

Citizens Community Bancorp Inc.  
Form 10-Q  
August 07, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

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 number 001-33003

CITIZENS COMMUNITY BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Maryland 20-5120010  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification Number)  
2174 EastRidge Center, Eau Claire, WI 54701  
(Address of principal executive offices)  
715-836-9994  
(Registrant's telephone number, including area code)

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 (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

Edgar Filing: Citizens Community Bancorp Inc. - Form 10-Q

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 Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No x

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

At August 7, 2017 there were 5,276,724 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

---

CITIZENS COMMUNITY BANCORP, INC.  
 FORM 10-Q  
 June 30, 2017  
 INDEX

	Page Number
<u>Part I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2017 (Unaudited) and September 30, 2016</u>	4
<u>Consolidated Statements of Operations (Unaudited) for the three and nine months ended June 30, 2017 and 2016</u>	5
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the nine months ended June 30, 2017 and 2016</u>	6
<u>Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the nine months ended June 30, 2017</u>	7
<u>Consolidated Statements of Cash Flows (Unaudited) for the nine months ended June 30, 2017 and 2016</u>	8
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	41
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	60
Item 4. <u>Controls and Procedures</u>	62
<u>Part II – OTHER INFORMATION</u>	62
Item 1. <u>Legal Proceedings</u>	62
Item 1A. <u>Risk Factors</u>	64
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	66
Item 3. <u>Defaults Upon Senior Securities</u>	66
Item 4. <u>Mine Safety Disclosures</u>	66
Item 5. <u>Other Information</u>	66
Item 6. <u>Exhibits</u>	66
<u>SIGNATURES</u>	68

PART 1 – FINANCIAL INFORMATION

As disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, which was filed on December 29, 2016, we have restated the unaudited interim and audited annual financial statements for the fiscal years ended September 30, 2014 and 2015 and the quarterly periods ended December 31, 2015, March 31, 2016 and June 30, 2016 (the “Restated Periods”) due to errors identified in such financial statements related to the accrual for professional expenses for the Restated Periods. For further discussion of the effects of the 2016 restatements, please refer to the following portions of this Quarterly Report on Form 10-Q: Part 1, Item 1. Financial Statements, Note 1 to Consolidated Financial Statements, Nature of Business and Summary of Significant Accounting Policies and Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 1. FINANCIAL STATEMENTS

3

---

## CITIZENS COMMUNITY BANCORP, INC.

## Consolidated Balance Sheets

June 30, 2017 (unaudited) and September 30, 2016

(derived from audited financial statements)

(in thousands, except share data)

	June 30, 2017	September 30, 2016
Assets		
Cash and cash equivalents	\$33,749	\$10,046
Other interest-bearing deposits	995	745
Securities available for sale	78,475	80,123
Securities held to maturity	5,653	6,669
Non-marketable equity securities, at cost	4,498	5,034
Loans receivable	519,403	574,439
Allowance for loan losses	(5,756 )	(6,068 )
Loans receivable, net	513,647	568,371
Office properties and equipment, net	5,023	5,338
Accrued interest receivable	1,950	2,032
Intangible assets	753	872
Goodwill	4,663	4,663
Foreclosed and repossessed assets, net	622	776
Other assets	15,613	11,196
<b>TOTAL ASSETS</b>	<b>\$665,641</b>	<b>\$695,865</b>
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$519,133	\$557,677
Federal Home Loan Bank advances	67,900	59,291
Other borrowings	11,000	11,000
Other liabilities	1,598	3,353
Total liabilities	599,631	631,321
Stockholders' equity:		
Common stock— \$0.01 par value, authorized 30,000,000, 5,270,895 and 5,260,098 shares issued and outstanding, respectively	53	53
Additional paid-in capital	55,089	54,963
Retained earnings	11,221	9,107
Unearned deferred compensation	(214 )	(193 )
Accumulated other comprehensive (loss) income	(139 )	614
Total stockholders' equity	66,010	64,544
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$665,641</b>	<b>\$695,865</b>

See accompanying condensed notes to unaudited consolidated financial statements.

## CITIZENS COMMUNITY BANCORP, INC.

## Consolidated Statements of Operations (unaudited)

Three and Nine Months Ended June 30, 2017 and 2016 (As Restated)

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2017	June 30, 2016 (As Restated)	June 30, 2017	June 30, 2016 (As Restated)
Interest and dividend income:				
Interest and fees on loans	\$6,030	\$ 6,072	\$18,632	\$ 16,623
Interest on investments	591	402	1,476	1,267
Total interest and dividend income	6,621	6,474	20,108	17,890
Interest expense:				
Interest on deposits	1,035	1,081	3,204	2,988
Interest on FHLB borrowed funds	164	167	500	496
Interest on other borrowed funds	107	47	308	47
Total interest expense	1,306	1,295	4,012	3,531
Net interest income before provision for loan losses	5,315	5,179	16,096	14,359
Provision for loan losses	—	—	—	75
Net interest income after provision for loan losses	5,315	5,179	16,096	14,284
Non-interest income:				
Net gains on sale of available for sale securities	—	43	29	47
Service charges on deposit accounts	325	410	1,065	1,164
Loan fees and service charges	475	302	1,372	886
Settlement proceeds	—	—	283	—
Other	302	258	870	676
Total non-interest income	1,102	1,013	3,619	2,773
Non-interest expense:				
Compensation and benefits	2,506	2,378	7,888	6,784
Occupancy	565	554	2,196	1,835
Office	304	350	897	864
Data processing	476	445	1,402	1,274
Amortization of core deposit intangible	38	31	119	66
Advertising, marketing and public relations	75	174	243	456
FDIC premium assessment	79	86	231	255
Professional services	382	333	1,218	789
Other	305	453	1,034	1,006
Total non-interest expense	4,730	4,804	15,228	13,329
Income before provision for income taxes	1,687	1,388	4,487	3,728
Provision for income taxes	604	513	1,530	1,331
Net income attributable to common stockholders	\$ 1,083	\$ 875	\$ 2,957	\$ 2,397
Per share information:				
Basic earnings	\$0.21	\$ 0.16	\$0.56	\$ 0.45
Diluted earnings	\$0.20	\$ 0.16	\$0.56	\$ 0.45
Cash dividends paid	\$—	\$—	\$0.16	\$ 0.12

See accompanying condensed notes to unaudited consolidated financial statements.



## CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statements of Comprehensive Income (unaudited)

Nine months ended June 30, 2017 and 2016 (As Restated)

(in thousands, except per share data)

	Nine Months Ended	
	June 30, 2017	June 30, 2016 (As Restated)
Net income attributable to common stockholders	\$2,957	\$ 2,397
Other comprehensive income, net of tax:		
Securities available for sale		
Net unrealized (losses) gains arising during period	(770 )	1,006
Reclassification adjustment for gains included in net income	17	28
Other comprehensive (loss) income	(753 )	1,034
Defined benefit plans:		
Amortization of unrecognized prior service costs and net losses	—	(35 )
Total other comprehensive (loss) income, net of tax	(753 )	999
Comprehensive income	\$2,204	\$ 3,396

See accompanying condensed notes to unaudited consolidated financial statements.



## CITIZENS COMMUNITY BANCORP, INC.

## Consolidated Statement of Changes in Stockholders' Equity (unaudited)

Nine Months Ended June 30, 2017

(in thousands, except shares and per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, October 1, 2016	5,260,098	\$ 53	\$ 54,963	\$ 9,107	\$ (193 )	\$ 614	\$ 64,544
Net income				2,957			2,957
Other comprehensive loss, net of tax						(753 )	(753 )
Surrender of restricted shares of common stock	(1,375 )		(17 )				(17 )
Common stock awarded under the equity incentive plan	5,500		69		(69 )		—
Common stock repurchased	(1,428 )		(16 )				(16 )
Common stock options exercised	8,100		67				67
Stock option expense			23				23
Amortization of restricted stock					48		48
Cash dividends (\$0.16 per share)				(843 )			(843 )
Balance, June 30, 2017	5,270,895	\$ 53	\$ 55,089	\$ 11,221	\$ (214 )	\$ (139 )	\$ 66,010

See accompanying condensed notes to unaudited consolidated financial statements.

## CITIZENS COMMUNITY BANCORP, INC.

## Consolidated Statements of Cash Flows (unaudited)

Nine Months Ended June 30, 2017 and 2016 (As Restated)

(in thousands, except per share data)

	Nine Months Ended June 30, 2017	June 30, 2016 (As Restated)
Cash flows from operating activities:		
Net income attributable to common stockholders	\$ 2,957	\$ 2,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premium/discount on securities	575	851
Depreciation	674	583
Provision for loan losses	—	75
Net realized gain on sale of securities	(29 )	(47 )
Amortization of core deposit intangible	119	66
Amortization of restricted stock	48	33
Stock based compensation expense	23	25
Loss on sale of office properties	2	—
Provision for deferred income taxes	456	555
Net losses from disposals of foreclosed properties	(16 )	(77 )
Increase in accrued interest receivable and other assets	(498 )	(1,218 )
Decrease in other liabilities	(1,755 )	(226 )
Total adjustments	(401 )	620
Net cash provided by operating activities	2,556	3,017
Cash flows from investing activities:		
Purchase of investment securities	(16,239 )	(15,062 )
Purchase of bank owned life insurance	(3,500 )	—
Net increase in interest-bearing deposits	(250 )	7,241

Edgar Filing: Citizens Community Bancorp Inc. - Form 10-Q

Proceeds from sale of securities available for sale	10,644		17,665	
Principal payments on investment securities	6,458		11,301	
Proceeds from sale of non-marketable equity securities	953		—	
Purchase of non-marketable equity securities	(417	)	(3	)
Proceeds from sale of foreclosed properties	713		892	
Net decrease (increase) in loans	53,888		(5,723	)
Net capital expenditures	(366	)	(711	)
Net cash received in business combinations	—		20,658	
Net cash received from sale of office properties	7		—	
Net cash provided by investing activities	51,891		36,258	
Cash flows from financing activities:				
Net increase (decrease) in Federal Home Loan Bank advances	8,609		(3,017	)
Increase in other borrowings	—		11,000	
Net decrease in deposits	(38,544	)	(49,225	)
Surrender of restricted shares of common stock	(17	)	(49	)
Exercise of common stock options	67		153	
Termination of director retirement plan/supplemental executive retirement plan	—		(35	)
Repurchase shares of common stock	(16	)	—	
Cash dividends paid	(843	)	(629	)
Net cash used in financing activities	(30,744	)	(41,802	)
Net increase (decrease) in cash and cash equivalents	23,703		(2,527	)
Cash and cash equivalents at beginning of period	10,046		23,872	
Cash and cash equivalents at end of period	\$	33,749	\$	21,345



Supplemental cash flow information:

Cash paid during the period for:

Interest on deposits	\$3,172	\$2,859
Interest on borrowings	\$584	\$495
Income taxes	\$979	\$1,211

Supplemental noncash disclosure:

Transfers from loans receivable to foreclosed and repossessed assets	\$543	\$542
Fair value of assets acquired, net of cash and cash equivalents	\$—	\$168,129
Fair value of liabilities assumed, net of cash and cash equivalents	\$—	\$154,250

See accompanying condensed notes to unaudited consolidated financial statements.

9

---

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share data)

(UNAUDITED)

### NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Citizens Community Bancorp, Inc. (the "Company") and its wholly owned subsidiary, Citizens Community Federal N.A. (the "Bank"), and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. As used in this quarterly report, the terms "we", "us", "our", and "Citizens Community Bancorp, Inc." mean the Company and its wholly owned subsidiary, the Bank, unless the context indicates other meaning.

The Bank is a national banking association (a "National Bank") and operates under the title of Citizens Community Federal National Association ("Citizens Community Federal N.A."). The Company is a bank holding company, supervised by the Federal Reserve Bank of Minneapolis (the "FRB"), and operates under the title of Citizens Community Bancorp, Inc. The U.S. Office of the Comptroller of the Currency (the "OCC"), is the primary federal regulator for the Bank.

The consolidated income of the Company is principally derived from the income of the Bank, the Company's wholly owned subsidiary. The Bank originates commercial, agricultural, residential, consumer and commercial and industrial (C&I) loans and accepts deposits from customers, primarily in Wisconsin, Minnesota and Michigan. The Bank operates 14 full-service offices, 12 stand-alone locations and 2 branches located inside Walmart Supercenters.

The Bank is subject to competition from other financial institutions and non-financial institutions providing financial products. Additionally, the Bank is subject to the regulations of certain regulatory agencies and undergoes periodic examination by those regulatory agencies.

In preparing these consolidated financial statements, we evaluated the events and transactions that occurred subsequent to the balance sheet date as of June 30, 2017 and through the date the financial statements were available to be issued for items that should potentially be recognized or disclosed in these consolidated financial statements.

Effective May 16, 2016, Community Bank of Northern Wisconsin ("CBN") was acquired through merger ("Merger") by the Bank. The Merger was consummated pursuant to the terms of a Plan and Agreement of Merger ("Merger Agreement"), dated February 10, 2016, as amended by the First Amendment to Agreement and Plan of Merger dated as of May 13, 2016 by and among the Bank, Old Murry Bancorp, Inc. ("Old Murry"), the controlling shareholders of Old Murry, and CBN. In accordance with the terms of the Merger Agreement, the Bank agreed to purchase all of the assets and assume all of the liabilities of CBN. The total purchase price paid in cash by the Bank was \$17,447, which represented a \$16,762 book value of the CBN as of April 30, 2016, less a capital dividend of \$4,342 declared by CBN to Old Murry, plus a \$5,000 fixed premium and daily interest through May 16, 2016 in the amount of \$27. The purchase price was funded by \$11,000 of debt, and the remaining \$6,447 of cash.

On March 17, 2017, the Company and Wells Financial Corp., a Minnesota corporation ("Wells") entered into an Agreement and Plan of Merger (the "Merger Agreement"). Under the Merger Agreement, Wells will merge with and into the Company with the Company surviving the merger (the "Merger") in a transaction valued at approximately \$39,800.

Pursuant to the terms and subject to the conditions of the Merger Agreement, which has been approved by the boards of directors of each of the Company and Wells, the Merger Agreement provides for the payment to Wells stockholders of total consideration of (i) \$41.31 in cash and (ii) .7636 shares of the Company's common stock. The stock consideration is subject to a pricing collar adjustment in certain circumstances based on the Company's common stock price at the time of closing. In the event of a termination of the Merger Agreement, Wells may be required to pay a termination fee of \$1,600.

At the closing of the Merger Agreement, Wells Federal Bank ("Wells Bank"), a Minnesota state-chartered bank and a wholly-owned subsidiary of Wells and the Bank, will enter into an Agreement and Plan of Merger pursuant to which Wells Bank will merge with and into the Bank, with the Bank surviving the bank merger.

The Merger Agreement contains customary representations, warranties and covenants made by each of Wells and the Company. Completion of the Merger is subject to certain conditions, including, among others, (i) the approval of the Merger Agreement by Wells' stockholders; (ii) the absence of governmental orders prohibiting or actions seeking to prohibit the Merger; (iii) the receipt of certain governmental and regulatory approvals; (iv) the absence of an event that would have or could

reasonably be expected to have a material adverse effect on Wells or the Company; and (v) the receipt by Wells of certain third-party consents. The Merger is expected to close during the fourth fiscal quarter of 2017.

