

CONSUMERS BANCORP INC /OH/
Form 10-Q
February 14, 2019

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 December 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 every Interactive Data File required to be submitted 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 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	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 2,733,845 shares of Registrant’s common stock, no par value, outstanding as of February 12, 2019.

CONSUMERS BANCORP, INC.

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QUARTER ENDED December 31, 2018

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

CONSUMERS BANCORP, INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

	December 31, 2018	June 30, 2018
(Dollars in thousands, except per share data)		
ASSETS		
Cash on hand and noninterest-bearing deposits in financial institutions	\$9,579	\$7,615
Federal funds sold and interest-bearing deposits in financial institutions	170	157
Total cash and cash equivalents	9,749	7,772
Certificates of deposit in other financial institutions	2,473	2,973
Securities, available-for-sale	143,833	144,028
Securities, held-to-maturity (fair value of \$3,852 at December 31, 2018 and \$4,048 at June 30, 2018)	3,824	4,024
Federal bank and other restricted stocks, at cost	1,459	1,459
Loans held for sale	1,068	1,448
Total loans	333,562	318,509
Less allowance for loan losses	(3,569)	(3,422)
Net loans	329,993	315,087
Cash surrender value of life insurance	9,472	9,335
Premises and equipment, net	13,473	13,315
Accrued interest receivable and other assets	2,611	3,178
Total assets	\$517,955	\$502,619
LIABILITIES		
Deposits		
Noninterest-bearing demand	\$111,888	\$107,919
Interest bearing demand	83,197	81,299
Savings	155,208	162,204
Time	92,237	78,541
Total deposits	442,530	429,963
Short-term borrowings		
Federal Home Loan Bank advances	3,777	13,367
Accrued interest and other liabilities	20,922	11,756
Total liabilities	3,830	3,772
Commitments and contingent liabilities	471,059	458,858

SHAREHOLDERS' EQUITY

Preferred stock (no par value, 350,000 shares authorized, none outstanding)	—	—
Common stock (no par value, 3,500,000 shares authorized; 2,854,133 shares issued as of December 31, 2018 and June 30, 2018)	14,628	14,630
Retained earnings	35,154	32,342
Treasury stock, at cost (120,288 and 124,489 common shares as of December 31, 2018 and June 30, 2018, respectively)	(1,515)	(1,576)
Accumulated other comprehensive loss	(1,371)	(1,635)
Total shareholders' equity	46,896	43,761
Total liabilities and shareholders' equity	\$ 517,955	\$ 502,619

See accompanying notes to consolidated financial statements

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

	Three Months ended		Six Months ended	
(Dollars in thousands, except per share amounts)	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Interest and dividend income				
Loans, including fees	\$4,059	\$3,437	\$8,008	\$6,665
Securities, taxable	549	441	1,075	931
Securities, tax-exempt	399	367	774	734
Federal bank and other restricted stocks	22	18	44	39
Federal funds sold and other interest bearing deposits	34	28	57	65
Total interest and dividend income	5,063	4,291	9,958	8,434
Interest expense				
Deposits	618	253	1,132	501
Short-term borrowings	14	57	28	112
Federal Home Loan Bank advances	57	54	125	108
Total interest expense	689	364	1,285	721
Net interest income	4,374	3,927	8,673	7,713
Provision for loan losses	(775)	60	(660)	150
Net interest income after provision for loan losses	5,149	3,867	9,333	7,563
Noninterest income				
Service charges on deposit accounts	321	301	637	609
Debit card interchange income	369	325	727	648
Bank owned life insurance income	68	68	137	136
Securities gains (losses), net	(27)	—	560	38
Other	213	145	378	280
Total noninterest income	944	839	2,439	1,711
Noninterest expenses				
Salaries and employee benefits	2,099	1,966	4,074	3,776
Occupancy and equipment	515	465	1,003	920
Data processing expenses	157	147	307	295
Debit card processing expenses	189	188	383	368
Professional and director fees	171	122	341	239
FDIC assessments	38	46	76	92
Franchise taxes	88	84	177	168
Marketing and advertising	131	61	235	139
Telephone and network communications	64	75	136	157
Other	428	406	832	799

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Total noninterest expenses	3,880	3,560	7,564	6,953
Income before income taxes	2,213	1,146	4,208	2,321
Income tax expense	364	489	686	735
Net income	\$1,849	\$657	\$3,522	\$1,586
Basic and diluted earnings per share	\$0.68	\$0.24	\$1.29	\$0.58

See accompanying notes to consolidated financial statements

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

(Dollars in thousands)

	Three Months ended		Six Months ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income	\$1,849	\$657	\$3,522	\$1,586
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	1,787	(631)	894	(527)
Reclassification adjustment for (gains) losses included in income	27	—	(560)	(38)
Net unrealized gains (losses)	1,814	(631)	334	(565)
Income tax effect	(382)	215	(70)	193
Other comprehensive income (loss)	1,432	(416)	264	(372)
Total comprehensive income	\$3,281	\$241	\$3,786	\$1,214

See accompanying notes to consolidated financial statements.

