

CONSUMERS BANCORP INC /OH/  
Form 10-Q  
February 13, 2012

**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 December 31, 2011

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)

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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 (232.05 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 February 1, 2012  
2,049,873 Common Shares

**CONSUMERS BANCORP, INC.**

**FORM 10-Q**

**QUARTER ENDED December 31, 2011**

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**PART 1 – FINANCIAL INFORMATION****Item 1 – Financial Statements (unaudited)****CONSUMERS BANCORP, INC.****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)

	December 31, 2011	June 30, 2011
<b>ASSETS</b>		
Cash on hand and noninterest-bearing deposits in other banks	\$ 7,992	\$5,944
Interest-bearing deposits in other banks	2,254	7,884
Total cash and cash equivalents	10,246	13,828
Certificates of deposit in other financial institutions	2,450	4,900
Securities, available-for-sale	106,873	91,889
Federal bank and other restricted stocks, at cost	1,186	1,186
Total loans	180,618	177,551
Less allowance for loan losses	(2,126 )	(2,101 )
Net Loans	178,492	175,450
Cash surrender value of life insurance	5,511	5,411
Premises and equipment, net	4,688	4,776
Intangible assets	8	89
Other real estate owned	-	76
Accrued interest receivable and other assets	1,858	2,535
Total assets	\$ 311,312	\$300,140
<b>LIABILITIES</b>		
Deposits		
Non-interest bearing demand	\$ 58,408	\$64,657
Interest bearing demand	32,179	14,829
Savings	90,338	79,816
Time	82,312	88,944
Total deposits	263,237	248,246
Short-term borrowings		
Federal Home Loan Bank advances	12,742	17,012
Accrued interest and other liabilities	6,497	7,535
Total liabilities	2,019	2,023
	284,495	274,816
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock (no par value, 350,000 shares authorized, none outstanding)	—	—
Common stock (no par value, 3,500,000 shares authorized; 2,180,315 shares issued)	5,114	5,114
Retained earnings	21,907	20,881

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Treasury stock, at cost (130,442 common shares)	(1,659	) (1,659 )
Accumulated other comprehensive income	1,455	988
Total shareholders' equity	26,817	25,324
Total liabilities and shareholders' equity	\$ 311,312	\$300,140

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		Six Months ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Interest income				
Loans, including fees	\$2,562	\$2,578	\$5,097	\$5,173
Securities, taxable	475	373	955	798
Securities, tax-exempt	249	221	494	431
Federal funds sold and other interest bearing deposits	14	13	30	23
Total interest income	3,300	3,185	6,576	6,425
Interest expense				
Deposits	305	432	635	897
Short-term borrowings	7	11	18	24
Federal Home Loan Bank advances	69	66	129	135
Total interest expense	381	509	782	1,056
Net interest income	2,919	2,676	5,794	5,369
Provision for loan losses	67	142	159	244
Net interest income after provision for loan losses	2,852	2,534	5,635	5,125
Non-interest income				
Service charges on deposit accounts	367	327	723	662
Debit card interchange income	179	157	358	307
Bank owned life insurance income	49	44	100	89
Securities gains, net	106	53	155	70
Other-than-temporary loss				
Total impairment loss	-	(50)	-	(81)
Loss recognized in other comprehensive income	-	-	-	31
Net impairment loss recognized in earnings	-	(50)	-	(50)
Gain (loss) on sale of other real estate owned	(53)	-	(53)	2
Other	49	51	86	108
Total non-interest income	697	582	1,369	1,188
Non-interest expenses				
Salaries and employee benefits	1,313	1,187	2,639	2,364
Occupancy and equipment	258	247	516	511
Data processing expenses	140	140	279	276
Professional and director fees	97	82	191	185
FDIC Assessments	49	78	99	156
Franchise taxes	64	59	129	117
Marketing and advertising	53	53	129	90
Telephone and network communications	58	58	116	110
Debit card processing expenses	93	84	187	168
Amortization of intangible	40	40	81	81
Other	335	350	696	684
Total non-interest expenses	2,500	2,378	5,062	4,742
Income before income taxes	1,049	738	1,942	1,571