The accompanying consolidated interim financial statements are unaudited. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Unless otherwise stated herein, and except for shares and per share amounts, all amounts are in thousands. As disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, which was filed on December 29, 2016, we have restated the unaudited interim and audited annual financial statements for the fiscal years ended September 30, 2014 and 2015 and the quarterly periods ended December 31, 2015, March 31, 2016 and June 30, 2016 (the "Restated Periods") due to errors identified in such financial statements related to the accrual for professional expenses for the Restated Periods. The effect of these restatements on the Company's quarterly consolidated statements of operations for the three and nine months ended June 30, 2016 compared to the initially reported results, are as follows: Total non-interest expense increased by \$151 for the quarter ended June 30, 2016 and \$215 for the nine months ended June 30, 2016. Net income decreased by \$92 for the quarter ended June 30, 2016 and \$131 for the nine months ended June 30, 2016. The effects of the restatements on the Company's consolidated balance sheets, consolidated statements of cash flows and earnings per share for the restated three and nine months ended June 30, 2016 were not material. For additional details on the effects of the restatement on certain line items within our previously reported financial statements during the Restated Periods, please refer to the following portions of this Quarterly Report on Form 10-Q: Part 1, Item 1. Financial Statements, and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as the following portions of our Annual Report on Form 10-K: Explanatory Note Regarding Restatement; Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 8 Financial Statements and Supplementary Data, Note 2, Restatement of Previously Issued Financial Statements, and Item 9A Controls and Procedures.

**Principles of Consolidation** – The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated.

**Use of Estimates** – Preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, fair value of financial instruments, the allowance for loan losses, valuation of acquired intangible assets, useful lives for depreciation and amortization, indefinite-lived intangible assets and long-lived assets, deferred tax assets, uncertain income tax positions and contingencies.

Management does not anticipate any material changes to estimates made herein in the near term. Factors that may cause sensitivity to the aforementioned estimates include, but are not limited to, external market factors such as market interest rates and unemployment rates, changes to operating policies and procedures, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period.

**Investment Securities; Held to Maturity and Available for Sale** – Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of the date of each balance sheet. Securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Investment securities not classified as held to maturity are classified as available for sale. Available for sale securities are stated at fair value, with unrealized holding gains and losses deemed other than temporarily impaired due to non-credit issues being reported in other comprehensive income (loss), net of tax. Unrealized losses deemed other-than-temporary due to credit issues are reported in the Company's net income in the period in which the losses arise. Interest income includes amortization of purchase premium or accretion of purchase discount. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the underlying securities.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. As part of such monitoring, the credit quality



of individual securities and their issuer is assessed. Significant inputs used to measure the amount of other-than-temporary impairment related to credit loss include, but are not limited to, default and delinquency rates of the underlying collateral, remaining credit support, and historical loss severities. Adjustments to market value of available for sale securities that are considered temporary are recorded as separate components of equity, net of tax. If the unrealized loss of a security is identified as other-than-temporary based on information available, such as the decline in the creditworthiness of the issuer, external market ratings, or the anticipated or realized elimination of associated dividends, such impairments are further analyzed to determine if credit loss

exists. If there is a credit loss, it will be recorded in the Company's consolidated statement of operations. Unrealized losses on available for sale securities, other than credit, will continue to be recognized in other comprehensive income (loss), net of tax.

Loans – Loans that management has the intent and ability to hold for the foreseeable future, until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, and net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance of these loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments. Delinquency fees are recognized into income when chargeable, assuming collection is reasonably insured.

Interest income on commercial, mortgage and consumer loans is discontinued according to the following schedules:

- Commercial/agricultural real estate loans past due 90 days or more;
- Commercial/agricultural non-real estate loans past due 90 days or more;
- Closed end consumer non-real estate loans past due 120 days or more; and
- Residential real estate loans and open ended consumer non-real estate loans past due 180 days or more.

Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for a loan placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method, and is generally applied against principal, until qualifying for return to accrual status. Loans are returned to accrual status when payments are made that bring the loan account current with the contractual term of the loan and a 6 month payment history has been established. Interest on impaired loans considered troubled debt restructurings (“TDRs”) or substandard, less than 90 days delinquent, is recognized as income as it accrues based on the revised terms of the loan over an established period of continued payment.

Substandard loans, as defined by the OCC, our primary banking regulator, are loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Residential real estate loans and open ended consumer loans are charged off to estimated net realizable value less estimated selling costs at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 180 days or more. Closed end consumer loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 120 days or more. Commercial loans, including agricultural and C&I loans, are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 180 days or more for open ended loans or loans secured by real estate collateral, or the loan becomes 120 days past due or more for loans secured by non-real estate collateral.

The Company defines Acquired Loans as all loans acquired in a business combination accounted for under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805, “Business Combinations”. These loans include, but are not limited to loans accounted for under FASB ASC 310-30, “Loans and Debt Securities Acquired with Deteriorated Credit Quality” as discussed below. All other loans are defined as Originated Loans.

Allowance for Loan Losses – The allowance for loan losses (“ALL”) is a valuation allowance for probable and inherent credit losses in our loan portfolio. Loan losses are charged against the ALL when management believes that the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the ALL. Management estimates the required ALL balance taking into account the following factors: past loan loss experience; the nature, volume and composition of our loan portfolio; known and inherent risks in our loan portfolio; information about specific borrowers’ ability to repay; estimated collateral values; current economic conditions; and other relevant factors determined by management. The ALL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for certain qualitative factors. The entire ALL balance is available for any loan that, in our management’s judgment, should be charged off.

A loan is impaired when full payment under the loan terms is not expected. Impaired loans consist of all TDRs, as well as individual substandard loans not considered a TDR when full payment under the loan terms is not expected.

All TDRs are individually evaluated for impairment. See Note 3, “Loans, Allowance for Loan Losses and Impaired Loans” for more information on what we consider to be a TDR. If a TDR or substandard loan is deemed to be impaired, a specific ALL allocation may be established so that the loan is reported, net, at the lower of (a) outstanding principal balance, (b) the present value of estimated future cash flows using the loan’s existing rate; or (c) at the fair value of any collateral, less estimated disposal costs, if repayment is expected solely from the underlying collateral of the loan. For TDRs less than 90 days past due, and certain substandard loans that are less than 90 days delinquent, the likelihood of the loan migrating to over 90 days past due

12

---

is also taken into account when determining the specific ALL allocation for these particular loans. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, as well as non-TDR commercial loans, are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

Loans Acquired through Business Combination with Deteriorated Credit Quality - ASC Topic 310-30, "Loan and Debt Securities Acquired with Deteriorated Credit Quality", applies to loans acquired in a business combination that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that we will be unable to collect all contractually required payments receivable. In accordance with this guidance, these loans are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield", is recognized as interest income over the life of the loans using a method that approximates the level-yield method. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference", are not recognized as a yield adjustment, a loss accrual, or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairments. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition.

Foreclosed and Repossessed Assets, net – Assets acquired through foreclosure or repossession are initially recorded at fair value, less estimated costs to sell, which establishes a new cost basis. If the fair value declines subsequent to foreclosure or repossession, a valuation allowance is recorded through expense. Costs incurred after acquisition are expensed and are included in non-interest expense, other on our Consolidated Statements of Operations.

Goodwill - Goodwill resulting from the acquisition by merger of CBN was determined as the excess of the fair value of the consideration transferred, over the fair value of the net assets acquired, less liabilities assumed in the acquisition by merger, as of the acquisition date. Goodwill resulting from the selective purchase of loans and deposits from Central Bank in February 2016 was determined as the excess of the Premium Deposit less the Core Deposit Intangible as of the acquisition date. Goodwill is determined to have an indefinite useful life, and is not amortized. Goodwill is tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed.

Income Taxes – The Company accounts for income taxes in accordance with the FASB ASC Topic 740, "Income Taxes." Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. See Note 6, "Income Taxes" for details on the Company's income taxes.

The Company regularly reviews the carrying amount of its net deferred tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence, it is more likely than not that all or a portion of the Company's net deferred tax assets will not be realized in future periods, a deferred tax valuation allowance would be established. Consideration is given to various positive and negative factors that could affect the realization of the deferred tax assets. In evaluating this available evidence, management considers, among other things, historical performance, expectations of future earnings, the ability to carry back losses to recoup taxes previously paid, the length of statutory carryforward periods, any experience with utilization of operating loss and tax credit carryforwards not expiring, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. Accordingly, the Company's evaluation is based on current tax laws as well as management's expectations of future performance.

Earnings Per Share – Basic earnings per common share is net income or loss divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of

additional potential common shares issuable during the period, consisting of stock options outstanding under the Company's stock incentive plans that have an exercise price that is less than the Company's stock price on the reporting date.

Operating Segments—While our chief decision makers monitor the revenue streams of the various banking products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the

Company's banking operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications – Certain items previously reported were reclassified for consistency with the current presentation.

Recent Accounting Pronouncements - In May 2017, the FASB issued Accounting Standards Update ("ASU") 2017-09, "Compensation--Stock Compensation (Topic 718): Scope of Modification Accounting." ASU 2017-09 provides specific guidance as to which changes to terms and conditions of share-based payment awards require an entity to apply modification accounting in Topic 718. For public entities, ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company expects the adoption of ASU 2017-09 will have no material effect on the Company's consolidated results of operations, financial position or cash flows.

In March 2017, the FASB issued ASU 2017-08, "Receivables--Nonrefundable fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 amends the amortization period for certain purchased callable debt securities held at a premium. For public entities, ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company expects the adoption of ASU 2017-08 will have no material effect on the Company's consolidated results of operations, financial position or cash flows.

In February 2017, the FASB issued ASU 2017-05, "Other Income--Gains and Losses from the Derecognition of Non-financial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Non-financial Assets." ASU 2017-05 clarifies previously issued ASU 2014-09, primarily with respect to (a) derecognition of an in substance non-financial asset, and (b) partial sales of non-financial assets. For public entities, ASU 2017-05 is effective at the same time of adoption of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is for annual reporting periods beginning after December 15, 2017 and related interim periods. Early adoption is not permitted. The Company expects the adoption of ASU 2017-05 will have no material effect on the Company's consolidated results of operations, financial position or cash flows.

In January, 2017, the FASB issued ASU 2017-04, "Intangibles--Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 intends to simplify how an entity is required to test goodwill impairment. For public entities, ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, and any related interim annual goodwill impairment tests thereon. The Company expects the adoption of ASU 2017-04 will have no material effect on the Company's consolidated results of operations, financial position or cash flows.

In January, 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." ASU 2017-01 narrows the definition of a "business" with respect to accounting for business combinations. For public entities, ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company expects the adoption of ASU 2017-01 will have no material effect on the Company's consolidated results of operations, financial position or cash flows.

In June, 2016 the FASB issued ASU 2016-13, "Financial Instruments--Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit. For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has not yet evaluated the potential effects of adopting ASU 2016-13 on the Company's consolidated results of operations, financial position or cash flows. We are currently assessing the impact of the standard and evaluating credit loss models. We expect a significant effort to develop new or modified credit loss models and that the timing of the recognition of credit losses will accelerate under the new standard.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients." ASU 2016-12 is intended to address certain specific issues identified by the FASB-IASB Joint Transition Resource Group for Revenue Recognition with respect to ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." For public entities, ASU 2016-12 is effective on a retrospective basis for the annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted. The Company expects the adoption of ASU 2016-12 will have no material effect on the Company's consolidated results of operations, financial position or cash flows. This guidance does not apply to revenue associated with financial instruments, including loans, securities and derivatives that are accounted for under other U.S. GAAP guidance. For that reason, we do not expect it to have a material impact on our consolidated results of operations for

the elements of the statement of operations associated with financial instruments, including securities gains, interest income, and interest expense. However, we do believe that the new standard will result in new disclosure requirements. We are currently in the process of reviewing contracts to assess the impact of the new guidance on our service offerings that are within the scope of the guidance included in non-interest income; such as service charges, payment processing fees, and other service fees. The Company is continuing to evaluate the effect of the new guidance on revenue sources other than financial instruments on our financial position and consolidated results of operations.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 is intended to simplify certain areas of share-based payment

transaction accounting, including the income tax consequences, equity or liability classification of certain share awards, and classification on the statement of cash flows. ASU 2016-09 is effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the effect on the consolidated results of operations, financial position and cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the provisions of ASU 2016-02, but expects to report increased assets and liabilities as a result of reporting additional leases on the Company's consolidated balance sheet.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-01 is intended to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. For public entities, ASU 2016-01 is effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted, except for certain provisions of ASU 2016-01, which are not applicable to the Company. The Company expects the adoption of ASU 2016-01 to have no material effect on the Company's consolidated results of operations, financial position or cash flows.

#### NOTE 2 – FAIR VALUE ACCOUNTING

ASC Topic 820-10, "Fair Value Measurements and Disclosures" establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The statement describes three levels of inputs that may be used to measure fair value:

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

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 the Company's assumptions about the factors that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the fair value measurement.

The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available (Level 1 inputs); or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). Where such quotes are not available, the Company utilizes independent third party valuation analysis to support the Company's estimates and judgments in determining fair value (Level 3 inputs).



Assets Measured on a Recurring Basis

The following tables present the financial instruments measured at fair value on a recurring basis as of June 30, 2017 and September 30, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Investment securities:				
U.S. government agency obligations	\$ 14,522	\$ —	\$ 14,522	\$ —
Obligations of states and political subdivisions	32,887	—	32,887	—
Mortgage-backed securities	30,930	—	30,930	—
Federal Agricultural Mortgage Corporation	136	—	136	—
Total	\$ 78,475	\$ —	\$ 78,475	\$ —
September 30, 2016				
Investment securities:				
U.S. government agency obligations	\$ 16,407	\$ —	\$ 16,407	\$ —
Obligations of states and political subdivisions	34,012	—	34,012	—
Mortgage-backed securities	29,247	—	29,247	—
Federal Agricultural Mortgage Corporation	81	—	81	—
Trust preferred securities	376	—	—	376
Total	\$ 80,123	\$ —	\$ 79,747	\$ 376

The following table presents additional information about the security available for sale measured at fair value on a recurring basis and for which the Company utilized significant unobservable inputs (Level 3 inputs) to determine fair value for the nine months ended June 30, 2017 and year ended September 30, 2016:

	Fair value measurements using significant unobservable inputs (Level 3)	
	Nine months ended June 30, 2017	Year ended September 30, 2016
Securities available for sale		
Balance, beginning of period	\$ 376	\$ —
Payments received	(500 )	—
Total gains or losses (realized/unrealized)		
Included in earnings	124	—
Included in other comprehensive income	—	—
Transfers in and/or out of Level 3	—	376
Balance, end of period	\$ —	\$ 376

Assets Measured on a Nonrecurring Basis

The following tables present the financial instruments measured at fair value on a nonrecurring basis as of June 30, 2017 and September 30, 2016:

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Foreclosed and repossessed assets, net	\$622	\$	— \$	—\$ 622
Impaired loans with allocated allowances	1,328	—	—	1,328
Total	\$1,950	\$	— \$	—\$ 1,950
September 30, 2016				
Foreclosed and repossessed assets, net	\$776	\$	— \$	—\$ 776
Impaired loans with allocated allowances	2,412	—	—	2,412
Total	\$3,188	\$	— \$	—\$ 3,188

The fair value of impaired loans referenced above was determined by obtaining independent third party appraisals and/or internally developed collateral valuations to support the Company's estimates and judgments in determining the fair value of the underlying collateral supporting impaired loans.