CONSUMERS BANCORP, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****(Unaudited)**

(Dollars in thousands, except per share data)

	Three Months ended		Six Months ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Balance at beginning of period	\$43,970	\$44,271	\$43,761	\$43,535
Net income	1,849	657	3,522	1,586
Other comprehensive income (loss)	1,432	(416)	264	(372)
4,201 and 6,321 shares issued associated with stock awards during the six months ended December 31, 2018 and 2017, respectively	—	—	61	90
204 Dividend reinvestment plan shares associated with forfeited and expired restricted stock awards retired to treasury stock during the six months ended December 31, 2017	—	—	(2)	—
Common cash dividends	(355)	(341)	(710)	(668)
Balance at the end of the period	\$46,896	\$44,171	\$46,896	\$44,171
Common cash dividends per share	\$0.13	\$0.125	\$0.26	\$0.245

See accompanying notes to consolidated financial statements.

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

	Six Months Ended	
(Dollars in thousands)	December 31, 2018	2017
Cash flows from operating activities		
Net cash from operating activities	\$4,043	\$3,484
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(13,979)	(5,101)
Maturities, calls and principal pay downs	9,746	8,848
Proceeds from sales	4,898	1,586
Securities held-to-maturity		
Principal pay downs	200	198
Net decrease in certificate of deposit in other financial institutions	500	—
Net increase in loans	(14,321)	(20,967)
Acquisition of premises and equipment	(543)	(129)
Sale of other real estate owned	—	71
Net cash from investing activities	(13,499)	(15,494)
Cash flow from financing activities		
Net increase in deposit accounts	12,567	8,518
Net change in short-term borrowings	(9,590)	(1,479)
Proceeds from Federal Home Loan Bank advances	9,200	5,400
Repayments of Federal Home Loan Bank advances	(34)	(532)
Dividends paid	(710)	(668)
Net cash from financing activities	11,433	11,239
Increase (decrease) in cash or cash equivalents	1,977	(771)
Cash and cash equivalents, beginning of period	7,772	9,912
Cash and cash equivalents, end of period	\$9,749	\$9,141
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	\$1,261	\$709
Federal income taxes	395	405
Non-cash items:		
Transfer from loans to other real estate owned	—	57

Transfer from loans held for sale to portfolio	75	172
Issuance of treasury stock for stock awards	59	90
Expired and forfeited dividend reinvestment plan shares associated with restricted stock awards that were retired to treasury stock	—	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, 2018*. 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 the revenues, operating income, and assets. Accordingly, all 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. generally accepted accounting principles, 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 in the guidance, that are SEC filers for fiscal years and for interim periods within 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 is in the midst of gathering critical data to evaluate the impact. However, it is too early to estimate the impact.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This 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. The Corporation has several lease agreements, such as branch locations, which are currently considered operating leases, and therefore, *not* recognized on the Corporation's consolidated condensed statements of financial condition. The Corporation expects the new guidance to require these lease agreements to now be recognized on the consolidated condensed statements of financial condition as a right-of-use asset and a corresponding lease liability. Therefore, the Corporation's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Corporation's consolidated condensed statements of financial condition, along with our regulatory capital ratios. The definition of a lease and the cash flows required to be evaluated will change. The Corporation continues to evaluate the extent of the potential impact the new guidance will have on the Corporation's consolidated financial statements. At December 31, 2018, the Corporation had contractual operating lease commitments of approximately \$500, before considering renewal options that are generally present.

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
December 31, 2018				
Obligations of U.S. government-sponsored entities and agencies	\$ 18,431	\$ 58	\$ (241)	) \$18,248
Obligations of state and political subdivisions	57,619	427	(544)	) 57,502
U.S. Government-sponsored mortgage-backed securities–residential	61,239	75	(1,392)	) 59,922
U.S. Government-sponsored mortgage-backed securities–commercial	1,418	—	(12)	) 1,406
U.S. Government-sponsored collateralized mortgage obligations–residential	6,861	44	(150)	) 6,755
Total available-for-sale securities	\$ 145,568	\$ 604	\$ (2,339)	) \$143,833

<u>Held-to-Maturity</u>	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2018				
Obligations of state and political subdivisions	\$ 3,824	\$ 28	\$ —	\$3,852
Total held-to-maturity securities	\$ 3,824	\$ 28	\$ —	\$3,852

<u>Available–for-Sale</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Obligations of U.S. government-sponsored entities and agencies	\$ 16,488	\$ 6	\$ (372)	) \$16,122
Obligations of state and political subdivisions	56,964	339	(713)	) 56,590
	65,062	6	(1,660)	) 63,408

U.S. Government-sponsored mortgage-backed securities – residential				
U.S. Government-sponsored mortgage-backed securities – commercial	1,432	—	(17)	) 1,415
U.S. Government-sponsored collateralized mortgage obligations - residential	5,973	9	(216)	) 5,766
Pooled trust preferred security	178	549	—	727
Total available-for-sale securities	\$ 146,097	\$ 909	\$ (2,978)	) \$144,028

Held-to-Maturity

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
June 30, 2018				
Obligations of state and political subdivisions	\$ 4,024	\$ 24	\$ —	\$4,048
Total held-to-maturity securities	\$ 4,024	\$ 24	\$ —	\$4,048

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		Six Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Proceeds from sales	\$2,325	\$ —	\$4,898	\$1,586
Gross realized gains	1	—	594	39
Gross realized losses	28	—	34	1

The income tax benefit related to net realized losses amounted to \$6 for the *three* months ended *December 31, 2018*. The income tax provision related to the net realized gains amounted to \$118 and \$13 for the *six-month* periods ended *December 31, 2018* and *2017*, respectively.