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Income tax expense	258	164	464	364
Net Income	\$791	\$574	\$1,478	\$1,207
Average common shares - basic	2,050,176	2,041,517	2,050,075	2,040,043
Average common shares - diluted	2,050,544	2,041,517	2,050,383	2,040,043
Basic and diluted earnings per share	\$0.39	\$0.28	\$0.72	\$0.59

See accompanying notes to consolidated financial statements

**CONSUMERS BANCORP, INC.**

## Consolidated statements of comprehensive income

**(Unaudited)**

(Dollars in thousands)

	Three Months ended December 31, 2011		Six Months ended December 31, 2011	
	2011	2010	2011	2010
Net Income	\$791	\$574	\$1,478	\$1,207
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses):				
Other-than-temporarily impaired securities:				
Unrealized gains (losses) on other-than-temporarily impaired securities	—	(50 )	—	(31 )
Reclassification adjustment for losses included in income	—	50	—	50
Net unrealized gain	—	—	—	19
Income tax effect	—	—	—	6
	—	—	—	13
Available-for-sale securities:				
Unrealized gains (losses) arising during the period	417	(1,423 )	863	(1,170 )
Reclassification adjustment for gains included in income	(106)	(53 )	(155 )	(70 )
Net unrealized gain (losses)	311	(1,476)	708	(1,240)
Income tax effect	106	(502 )	241	(421 )
	205	(974 )	467	(819 )
Other comprehensive income (loss)	205	(974 )	467	(806 )
Total comprehensive income (loss)	\$996	\$(400 )	\$1,945	\$401

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 December 31,		Six Months ended December 31,	
	2011	2010	2011	2010
Balance at beginning of period	\$26,047	\$24,349	\$25,324	\$23,716
Comprehensive income				
Net Income	791	574	1,478	1,207
Other comprehensive income (loss)	205	(974 )	467	(806 )
Total comprehensive income (loss)	996	(400 )	1,945	401
Common stock issued for dividend reinvestment and stock purchase plan (2,680 shares and 5,669 shares for the three and six months in 2010, respectively)	-	32	-	68
Common cash dividends	(226 )	(203 )	(452 )	(407 )
Balance at the end of the period	\$26,817	\$23,778	\$26,817	\$23,778
Common cash dividends per share	\$0.11	\$0.10	\$0.22	\$0.20

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Six Months Ended December 31,	
	2011	2010
Cash flows from operating activities		
Net cash from operating activities	\$2,743	\$2,208
Cash flow from investing activities		
Securities available-for-sale		
Purchases	(32,343)	(24,247)
Maturities, calls and principal pay downs	10,271	7,225
Proceeds from sales of available-for-sale securities	7,332	5,123
Net (increase) decrease in certificates of deposits in other financial institutions	2,450	(2,205 )
Net increase in loans	(3,201 )	(2,649 )
Acquisition of premises and equipment	(88 )	(718 )
Sale of other real estate owned	23	27
Net cash from investing activities	(15,556)	(17,444)
Cash flow from financing activities		
Net increase in deposit accounts	14,991	13,185
Net change in short-term borrowings	(4,270 )	540
Proceeds of Federal Home Loan Advances	-	1,000
Repayments of Federal Home Loan Bank advances	(1,038 )	(1,074 )
Proceeds from dividend reinvestment and stock purchase plan	-	68
Dividends paid	(452 )	(407 )
Net cash from financing activities	9,231	13,312
Decrease in cash or cash equivalents	(3,582 )	(1,924 )
Cash and cash equivalents, beginning of period	13,828	13,806
Cash and cash equivalents, end of period	\$10,246	\$11,882
Supplemental disclosure of cash flow information:		
Cash paid during the period:		
Interest	\$792	\$1,071
Federal income taxes	200	505

See accompanying notes to consolidated financial statements.



**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

**Note 1 – Summary of Significant Accounting Policies:**

**Nature of Operations:** Consumers Bancorp, Inc. (the Corporation) is a bank holding company headquartered in Minerva, Ohio that provides, through its banking subsidiary, Consumers National Bank (the Bank), a broad array of products and services throughout its primary market area of 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, 2011. 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:** Consumers Bancorp, Inc. 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.