The fair value of foreclosed and repossessed assets was determined by obtaining market price valuations from independent third parties wherever such quotes were available for other collateral owned. The Company utilized independent third party appraisals to support the Company's estimates and judgments in determining fair value for other real estate owned.

The following table represents additional quantitative information about assets measured at fair value on a recurring and nonrecurring basis and for which we have utilized Level 3 inputs to determine their fair value at June 30, 2017.

	Fair Value	Valuation Techniques (1)	Significant Unobservable Inputs (2)	Range
June 30, 2017				
Foreclosed and repossessed assets, net	\$622	Appraisal value	Estimated costs to sell	10 - 15%
Impaired loans with allocated allowances	\$1,328	Appraisal value	Estimated costs to sell	10 - 15%
September 30, 2016				
Foreclosed and repossessed assets, net	\$776	Appraisal value	Estimated costs to sell	10 - 15%
Impaired loans with allocated allowances	\$2,412	Appraisal value	Estimated costs to sell	10 - 15%

(1) Fair value is generally determined through independent third-party appraisals of the underlying collateral, which generally includes various level 3 inputs which are not observable.

(2) The fair value basis of impaired loans and real estate owned may be adjusted to reflect management estimates of disposal costs including, but not limited to, real estate brokerage commissions, legal fees, and delinquent property taxes.

Fair Values of Financial Instruments

ASC 825-10 and ASC 270-10, Interim Disclosures about Fair Value Financial Instruments, require disclosures about fair value financial instruments and significant assumptions used to estimate fair value. The estimated fair values of financial instruments not previously disclosed are determined as follows:



#### Cash and Cash Equivalents

Due to their short-term nature, the carrying amounts of cash and cash equivalents are considered to be a reasonable estimate of fair value and represents a level 1 measurement.

#### Other Interest-Bearing Deposits

Fair value of interest bearing deposits is estimated using a discounted cash flow analysis based on current interest rates being offered by instruments with similar terms and represents a level 3 measurement.

#### Non-marketable Equity Securities, at cost

Non-marketable equity securities are comprised of Federal Home Loan Bank stock and Federal Reserve Bank stock carried at cost, which are their redeemable fair values since the market for each category of this stock is restricted and represents a level 1 measurement.

#### Loans Receivable, net

Fair value is estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as real estate, C&I and consumer. The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity date using market discount rates reflecting the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Bank's repayment schedules for each loan classification. The fair value of variable rate loans approximates carrying value. The net carrying value of the loans acquired through the CBN acquisition approximates the fair value of the loans at June 30, 2017. The fair value of loans is considered to be a level 3 measurement.

#### Impaired Loans (carried at fair value)

Impaired loans are loans in which the Company has measured impairment, generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

#### Foreclosed Assets (carried at fair value)

Foreclosed assets are the only non-financial assets valued on a non-recurring basis which are held by the Company at fair value, less cost to sell. At foreclosure or repossession, if the fair value, less estimated costs to sell, of the collateral acquired (real estate, vehicles, equipment) is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Additionally, valuations are periodically performed by management and any subsequent reduction in value is recognized by a charge to income. The fair value of foreclosed assets held-for-sale is estimated using Level 3 inputs based on observable market data.

#### Accrued Interest Receivable and Payable

Due to their short-term nature, the carrying amounts of accrued interest receivable and payable are considered to be a reasonable estimate of fair value and represents a level 1 measurement.

#### Deposits

The fair value of deposits with no stated maturity, such as demand deposits, savings accounts, and money market accounts, is the amount payable on demand at the reporting date and represents a level 1 measurement. The fair value of fixed rate certificate accounts is calculated by using discounted cash flows applying interest rates currently being offered on similar certificates and represents a level 3 measurement. The net carrying value of fixed rate certificate accounts acquired through the CBN acquisition approximates the fair value of the certificates at June 30, 2017 and represents a level 3 measurement.

#### Federal Home Loan Bank ("FHLB") Advances

The fair value of long-term borrowed funds is estimated using discounted cash flows based on the Bank's current incremental borrowing rates for similar borrowing arrangements. The carrying value of short-term borrowed funds approximates their fair value and represents a level 2 measurement.



## Off-Balance Sheet Instruments

The fair value of off-balance sheet commitments would be estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the current interest rates, and the present creditworthiness of the customers. Since this amount is immaterial to the Company's consolidated financial statements, no amount for fair value is presented. The table below represents what we would receive to sell an asset or what we would have to pay to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amount and estimated fair value of the Company's financial instruments as of the dates indicated below were as follows:

	Valuation Method Used	June 30, 2017		September 30, 2016	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	(Level 1)	\$33,749	\$33,749	\$10,046	\$10,046
Other interest-bearing deposits	(Level 1)	995	999	745	760
Securities available for sale	See above	78,475	78,475	80,123	80,123
Securities held to maturity	(Level II)	5,653	5,810	6,669	6,944
Non-marketable equity securities, at cost	(Level II)	4,498	4,498	5,034	5,034
Loans receivable, net	(Level III)	513,647	524,644	568,371	585,679
Accrued interest receivable	(Level 1)	1,950	1,950	2,032	2,032
Financial liabilities:					
Deposits	(Level III)	\$519,133	\$522,470	\$557,677	\$561,919
FHLB advances	(Level III)	67,900	67,896	59,291	59,557
Other borrowings	(Level 1)	11,000	11,000	11,000	11,000
Other liabilities	(Level 1)	1,439	1,439	3,231	3,231
Accrued interest payable	(Level 1)	159	159	122	122

### NOTE 3 – LOANS, ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

#### Portfolio Segments:

Residential real estate loans are collateralized by primary and secondary positions on real estate and are underwritten primarily based on borrower's documented income, credit scores, and collateral values. Under consumer home equity loan guidelines, the borrower will be approved for a loan based on a percentage of their home's appraised value less the balance owed on the existing first mortgage. Credit risk is minimized within the residential real estate portfolio as relatively small loan amounts are spread across many individual borrowers. Management evaluates trends in past due loans and current economic factors such as the housing price index on a regular basis.

Commercial and agricultural real estate loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Management examines current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The level of owner-occupied property versus non-owner-occupied property are tracked and monitored on a regular basis. Local commercial real estate municipal loans are based on unrestricted assets, tax base and overall borrowing capacity. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Loan-to-value ratios on loans secured by farmland generally do not exceed 75%. Land development loans are underwritten using feasibility studies, independent appraisal reviews and financial analysis of the developers or property owners. Commercial construction loans are based upon estimates of cost and value of the completed project. Commercial construction loans often involve the disbursement of substantial funds with the repayment dependent on the success of the ultimate project. Sources of repayment for these loans may be the sale of the developed property or increased cash flow as a result of business expansion.

Consumer non-real estate loans are comprised of originated indirect paper loans secured primarily by boats and recreational vehicles, purchased indirect paper loans secured primarily by household goods and other consumer loans secured primarily by automobiles and other personal assets. Consumer loans underwriting terms often depend on the collateral type, debt to income ratio and the borrower's creditworthiness as evidenced by their credit score. Collateral value alone may not provide an adequate source of repayment of the outstanding loan balance in the event of a consumer non-real estate default. This shortage is a result of the greater likelihood of damage, loss and depreciation for consumer based collateral.

Commercial and agricultural non-real estate loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. Commercial non-real estate municipal loans may be granted based on the unrestricted assets, tax base and overall borrowing capacity of local governments. Agricultural non-real estate loans are generally comprised of term loans to fund the purchase of equipment, livestock and seasonal operating lines. Operating lines are typically written for one year and secured by the crop and other farm assets as considered necessary. Agricultural loans carry significant credit risks as they may involve larger balances concentrated with single borrowers or groups of related borrowers. In addition, repayment of such loans depends on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. Farming operations may be affected by adverse weather conditions such as, but not limited to, drought, hail or floods that can severely limit crop yields.

Credit Quality/Risk Ratings:

Management utilizes a numeric risk rating system to identify and quantify the Bank's risk of loss within its loan portfolio. Ratings are initially assigned prior to funding the loan, and may be changed at any time as circumstances warrant.

Ratings range from the highest to lowest quality based on factors that include measurements of ability to pay, collateral type and value, borrower stability and management experience. The Bank's loan portfolio is presented below in accordance with the risk rating framework that has been commonly adopted by the federal banking agencies. The definitions of the various risk rating categories are as follows:

1 through 4 - Pass. A "Pass" loan means that the condition of the borrower and the performance of the loan is satisfactory or better.

5 - Watch. A "Watch" loan has clearly identifiable developing weaknesses that deserve additional attention from management. Weaknesses that are not corrected or mitigated, may jeopardize the ability of the borrower to repay the loan in the future.

6 - Special Mention. A "Special Mention" loan has one or more potential weakness that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position in the future.

7 - Substandard. A "Substandard" loan is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Assets classified as substandard must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

8 - Doubtful. A "Doubtful" loan has all the weaknesses inherent in a Substandard loan 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.

9 - Loss. Loans classified as "Loss" are considered uncollectible, and their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, and a partial recovery may occur in the future.



Edgar Filing: Citizens Community Bancorp Inc. - Form 10-Q

Below is a summary of originated and acquired loans by type and risk rating as of June 30, 2017:

	1 to 5	6	7	8 9	TOTAL
Originated Loans:					
Residential real estate:					
One to four family	\$ 134,754	\$—	\$ 1,773	\$—	\$ 136,527
Commercial/Agricultural real estate:					
Commercial real estate	79,332	50	68	—	79,450
Agricultural real estate	8,428	—	—	—	8,428
Multi-family real estate	23,206	—	148	—	23,354
Construction and land development	11,951	—	—	—	11,951
Consumer non-real estate:					
Originated indirect paper	93,649	8	230	—	93,887
Purchased indirect paper	33,660	—	—	—	33,660
Other Consumer	14,648	—	123	—	14,771
Commercial/Agricultural non-real estate:					
Commercial non-real estate	22,156	—	152	—	22,308
Agricultural non-real estate	11,706	416	91	—	12,213
Total originated loans	\$ 433,490	\$ 474	\$ 2,585	\$—	\$ 436,549
Acquired Loans:					
Residential real estate:					
One to four family	\$ 19,550	\$ 470	\$ 188	\$—	\$ 20,208
Commercial/Agricultural real estate:					
Commercial real estate	24,378	32	417	—	24,827
Agricultural real estate	16,882	278	4,100	—	21,260
Multi-family real estate	—	—	—	—	—
Construction and land development	1,920	—	116	—	2,036
Consumer non-real estate:					
Other Consumer	408	—	7	—	415
Commercial/Agricultural non-real estate:					
Commercial non-real estate	8,881	—	1,368	—	10,249
Agricultural non-real estate	4,067	28	98	—	4,193
Total acquired loans	\$ 76,086	\$ 808	\$ 6,294	\$—	\$ 83,188
Total Loans:					
Residential real estate:					
One to four family	\$ 154,304	\$ 470	\$ 1,961	\$—	\$ 156,735
Commercial/Agricultural real estate:					
Commercial real estate	103,710	82	485	—	104,277
Agricultural real estate	25,310	278	4,100	—	29,688
Multi-family real estate	23,206	—	148	—	23,354
Construction and land development	13,871	—	116	—	13,987
Consumer non-real estate:					
Originated indirect paper	93,649	8	230	—	93,887
Purchased indirect paper	33,660	—	—	—	33,660
Other Consumer	15,056	—	130	—	15,186
Commercial/Agricultural non-real estate:					
Commercial non-real estate	31,037	—	1,520	—	32,557
Agricultural non-real estate	15,773	444	189	—	16,406
Gross loans	\$ 509,576	\$ 1,282	\$ 8,879	\$—	\$ 519,737
Less:					

Edgar Filing: Citizens Community Bancorp Inc. - Form 10-Q

Net deferred loan costs (fees)	(334 )
Allowance for loan losses	(5,756 )
Loans receivable, net	\$513,647

22

---

Below is a summary of originated loans by type and risk rating as of September 30, 2016:

	1 to 5	6	7	8 9	TOTAL
Originated Loans:					
Residential real estate:					
One to four family	\$ 159,244	\$—	\$ 1,632	\$—\$85	\$ 160,961
Commercial/Agricultural real estate:					
Commercial real estate	58,768	—	—	—	58,768
Agricultural real estate	3,418	—	—	—	3,418
Multi-family real estate	18,935	—	—	—	18,935
Construction and land development	12,977	—	—	—	12,977
Consumer non-real estate:					
Originated indirect paper	118,809	10	254	—	119,073
Purchased indirect paper	49,221	—	—	—	49,221
Other Consumer	18,889	—	37	—	18,926
Commercial/Agricultural non-real estate:					
Commercial non-real estate	17,790	—	179	—	17,969
Agricultural non-real estate	9,994	—	—	—	9,994
Total originated loans	\$468,045	\$ 10	\$ 2,102	\$—\$85	\$ 470,242
Acquired Loans:					
Residential real estate:					
One to four family	\$ 25,613	\$ 603	\$ 561	\$—\$—	\$ 26,777
Commercial/Agricultural real estate:					
Commercial real estate	29,607	167	398	—	30,172
Agricultural real estate	21,922	11	2,847	—	24,780
Multi-family real estate	200	—	—	—	200
Construction and land development	3,487	—	116	—	3,603
Consumer non-real estate:					
Other Consumer	746	11	32	—	789
Commercial/Agricultural non-real estate:					
Commercial non-real estate	13,010	11	11	—	13,032
Agricultural non-real estate	4,546	7	100	—	4,653
Total acquired loans	\$ 99,131	\$ 810	\$ 4,065	\$—\$—	\$ 104,006
Total Loans:					
Residential real estate:					
One to four family	\$ 184,857	\$ 603	\$ 2,193	\$—\$85	\$ 187,738
Commercial/Agricultural real estate:					
Commercial real estate	88,375	167	398	—	88,940
Agricultural real estate	25,340	11	2,847	—	28,198
Multi-family real estate	19,135	—	—	—	19,135
Construction and land development	16,464	—	116	—	16,580
Consumer non-real estate:					
Originated indirect paper	118,809	10	254	—	119,073
Purchased indirect paper	49,221	—	—	—	49,221
Other Consumer	19,635	11	69	—	19,715
Commercial/Agricultural non-real estate:					
Commercial non-real estate	30,800	11	190	—	31,001
Agricultural non-real estate	14,540	7	100	—	14,647
Gross loans	\$567,176	\$ 820	\$ 6,167	\$—\$85	\$ 574,248
Less:					

Edgar Filing: Citizens Community Bancorp Inc. - Form 10-Q

Net deferred loan costs (fees)	191
Allowance for loan losses	(6,068 )
Loans receivable, net	\$568,371

23

---

Allowance for Loan Losses - The ALL represents management's estimate of probable and inherent credit losses in the Bank's loan portfolio. Estimating the amount of the ALL requires the exercise of significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of other qualitative factors such as current economic trends and conditions, all of which may be susceptible to significant change.