The amortized cost and fair values of debt securities at *December 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 are shown separately.

	Amortized Cost	Estimated Fair Value
<u>Available-for-Sale</u>		
Due in one year or less	\$ 620	\$623
Due after one year through five years	22,265	22,225
Due after five years through ten years	26,715	26,644
Due after ten years	26,450	26,258
Total	76,050	75,750

U.S. Government-sponsored mortgage-backed and related securities	69,518	68,083
Total available-for-sale securities	\$ 145,568	\$ 143,833

Held-to-Maturity

Due after five years through ten years	489	497
Due after ten years	3,335	3,355
Total held-to-maturity securities	\$ 3,824	\$ 3,852

The following table summarizes the securities with unrealized losses at *December 31, 2018* and *June 30, 2018*, 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
December 31, 2018						
Obligations of US government-sponsored entities and agencies	\$3,485	\$ (18)	\$9,658	\$ (223)	\$13,143	\$ (241)
Obligations of states and political subdivisions	14,081	(105)	16,076	(439)	30,157	(544)
Mortgage-backed securities – residential	13,348	(72)	40,944	(1,320)	54,292	(1,392)
Mortgage-backed securities – commercial	—	—	1,406	(12)	1,406	(12)
Collateralized mortgage obligations – residential	—	—	4,535	(150)	4,535	(150)
Total temporarily impaired	\$30,914	\$ (195)	\$72,619	\$ (2,144)	\$103,533	\$ (2,339)

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(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
June 30, 2018						
Obligations of US government-sponsored entities and agencies	\$12,400	\$ (224)	\$2,747	\$ (148)	\$15,147	\$ (372)
Obligations of states and political subdivisions	26,775	(369)	7,975	(344)	34,750	(713)
Mortgage-backed securities – residential	31,038	(581)	29,716	(1,079)	60,754	(1,660)
Mortgage-backed securities – commercial	1,415	(17)	—	—	1,415	(17)
Collateralized mortgage obligation – residential	—	—	4,821	(216)	4,821	(216)
Total temporarily impaired	\$71,628	\$ (1,191)	\$45,259	\$ (1,787)	\$116,887	\$ (2,978)

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

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

The unrealized losses within the securities portfolio as of *December 31, 2018* have *not* been recognized into income because the decline in fair value is *not* attributed to credit quality and 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.

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:

	December 31, 2018	June 30, 2018
Commercial	\$64,162	\$60,995
Commercial real estate:		
Construction	6,303	5,394
Other	189,635	183,383
1 – 4 Family residential real estate:		
Owner occupied	51,641	47,433
Non-owner occupied	14,613	15,516
Construction	2,426	1,171
Consumer	5,019	4,873
Subtotal	333,799	318,765
Net Deferred loan fees and costs	(237)	(256)
Allowance for loan losses	(3,569)	(3,422)
Net Loans	\$329,993	\$315,087

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

	Commercial Real	1-4 Family Residential Real
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	Commercial	Estate	Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 602	\$ 2,378	\$ 507	\$ 51	\$3,538
Provision for loan losses	20	(793)	(12)	10	(775)
Loans charged-off	—	(55)	—	(14)	(69)
Recoveries	—	867	1	7	875
Total ending allowance balance	\$ 622	\$ 2,397	\$ 496	\$ 54	\$3,569

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

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 586	\$ 2,277	\$ 499	\$ 60	\$3,422
Provision for loan losses	36	(693)	(7)	4	(660)
Loans charged-off	—	(55)	—	(21)	(76)
Recoveries	—	868	4	11	883
Total ending allowance balance	\$ 622	\$ 2,397	\$ 496	\$ 54	\$3,569

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

(Dollars in thousands, except per share amounts)

The following table presents the activity in the allowance for loan losses by portfolio segment for the *three* months ended *December 31, 2017*:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 572	\$ 2,081	\$ 473	\$ 68	\$3,194
Provision for loan losses	(17)	57	20	—	60
Loans charged-off	—	—	(33)	(5)	(38)
Recoveries	—	6	1	2	9
Total ending allowance balance	\$ 555	\$ 2,144	\$ 461	\$ 65	\$3,225

The following table presents the activity in the allowance for loan losses by portfolio segment for the *six* months ended *December 31, 2017*:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 518	\$ 2,038	\$ 473	\$ 57	\$3,086
Provision for loan losses	35	82	20	13	150
Loans charged-off	—	—	(33)	(8)	(41)
Recoveries	2	24	1	3	30
Total ending allowance balance	\$ 555	\$ 2,144	\$ 461	\$ 65	\$3,225

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of *December 31, 2018*. Included in the recorded investment in loans is \$784 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	\$ —	\$ 7	\$ —	\$ —	\$ 7
Collectively evaluated for impairment	622	2,390	496	54	3,562
Total ending allowance balance	\$ 622	\$ 2,397	\$ 496	\$ 54	\$ 3,569
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 114	\$ 1,379	\$ 377	\$ —	\$ 1,870
Loans collectively evaluated for impairment	64,120	194,547	68,785	5,024	332,476
Total ending loans balance	\$ 64,234	\$ 195,926	\$ 69,162	\$ 5,024	\$ 334,346