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

(Dollars in thousands, except per share amounts)

**Note 2 – Securities**

<b>Description of Securities</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
December 31, 2011				
U.S. government-sponsored entities and agencies	\$ 9,123	\$ 94	\$ (4 )	\$9,213
Obligations of state and political subdivisions	26,653	1,534	(38 )	28,149
Mortgage-backed securities – residential	48,450	1,069	(185 )	49,334
Collateralized mortgage obligations	20,240	62	(189 )	20,113
Trust preferred security	202	—	(138 )	64
Total securities	\$ 104,668	\$ 2,759	\$ (554 )	\$ 106,873

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
June 30, 2011				
U.S. government-sponsored entities and agencies	\$ 16,185	\$ 98	\$ (23 )	\$ 16,260
Obligations of state and political subdivisions	24,725	584	(211 )	25,098
Mortgage-backed securities - residential	29,424	1,172	—	30,596
Collateralized mortgage obligations	19,856	74	(62 )	19,868
Trust preferred security	202	—	(135 )	67
Total securities	\$ 90,392	\$ 1,928	\$ (431 )	\$ 91,889

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

	Three Months Ended		Six Months Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Proceeds from sales	\$ 2,381	\$ 2,570	\$ 7,332	\$ 5,123



Gross realized gains	106	53	155	97
Gross realized losses	—	—	—	27

The amortized cost and fair values of available-for-sale securities at December 31, 2011, 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.

CONSUMERS BANCORP, INC.

**Notes to the Consolidated Financial Statements****(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$4,528	\$ 4,562
Due after one year through five years	5,084	5,160
Due after five years through ten years	6,134	6,594
Due after ten years	20,030	21,046
Total	35,776	37,362
Mortgage-backed securities – residential	48,450	49,334
Collateralized mortgage obligations	20,240	20,113
Trust preferred security	202	64
Total	\$ 104,668	\$ 106,873

The following table summarizes the securities with unrealized losses at December 31, 2011 and June 30, 2011, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

Description of Securities	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2011						
U.S. government-sponsored entities and agencies	\$ 996	\$ (4 )	\$ —	\$ —	\$ 996	\$ (4 )
Obligations of states and political subdivisions	—	—	948	(38 )	948	(38 )
Mortgage-backed securities - residential	21,585	(185 )	—	—	21,585	(185 )
Collateralized mortgage obligations	14,145	(189 )	—	—	14,145	(189 )
Trust preferred security	—	—	64	(138 )	64	(138 )
Total temporarily impaired	\$ 36,726	\$ (378 )	\$ 1,012	\$ (176 )	\$ 37,738	\$ (554 )

Description of Securities	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2011						

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U.S. government-sponsored entities and agencies	\$ 3,088	\$ (23 )	\$ —	\$ —	\$3,088	\$ (23 )
Obligations of states and political subdivisions	3,656	(81 )	1,221	(130 )	4,877	(211 )
Collateralized mortgage obligations	9,665	(62 )	—	—	9,665	(62 )
Trust preferred security	—	—	67	(135 )	67	(135 )
Total temporarily impaired	\$ 16,409	\$ (166 )	\$ 1,288	\$ (265 )	\$17,697	\$ (431 )

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**CONSUMERS BANCORP, INC.**

**Notes to the Consolidated Financial Statements**

**(Unaudited) (continued)**

(Dollars in thousands, except per share amounts)

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*. However, the trust preferred security is evaluated using the model outlined in FASB ASC Topic 325, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets*.

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.

Unrealized losses on U.S. government-sponsored entities and agencies, obligations of state and political subdivisions, residential mortgage-backed securities and collateralized mortgage obligations 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, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the securities approach maturity.

Under the ASC Topic 325 model, the present value of the remaining cash flows as estimated at the preceding evaluation date are compared to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows. The analysis of the trust preferred security falls within the scope of ASC Topic 325.