There are many factors affecting the ALL; some are quantitative, while others require qualitative judgment. The process for determining the ALL (which management believes adequately considers potential factors which result in probable credit losses), includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect the Company's earnings or financial position in future periods. Allocations of the ALL may be made for specific loans but the entire ALL is available for any loan that, in management's judgment, should be charged-off or for which an actual loss is realized.

As an integral part of their examination process, various regulatory agencies also review the Bank's ALL. Such agencies may require that changes in the ALL be recognized when such regulators' credit evaluations differ from those of our management based on information available to the regulators at the time of their examinations.

Changes in the ALL by loan type for the periods presented below were as follows:

	Residential Real Estate	Commercial/Agriculture Real Estate	Consumer Non-real Estate	Commercial/Agriculture Non-real Estate	Unallocated	Total
Nine Months Ended June 30, 2017:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2016	\$2,039	\$ 1,883	\$1,466	\$ 652	\$ 28	\$6,068
Charge-offs	(159 )	—	(294 )	(9 )	—	(462 )
Recoveries	8	—	141	1	—	150
Provision	—	—	—	—	—	—
Allowance allocation adjustment	(427 )	461	(234 )	88	112	—
Total Allowance on originated loans	\$1,461	\$ 2,344	\$1,079	\$ 732	\$ 140	\$5,756
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans	—	—	—	—	—	—
Total Allowance on acquired loans	\$—	\$ —	\$—	\$ —	\$ —	\$—
Ending balance, June 30, 2017	\$1,461	\$ 2,344	\$1,079	\$ 732	\$ 140	\$5,756
Allowance for Loan Losses at June 30, 2017:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	\$203	\$ —	\$32	\$ 6	\$ —	\$241
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	\$1,258	\$ 2,344	\$1,047	\$ 726	\$ 140	\$5,515
Loans Receivable as of June 30, 2017:						
Ending balance of originated loans	\$136,527	\$ 123,183	\$141,984	\$ 34,521	\$ —	\$436,215
Ending balance of purchased credit-impaired loans	247	1,813	4	905	—	2,969
Ending balance of other acquired loans	19,961	46,310	411	13,537	—	80,219
Ending balance of loans	\$156,735	\$ 171,306	\$142,399	\$ 48,963	\$ —	\$519,403
Ending balance: individually evaluated for impairment	\$4,170	\$ 266	\$551	\$ 659	\$ —	\$5,646

Edgar Filing: Citizens Community Bancorp Inc. - Form 10-Q

Ending balance: collectively evaluated for impairment	\$ 152,565	\$ 171,040	\$ 141,848	\$ 48,304	\$ —	\$ 513,757
--	------------	------------	------------	-----------	------	------------

24

---

	Residential Real Estate	Commercial/Agricultural Real Estate	Consumer and other Non-real Estate	Unallocated	Total
Nine months ended June 30, 2016:					
Allowance for Loan Losses:					
Beginning balance, October 1, 2015	\$2,364	\$ 1,617	\$2,263	\$ 252	\$6,496
Charge-offs	(111 )	—	(394 )	—	(505 )
Recoveries	7	—	163	—	170
Provision	30	10	35	—	75
Allowance allocation adjustment	(166 )	249	128	(211 )	—
Total Allowance on originated loans	\$2,124	\$ 1,876	\$2,195	\$ 41	\$6,236
Purchased credit impaired loans	—	—	—	—	—
Other acquired loans	—	—	—	—	—
Total Allowance on acquired loans	\$—	\$ —	\$—	\$ —	\$—
Ending balance, June 30, 2016	\$2,124	\$ 1,876	\$2,195	\$ 41	\$6,236
Allowance for Loan Losses at June 30, 2016:					
Amount of allowance for loan losses arising from loans individually evaluated for impairment	\$422	\$ —	\$189	\$ —	\$611
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	\$1,702	\$ 1,876	\$2,006	\$ 41	\$5,625
Loans Receivable as of June 30, 2016:					
Ending balance of originated loans	\$124,316	\$ 128,089	\$221,808	\$ —	\$474,213
Ending balance of purchased credit-impaired loans	399	1,762	1,489	—	3,650
Ending balance of other acquired loans	69,198	26,770	10,215	—	106,183
Ending balance of loans	\$193,913	\$ 156,621	\$233,512	\$ —	\$584,046
Ending balance: individually evaluated for impairment	\$4,670	\$ —	\$914	\$ —	\$5,584
Ending balance: collectively evaluated for impairment	\$189,243	\$ 156,621	\$232,598	\$ —	\$578,462

The Bank has originated substantially all loans currently recorded on the Company's accompanying Consolidated Balance Sheet, except as noted below.

In February 2016, the Bank selectively purchased loans from Central Bank in Rice Lake and Barron, Wisconsin in the amount of \$16,363. In May 2016, the Bank acquired loans from Community Bank of Northern Wisconsin, headquartered in Rice Lake, Wisconsin totaling \$111,740.

During October 2012, the Bank entered into an agreement to purchase short term consumer loans from a third party on an ongoing basis. As part of the servicer agreement entered into in connection with this purchase agreement, the third party seller agreed to purchase or substitute performing consumer loans for all contracts that become 120 days past due. Pursuant to the ongoing loan purchase agreement, a restricted reserve account was established at 3% of the outstanding consumer loan balances purchased up to a maximum of \$1,000, with such percentage amount of the loans being deposited into a segregated reserve account. The funds in the reserve account are to be released to compensate the Bank for any purchased loans that are not purchased back by the seller or substituted with performing loans and are ultimately charged off by the Bank. At June 30, 2017, the maximum credit limit for these purchased consumer loans was \$50,000. As of June 30, 2017, the balance of these purchased consumer loans was \$33,660 compared to \$49,221 as of September 30, 2016. As of September 30, 2016, purchases from the third party ceased. We are evaluating the opportunity to resume making loans with the third party beginning in the next fiscal quarter. The balance in the cash reserve account has reached the maximum allowed balance of \$1,000, which is included in Deposits on the accompanying Consolidated Balance Sheet. To date, the Company has not charged off or experienced losses related to the purchased loans.





The weighted average rate earned on these purchased consumer loans was 4.26% as of June 30, 2017. From March 2014 through December 2015, the rate earned for all new loan originations of these purchased consumer loans was 4.00%. As of January 2016, new loans purchased were at an interest rate of 4.25% due to the increase in the Prime Rate.

Loans receivable by loan type as of the end of the periods shown below were as follows:

	Residential Real Estate	Real Estate	Commercial/Agriculture Real Estate Loans	Consumer non-Real Estate	Commercial/Agriculture non-Real Estate	Agriculture Totals				
	June 30, 2017	September 30, 2016	June 30, 2017	September 30, 2016	June 30, 2017	September 30, 2016	June 30, 2017	September 30, 2016	June 30, 2017	September 30, 2016
Performing loans										
Performing TDR loans	\$2,122	\$2,942	\$—	\$—	\$468	\$276	\$41	\$—	\$2,631	\$3,218
Performing loans other	152,867	182,747	168,294	150,181	141,582	189,653	47,313	45,370	510,056	567,951
Total performing loans	154,989	185,689	168,294	150,181	142,050	189,929	47,354	45,370	512,687	571,169
Nonperforming loans (1)										
Nonperforming TDR loans	727	471	—	—	31	44	—	—	758	515
Nonperforming loans other	1,019	1,272	3,012	948	318	257	1,609	278	5,958	2,755
Total nonperforming loans	1,746	1,743	3,012	948	349	301	1,609	278	6,716	3,270
Total loans	\$156,735	\$187,432	\$171,306	\$151,129	\$142,399	\$190,230	\$48,963	\$45,648	\$519,403	\$574,439

(1) Nonperforming loans are either 90+ days past due or nonaccrual.

An aging analysis of the Company's residential real estate, commercial/agriculture real estate, consumer and other loans and purchased third party loans as of June 30, 2017 and September 30, 2016, respectively, was as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded Investment > 89 Days and Accruing
June 30, 2017								
Residential real estate:								
One to four family	\$1,217	\$84	\$1,420	\$ 2,721	\$154,014	\$156,735	\$ 1,292	\$ 454
Commercial/Agricultural real estate:								
Commercial real estate	15	2	171	188	104,089	104,277	404	—
Agricultural real estate	365	—	1,937	2,302	27,386	29,688	2,361	—
Multi-family real estate	—	—	148	148	23,206	23,354	148	—
Construction and land development	—	—	32	32	13,955	13,987	99	—
Consumer non-real estate:								
Originated indirect paper	231	77	63	371	93,516	93,887	71	45
Purchased indirect paper	335	360	173	868	32,792	33,660	—	174
Other Consumer	26	45	35	106	15,080	15,186	51	8
Commercial/Agricultural non-real estate:								
Commercial non-real estate	31	—	130	161	32,396	32,557	1,520	—
Agricultural non-real estate	398	—	—	398	16,008	16,406	89	—
Total	\$2,618	\$568	\$4,109	\$ 7,295	\$512,442	\$519,737	\$ 6,035	\$ 681
September 30, 2016								
Residential real estate:								
One to four family	\$1,062	\$892	\$1,238	\$ 3,192	\$184,546	\$187,738	\$ 1,595	\$ 123
Commercial/Agricultural real estate:								
Commercial real estate	33	83	367	483	88,457	88,940	483	—
Agricultural real estate	—	—	623	623	27,575	28,198	623	—
Multi-family real estate	—	—	—	—	19,135	19,135	—	—
Construction and land development	27	—	35	62	16,518	16,580	—	—
Consumer non-real estate:								
Originated indirect paper	204	30	122	356	118,717	119,073	158	53
Purchased indirect paper	338	286	199	823	48,398	49,221	—	199
Other Consumer	104	16	34	154	19,561	19,715	54	5
Commercial/Agricultural non-real estate:								
Commercial non-real estate	9	2	155	166	30,835	31,001	188	—
Agricultural non-real estate	—	60	90	150	14,497	14,647	90	—
Total	\$1,777	\$1,369	\$2,863	\$ 6,009	\$568,239	\$574,248	\$ 3,191	\$ 380

At June 30, 2017, the Company has identified impaired loans of \$10,225, consisting of \$3,389 TDR loans, \$2,969 purchased credit impaired loans, and \$3,867 substandard non-TDR loans, which includes \$1,610 of non-PCI acquired loans. The \$10,225 total of impaired loans includes \$2,631 of performing TDR loans. At September 30, 2016, the Company has identified \$3,733 of TDR loans, \$4,972 acquired PCI loans and \$1,664 of substandard loans as impaired, totaling \$10,369, which includes \$3,218 of performing TDR loans. A loan is identified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Performing TDRs consist of loans that have been modified and are performing in accordance with the modified terms for a sufficient length of time, generally six months, or loans that were modified on a proactive basis. A summary of the Company's impaired loans as of June 30, 2017 and September 30, 2016 was as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2017					
With No Related Allowance Recorded:					
Residential real estate	\$ 3,350	\$ 3,350	\$ —	\$ 3,579	\$ 26
Commercial/agriculture real estate	3,095	3,095	—	2,711	3
Consumer non-real estate	457	457	—	352	10
Commercial/agricultural non-real estate	1,994	1,994	—	1,786	22
Total	\$ 8,896	\$ 8,896	\$ —	\$ 8,428	\$ 61
With An Allowance Recorded:					
Residential real estate	\$ 1,101	\$ 1,101	\$ 203	\$ 1,496	\$ 10
Commercial/agriculture real estate	—	—	—	—	—
Consumer non-real estate	98	98	32	220	—
Commercial/agricultural non-real estate	130	130	6	155	—
Total	\$ 1,329	\$ 1,329	\$ 241	\$ 1,871	\$ 10
June 30, 2017 Totals:					
Residential real estate	\$ 4,451	\$ 4,451	\$ 203	\$ 5,075	\$ 36
Commercial/agriculture real estate	3,095	3,095	—	2,711	3
Consumer non-real estate	555	555	32	572	10
Commercial/agricultural non-real estate	2,124	2,124	6	1,941	22
Total	\$ 10,225	\$ 10,225	\$ 241	\$ 10,299	\$ 71

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2016					
With No Related Allowance Recorded:					
Residential real estate	\$ 3,807	\$ 3,807	\$ —	\$ 3,817	\$ 132
Commercial/agriculture real estate	2,326	2,326	—	2,326	27
Consumer non-real estate	247	247	—	451	36
Commercial/agricultural non-real estate	1,577	1,577	—	1,577	42
Total	\$ 7,957	\$ 7,957	\$ —	\$ 8,171	\$ 237
With An Allowance Recorded:					
Residential real estate	\$ 1,891	\$ 1,891	\$ 503	\$ 1,808	\$ 50
Commercial/agriculture real estate	—	—	—	—	—
Consumer non-real estate	342	342	76	339	10
Commercial/agricultural non-real estate	179	179	27	36	1
Total	\$ 2,412	\$ 2,412	\$ 606	\$ 2,183	\$ 61
September 30, 2016 Totals:					
Residential real estate	\$ 5,698	\$ 5,698	\$ 503	\$ 5,625	\$ 182
Commercial/agriculture real estate	2,326	2,326	—	2,326	27
Consumer non-real estate	589	589	76	790	46
Commercial/agricultural non-real estate	1,756	1,756	27	1,613	43
Total	\$ 10,369	\$ 10,369	\$ 606	\$ 10,354	\$ 298

Troubled Debt Restructuring – A TDR includes a loan modification where a borrower is experiencing financial difficulty and the Bank grants a concession to that borrower that the Bank would not otherwise consider except for the borrower’s financial difficulties. Concessions include, but are not limited to, an extension of loan terms, renewals of existing balloon loans, reductions in interest rates and consolidating existing Bank loans at modified terms. A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management’s assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until a sufficient period of performance under the restructured terms has occurred at which time it is returned to accrual status. There were 3 delinquent TDRs greater than 60 days past due with a recorded investment of \$635 at June 30, 2017, compared to 3 such loans with a recorded investment of \$226 at September 30, 2016.

Following is a summary of TDR loans by accrual status as of June 30, 2017 and September 30, 2016. There were no TDR commitments or unused lines of credit as of June 30, 2017.