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, 2018*. Included in the recorded investment in loans is \$732 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	\$ —	\$ 29	\$ —	\$ —	\$ 29
Collectively evaluated for impairment	586	2,248	499	60	3,393
Total ending allowance balance	\$ 586	\$ 2,277	\$ 499	\$ 60	\$ 3,422
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 100	\$ 1,562	\$ 398	\$ —	\$ 2,060
Loans collectively evaluated for impairment	60,979	187,191	64,135	4,876	317,181
Total ending loans balance	\$ 61,079	\$ 188,753	\$ 64,533	\$ 4,876	\$ 319,241

The following table presents information related to unpaid principal balance, recorded investment and interest income associated with loans individually evaluated for impairment by class of loans as of *December 31, 2018* and for the *six* months ended *December 31, 2018*:

	As of December 31, 2018		Six Months ended December 31, 2018		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Interest Recorded Investment Recognized	Cash Basis Interest Recognized
With no related allowance recorded:					
Commercial	\$ 112	\$ 114	\$ —	\$ 92	\$ 3

Commercial real estate:						
Other	1,340	1,153	—	1,255	19	19
1-4 Family residential real estate:						
Owner occupied	127	97	—	98	—	—
Non-owner occupied	304	280	—	287	—	—
With an allowance recorded:						
Commercial real estate:						
Other	225	226	7	229	7	7
Total	\$2,108	\$ 1,870	\$ 7	\$1,961	\$ 29	\$ 29

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

(Dollars in thousands, except per share amounts)

The following table presents information related to average recorded investment and interest income associated with loans individually evaluated for impairment by class of loans for the *three* months ended *December 31, 2018*:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial	\$ 113	\$ 2	\$ 2
Commercial real estate:			
Other	1,140	8	8
1-4 Family residential real estate:			
Owner occupied	97	—	—
Non-owner occupied	283	—	—
With an allowance recorded:			
Commercial real estate:			
Other	227	4	4
Total	\$ 1,860	\$ 14	\$ 14

The following table presents information related to unpaid principal balance, recorded investment and interest income associated with loans individually evaluated for impairment by class of loans as of *June 30, 2018* and for the *six* months ended *December 31, 2017*:

	As of June 30, 2018		Six Months ended December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Interest Recorded Investment	Cash Basis Interest Recognized
With no related allowance recorded:					
Commercial	\$ 100	\$ 100	\$ —	\$ 117	\$ 3
Commercial real estate:					
Other					

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Other	1,330	1,330	—	1,057	16	16
1-4 Family residential real estate:						
Owner occupied	101	101	—	80	—	—
Non-owner occupied	297	297	—	322	—	—
With an allowance recorded:						
Commercial real estate:						
Other	231	232	29	337	5	5
Total	\$2,059	\$ 2,060	\$ 29	\$1,913	\$ 24	\$ 24

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

(Dollars in thousands, except per share amounts)

The following table presents information related to average recorded investment and interest income associated with loans individually evaluated for impairment by class of loans for the *three* months ended *December 31, 2017*:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial	\$ 120	\$ 1	\$ 1
Commercial real estate:			
Other	1,061	6	6
1-4 Family residential real estate:			
Owner occupied	318	—	—
Non-owner occupied	58	—	—
With an allowance recorded:			
Commercial real estate:			
Other	330	5	5
Total	\$ 1,887	\$ 12	\$ 12

The following table presents the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of *December 31, 2018* and *June 30, 2018*:

	December 31, 2018		June 30, 2018	
	Loans Past Due Over 90 Days Still Non-accruing		Loans Past Due Over 90 Days Still Non-accruing	
Commercial real estate:				
Other	\$ 531	\$ —	\$ 702	\$ —

1 – 4 Family residential:

Owner occupied	88	—	90	—
Non-owner occupied	280	—	298	—
Total	\$ 899	\$ —	\$ 1,090	\$ —

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

The following table presents the aging of the recorded investment in past due loans as of *December 31, 2018* by class of loans:

	Days Past Due			Total	Loans Not Past Due	Total
	30 - 59 Days	60 - 89 Days	90 Days or Greater			
Commercial	\$—	\$—	\$—	\$—	\$64,234	\$64,234
Commercial real estate:						
Construction	—	—	—	—	6,281	6,281
Other	—	26	104	130	189,515	189,645
1-4 Family residential:						
Owner occupied	180	—	80	260	51,843	52,103
Non-owner occupied	—	—	—	—	14,611	14,611
Construction	—	—	—	—	2,448	2,448
Consumer	—	—	—	—	5,024	5,024
Total	\$180	\$26	\$184	\$390	\$333,956	\$334,346

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

(Dollars in thousands, except per share amounts)

The above table of past due loans includes the recorded investment in non-accrual loans of \$184 in the 90 days or greater category and \$715 in the loans *not* past due category.

The following table presents the aging of the recorded investment in past due loans as of *June 30, 2018* by class of loans:

	Days Past Due			Total	Loans Not Past Due	Total
	30 - 59 Days	60 - 89 Days	90 Days or Greater			
Commercial	\$—	\$ —	\$ —	\$—	\$61,079	\$61,079
Commercial real estate:						
Construction	—	—	—	—	5,386	5,386
Other	238	—	—	238	183,129	183,367
1-4 Family residential:						
Owner occupied	11	—	80	91	47,738	47,829
Non-owner occupied	—	—	—	—	15,514	15,514
Construction	—	—	—	—	1,190	1,190
Consumer	7	—	—	7	4,869	4,876
Total	\$256	\$ —	\$ 80	\$336	\$318,905	\$319,241

The above table of past due loans includes the recorded investment in non-accrual loans of \$249 in the 30-59 days, \$80 in the 90 days or greater category and \$761 in the loans *not* past due category.

