 4 Family residential real estate:		
Owner occupied	30,353	30,027
Non-owner occupied	13,897	14,555
Construction	661	234
Consumer	6,667	6,965
Subtotal	234,288	228,911
Less: Net deferred loan fees	(374)	(392)
Allowance for loan losses	(2,514)	(2,432)
Net Loans	\$ 231,400	\$ 226,087

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

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ending September 30, 2014:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 307	\$ 1,440	\$ 294	\$ 364	\$2,405
Provision for loan losses	(7)	15	27	32	67
Loans charged-off	—	—	(33)	(33)	(66)
Recoveries	—	—	1	12	13
Total ending allowance balance	\$ 300	\$ 1,455	\$ 289	\$ 375	\$2,419

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 September 30, 2015. Included in the recorded investment in loans is \$506 of accrued interest receivable net of deferred loan fees of \$374.

	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	\$ —	\$ 164	\$ 56	\$ —	\$220
Collectively evaluated for impairment	387	1,563	222	122	2,294
Total ending allowance balance	\$ 387	\$ 1,727	\$ 278	\$ 122	\$2,514
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ —	\$ 3,332	\$ 1,080	\$ —	\$4,412
Loans collectively evaluated for impairment	36,957	142,429	43,955	6,667	230,008
Total ending loans balance	\$ 36,957	\$ 145,761	\$ 45,035	\$ 6,667	\$234,420

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, 2015. Included in the recorded investment in loans is \$501 of accrued interest receivable net of deferred loan fees of \$392.

	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	\$ —	\$ 58	\$ 12	\$ —	\$ 70
Collectively evaluated for impairment	316	1,602	277	167	2,362
Total ending allowance balance	\$ 316	\$ 1,660	\$ 289	\$ 167	\$ 2,432
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ —	\$ 2,786	\$ 615	\$ —	\$ 3,401
Loans collectively evaluated for impairment	32,210	142,139	44,304	6,966	225,619
Total ending loans balance	\$ 32,210	\$ 144,925	\$ 44,919	\$ 6,966	\$ 229,020

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 September 30, 2015 and for the three months ended September 30, 2015:

	As of September 30, 2015			Three Months ended September 30, 2015		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial real estate:						
Construction	\$ 35	\$ 35	\$ —	\$ 12	\$ —	\$ —
Other	2,394	2,117	—	2,059	—	—
1-4 Family residential real estate:						
Owner occupied	301	267	—	267	—	—
Non-owner occupied	232	232	—	77	—	—
With an allowance recorded:						
Commercial real estate:						
Other	1,209	1,180	164	894	9	9
1-4 Family residential real estate:						
Owner occupied						