	June 30, September 2017 30, 2016	
Troubled debt restructure loans:		
Accrual status	\$ 2,996	\$ 3,218
Non-accrual status	393	515
Total	\$ 3,389	\$ 3,733

The following provides detail, including specific reserve and reasons for modification, related to loans identified as TDRs during the nine months ended June 30, 2017 and the year ended September 30, 2016:

	Number of Contracts	Modified Rate	Modified Payment	Modified Under-writing	Other	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Nine months ended June 30, 2017								
TDRs:								
Residential real estate	4	\$ —	\$ —	\$ 73	\$ 135	\$ 208	\$ 208	\$ —
Commercial/Agricultural real estate	—	—	—	—	—	—	—	—
Consumer non-real estate	3	—	—	4	24	28	28	—
Commercial/Agricultural non-real estate	1	—	—	—	43	43	43	—
Totals	8	\$ —	\$ —	\$ 77	\$ 202	\$ 279	\$ 279	\$ —
	Number of Contracts	Modified Rate	Modified Payment	Modified Under-writing	Other	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Year ended September 30, 2016								
TDRs:								
Residential real estate	4	\$ 37	\$ —	\$ 359	\$ —	\$ 396	\$ 396	\$ 74
Commercial/Agricultural real estate	—	—	—	—	—	—	—	—
Consumer non-real estate	3	—	—	21	—	21	21	—
Commercial/Agricultural non-real estate	—	—	—	—	—	—	—	—
Totals	7	\$ 37	\$ —	\$ 380	\$ —	\$ 417	\$ 417	\$ 74

A summary of loans by loan segment modified in a troubled debt restructuring as of June 30, 2017 and September 30, 2016, was as follows:

	June 30, 2017		September 30, 2016	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings:				
Residential real estate	26	\$ 3,125	32	\$ 3,413
Commercial/Agricultural real estate	—	—	—	—
Consumer non-real estate	22	223	21	320
Commercial/Agricultural non-real estate	1	41	—	—
Total troubled debt restructurings	49	\$ 3,389	53	\$ 3,733

The following table provides information related to restructured loans that were considered in default as of June 30, 2017 and September 30, 2016:

	June 30, 2017		September 30, 2016	
	Number of Investment Modifications	Recorded	Number of Investment Modifications	Recorded
Troubled debt restructurings:				
Residential real estate	4	\$ 362	9	\$ 516
Commercial/Agricultural real estate	—	—	6	948
Consumer non-real estate	3	31	4	43
Commercial/Agricultural non-real estate	—	—	2	99
Total troubled debt restructurings	7	\$ 393	21	\$ 1,606

Included above is one TDR loan that became in default during the three months ended June 30, 2017.

All acquired loans were initially recorded at fair value at the acquisition date. The outstanding balance and the carrying amount of acquired loans included in the consolidated balance sheet are as follows:

	June 30, 2017
Accountable for under ASC 310-30 (Purchased Credit Impaired "PCI" loans)	
Outstanding balance	\$2,969
Carrying amount	\$1,705
Accountable for under ASC 310-20 (non-PCI loans)	
Outstanding balance	\$80,219
Carrying amount	\$80,052
Total acquired loans	
Outstanding balance	\$83,188
Carrying amount	\$81,757

The following table provides changes in accretable yield for all acquired loans accounted for under ASC 310-30:

	June 30, 2017
Balance at beginning of period	\$192
Acquisitions	—
Reduction due to unexpected early payoffs	—
Reclass from non-accretable difference	—
Disposals/transfers	—
Accretion	(25 )
Balance at end of period	\$167

## NOTE 4 – INVESTMENT SECURITIES

The amortized cost, estimated fair value and related unrealized gains and losses on securities available for sale and held to maturity as of June 30, 2017 and September 30, 2016, respectively, were as follows:

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2017				
U.S. government agency obligations	\$ 14,851	\$ 35	\$ 364	\$ 14,522
Obligations of states and political subdivisions	32,732	252	97	32,887
Mortgage-backed securities	31,054	107	231	30,930
Federal Agricultural Mortgage Corporation	71	65	—	136
Total available for sale securities	\$ 78,708	\$ 459	\$ 692	\$ 78,475
September 30, 2016				
U.S. government agency obligations	\$ 16,388	\$ 48	\$ 29	\$ 16,407
Obligations of states and political subdivisions	33,405	630	23	34,012
Mortgage-backed securities	28,861	389	3	29,247
Federal Agricultural Mortgage Corporation	70	11	—	81
Trust preferred securities	376	\$ —	\$ —	376
Total available for sale securities	\$ 79,100	\$ 1,078	\$ 55	\$ 80,123
Held to maturity securities				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2017				
Obligations of states and political subdivisions	\$ 1,312	\$ 17	\$ —	\$ 1,329
Mortgage-backed securities	4,341	140	—	4,481
Total held to maturity securities	\$ 5,653	\$ 157	\$ —	\$ 5,810
September 30, 2016				
Obligations of states and political subdivisions	\$ 1,315	\$ 20	\$ —	\$ 1,335
Mortgage-backed securities	5,354	255	—	5,609
Total held to maturity securities	\$ 6,669	\$ 275	\$ —	\$ 6,944

As of June 30, 2017, the Bank has pledged U.S. Government Agency and mortgage backed securities with a book value of \$2,792 as collateral against a borrowing line of credit with the Federal Reserve Bank. However, as of June 30, 2017, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of June 30, 2017, the Bank has pledged U.S. Government Agency securities with a book value of \$7,824 and mortgage-backed securities with a book value of \$19,166 as collateral against specific municipal deposits.

In March 2017, the Bank received litigation settlement proceeds from a JP Morgan Residential Mortgage Backed Security (RMBS) claim in the amount of \$283. The \$283 is included in non-interest income under the caption "Settlement proceeds" for the current nine months ended, June 30, 2017, on the Consolidated Statement of Operations. This JP Morgan RMBS was previously owned by the Bank and sold in 2011.

During the quarter ended June 30, 2017, the sole trust preferred security held by the bank was called resulting in an additional \$118 in accretion interest income and a spike in the investment yield.

The estimated fair value of securities at June 30, 2017 and September 30, 2016, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities on mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Expected maturities may differ from contractual maturities on certain agency and municipal securities due to the call feature.

	June 30, 2017		September 30, 2016	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available for sale securities				
Due in one year or less	\$135	\$ 135	\$230	\$ 230
Due after one year through five years	14,692	14,724	14,463	14,546
Due after five years through ten years	31,138	31,052	28,289	28,798
Due after ten years	32,743	32,564	36,118	36,549
Total available for sale securities	\$78,708	\$ 78,475	\$79,100	\$ 80,123

	June 30, 2017		September 30, 2016	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to maturity securities				
Due after one year through five years	\$1,312	\$ 1,329	\$1,315	\$ 1,335
Due after five years through ten years	2,716	2,774	1,504	1,559
Due after ten years	1,625	1,707	3,850	4,050
Total held to maturity securities	\$5,653	\$ 5,810	\$6,669	\$ 6,944

At June 30, 2017 and September 30, 2016, there were no held to maturity securities with a net unrealized loss position. Securities with unrealized losses at June 30, 2017 and September 30, 2016, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale securities						
June 30, 2017						
U.S. government agency obligations	\$16,126	\$ 211	\$970	\$ 20	\$17,096	\$ 231
Obligations of states and political subdivisions	9,977	77	1,113	20	11,090	97
Mortgage-backed securities	9,721	319	1,820	45	11,541	364
Total	\$35,824	\$ 607	\$3,903	\$ 85	\$39,727	\$ 692
September 30, 2016						
U.S. government agency obligations	\$4,039	\$ 4	\$2,494	\$ 25	\$6,533	\$ 29
Obligations of states and political subdivisions	2,885	7	1,338	15	4,223	22
Mortgage-backed securities	1,385	1	1,137	3	2,522	4
Total	\$8,309	\$ 12	\$4,969	\$ 43	\$13,278	\$ 55



## NOTE 5 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

A summary of Federal Home Loan Bank advances at June 30, 2017 and September 30, 2016 was as follows:

	As of June 30, 2017	Weighted Average Rate	As of September 30, 2016	Weighted Average Rate
Maturing during the fiscal year Ended September 30,				
2017	\$63,900	1.13 %	\$ 45,461	0.86 %
2018	4,000	0.99 %	6,100	2.24 %
2019	—	— %	7,730	1.41 %
Total fixed maturity	\$67,900	1.12 %	\$ 59,291	1.07 %
Advances with amortizing principal	—	— %	—	— %
Total advances	\$67,900	1.12 %	\$ 59,291	1.07 %
Irrevocable standby letters of credit	\$10,090		\$ 10,560	
Total credit outstanding	\$77,990		\$ 69,851	

Other borrowings maturing during the fiscal year ended September 30, 2021

	\$11,000	3.89 %	\$ 11,000	3.44 %
--	----------	--------	-----------	--------

The Bank has an irrevocable Standby Letter of Credit Master Reimbursement Agreement with the Federal Home Loan Bank. This irrevocable standby letter of credit ("LOC") is supported by loan collateral as an alternative to directly pledging investment securities on behalf of a municipal customer as collateral for their interest bearing deposit balances.

At June 30, 2017, the Bank's available and unused portion of this borrowing arrangement was approximately \$64,320. In March 2017, the Bank prepaid \$9,830 in FHLB borrowings with an average rate of 2.10% and average remaining maturity of 13.17 months. The prepayment fee totaled \$104 and is included in other non-interest expense for the current nine months ended, June 30, 2017, on the Consolidated Statement of Operations. The weighted average remaining term of the borrowings at June 30, 2017 is 1.60 months compared to 8.32 months at September 30, 2016. Maximum month-end FHLB amounts outstanding were \$74,291 and \$67,474 during the nine month periods ended June 30, 2017 and 2016, respectively.

Each Federal Home Loan Bank advance is payable at the maturity date, with a prepayment penalty for fixed rate advances. These advances are secured by \$185,714 of real estate mortgage loans.

On May 16, 2016, the Company entered into a Loan Agreement with First Tennessee Bank National Association ("FTN") evidencing an \$11,000 term loan maturing on May 15, 2021. The proceeds from the Loan were used by the Company for the sole purpose of financing the acquisition, by merger, of Community Bank of Northern Wisconsin. The Loan bears interest based on LIBOR, and is payable in accordance with the terms and provisions of the term note. On September 30, 2016, the Company entered into an Amended and Restated Loan Agreement with FTN whereby FTN extended a \$3,000 revolving line of credit to the Company for the purpose of financing its previously announced stock repurchase program. At June 30, 2017, the available and unused portion of this borrowing arrangement was \$3,000. Under the stock repurchase program, the Company may repurchase up to 525,200 shares of its common stock or approximately

10% of its current outstanding shares, from time to time through October 1, 2017. As of June 30, 2017, 1,428 shares have been repurchased.

On May 30, 2017, the Company entered into the Second Amended and Restated Loan Agreement (the "Loan Agreement") with FTN whereby FTN terminated the undrawn \$3,000 revolving line of credit and extended a \$5,000 term loan facility to the Company for the purpose of financing its previously announced merger with Wells Financial Corp. The Loan Agreement provides for funding on a date no later than September 30, 2017, subject to certain customary conditions and the consummation of the merger with Wells Financial Corp substantially simultaneously with funding. The Loan Agreement provides for a floating interest rate that is the London interbank offered rate ("LIBOR") plus 270 basis points, which will be reset quarterly, and the maturity date will be five years from closing.

On May 30, 2017, the Company entered into a Subordinated Note Purchase Agreement (“Note Purchase Agreement”) with EJP Debt Opportunities Master Fund, LP (the “Purchaser”), pursuant to which the Purchaser agreed to purchase 6.75% fixed-to-floating subordinated notes in the aggregate principal amount of \$15,000 (the “Notes”). The Note Purchase Agreement

34

---

is expected to fund in the fourth fiscal quarter of 2017, subject to certain customary conditions. The Notes will provide for a maturity date to occur ten years from the date of issuance. The Notes will provide for an annual interest rate for the first five years following issuance of the Notes (the "Fixed Interest Period") of 6.75%, subject to adjustment at funding if, and, to the extent that, the 10-Year Treasury Constant Maturity Index exceeds 2.5% on the business day immediately preceding funding, as quoted by the Federal Reserve Board in Federal Reserve Statistical Release H.15 (519). After the Fixed Interest Period and through maturity (the "Floating Interest Period"), the interest rate will be reset quarterly, to equal the three-month LIBOR plus 490 basis points. Interest on the Notes will be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year through the maturity date.

NOTE 6 – INCOME TAXES

Income tax expense (benefit) for each of the periods shown below consisted of the following:

	Nine months ended June 30, 2017	Nine months ended June 30, 2016 (As Restated)
Current tax provision		
Federal	\$ 908	\$ 825
State	166	139
	1,074	964
Deferred tax provision		
Federal	385	313
State	71	54
	456	367
Total	\$ 1,530	\$ 1,331

The provision for income taxes differs from the amount of income tax determined by applying statutory federal income tax rates to pretax income as result of the following differences:

	Nine months ended June 30, 2017		Nine months ended June 30, 2016 (As Restated)	
	Amount	Rate	Amount	Rate
Tax expense at statutory rate	\$ 1,526	34.0 %	\$ 1,268	34.0 %
State income taxes net of federal taxes	237	5.3	192	5.2
Tax exempt interest	(168 )	(3.8 )	(118 )	(3.2 )
Other	(65 )	(1.4 )	(11 )	(0.3 )
Total	\$ 1,530	34.1 %	\$ 1,331	35.7 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of June 30, 2017 and September 30, 2016, respectively:

	June 30, September	
	2017	30, 2016
Deferred tax assets:		
Allowance for loan losses	\$2,254	\$ 2,377
Deferred loan costs/fees	55	77
Director/officer compensation plans	79	299
Net unrealized loss on securities available for sale	93	—
Economic performance accruals	—	131
Other	139	177
Deferred tax assets	2,620	3,061
Deferred tax liabilities:		
Office properties and equipment	(213 )	(291 )
Net unrealized gain on securities available for sale	—	(409 )
Other	(98 )	(98 )
Deferred tax liabilities	(311 )	(798 )
Net deferred tax assets	\$2,309	\$ 2,263

The Company regularly reviews the carrying amount of its deferred tax assets to determine if the establishment of a valuation allowance is necessary, as further discussed in Note 1 "Nature of Business and Summary of Significant Accounting Policies," above. At June 30, 2017 and September 30, 2016, respectively, management determined that no valuation allowance was necessary for any of the deferred tax assets.

The Company's income tax returns are subject to review and examination by federal, state and local government authorities. As of June 30, 2017, years open to examination by the U.S. Internal Revenue Service include taxable years ended September 30, 2012 to present. The years open to examination by state and local government authorities varies by jurisdiction.

The tax effects from uncertain tax positions can be recognized in the consolidated financial statements, provided the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company applied the foregoing accounting standard to all of its tax positions for which the statute of limitations remained open as of the date of the accompanying consolidated financial statements.

The Company's policy is to recognize interest and penalties related to income tax issues as components of other noninterest expense. During the nine month periods ended June 30, 2017 and 2016, the Company did not recognize any interest or penalties related to income tax issues in its consolidated statements of operations. The Company had a recorded liability of \$11 and \$24, which is included in other liabilities in its consolidated balance sheets, for the payment of interest and penalties related to income tax issues as of June 30, 2017 and September 30, 2016 respectively.

#### NOTE 7 – STOCK-BASED COMPENSATION

In February 2005, the Company's stockholders approved the Company's 2004 Recognition and Retention Plan. This plan provides for the grant of up to 113,910 shares of the Company's common stock to eligible participants under this plan. As of June 30, 2017, 113,910 restricted shares under this plan were granted. In February 2005, the Company's stockholders also approved the Company's 2004 Stock Option and Incentive Plan. This plan provides for the grant of nonqualified and incentive stock options and stock appreciation rights to eligible participants under the plan. The plan provides for the grant of awards for up to 284,778 shares of the Company's common stock. At June 30, 2017, 284,778

options had been granted under this plan to eligible participants.