Troubled Debt Restructurings (TDR):

The Corporation has certain loans that have been modified in order to maximize collection of loan balances. A modified loan is classified as a TDR if, for economic reasons, management grants a concession to the original terms and conditions of the loan to a borrower who is experiencing financial difficulties that it would *not* have otherwise considered.

At *December 31, 2018* and *June 30, 2018*, the Corporation had *\$1,251* and *\$1,269*, respectively, of loans classified as TDRs which are included in impaired loans above. As of *December 31, 2018* and *June 30, 2018*, the Corporation had committed to lend an additional *\$112* and *\$174*, respectively, to customers with outstanding loans that were classified as troubled debt restructurings. At *December 31, 2018* and *June 30, 2018*, the Corporation had *\$7* and *\$29*, respectively, of specific reserves allocated to these loans.

During the *three* and *six*-month periods ended *December 31, 2018* and *2017*, there were *no* loan modifications completed that were classified as troubled debt restructurings. There were *no* charge offs from troubled debt restructurings that were completed during the *three* and *six*-month periods ended *December 31, 2018* and *2017*.

There were *no* loans classified as troubled debt restructurings for which there was a payment default within *12* months following the modification during the *three* and *six*-month periods ended *December 31, 2018* and *2017*. A loan is considered in payment default once it is *90* days contractually past due under the modified terms.

Credit Quality Indicators:

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

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

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

(Dollars in thousands, except per share amounts)

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

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

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

	As of December 31, 2018				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$62,251	\$525	\$ 1,054	\$ —	\$404
Commercial real estate:					
Construction	6,281	—	—	—	—
Other	174,444	11,507	2,048	531	1,115
1-4 Family residential real estate:					
Owner occupied	2,490	92	25	8	49,488
Non-owner occupied	13,369	188	332	280	442
Construction	693	—	—	—	1,755
Consumer	43	—	—	—	4,981
Total	\$259,571	\$12,312	\$ 3,459	\$ 819	\$58,185

	As of June 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Not Rated
Commercial	\$59,214	\$ 288	\$ 1,162	\$ —	\$415
Commercial real estate:					
Construction	5,386	—	—	—	—
Other	172,471	7,061	1,878	702	1,255
1-4 Family residential real estate:					
Owner occupied	2,577	—	27	11	45,214
Non-owner occupied	14,025	195	417	298	579
Construction	8	—	—	—	1,182
Consumer	93	—	—	—	4,783
Total	\$253,774	\$ 7,544	\$ 3,484	\$ 1,011	\$53,428

Note 4 - Fair Value

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

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

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

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

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

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

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

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

	Fair Value Measurements at		
	December 31, 2018		
	Using		
Balance	Level 1	Level 2	Level 3
at	1	3	

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December
31,

2018

Assets:

Obligations of U.S. government-sponsored entities and agencies	\$ 18,248	\$—	\$18,248	\$ —
Obligations of states and political subdivisions	57,502	—	57,502	—
Mortgage-backed securities – residential	59,922	—	59,922	—
Mortgage-backed securities – commercial	1,406	—	1,406	—
Collateralized mortgage obligations - residential	6,755	—	6,755	—

Fair Value
Measurements at

June 30, 2018
Using

Balance
at

June 30, 1 Level 2 Level 3

2018

Assets:

Obligations of U.S. government-sponsored entities and agencies	\$16,122	\$—	\$16,122	\$ —
Obligations of states and political subdivisions	56,590	—	56,590	—
Mortgage-backed securities - residential	63,408	—	63,408	—
Mortgage-backed securities - commercial	1,415	—	1,415	—
Collateralized mortgage obligations - residential	5,766	—	5,766	—
Pooled trust preferred security	727	—	727	—

There were *no* transfers between Level 1 and Level 2 during the *three-* or *six-*month periods ended *December 31, 2018* or *2017*.

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

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

(Dollars in thousands, except per share amounts)

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses or are charged down to their fair value. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals *may* utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly. There was *no* other real estate owned being carried at fair value as of *December 31, 2018* or *June 30, 2018*.

There were *no* financial assets measured at fair value on a non-recurring basis at *June 30, 2018*. Financial assets measured at fair value on a non-recurring basis at *December 31, 2018* are summarized below:

	Fair Value Measurements at			
	December 31, 2018 Using			
	Balance at	Level 1	Level 2	Level 3
December 31, 2018		1	2	3
Impaired loans:				
Commercial Real Estate - Other	\$ 105	\$ —	\$ —	\$ 105

The resulting impact to the provision for loan losses was an increase of \$55 being recorded for the *three-* and *six-*month periods ended *December 31, 2018*. There was *no* impact to the provision for loan losses for the *three* months ended *December 31, 2017*. The resulting impact to the provision for loan losses was a decrease of \$17 being recorded for the *six* months ended *December 31, 2017*.

