

CONSUMERS BANCORP INC /OH/
Form 10-Q
May 15, 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 March 31, 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
(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.

Common Stock, no par value Outstanding at May 15, 2015
2,731,612 Common Shares

CONSUMERS BANCORP, INC.

FORM 10-Q

QUARTER ENDED March 31, 2015

Table of Contents

	Page Number (s)
Part I – Financial Information	
<u>Item 1 – Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets at March 31, 2015 and June 30, 2014</u>	1
<u>Consolidated Statements of Income for the three and nine months ended March 31, 2015 and 2014</u>	2
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended March 31, 2015 and 2014</u>	3
<u>Consolidated Statements of Changes in Shareholders’ Equity for the three and nine months ended March 31, 2015 and 2014</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2015 and 2014</u>	5
<u>Notes to the Consolidated Financial Statements</u>	6-30
<u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	31-42
Item 3 – Not Applicable for Smaller Reporting Companies	
<u>Item 4 – Controls and Procedures</u>	43
Part II – Other Information	
<u>Item 1 – Legal Proceedings</u>	44
Item 1A – Not Applicable for Smaller Reporting Companies	
<u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 3 – Defaults Upon Senior Securities</u>	44

<u>Item 4 – Mine Safety Disclosure</u>	44
<u>Item 5 – Other Information</u>	44
<u>Item 6 – Exhibits</u>	44
<u>Signatures</u>	45

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

CONSUMERS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except per share data)	March 31, 2015	June 30, 2014
ASSETS		
Cash on hand and noninterest-bearing deposits in financial institutions	\$ 6,909	\$ 9,049
Federal funds sold and interest-bearing deposits in financial institutions	9,002	2,076
Total cash and cash equivalents	15,911	11,125
Certificates of deposit in other financial institutions	4,217	2,703
Securities, available-for-sale	128,220	126,393
Securities, held-to-maturity (fair value of \$3,725 at March 31, 2015 and \$3,040 at June 30, 2014)	3,690	3,000
Federal bank and other restricted stocks, at cost	1,396	1,396
Loans held for sale	583	559
Total loans	231,207	224,966
Less allowance for loan losses	(2,425)	(2,405)
Net loans	228,782	222,561
Cash surrender value of life insurance	6,578	5,967
Premises and equipment, net	10,473	6,713
Other real estate owned	54	204
Accrued interest receivable and other assets	1,737	1,856
Total assets	\$ 401,641	\$ 382,477
LIABILITIES		
Deposits		
Non-interest bearing demand	\$ 83,393	\$ 75,353
Interest bearing demand	44,572	42,718
Savings	134,935	125,151
Time	67,919	70,675
Total deposits	330,819	313,897
Short-term borrowings		
Federal Home Loan Bank advances	19,189	19,489
Accrued interest and other liabilities	6,254	6,296
Total liabilities	3,405	2,592
Commitments and contingent liabilities	359,667	342,274
	—	—
SHAREHOLDERS' EQUITY		
Preferred stock (no par value, 350,000 shares authorized, none outstanding)	—	—
	14,630	14,630

Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-Q

Common stock (no par value, 3,500,000 shares authorized; 2,854,133 shares issued as of March 31, 2015 and June 30, 2014)		
Retained earnings	27,154	25,940
Treasury stock, at cost (122,521 and 129,875 common shares as of March 31, 2015 and June 30, 2014, respectively)	(1,652)	(1,650)
Accumulated other comprehensive income	1,842	1,283
Total shareholders' equity	41,974	40,203
Total liabilities and shareholders' equity	\$ 401,641	\$ 382,477

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		Nine Months ended	
	March 31, 2015	2014	March 31, 2015	2014
Interest income				
Loans, including fees	\$ 2,714	\$ 2,610	\$ 8,146	\$ 7,922
Securities, taxable	470	459	1,429	1,153
Securities, tax-exempt	331	340	1,025	1,012
Federal funds sold and other interest bearing deposits	19	13	52	34
Total interest income	3,534	3,422	10,652	10,121
Interest expense				
Deposits	181	190	553	588
Short-term borrowings	7	6	22	18
Federal Home Loan Bank advances	45	48	140	139
Total interest expense	233	244	715	745
Net interest income	3,301	3,178	9,937	9,376
Provision for loan losses	90	—	214	168
Net interest income after provision for loan losses	3,211	3,178	9,723	9,208
Non-interest income				
Service charges on deposit accounts	286	302	926	1,001
Debit card interchange income	223	207	682	646
Bank owned life insurance income	47	44	135	135
Securities gains (losses), net	(4)	4	118	36
Gain (Loss) on disposition of other real estate owned	—	(10)	22	(10)
Other	96	92	349	263
Total non-interest income	648	639	2,232	2,071
Non-interest expenses				
Salaries and employee benefits	1,707	1,661	5,123	4,790
Occupancy and equipment	387	334	1,122	978
Data processing expenses	146	142	429	419
Professional and director fees	91	92	309	333
FDIC assessments	55	63	171	169
Franchise taxes	83	78	232	229
Marketing and advertising	70	53	190	185
Telephone and network communications	77	69	214	211
Debit card processing expenses	109	104	346	318
Other	375	398	1,097	1,135
Total non-interest expenses	3,100	2,994	9,233	8,767
Income before income taxes	759	823	2,722	2,512
Income tax expense	127	145	526	458

Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-Q

Net income	\$ 632	\$ 678	\$2,196	\$2,054
Basic and diluted earnings per share	\$ 0.23	\$ 0.25	\$0.80	\$0.76

See accompanying notes to consolidated financial statements

CONSUMERS BANCORP, INC.

Consolidated statements of comprehensive income

(Unaudited)

(Dollars in thousands)

	Three Months ended		Nine Months ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Net income	\$ 632	\$ 678	\$ 2,196	\$ 2,054
Other comprehensive income, net of tax:				
Net change in unrealized gains:				
Unrealized gains arising during the period	526	1,000	966	707
Reclassification adjustment for (gains) losses included in income	4	(4)	(118)	(36)
Net unrealized gain	530	996	848	671
Income tax effect	181	339	289	228
Other comprehensive income	349	657	559	443
Total comprehensive income	\$ 981	\$ 1,335	\$ 2,755	\$ 2,497

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 March 31,		Nine Months ended March 31,	
	2015	2014	2015	2014
Balance at beginning of period	\$ 41,321	\$ 37,886	\$ 40,203	\$ 28,143
Net income	632	678	2,196	2,054
Other comprehensive income	349	657	559	443
Issuance of 655,668 shares for rights and public offering, net of offering costs of \$762	—	—	—	9,237
Common cash dividends	(328)	(328)	(984)	(984)
Balance at the end of the period	\$ 41,974	\$ 38,893	\$ 41,974	\$ 38,893
Common cash dividends per share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Nine Months Ended	
	March 31, 2015	2014
Cash flows from operating activities		
Net cash from operating activities	\$3,962	\$2,578
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(36,281)	(44,539)
Maturities, calls and principal pay downs	18,573	14,287
Proceeds from sales of available-for-sale securities	16,124	2,981
Securities held-to-maturity		
Purchases	(780)	—
Principal pay downs	90	—
Net (increase) decrease in certificates of deposits in other financial institutions	(1,514)	1,227
Net increase in loans	(6,435)	(1,929)
Purchase of Bank owned life insurance	(476)	—
Acquisition of premises and equipment	(4,202)	(1,371)
Disposal of premises and equipment	1	1
Proceeds from sale of other real estate owned	128	699
Net cash from investing activities	(14,772)	(28,644)
Cash flow from financing activities		
Net increase in deposit accounts	16,922	15,549
Net change in short-term borrowings	(300)	5,951
Net proceeds from rights and public offering	—	9,237
Proceeds from Federal Home Loan Bank advances	8,500	2,500
Repayments of Federal Home Loan Bank advances	(8,542)	(2,555)
Dividends paid	(984)	(984)
Net cash from financing activities	15,596	29,698
Increase in cash or cash equivalents	4,786	3,632
Cash and cash equivalents, beginning of period	11,125	9,356
Cash and cash equivalents, end of period	\$15,911	\$12,988
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	\$714	\$745

Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-Q

Federal income taxes	610	685
Non-cash items:		
Transfer from loans to repossessed assets	—	709
Expired and forfeited dividend reinvestment plan shares associated with restricted stock awards that were retired to treasury stock	2	—

See accompanying notes to consolidated financial statements.

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 Stark, Columbiana, Carroll 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, 2014. 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: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (a new revenue recognition standard)*. The Update's core principle is that a company will recognize revenue to depict the transfer of 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. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Corporation is evaluating the effect of adopting this new accounting Update.

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, 2015				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,870	\$ 348	\$ (6) \$17,212
Obligations of state and political subdivisions	45,196	1,152	(79) 46,269
Mortgage-backed securities – residential	57,568	1,069	(52) 58,585
Mortgage-backed securities – commercial	1,485	—	—	1,485
Collateralized mortgage obligations	4,119	24	(3) 4,140
Trust preferred security	190	339	—	529
Total available-for-sale securities	\$ 125,428	\$ 2,932	\$ (140) \$128,220
Held-to-Maturity	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
March 31, 2015				
Obligations of state and political subdivisions	\$ 3,690	\$ 35	\$ —	\$3,725
Available–for-Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
Obligations of U.S. government-sponsored entities and agencies	\$ 18,345	\$ 126	\$ (35) \$18,436
Obligations of state and political subdivisions	44,645	1,124	(257) 45,512
Mortgage-backed securities – residential	57,370	965	(231) 58,104
Collateralized mortgage obligations	3,887	42	—	3,929
Trust preferred security	202	210	—	412
Total available-for-sale securities	\$ 124,449	\$ 2,467	\$ (523) \$126,393
Held-to-Maturity				

Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-Q

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
June 30, 2014				
Obligations of state and political subdivisions	\$ 3,000	\$ 40	\$ —	\$3,040

7

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

(Dollars in thousands, except per share amounts)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Proceeds	\$ 3,080	\$ 216	\$ 16,124	\$ 2,981
Gross realized gains	50	4	241	37
Gross realized losses	54	—	123	1

The income tax benefit applicable to the net realized losses was \$1 for the three months ended March 31, 2015. The income tax provision applicable to these net realized gains was \$39 for the nine months ended March 31, 2015, and \$1 and \$12 for the three and nine months ended March 31, 2014, respectively.

The amortized cost and fair values of debt securities at March 31, 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 trust preferred security are shown separately.

Available-for-Sale	Amortized Cost	Fair Value
Due in one year or less	\$2,639	\$2,649
Due after one year through five years	11,753	11,988
Due after five years through ten years	32,085	32,873
Due after ten years	15,589	15,971
Total	62,066	63,481
Mortgage-backed securities – residential	57,568	58,585
Mortgage-backed securities – commercial	1,485	1,485
Collateralized mortgage obligations	4,119	4,140

Edgar Filing: CONSUMERS BANCORP INC /OH/ - Form 10-Q

Trust preferred security	190	529
Total available-for-sale securities	\$ 125,428	\$ 128,220

Held-to-Maturity

Due after five years through ten years	780	785
Due after ten years	2,910	2,940
Total held-to-maturity securities	\$ 3,690	\$ 3,725

The following table summarizes the securities with unrealized losses at March 31, 2015 and June 30, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

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

(Dollars in thousands, except per share amounts)

Available-for-sale	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2015						
Obligations of U.S. government- sponsored entities and agencies	\$992	\$ (6)	\$—	\$ —	\$992	\$ (6)
Obligations of states and political subdivisions	5,789	(45)	2,171	(34)	7,960	(79)
Mortgage-backed securities - residential	9,262	(41)	4,648	(11)	13,910	(52)
Collateralized mortgage obligations	1,968	(3)	—	—	1,968	(3)
Total temporarily impaired	\$18,011	\$ (95)	\$6,819	\$ (45)	\$24,830	\$ (140)

Available-for-sale	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2014						
Obligation of U.S. government- sponsored entities and agencies	\$1,492	\$ (7)	\$5,411	\$ (28)	\$6,903	\$ (35)
Obligations of states and political subdivisions	9,929	(223)	3,719	(34)	13,648	(257)
Mortgage-backed securities - residential	10,403	(210)	2,342	(21)	12,745	(231)
Total temporarily impaired	\$21,824	\$ (440)	\$11,472	\$ (83)	\$33,296	\$ (523)

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 certain point in time.

The unrealized losses within the securities portfolio as of March 31, 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 obligations of U.S. government-sponsored entities and agencies is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

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:

	March 31, 2015	June 30, 2014
Commercial	\$ 33,576	\$ 33,809
Commercial real estate:		
Construction	7,500	3,688
Other	137,837	131,518
1 – 4 Family residential real estate:		
Owner occupied	29,188	31,044
Non-owner occupied	14,870	16,505
Construction	1,217	186
Consumer	7,431	8,604
Subtotal	231,619	225,354
Less: Net deferred loan fees	(412)	(388)
Allowance for loan losses	(2,425)	(2,405)
Net Loans	\$ 228,782	\$ 222,561

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 March 31, 2015:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 311	\$ 1,493	\$ 288	\$ 360	\$2,452
Provision for loan losses	50	125	(2)	(83)	90
Loans charged-off	—	(128)	—	(7)	(135)
Recoveries	—	1	—	17	18
Total ending allowance balance	\$ 361	\$ 1,491	\$ 286	\$ 287	\$2,425

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ending March 31, 2015:

	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	54	178	23	(41)	214
Loans charged-off	—	(128)	(33)	(75)	(236)
Recoveries	—	1	2	39	42
Total ending allowance balance	\$ 361	\$ 1,491	\$ 286	\$ 287	\$2,425

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 March 31, 2014:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 159	\$ 1,501	\$ 451	\$ 376	\$2,487
Provision for loan losses	100	(26)	(85)	11	—
Loans charged-off	—	(48)	(118)	(38)	(204)
Recoveries	—	3	31	20	54
Total ending allowance balance	\$ 259	\$ 1,430	\$ 279	\$ 369	\$2,337

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ending March 31, 2014:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$				