36

---

In February 2008, the Company's stockholders approved the Company's 2008 Equity Incentive Plan. The aggregate number of shares of common stock reserved and available for issuance under the 2008 Equity Incentive Plan is 597,605 shares. Under this Plan, the Compensation Committee may grant stock options and stock appreciation rights that, upon exercise, result in the issuance of 426,860 shares of the Company's common stock. The Committee may also grant shares of restricted stock and restricted stock units for an aggregate of 170,745 shares of Company common stock under this plan. As of June 30, 2017, 49,591 restricted shares under this plan were granted. As of June 30, 2017, 150,000 options had been granted to eligible participants.

Restricted shares granted to date under these plans were awarded at no cost to the employee and vest pro rata over a three to five-year period from the grant date, as determined by the Board of Directors at issuance. Options granted to date under these plans vest pro rata over a five-year period from the grant date. Unexercised, nonqualified stock options expire within 15 years of the grant date and unexercised incentive stock options expire within 10 years of the grant date.

Compensation expense related to restricted stock awards from both the 2004 Recognition and Retention Plan and the 2008 Equity Incentive Plan was \$17 and \$48 for the three and nine months ended June 30, 2017, respectively.

Compensation expense related to restricted stock awards from both the 2004 Recognition and Retention Plan and the 2008 Equity Incentive Plan was \$(20) and \$33 for the three and nine months ended June 30, 2016, respectively.

#### Restricted Common Stock Award

	June 30, 2017		September 30, 2016	
	Number of Shares	Weighted Average Grant Price	Number of Shares	Weighted Average Grant Price
Restricted Shares				
Unvested and outstanding at beginning of fiscal year	23,159	\$ 9.59	46,857	\$ 7.59
Granted	5,500	12.52	11,591	10.98
Vested	(5,350 )	8.99	(13,127)	7.17
Forfeited	—	—	(22,162)	7.54
Unvested and outstanding fiscal to date	23,309	\$ 10.42	23,159	\$ 9.59

The Company accounts for stock-based employee compensation related to the Company's 2004 Stock Option and Incentive Plan and the 2008 Equity Incentive Plan using the fair-value-based method. Accordingly, management records compensation expense based on the value of the award as measured on the grant date and then the Company recognizes that cost over the vesting period for the award. The compensation cost recognized for stock-based employee compensation related to both plans for the three and nine month periods ended June 30, 2017 was \$8 and \$23, respectively. The compensation cost recognized for stock-based employee compensation related to both plans for the three and nine month periods ended June 30, 2016 was \$(7) and \$25, respectively.

Common Stock Option Awards

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
2017				
Outstanding at September 30, 2016	140,706	\$ 8.67		
Granted	—	—		
Exercised	(8,100 )	8.24		
Forfeited or expired	—			
Outstanding at June 30, 2017	132,606	\$ 8.69	6.45	
Exercisable at June 30, 2017	70,212	\$ 7.88	4.73	\$ 428
Fully vested and expected to vest	132,606	\$ 8.69	6.45	\$ 704

2016				
Outstanding at September 30, 2015	171,737	\$ 7.46		
Granted	55,000	10.00		
Exercised	(43,515 )			
Forfeited or expired	(42,516 )			
Outstanding at September 30, 2016	140,706	\$ 8.67	7.22	
Exercisable at September 30, 2016	49,520	\$ 7.27	4.09	\$ 194
Fully vested and expected to vest	140,706	\$ 8.67	7.22	\$ 354

Information related to the 2004 Stock Option and Incentive Plan and 2008 Equity Incentive Plan during each year follows:

	2017	2016
Intrinsic value of options exercised	\$ 36	\$ 131
Cash received from options exercised	\$ 67	\$ 289
Tax benefit realized from options exercised	\$ —	\$ —

Set forth below is a table showing relevant assumptions used in calculating stock option expense related to the Company's 2004 Stock Option and Incentive Plan and 2008 Equity Incentive Plan:

	2017	2016
Dividend yield	— %	1.02 %
Risk-free interest rate	— %	1.7 %
Weighted average expected life (years)	NA	10
Expected volatility	— %	5 %

NOTE 8 – OTHER COMPREHENSIVE INCOME (LOSS)

The following table shows the tax effects allocated to each component of other comprehensive income for the nine months ended June 30, 2017 and 2016:

	2017		2016	
	Before-Tax Amount	Tax Expense	Net-of-Tax Amount	Tax Expense
Unrealized gains (losses) on securities:				
Net unrealized (losses) gains arising during the period	\$(1,284)	\$ 514	\$ (770 )	\$1,677 \$ (671 )
Less: reclassification adjustment for gains included in net income	29	(12 )	17	47 (19 )
Defined benefit plans:				
Amortization of unrecognized prior service costs and net losses	—	—	—	(58 ) 23 (35 )
Other comprehensive (loss) income	\$(1,255)	\$ 502	\$ (753 )	\$1,666 \$ (667 )

The changes in the accumulated balances for each component of other comprehensive income (loss) for the twelve months ended September 30, 2016 and the nine months ended June 30, 2017 were as follows:

	Unrealized Gains (Losses) on Securities	Defined Benefit Plans	Other Accumulated Comprehensive Income (Loss)
Balance, October 1, 2015	\$ (249 )	\$ 35	\$ (214 )
Current year-to-date other comprehensive income (loss), net of tax	863	(35 )	828
Ending balance, September 30, 2016	\$ 614	\$ —	\$ 614
Current year-to-date other comprehensive loss, net of tax	(753 )	—	(753 )
Ending balance, June 30, 2017	\$ (139 )	\$ —	\$ (139 )

Reclassifications out of accumulated other comprehensive income (loss) for the nine months ended June 30, 2017 were as follows:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income	Affected Line Item on the Statement of Operations
Unrealized gains and losses		
Sale of securities	\$ 29	Net gain on sale of available for sale securities
Tax Effect	(12 )	Provision for income taxes
Total reclassifications for the period	\$ 17	Net income attributable to common shareholders

(1) Amounts in parentheses indicate decreases to profit/loss.



Reclassifications out of accumulated other comprehensive income for the nine months ended June 30, 2016 were as follows:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income	(1)	Affected Line Item on the Statement of Operations
Unrealized gains and losses			
Sale of securities	\$ 47		Net gain on sale of available for sale securities
Tax Effect	(19 )		Provision for income taxes
Total reclassifications for the period	\$ 28		Net income attributable to common shareholders

(1) Amounts in parentheses indicate decreases to profit/loss.

#### NOTE 9 – TERMINATION OF CERTAIN RETIREMENT PLANS

The Company maintained a Supplemental Benefit Plan For Key Employees ("SERP") which was an unfunded, unsecured, non-contributory defined benefit plan, providing retirement benefits for certain former key employees previously designated by the Company's Board of Directors. Benefits under the SERP generally were based on such former employees' years of service and compensation during the years preceding their retirement. In May 2009, any additional accrual of benefits under the SERP was suspended.

The Company also maintained a Directors' Retirement Plan ("DRP"), which was an unfunded, unsecured, non-contributory defined benefit plan, providing for supplemental pension benefits for its directors following their termination of service as a director of the Company. Benefits were based on a formula that included each participant's past and future earnings and years of service with Citizens. Moreover, the benefit amounts owed by the Company under the DRP were determined by individual director agreements entered into by the Company with such participants. The remaining DRP liability related to current and former Directors of the Company.

The Company's Board of Directors voted to terminate each of the SERP and the DRP at its regularly scheduled Board meeting on November 19, 2015, with such termination being effective as of the same date. In connection with the termination of each plan, the Board of Directors, in accordance with applicable law and each applicable participant's plan participation agreement, negotiated lump sum payments to the participants in satisfaction of the Company's total liability to each participant under the SERP and DRP. In accordance with the final settlement of the Company's obligations under such plans, the Company will make two payments (each for 50% of the total liability owed) to each plan participant. The first payment occurred in December 2016 and the second and final payment occurred in January 2017.

In connection with the settlement of all obligations owed by the Company to the participants in the SERP and the DRP, the Company retained an independent consultant during the three months ended March 31, 2016 to perform an actuarial calculation of the final amount of the accumulated benefit owed by the Company to each plan participant. In making this calculation, the consultant made certain assumptions regarding the applicable discount rate to be used and regarding certain other relevant factors to determine the amount of the benefit obligation due each participant, in each case taking into account the terms of each participant's negotiated plan benefit agreement and the terms of each plan. Differences between the amount of the projected accrued benefit obligation previously recorded by the Company in its consolidated financial statements in connection with these plans and the actual amount of the benefit obligation to be paid to the participants, based upon the calculations of the independent consultant, is recorded in the aggregate as a gain of \$41 during the twelve months ended September 30, 2016 on the Consolidated Statements of Operations line item "Salaries and related benefits" as a reduction to the expense. As of June 30, 2017, the Company recorded a liability on the accompanying Consolidated Balance Sheet of \$0 for the aggregate amount of the benefit obligation due plan participants.

The components of the SERP and Directors' Retirement plans' cost at June 30, 2017 and September 30, 2016 are summarized below.

40

---

	June 30, September	
	2017	30, 2016
Beginning accrued benefit cost	\$1,046	\$ 1,120
Service cost	—	—
Interest cost	—	44
Amortization of prior service costs	—	1
Net plan termination Credit	—	(41 )
Net periodic benefit cost	—	4
Benefits paid	(1,046 )	(78 )
Ending accrued benefit cost	\$—	\$ 1,046

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "could," "expect," "intend," "may," "planned," "potential," "should," "will," negative of those terms or other words of similar meaning. Such forward-looking statements in this report are inherently subject to many uncertainties arising in the Company's operations and business environment.

Factors that could affect actual results or outcomes include the matters described under the caption "Risk Factors" in Item 1A of our Form 10-K for the fiscal year ended September 30, 2016, which was filed on December 29, 2016, and the following:

- risks related to the success of the Merger and integration of Wells into the Company's operations;
- the risk that the Merger may be more difficult, costly or time consuming or that the expected benefits are not realized;
- the risk that the combined company may be unable to retain the Company and/or Wells personnel successfully after the Merger is completed;
- the possibility that the Merger Agreement may be terminated in accordance with its terms and may not be completed;
- the risk that if the Merger were not completed it could negatively impact the stock price and the future business and financial results of the Company;
- the transaction and merger-related costs in connection with the Merger;
- litigation relating to the Merger, which could require the Company and Wells to incur significant costs and suffer management distraction, as well as delay and/or enjoin the Merger;
- risks and uncertainties related to the restatement of our prior consolidated financial statements;
- the possibility that our internal controls and procedures could fail or be circumvented;
- conditions in the financial markets and economic conditions generally;
- the possibility of a deterioration in the residential real estate markets;
- interest rate risk;
- lending risk;
- the sufficiency of loan allowances;
- changes in the fair value or ratings downgrades of our securities;
- competitive pressures among depository and other financial institutions;
- our ability to realize the benefits of net deferred tax assets;
- our ability to maintain or increase our market share;
- acts of terrorism and political or military actions by the United States or other governments;
- legislative or regulatory changes or actions, or significant litigation, adversely affecting the Bank;
- increases in FDIC insurance premiums or special assessments by the FDIC;
- disintermediation risk;
- our inability to obtain needed liquidity;

- our ability to raise capital needed to fund growth or meet regulatory requirements;
- our ability to attract and retain key personnel;
- our ability to keep pace with technological change;
- cybersecurity risks;
- risks posed by acquisitions;
- changes in accounting principles, policies or guidelines and their impact on financial performance;

41

---

restrictions on our ability to pay dividends; and  
the potential volatility of our stock price.

Stockholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this filing and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances occurring after the date of this report.

#### GENERAL

The following discussion sets forth management's discussion and analysis of our consolidated financial condition as of June 30, 2017, and our consolidated results of operations for the nine months ended June 30, 2017, compared to the same period in the prior fiscal year for the nine months ended June 30, 2016. This discussion should be read in conjunction with the interim consolidated financial statements and the condensed notes thereto included with this report and with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes related thereto included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on December 29, 2016. Unless otherwise stated, all monetary amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations, other than share, per share and capital ratio amounts, are stated in thousands.

#### RESTATEMENT SUMMARY

Our Annual Report on Form 10-K of the Company for the fiscal year ended September 30, 2016, which was filed on December 29, 2016, included restatement of our previously filed consolidated financial statements and the related consolidated statements of operations, shareholders' equity and cash flows for the fiscal years ended September 30, 2014 and 2015 as well as revised quarterly results of operations for the fiscal years ended September 30, 2015 and 2016. The prior period errors were discovered in connection with the annual audit of consolidated financial statements for the fiscal year ended September 30, 2016. Management determined that certain professional and other expense accrual items were overstated during the fiscal years ended September 30, 2014 and 2015 resulting in understatement of the Company's net income for the quarterly and annual periods ended September 30, 2014 and 2015. During the fiscal year ended September 30, 2016, management reversed these overstated accrued expenses which resulted in an overstatement of quarterly and annual net income for the year ended September 30, 2016. The cumulative effect of the net over-accruals of certain expenses for the fiscal years ended September 30, 2014 and 2015 was that net income was understated by \$726 and \$192 respectively. The effect of these restatements on the Company's 2016 and 2015 quarterly consolidated statements of operations, as reported on Forms 10-Q, are as follows: Total non-interest expense decreased by \$60 for the quarter ended September 30, 2015; and decreased by \$85 for each of the quarters ended June 30, 2015; March 31, 2015 and December 31, 2014. Net income increased by \$36 for the quarter ended September 30, 2015; and increased by \$52 for each of the quarters ended June 30, 2015; March 31, 2015 and December 31, 2014. Total non-interest expense increased by \$151, \$43, and \$21 for the quarters ended June 30, 2016; March 31, 2016 and December 31, 2015, respectively. Net income decreased by \$92, \$26, and \$13 for the quarters ended June 30, 2016; March 31, 2016 and December 31, 2015, respectively. The effects of the restatements on the Company's balance sheets and statements of cash flows for the Restated Periods were not material. For further discussion of the effects of the 2016 restatements, please refer to the following portions of this Quarterly Report on Form 10-Q: Part 1, Item 1. Financial Statements, Note 1 to Consolidated Financial Statements, Nature of Business and Summary of Significant Accounting Policies, as well as the following portions of our Annual Report on Form 10-K: Explanatory Note Regarding Restatement; Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 8 Financial Statements and Supplementary Data, Note 2, Restatement of Previously Issued Financial Statements, and Item 9A Controls and Procedures.

## PERFORMANCE SUMMARY

The following table sets forth our results of operations and related summary information for the three and nine month periods ended June 30, 2017 and 2016, respectively:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016 (As Restated)	2017	2016 (As Restated)
Net income as reported	\$ 1,083	\$ 875	\$2,957	\$ 2,397
EPS - basic, as reported	\$0.21	\$ 0.16	\$0.56	\$0.45
EPS - diluted, as reported	\$0.20	\$ 0.16	\$0.56	\$0.45
Cash dividends paid	\$—	\$—	\$0.16	\$0.12
Return on average assets (annualized)	0.65 %	0.53 %	0.58 %	0.49 %
Return on average equity (annualized)	6.66 %	5.55 %	6.06 %	5.12 %
Efficiency ratio, as reported (1)	73.71 %	77.58 %	77.24 %	78.14 %

(1) The efficiency ratio is calculated as non-interest expense divided by the sum of net interest income plus non-interest income. A lower ratio indicates greater efficiency.