The following table shows the estimated fair values of financial instruments that are reported at amortized cost in the Corporation's consolidated balance sheets, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2018		June 30, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Level 1 inputs:				
Cash and cash equivalents	\$9,749	\$9,749	\$7,772	\$7,772
Level 2 inputs:				
Certificates of deposits in other financial institutions	2,473	2,466	2,973	2,976
Loans held for sale	1,068	1,094	1,448	1,474
Accrued interest receivable	1,485	1,485	1,404	1,404
Level 3 inputs:				
Securities held-to-maturity	3,824	3,852	4,024	4,048
Loans, net	329,993	326,602	315,087	311,642
Financial Liabilities:				
Level 2 inputs:				
Demand and savings deposits	350,293	350,293	351,422	351,422
Time deposits	92,237	93,059	78,541	78,332
Short-term borrowings	3,777	3,777	13,367	13,367
Federal Home Loan Bank advances	20,922	20,538	11,756	11,146
Accrued interest payable	92	92	68	68

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

The assumptions used to estimate fair value are described as follows:

Cash and cash equivalents: The carrying value of cash, deposits in other financial institutions and federal funds sold were considered to approximate fair value resulting in a Level 1 classification.

Certificates of deposits in other financial institutions: Fair value of certificates of deposits in other financial institutions was estimated using current rates for deposits of similar remaining maturities resulting in a Level 2 classification.

Accrued interest receivable and payable, demand and savings deposits and short-term borrowings: The carrying value of accrued interest receivable and payable, demand and savings deposits and short-term borrowings were considered to approximate fair value due to their short-term duration resulting in a Level 2 classification.

Loans held for sale: The fair value of loans held for sale is estimated based upon binding contracts and quotes from *third* party investors resulting in a Level 2 classification.

Loans: Effective for the period ended *September 30, 2018*, the fair value of loans were determined using an exit price methodology as prescribed by ASU 2016-01. The exit price estimation of fair value is based on the future value of expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a current market rate based on the relative credit risk of the loan. In addition, an incremental liquidity discount is applied resulting in a Level 3 classification. In comparison, loan fair values as of *June 30, 2018* were estimated based on an entrance price methodology. As a result, the fair value adjustments as of *December 31, 2018* and *June 30, 2018* are *not* comparable.

Securities held-to-maturity: The held-to-maturity securities are general obligation and revenue bonds made to local municipalities. The fair values of these securities are estimated using a spread to the applicable municipal fair market curve resulting in a Level 3 classification.

Time deposits: Fair value of fixed-maturity certificates of deposit was estimated using the rates offered at *December 31, 2018* and *June 30, 2018*, for deposits of similar remaining maturities, resulting in a Level 2 classification. Estimated fair value does *not* include the benefit that results from low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Federal Home Loan Bank advances: Fair value of Federal Home Loan Bank advances was estimated using current rates at *December 31, 2018* and *June 30, 2018* for similar financing resulting in a Level 2 classification.

Federal bank and other restricted stocks, at cost: Federal bank and other restricted stocks include stock acquired for regulatory purposes, such as Federal Home Loan Bank stock and Federal Reserve Bank stock that are accounted for at cost due to restrictions placed on their transferability; and therefore, are *not* subject to the fair value disclosure requirements.

Off-balance sheet commitments: The Corporation's lending commitments have variable interest rates and "escape" clauses if the customer's credit quality deteriorates. Therefore, the fair values of these items are *not* significant and are *not* included in the above table.

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

(Dollars in thousands, except per share amounts)

Note 5 – Earnings Per Share

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period and is equal to net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares that *may* be issued upon the vesting of restricted stock awards. There were 2,178 and 1,042 shares of restricted stock that were anti-dilutive for the *three* and *six* month periods ended *December 31, 2018*. There were 2,062 shares of restricted stock that were anti-dilutive for the *three* and *six* months ended *December 31, 2017*. The following table details the calculation of basic and diluted earnings per share:

	For the Three Months Ended		For the Six Months Ended	
	December 31, 2018	2017	December 31, 2018	2017
Basic:				
Net income available to common shareholders	\$1,849	\$657	\$3,522	\$1,586
Weighted average common shares outstanding	2,730,375	2,727,666	2,730,355	2,725,859
Basic income per share	\$0.68	\$0.24	\$1.29	\$0.58
Diluted:				
Net income available to common shareholders	\$1,849	\$657	\$3,522	\$1,586
Weighted average common shares outstanding	2,730,375	2,727,666	2,730,355	2,725,859
Dilutive effect of restricted stock	—	—	23	—
Total common shares and dilutive potential common shares	2,730,375	2,727,666	2,730,378	2,725,859
Dilutive income per share	\$0.68	\$0.24	\$1.29	\$0.58

CONSUMERS BANCORP, INC.