The Corporation owns a trust preferred security, which represents collateralized debt obligations (CDOs) issued by other financial and insurance companies. The security is part of a pool of issuers that support a more senior tranche of securities. Due to the illiquidity in the market, it is unlikely the Corporation would be able to recover its investment in this security if the Corporation sold the security at this time.

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

(Dollars in thousands, except per share amounts)

Due to an increase in principal and/or interest deferrals by the issuers of the underlying securities, the cash interest payments for the trust preferred security are being deferred. On December 31, 2011, the lowest credit rating on this security was Fitch's rating of C, which is defined as highly speculative. The issuers in this security are primarily banks, bank holding companies and a limited number of insurance companies. The investment security is evaluated using a model to compare the present value of expected cash flows to prior periods expected cash flows to determine if there has been an adverse change in cash flows during the period. The discount rate used to calculate the cash flows is the coupon rate of the security, based on the forward LIBOR curve. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and all interest payment deferrals are treated as defaults with an assumed recovery rate of 15% on deferrals. In addition we use the model to "stress" the CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Corporation's note class. According to the December 31, 2011 analysis, the expected cash flows were above the recorded amortized cost of the trust preferred security. The accumulated other-than-temporary impairment loss that has been recognized in earnings was \$780 at December 31, 2011 and June 30, 2011. If there is further deterioration in the underlying collateral of this security, other-than-temporary impairments may also occur in future periods.

**Note 3 – Loans**

Major classifications of loans were as follows:

	December 31, 2011	June 30, 2011
Commercial	\$ 18,250	\$ 19,297
Commercial real estate:		
Construction	1,494	1,057

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Other	101,558	97,403
1 – 4 Family residential real estate:		
Owner occupied	33,812	34,488
Non-owner occupied	18,307	19,098
Construction	321	597
Consumer	7,111	5,874
Subtotal	180,853	177,814
Less: Net deferred loan fees	(235 )	(263 )
Allowance for loan losses	(2,126 )	(2,101 )
Net Loans	\$ 178,492	\$ 175,450

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**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 December 31, 2011:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 97	\$ 1,054	\$ 845	\$ 91	\$2,087
Provision for loan losses	21	(89 )	50	85	67
Loans charged-off	—	—	—	(50 )	(50 )
Recoveries	—	—	5	17	22
Total ending allowance balance	\$ 118	\$ 965	\$ 900	\$ 143	\$2,126

The following table presents the activity in the allowance for loan losses by portfolio segment for the six months ending December 31, 2011:

	Commercial	Commercial Real Estate	1-4 Family Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	\$ 179	\$ 882	\$ 947	\$ 93	\$2,101
Provision for loan losses	(61 )	83	17	120	159
Loans charged-off	—	—	(69 )	(100 )	(169 )
Recoveries	—	—	5	30	35
Total ending allowance balance	\$ 118	\$ 965	\$ 900	\$ 143	\$2,126





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

(Dollars in thousands, except per share amounts)

A summary of activity in the allowance for loan losses for the three and six months ended December 31, 2010, was as follows:

	Three Months Ended December 31, 2010	Six Months Ended December 31, 2010
Beginning of period	\$ 2,357	\$ 2,276
Provision	142	244
Charge-offs	(244 )	(285 )
Recoveries	11	31
Balance at December 31,	\$ 2,266	\$ 2,266

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, 2011. Included in the recorded investment in loans is \$(235) of net deferred loan fees and \$485 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	\$ 45	\$ 117	\$ 280	\$ —	\$ 442
Collectively evaluated for impairment	73	848	620	143	1,684
Total ending allowance balance	\$ 118	\$ 965	\$ 900	\$ 143	\$ 2,126
Recorded investment in loans:					
Loans individually evaluated for impairment	\$ 159	\$ 1,381	\$ 1,347	\$ —	\$ 2,887
Loans collectively evaluated for impairment	18,131	101,711	51,230	7,144	178,216
Total ending loans balance	\$ 18,290	\$ 103,092	\$ 52,577	\$ 7,144	\$ 181,103



**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, 2011. Included in the recorded investment in loans is \$(263) of net deferred loan fees and \$472 of accrued interest receivable.

		1-4 Family
	Commercial	Residential
	Real	Real
Commercial	Estate	