Key factors behind these results were:

Net interest income was \$5,315 and \$16,096 for the three and nine month periods ended June 30, 2017, an increase of \$136 or 2.63% and \$1,737 or 12.10% from the prior comparable three and nine month periods.

- During the quarter ended June 30, 2017, the sole trust preferred security held by the bank was called resulting in an additional \$118 in accretion interest income and a spike in the investment yield. The increase for the nine month period was primarily due to the increase in loan balances due to the CBN acquisition on May 16, 2016.

The net interest margin of 3.41% and 3.36% for the three and nine months ended June 30, 2017 represents a 14 bp and 12 bp increase from a net interest margin of 3.27% and 3.24% for the three and nine months ended June 30, 2016 due to higher yields on earning assets.

Total loans were \$519,403 at June 30, 2017, a decrease of \$55,036, or 9.58%, from their balances at September 30, 2016, due primarily to our increased focus on secondary market lending for one to four family residential loans and exiting the originated indirect lending business. Total deposits were \$519,133 at June 30, 2017, a decrease of \$38,544, or 6.91%, from their balances at September 30, 2016, largely due to the closure of the four Eastern Wisconsin branches and previously closed branches. Despite the decline in total deposits, demand deposits, both interest bearing and non-interest bearing, increased from their balances at September 30, 2016.

Net loan charge-offs decreased slightly from \$335 for the nine months ended June 30, 2016 to \$312 for the nine months ended June 30, 2017. Continued lower levels of net loan charge-offs in recent periods led to a decreased provision for loan losses of \$0 for the nine month period ended June 30, 2017, compared to \$75 for the nine months ended June 30, 2016. Annualized net loan charge-offs as a percentage of average loans were 0.08% for the nine months ended June 30, 2017, compared to 0.09% for the nine months ended June 30, 2016.

Non-interest income increased from \$1,013 and \$2,773 for the three and nine months ended June 30, 2016 to \$1,102 and \$3,619 for the three and nine months ended June 30, 2017, primarily due to an increase in secondary market fee income generated from customer mortgage activity, and an increase in commercial loan origination and servicing fee income. Additionally, in March 2017, the Bank received litigation settlement proceeds from a JP Morgan Residential Mortgage Backed Security (RMBS) claim in the amount of \$283. This JP Morgan RMBS was previously owned by the Bank and sold in 2011.

Non-interest expense decreased \$74 and increased \$1,899 for the three and nine months ended June 30, 2017, respectively, compared to the three and nine month periods ended June 30, 2016. During the three and nine months ended June 30, 2017, compensation and benefits costs increased \$128 and \$1,104 relative to the comparable prior year periods, primarily due to the addition of new employees related to the CBN acquisition. During the current nine month period, occupancy expense increased primarily due to rent termination costs related to the four branch closures in Eastern Wisconsin during the first fiscal quarter of 2017. We are continuing to focus on technology to provide progressive, online and mobile banking services that complement friendly, knowledgeable bankers in convenient

community bank locations. As we redefine and expand our footprint, we expect data processing costs to continue to remain higher. Amortization of core deposit intangible expense increased due to the premium paid for the Central Bank selective deposits purchase and the CBN acquisition for the current three and nine month periods ended June 30, 2017,

43

---

compared to the same periods in the prior year. Professional fees increased due to higher legal, audit, branch closure expenses and merger related costs due to the pending acquisition of Wells Financial Corp.

#### CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amount of assets, liabilities, revenue, expenses and their related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that our management believes to be relevant at the time our consolidated financial statements are prepared. Some of these estimates are more critical than others. In addition to the policies included in Note 1, "Nature of Business and Summary of Significant Accounting Policies," to the Consolidated Financial Statements included as an exhibit to our Form 10-K annual report for the fiscal year ending September 30, 2016, our critical accounting estimates are as follows:

##### Allowance for Loan Losses.

We maintain an allowance for loan losses to absorb probable incurred losses in our originated loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable and inherent losses in our originated loan portfolio. In evaluating the level of the allowance for loan loss, we consider the types of loans and the amount of loans in our originated loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying loan collateral and prevailing economic conditions. We follow all applicable regulatory guidance, including the "Interagency Policy Statement on the Allowance for Loan and Lease Losses," issued by the Federal Financial Institutions Examination Council ("FFIEC"). We believe that the Bank's Allowance for Loan Losses Policy conforms to all applicable regulatory requirements. However, based on periodic examinations by regulators, the amount of the allowance for loan losses recorded during a particular period may be adjusted.

Our determination of the allowance for loan losses is based on (1) specific allowances for specifically identified and evaluated impaired loans and their corresponding estimated loss based on likelihood of default, payment history, and net realizable value of underlying collateral; and (2) a general allowance on loans not specifically identified in (1) above, based on historical loss ratios which are adjusted for qualitative and general economic factors. We continue to refine our allowance for loan losses methodology, with an increased emphasis on historical performance adjusted for applicable economic and qualitative factors.

Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including estimating the amount and timing of future cash flows expected to be received on impaired loans, any of which estimates may be susceptible to significant change. In our opinion, the allowance for loan losses, when taken as a whole, reflects estimated probable and inherent loan losses in our loan portfolio.

##### Goodwill.

Goodwill resulting from the acquisition by merger of CBN was determined as the excess of the fair value of the consideration transferred, over the fair value of the net assets acquired, less liabilities assumed in the acquisition by merger, as of the acquisition date. Goodwill resulting from the selective purchase of loans and deposits from Central Bank in February 2016 was determined as the excess of the Premium Deposit less the Core Deposit Intangible as of the acquisition date. Goodwill is determined to have an indefinite useful life, and is not amortized. Goodwill is tested for impairment at least annually, or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed.

##### Fair Value Measurements and Valuation Methodologies.

We apply various valuation methodologies to assets and liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as most investment securities. However, for those items for which an observable liquid market does not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans, deposits, borrowings, goodwill, core deposit intangible assets, other assets and liabilities obtained or assumed in business combinations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of



return on assets, repayment rates, cash flows, default rates, and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Company's results of operations, financial condition or disclosures of fair value information.

44

---

In addition to valuation, the Company must assess whether there are any declines in value below the carrying value of assets that should be considered other than temporary or otherwise require an adjustment in carrying value and recognition of a loss in the consolidated statement of income. Examples include but are not limited to; loans, investment securities, goodwill, core deposit intangible assets and deferred tax assets, among others. Specific assumptions, estimates and judgments utilized by management are discussed in detail herein in management's discussion and analysis of financial condition and results of operations and in notes 1, 2, 3, 4, 5, and 7 of Condensed Notes to Consolidated Financial Statements.

#### Income Taxes.

The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the tax assets and liabilities are adequate and properly recorded in the accompanying consolidated financial statements. As of June 30, 2017, management does not believe a valuation allowance related to the realizability of its deferred tax assets is necessary.

#### STATEMENT OF OPERATIONS ANALYSIS

**Net Interest Income.** Net interest income represents the difference between the dollar amount of interest earned on interest-bearing assets and the dollar amount of interest paid on interest-bearing liabilities. The interest income and expense of financial institutions (including those of the Bank) are significantly affected by general economic conditions, competition, policies of regulatory authorities and other factors.

Interest rate spread and net interest margin are used to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest earning assets and the rate paid for interest-bearing liabilities that fund those assets. Net interest margin is expressed as the percentage of net interest income to average interest earning assets. Net interest margin currently exceeds interest rate spread because non-interest bearing sources of funds ("net free funds"), principally demand deposits and stockholders' equity, also support interest earning assets. The narrative below discusses net interest income, interest rate spread, and net interest margin for the three and nine month periods ended June 30, 2017 and 2016, respectively.

Tax equivalent net interest income was \$5,385 and \$16,310 for the three and nine months ended June 30, 2017, compared to \$5,248 and \$14,554 for the three and nine months ended June 30, 2016, respectively. The net interest margin for the three and nine month periods ended June 30, 2017 was 3.41% and 3.36%, compared to 3.27% and 3.24% for the three and nine month periods ended June 30, 2016.

As shown in the rate/volume analysis in the following pages, volume changes resulted in an increase of \$28 and \$1,701 in net interest income for the three and nine month periods ended June 30, 2017, compared to the comparable prior year periods. The changes in the composition of interest earning assets resulted in a decrease of \$39 and increase of \$1,936 for the three and nine month periods ended June 30, 2017, compared to the same periods in the prior year. Rate changes on interest earning assets increased net interest income by \$187 and \$301 for the three and nine month periods ended June 30, 2017, compared to the same periods in the prior year. During the quarter ended June 30, 2017, the sole trust preferred security held by the bank was called resulting in an additional \$118 in accretion interest income and a spike in the investment yield. Rate changes on interest-bearing liabilities increased interest expense by \$78 and \$246 over the same periods in the prior year, resulting in a net increase of \$109 and \$55 in net interest income as a result of changes in interest rates due to competitive pricing during the three and nine month periods ended June 30, 2017. Rate increases on investment securities are reflective of longer term investments at higher rates due to the run off of shorter term, lower rate securities.

**Average Balances, Net Interest Income, Yields Earned and Rates Paid.** The following Net Interest Income Analysis table presents interest income from average interest earning assets, expressed in dollars and yields, and interest expense on average interest-bearing liabilities, expressed in dollars and rates on a tax equivalent basis. Shown below is the weighted average yield on interest earning assets, rates paid on interest-bearing liabilities and the resultant spread at or during the three and nine month periods ended June 30, 2017, and for the comparable prior year three and nine month periods. Non-accruing loans have been included in the table as loans carrying a zero yield.

Edgar Filing: Citizens Community Bancorp Inc. - Form 10-Q

Average interest earning assets were \$634,048 and \$649,134 for the three and nine month periods ended June 30, 2017, and \$646,388 and \$600,434 for the three and nine month periods ended June 30, 2016, respectively. Interest income on interest earning assets was \$6,691 and \$20,322 for the three and nine month periods ended June 30, 2017, compared to \$6,543 and \$18,085 for the three and nine month periods ended June 30, 2016, respectively. Interest income is comprised primarily of interest income on loans and interest income on investment securities adjusted for the tax benefit of tax-exempt securities.

45

---

Interest income on loans was \$6,030 and \$18,632 for the three and nine month periods ended June 30, 2017, compared to \$6,072 and \$16,623 for the three and nine month periods ended June 30, 2016, respectively. The increase in loan interest income in the current year nine month period was primarily due to an increase in loans due to the CBN acquisition. Interest income on investment securities was \$582 and \$1,463 for the three and nine month periods ended June 30, 2017 compared to \$397 and \$1,250 for the three and nine month periods ended June 30, 2016, respectively. The increase is primarily due to the accretion interest income realized from the trust preferred security called during the quarter ended June 30, 2017.

Average interest-bearing liabilities were \$548,099 and \$562,958 for the three and nine month periods ended June 30, 2017, compared to \$566,575 and \$525,139 for the three and nine month periods ended June 30, 2016, respectively.

Interest expense on interest-bearing liabilities was \$1,306 and \$4,012 for the three and nine month periods ended June 30, 2017, compared to \$1,295 and \$3,531 for the three and nine month periods ended June 30, 2016, respectively. Interest expense increased during the current three and nine month periods compared to the comparable prior year periods, primarily due to increases in rates on FHLB advances and other borrowings. In addition, increases in the current nine month period, were the result of increased deposits due to the CBN acquisition.

For the three and nine months ended June 30, 2017, interest expense on interest-bearing deposits decreased \$89 and increased \$96, from volume and mix changes and increased \$43 and \$120 from the impact of the rate environment, resulting in an aggregate decrease of \$46 and increase of \$216 in interest expense on interest-bearing deposits relative to June 30, 2016. Interest expense on FHLB advances and other borrowings increased \$22 and \$139 from volume and mix changes and increased \$35 and \$126 from the impact of the rate environment during the three and nine month periods ended June 30, 2017 for an aggregate increase of \$57 and \$265 relative to the three and nine month periods ended June 30, 2016.

## NET INTEREST INCOME ANALYSIS ON A TAX EQUIVALENT BASIS

(Dollar amounts in thousands)

Three months ended June 30, 2017 compared to the three months ended June 30, 2016:

	Three months ended June 30, 2017			Three months ended June 30, 2016		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest earning assets:						
Cash and cash equivalents	\$17,246	\$ 27	0.63 %	\$21,118	\$ 18	0.34 %
Loans	526,661	6,030	4.59 %	525,780	6,072	4.64 %
Interest-bearing deposits	808	4	1.99 %	2,557	10	1.57 %
Investment securities (1)	84,845	582	2.75 %	92,102	397	1.73 %
Non-marketable equity securities, at cost	4,488	48	4.29 %	4,831	46	3.83 %
Total interest earning assets	\$634,048	\$ 6,691	4.23 %	\$646,388	\$ 6,543	4.07 %
Average interest-bearing liabilities:						
Savings accounts	\$47,184	\$ 13	0.11 %	\$35,825	\$ 11	0.12 %
Demand deposits	50,617	59	0.47 %	42,898	65	0.61 %
Money market	122,709	126	0.41 %	141,162	141	0.40 %
CD's	226,189	767	1.36 %	251,534	787	1.26 %
IRA's	26,852	70	1.05 %	27,332	77	1.13 %
Total deposits	473,551	1,035	0.88 %	498,751	1,081	0.87 %
FHLB Advances and other borrowings	74,548	271	1.46 %	67,824	214	1.27 %
Total interest-bearing liabilities	\$548,099	\$ 1,306	0.96 %	\$566,575	\$ 1,295	0.92 %
Net interest income		\$ 5,385			\$ 5,248	
Interest rate spread			3.27 %			3.15 %
Net interest margin			3.41 %			3.27 %
Average interest earning assets to average interest-bearing liabilities			1.16			1.14

(1) For the three months ended June 30, 2017 and 2016, the average balances of the tax exempt investment securities, included in investment securities, were \$31,204 and \$30,190, respectively. The interest income on tax exempt securities is computed on a tax-equivalent basis using a tax rate of 34% for all periods presented. During the quarter ended June 30, 2017, the sole trust preferred security held by the bank was called resulting in an additional \$118 in accretion interest income and a spike in the investment yield.