Notes to the Consolidated Financial Statements

(Unaudited) (continued)

(Dollars in thousands, except per share amounts)

Note 6 –Accumulated Other Comprehensive Income (Loss)

The components of other comprehensive income related to unrealized gains and losses on available-for-sale securities for the *three-* and *six-*month periods ended *December 31, 2018* and *2017*, were as follows:

	Pretax	Tax Effect	After-tax	Affected Line Item in Consolidated Statements of Income
Balance as of September 30, 2018	\$(3,549)	\$ 746	\$(2,803)	
Unrealized holding gain on available-for-sale securities arising during the period	1,787	(376)	1,411	
Amounts reclassified from accumulated other comprehensive income	27	(6)	21	(a)(b)
Net current period other comprehensive income	1,814	(382)	1,432	
Balance after reclassification as of December 31, 2018	\$(1,735)	\$ 364	\$(1,371)	
Balance as of September 30, 2017	\$ 741	\$(252)	\$ 489	
Unrealized holding loss on available-for-sale securities arising during the period	(631)	215	(416)	
Balance as of December 31, 2017	\$ 110	\$(37)	\$ 73	

(a) Securities (gains) losses, net

(b) Income tax expense

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

(Dollars in thousands, except per share amounts)

	Pretax	Tax Effect	After-tax	Affected Line Item in Consolidated Statements of Income
Balance as of June 30, 2018	\$ (2,069)	\$ 434	\$ (1,635)	
Unrealized holding gain on available-for-sale securities arising during the period	894	(188)	706	
Amounts reclassified from accumulated other comprehensive income	(560)	118	(442)	(a)(b)
Net current period other comprehensive income	334	(70)	264	
Balance after reclassification as of December 31, 2018	\$ (1,735)	\$ 364	\$ (1,371)	
Balance as of June 30, 2017	\$ 675	\$ (230)	\$ 445	
Unrealized holding losses on available-for-sale securities arising during the period	(527)	180	(347)	
Amounts reclassified from accumulated other comprehensive income	(38)	13	(25)	(a)(b)
Net current period other comprehensive loss	(565)	193	(372)	
Balance as of December 31, 2017	\$ 110	\$ (37)	\$ 73	

(a) Securities (gains) losses, net

(b) Income tax expense

Note 7 – Revenue Recognition

On July 1, 2018, the Corporation adopted ASU 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606. Interest income, net securities gains (losses), gains from the sale of mortgage loans and bank-owned life insurance are *not* included within the scope of Topic 606. For the revenue streams in the scope of Topic 606, service charges on deposits and electronic banking fees, there are *no* significant judgments related to the amount and timing of revenue recognition. All of the Corporation's revenue from contracts with customers is recognized within noninterest income.

Service charges on deposit accounts: The Corporation earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop payment charges, statement rendering and other fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange income: The Corporation earns interchange income from cardholder transactions conducted through the various payment networks. Interchange income from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The gross amount of these fees is processed through noninterest income.

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

(Dollars in thousands, except per share amounts)

The following table presents the Corporation's sources of noninterest income for the *three* and *six* months ended *December 31, 2018* and *2017*.

	For the three months ended		For the six months ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Noninterest income				
In scope of Topic 606:				
Service charges on deposit accounts	\$321	\$301	\$637	\$609
Debit card interchange income	369	325	727	648
Other income	213	145	378	280
Noninterest income (in scope of Topic 606)	903	771	1,742	1,537
Noninterest income (out-of-scope of Topic 606)	41	68	697	174
Total noninterest income	\$944	\$839	\$2,439	\$1,711

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in thousands, except per share data)

General

The following is management’s analysis of the Corporation’s results of operations for the three- and six-month periods ended December 31, 2018, compared to the same periods in 2017, and the consolidated balance sheet at December 31, 2018, compared to June 30, 2018. This discussion is designed to provide a more comprehensive review of the operating results and financial condition than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the consolidated financial statements and related footnotes and the selected financial data included elsewhere in this report.

Overview

Consumers Bancorp, Inc., a bank holding company incorporated under the laws of the State of Ohio (the Corporation), owns all of the issued and outstanding common shares of Consumers National Bank, a bank chartered under the laws of the United States of America (the Bank). The Corporation’s activities have been limited primarily to holding the common shares of the Bank. 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 market area, consisting primarily of Carroll, Columbiana, Jefferson, Stark, Summit, Wayne and contiguous counties in Ohio. The Bank also invests in securities consisting primarily of U.S. government sponsored entities, municipal obligations, mortgage-backed and collateralized mortgage obligations issued by Fannie Mae, Freddie Mac and Ginnie Mae.

Results of Operations

Three- and Six-Month Periods Ended December 31, 2018 and 2017

In the second quarter of fiscal year 2019, net income increased by \$1,192, or 181.4% from the same period last year. Net income for the second quarter of fiscal year 2019 was \$1,849, or \$0.68 per common share, compared to \$657, or \$0.24 per common share for the three months ended December 31, 2017. The following are key highlights of our results of operations for the three months ended December 31, 2018:

a negative provision for loan loss expense of \$775 was recorded in the second quarter of fiscal year 2019 primarily as a result of net recoveries of \$806 that were collected during the quarter;
net interest income increased by \$447 to \$4,374, or by 11.4%, in the second quarter of fiscal year 2019 from the same prior year period;

noninterest income increased by \$105, or 12.5%, in the second quarter of fiscal year 2019 from the same prior year period; and
noninterest expenses increased by \$320, or 9.0%, in the second quarter of fiscal year 2019 from the same prior year period.

In the first six months of fiscal year 2019, net income increased by \$1,936, or 122.1% from the same period last year. Net income for the six months ended December 31, 2018 was \$3,522, or \$1.29 per common share, compared to \$1,586, or \$0.58 per common share for the six months ended December 31, 2017. The following are key highlights of our results of operations for the six months ended December 31, 2018:

net interest income increased by \$960 to \$8,673, or by 12.4%, in the first six months of fiscal year 2019 from the same prior year period;
a negative provision for loan loss expense of \$660 was recorded in the first six months of fiscal year 2019 compared with a \$150 provision for loan loss expense during the same prior year period;
noninterest income increased by \$728, or 42.5%, in the first six months of fiscal year 2019 from the same prior year period, which includes net securities gains of \$560 in fiscal year 2019 compared to \$38 in the same prior year period;
and
noninterest expenses increased by \$611, or 8.8%, in the first six months of fiscal year 2019 from the same prior year period.

Return on average equity and return on average assets were 15.71% and 1.38%, respectively, for the first six months of fiscal year 2019 compared to 7.09% and 0.67%, respectively, for the same prior year period.

CONSUMERS BANCORP, INC.

Management's Discussion and Analysis of Financial Condition

and Results of Operations (continued)

(Dollars in thousands, except per share data)

Net Interest Income

Net interest income, the difference between interest income earned on interest-earning assets and interest expense incurred on interest-bearing liabilities, is the largest component of the Corporation's earnings. Net interest income is affected by changes in the volumes, rates and composition of interest-earning assets and interest-bearing liabilities. Net interest margin is calculated by dividing net interest income on a fully tax equivalent basis (FTE) by total average interest-earning assets. FTE income includes tax-exempt income, restated to a pre-tax equivalent, based on the statutory federal income tax rate. The federal income tax rate in effect for the 2019 fiscal year was 21.0% compared with 27.55% for the same prior year period. A 21.0% federal tax rate went into effect on January 1, 2018 with the enactment of the Tax Cuts and Jobs Act. All average balances are daily average balances. Non-accruing loans are included in average loan balances.

The Corporation's net interest margin was 3.63% for the three months ended December 31, 2018, compared with 3.61% for the same period in 2017. FTE net interest income for the three months ended December 31, 2018 increased by \$424, or 10.6%, to \$4,435 from \$4,011 for the same year ago period.

Tax-equivalent interest income for the three months ended December 31, 2018 increased by \$749, or 17.1%, from the same year ago period. Interest income was positively impacted by a \$39,286, or 8.9%, increase in average interest-earning assets from the same prior year period. Additionally, the Corporation's yield on average interest-earning assets increased to 4.20% for the three months ended December 31, 2018 from 3.94% for the same period last year. The increase in the yield on average interest-earning assets was primarily a result of an increase in interest rates as well as a positive change in the earning asset mix with higher yielding loans increasing faster than lower yielding securities.

Interest expense for the three months ended December 31, 2018 increased by \$325 from the same year ago period. The Corporation's cost of funds was 0.79% for the three months ended December 31, 2018 compared with 0.46% for the same year ago period. The increase in short term market interest rates has impacted the rates paid on all interest-bearing deposit products and borrowings.

The Corporation's net interest margin was 3.67% for the six months ended December 31, 2018, compared with 3.62% for the same period in 2017. FTE net interest income for the six months ended December 31, 2018 increased by \$884, or 11.1%, to \$8,869 from \$7,985 for the same year ago period.

Tax-equivalent interest income for the six months ended December 31, 2018 increased by \$1,448, or 16.6%, from the same year ago period. Interest income was positively impacted by a \$38,904, or 8.9%, increase in average interest-earning assets from the same prior year period. Additionally, the Corporation's yield on average interest-earning assets increased to 4.20% for the six months ended December 31, 2018 from 3.95% for the same period last year. The yield on average interest-earning assets increased despite a decline in the tax-equivalent yield on nontaxable securities which occurred as a result of the decline in the statutory federal tax rate. The increase in the yield on average interest-earning assets was primarily a result of an increase in interest rates as well as a positive change in the earning asset mix with higher yielding loans increasing faster than lower yielding securities.

Interest expense for the six months ended December 31, 2018 increased by \$564 from the same year ago period. The Corporation's cost of funds was 0.74% for the six months ended December 31, 2018 compared with 0.46% for the same year ago period.

CONSUMERS BANCORP, INC.**Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)**

(Dollars in thousands, except per share data)

Average Balance Sheets and Analysis of Net Interest Income for the Three Months Ended December 31,

(In thousands, except percentages)

	2018			2017		
	Average	Yield/		Average	Yield/	
	Balance	Interest	Rate	Balance	Interest	Rate
Interest-earning assets:						
Taxable securities	\$85,035	\$549	2.47 %	\$80,517	\$441	2.17 %
Nontaxable securities (1)	60,213	458	2.97	60,556	448	2.97
Loans receivable (1)	327,661	4,061	4.92	292,149	3,440	4.67
Federal bank and other restricted stocks	1,459	22	5.98	1,424	18	5.01
Interest bearing deposits and federal funds sold	6,097	34	2.21	6,533	28	1.70
Total interest-earning assets	480,465	5,124	4.20 %	441,179	4,375	3.94 %
Noninterest-earning assets	31,156			31,646		
Total Assets	\$511,621			\$472,825		
Interest-bearing liabilities:						
NOW	\$83,946	\$138	0.65 %	\$53,913	\$20	0.15 %
Savings	162,418	176	0.43	152,502	78	0.20
Time deposits	81,896	304	1.47			