Nine months ended June 30, 2017 compared to the nine months ended June 30, 2016:

	Nine months ended June 30, 2017			Nine months ended June 30, 2016		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest earning assets:						
Cash and cash equivalents	\$ 15,007	\$ 68	0.61 %	\$ 18,630	\$ 51	0.37 %
Loans	542,600	18,632	4.59 %	482,808	16,623	4.60 %
Interest-bearing deposits	770	11	1.91 %	2,868	43	2.00 %
Investment securities (1)	85,910	1,463	2.28 %	91,420	1,250	1.83 %
Non-marketable equity securities, at cost	4,847	148	4.08 %	4,708	118	3.35 %
Total interest earning assets	\$ 649,134	\$ 20,322	4.19 %	\$ 600,434	\$ 18,085	4.02 %
Average interest-bearing liabilities:						
Savings accounts	\$ 45,342	\$ 46	0.14 %	\$ 30,755	\$ 26	0.11 %
Demand deposits	50,439	194	0.51 %	32,008	155	0.65 %
Money market	126,061	387	0.41 %	142,003	436	0.41 %
CD's	235,341	2,352	1.34 %	232,558	2,159	1.24 %
IRA's	27,861	225	1.08 %	24,584	212	1.15 %
Total deposits	485,044	3,204	0.88 %	461,908	2,988	0.86 %
FHLB Advances and other borrowings	77,914	808	1.39 %	63,231	543	1.15 %
Total interest-bearing liabilities	\$ 562,958	\$ 4,012	0.95 %	\$ 525,139	\$ 3,531	0.90 %
Net interest income		\$ 16,310			\$ 14,554	
Interest rate spread			3.24 %			3.12 %
Net interest margin			3.36 %			3.24 %
Average interest earning assets to average interest-bearing liabilities			1.15			1.14

(1) For the nine months ended June 30, 2017 and 2016, the average balances of the tax exempt investment securities, included in investment securities, were \$31,582 and \$28,433, respectively. The interest income on tax exempt securities is computed on a tax-equivalent basis using a tax rate of 34% for all periods presented. During the quarter ended June 30, 2017, the sole trust preferred security held by the bank was called resulting in an additional \$118 in accretion interest income and a spike in the investment yield.

Rate/Volume Analysis. The following table presents the dollar amount of changes in interest income and interest expense for the components of interest earning assets and interest-bearing liabilities that are presented in the preceding table. For each category of interest earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume, which are changes in the average outstanding balances multiplied by the prior period rate (i.e. holding the initial rate constant); and (2) changes in rate, which are changes in average interest rates multiplied by the prior period volume (i.e. holding the initial balance constant). Changes due to both rate and volume which cannot be segregated have been allocated in proportion to the relationship of the dollar amounts of the change in each category.

## RATE / VOLUME ANALYSIS

(Dollar amounts in thousands)

Three months ended June 30, 2017 compared to the three months ended June 30, 2016:

	Increase (decrease)		
	due to		
	Volume	Rate	Net
Interest income:			
Cash and cash equivalents	\$(4)	\$13	\$9
Loans	10	(52)	(42)
Interest-bearing deposits	(8)	2	(6)
Investment securities	(34)	219	185
Non-marketable equity securities, at cost	(3)	5	2
Total interest earning assets	(39)	187	148
Interest expense:			
Savings accounts	3	(1)	2
Demand deposits	11	(17)	(6)
Money market accounts	(19)	4	(15)
CD's	(83)	63	(20)
IRA's	(1)	(6)	(7)
Total deposits	(89)	43	(46)
FHLB Advances and other borrowings	22	35	57
Total interest bearing liabilities	(67)	78	11
Net interest income	\$28	\$109	\$137

Nine months ended June 30, 2017 compared to the nine months ended June 30, 2016.

	Increase (decrease) due to		
	Volume	Rate	Net
Interest income:			
Cash and cash equivalents	\$(12)	\$29	\$17
Loans	2,053	(44)	2,009
Interest-bearing deposits	(30)	(2)	(32)
Investment securities	(79)	292	213
Non-marketable equity securities, at cost	4	26	30
Total interest earning assets	1,936	301	2,237
Interest expense:			
Savings accounts	14	6	20
Demand deposits	78	(39)	39
Money market accounts	(49)	—	(49)
CD's	26	167	193
IRA's	27	(14)	13
Total deposits	96	120	216
FHLB Advances and other borrowings	139	126	265
Total interest bearing liabilities	235	246	481
Net interest income (loss)	\$1,701	\$55	\$1,756

Provision for Loan Losses. We determine our provision for loan losses ("provision", or "PLL") based on our desire to provide an adequate allowance for loan losses ("ALL") to reflect probable and inherent credit losses in our loan portfolio. Within the last year, we have experienced lower levels of charge-offs and nonperforming loans. With both local and national unemployment rates improving slightly in recent quarters and improved asset quality due to our

stricter underwriting standards, we anticipate our actual charge-off experience to remain stable throughout the remainder of the fiscal year ending

49

---



September 30, 2017. However, we continue to monitor adverse general economic conditions that could affect our commercial and agricultural portfolios in the future.

Net loan charge-offs for the nine month period ended June 30, 2017 were \$312, compared to \$335, for the comparable prior year period. Annualized net charge-offs to average loans were 0.08% for the nine months ended June 30, 2017, compared to 0.09% for the comparable period in the prior year. Non-accrual loans were \$6,035 at June 30, 2017, compared to \$3,191 at September 30, 2016. Of the \$2,844 increase in non-accrual loans, \$2,694 is attributable to the CBN acquisition. Even though we are experiencing a slight increase in our nonperforming loans, we believe our credit and underwriting policies have supported more effective lending decisions by the Bank. Long term, we believe our loan servicing procedures will be able to manage delinquency efficiently and effectively. Refer to the “Allowance for Loan Losses” and “Nonperforming Loans, Potential Problem Loans and Foreclosed Properties” sections below for more information related to non-performing loans.

We recorded a provision for loan losses of \$0 and \$75 for the nine month periods ended June 30, 2017 and June 30, 2016, respectively. Management believes that the provision taken for the current year nine month period is adequate in view of the present condition of our loan portfolio and the sufficiency of collateral supporting our non-performing loans. We continually monitor non-performing loan relationships and will make adjustments to our provision, as necessary, if changing facts and circumstances require a change in the ALL. In addition, a decline in the quality of our loan portfolio as a result of general economic conditions, factors affecting particular borrowers or our market areas, or otherwise, could all affect the adequacy of our ALL. If there are significant charge-offs against the ALL, or we otherwise determine that the ALL is inadequate, we will need to record an additional PLL in the future. See the section below captioned “Allowance for Loan Losses” in this discussion for further analysis of our provision for loan losses.

Non-interest Income (Loss). The following table reflects the various components of non-interest income for the three and nine month periods ended June 30, 2017 and 2016, respectively.

	Three months ended June 30,		%	Nine months ended June 30,		%
	2017	2016 (As Restated)	Change	2017	2016 (As Restated)	Change
Non-interest Income:						
Net gain on available for sale securities	\$ —	\$ 43	—	\$ 29	\$ 47	(38.30)%
Service charges on deposit accounts	325	410	(20.73)	1,065	1,164	(8.51)%
Loan fees and service charges	475	302	57.28	1,372	886	54.85%
Settlement proceeds	—	—	NA	283	—	NA
Other	302	258	17.05	870	676	28.70%
Total non-interest income	\$ 1,102	\$ 1,013	8.79%	\$ 3,619	\$ 2,773	30.51%

The decrease of \$99 in service charges on deposit accounts for the nine month period ended June 30, 2017, was primarily due to a decrease in checking account related service charges. Checking account related service charges have decreased industry wide, as customers utilize online and mobile tools to better manage their finances. Loan fees and service charges increased \$486 during the nine month period ended June 30, 2017, mainly due to gains on payoffs from purchased credit impaired loans in the amount of \$206 during the first fiscal quarter of 2017, an increase in secondary market fee income generated from customer mortgage activity, and an increase in commercial loan origination and servicing fee income. Additionally, in March 2017, the Bank received litigation settlement proceeds from a JP Morgan Residential Mortgage Backed Security (RMBS) claim in the amount of \$283. This JP Morgan RMBS was previously owned by the Bank and sold in 2011. Other non-interest income increased for the current three and nine month periods ended June 30, 2017 over the comparable prior year periods, due to an increase in interchange income and bank owned life insurance income. Total non-interest income increased \$89 and \$846 during the current three and nine month periods ended June 30, 2017 over the comparable prior year periods.



Non-interest Expense. The following table reflects the various components of non-interest expense for the three and nine month periods ended June 30, 2017 and 2016, respectively.

	Three months ended			Nine months ended		
	June 30,	2016 (As	%	June 30,	2016 (As	%
	2017	Restated)	Change	2017	Restated)	Change
Non-interest Expense:						
Compensation and benefits	\$2,506	\$2,378	5.38 %	\$7,888	\$6,784	16.27 %
Occupancy - net	565	554	1.99	2,196	1,835	19.67
Office	304	350	(13.14)	897	864	3.82
Data processing	476	445	6.97	1,402	1,274	10.05
Amortization of core deposit intangible	38	31	22.58	119	66	80.30
Advertising, marketing and public relations	75	174	(56.90)	243	456	(46.71)
FDIC premium assessment	79	86	(8.14 )	231	255	(9.41 )
Professional services	382	333	14.71	1,218	789	54.37
Other	305	453	(32.67)	1,034	1,006	2.78
Total non-interest expense	\$4,730	\$4,804	(1.54 )%	\$15,228	\$13,329	14.25 %

Non-interest expense (annualized) / Average assets 2.84 % 2.91 % (2.41 )% 2.99 % 2.74 % 9.12 %

During the three and nine months ended June 30, 2017, compensation and benefits costs increased \$128 and \$1,104 relative to the comparable prior year periods. During the current nine month period, compensation and benefits costs increased primarily due to the addition of new employees related to the CBN acquisition. During the current nine month period, occupancy expense increased primarily due to rent termination costs related to the four branch closures in Eastern Wisconsin during the first fiscal quarter of 2017. We are continuing to focus on technology to provide progressive, online and mobile banking services that complement friendly, knowledgeable bankers in convenient community bank locations. As we redefine and expand our footprint, we expect data processing costs to continue to remain higher. Amortization of core deposit intangible expense increased for the current three and nine month periods ended June 30, 2017, compared to the same periods in the prior year due to higher amortization resulting from the premium paid for the Central Bank selective deposits purchase and the CBN acquisition for the current three and nine month periods ended June 30, 2017, compared to the same periods in the prior year. Professional fees increased due to legal, audit, branch closure expenses and merger related costs due to the pending acquisition of Wells Financial Corp. In March 2017, the Bank prepaid \$9,830 in FHLB borrowings with an average rate of 2.10% and average remaining maturity of 13.17 months. The prepayment fee totaled \$104 and is included in other non-interest expense for the current nine months ended, June 30, 2017. Total non-interest expense decreased \$74 and increased \$1,899 for the three and nine month periods ended June 30, 2017, respectively, compared to the same periods in the prior year. Income Taxes. Income tax expense was \$604 and \$1,530 for the three and nine months ended June 30, 2017, compared to \$513 and \$1,331 for the three and nine months ended June 30, 2016, respectively. The effective tax rate decreased from 35.7% to 34.1% from the nine month periods ended June 30, 2016 and June 30, 2017, respectively.

#### BALANCE SHEET ANALYSIS

Loans. Gross Loan balances decreased by \$55,036, or 9.58%, to \$519,403 as of June 30, 2017 from \$574,439 at September 30, 2016 mainly due to our increased focus on secondary market lending for one to four family residential loans and exiting the originated indirect lending business. At June 30, 2017, the loan portfolio was comprised of \$328,041 of loans secured by real estate, or 63.1% of total loans including \$171,306 in commercial and agricultural real estate loans, and \$191,696 of consumer and other non-real estate loans, or 36.9% of total loans. Consumer and other loans include secured consumer originated indirect loans of \$93,887 secured primarily by boats and travel trailers, \$33,660 of third party purchased indirect loans secured primarily by household goods, and C&I and agricultural non-real estate loans totaling \$48,963. At September 30, 2016, the loan portfolio mix included real estate loans of \$340,591 or 59.3% of total loans including \$117,138 in commercial and agricultural real estate loans, and consumer and other loans of \$233,657, or 40.7% of total loans. Consumer and other loans include secured consumer

loans of \$119,073 in originated indirect loans, \$49,221 of third party purchased indirect loans, and C&I and agricultural loans totaling \$45,648.

51

---

Allowance for Loan Losses. The loan portfolio is our primary asset subject to credit risk. To address this credit risk, we maintain an ALL for probable and inherent credit losses through periodic charges to our earnings. These charges are shown in our consolidated statements of operations as PLL. See "Provision for Loan Losses" earlier in this quarterly report. We attempt to control, monitor and minimize credit risk through the use of prudent lending standards, a thorough review of potential borrowers prior to lending and ongoing and timely review of payment performance. Asset quality administration, including early identification of loans performing in a substandard manner, as well as timely and active resolution of problems, further enhances management of credit risk and minimization of loan losses. Any losses that occur and that are charged off against the ALL are periodically reviewed with specific efforts focused on achieving maximum recovery of both principal and interest.

At least quarterly, we review the adequacy of the ALL. Based on an estimate computed pursuant to the requirements of ASC 450-10, "Accounting for Contingencies" and ASC 310-10, "Accounting by Creditors for Impairment of a Loan", the analysis of the ALL consists of three components: (i) specific credit allocation established for expected losses relating to specific impaired loans for which the recorded investment in the loan exceeds its fair value; (ii) general portfolio allocation based on historical loan loss experience for significant loan categories; and (iii) general portfolio allocation based on qualitative factors such as economic conditions and other relevant factors specific to the markets in which we operate. We continue to refine our ALL methodology by introducing a greater level of granularity to our loan portfolio. We currently segregate loans into pools based on common risk characteristics for purposes of determining the ALL. The additional segmentation of the portfolio is intended to provide a more effective basis for the determination of qualitative factors affecting our ALL. In addition, management continually evaluates our ALL methodology to assess whether modifications in our methodology are appropriate in light of underwriting practices, market conditions, identifiable trends, regulatory pronouncements or other factors. We believe that any modifications or changes to the ALL methodology would be to enhance the ALL. However, any such modifications could result in materially different ALL levels in future periods.

The specific credit allocation for the ALL is based on a regular analysis of all loans that are considered impaired. In compliance with ASC 310-10, the fair value of the loan is determined based on either the present value of expected cash flows discounted at the loan's effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less the expected cost of sale for such collateral. At June 30, 2017 and September 30, 2016, we had 125 and 109 such impaired loans, all secured by real estate or personal property with an aggregate recorded investment of \$5,646 and \$5,397, respectively. Of the impaired loans, respectively, there were 26 such individual loans where estimated fair value was less than their book value (i.e. we deemed impairment to exist) totaling \$1,328 for which \$241 in specific ALL was recorded as of June 30, 2017.

At June 30, 2017, the ALL was \$5,756, or 1.11% of our total loan portfolio, compared to ALL of \$6,068, or 1.06% of the total loan portfolio at September 30, 2016. This level was based on our analysis of the loan portfolio risk at June 30, 2017, taking into account the factors discussed above. At June 30, 2017, the ALL was 1.18% of our total loan portfolio, excluding the third party purchased consumer loans referenced elsewhere herein, compared to 1.16% of the total loan portfolio excluding these third party purchased consumer loans at September 30, 2016. We have established a separate restricted reserve account for these third party purchased consumer loans. The funds in the reserve account are to be released to compensate the Bank for any nonperforming purchased loans that are not purchased back by the seller or substituted with performing loans and are ultimately charged off.

All of the nine factors identified in the FFIEC's Interagency Policy Statement on the Allowance for Loan and Lease Losses are taken into account in determining the ALL. The impact of the factors in general categories are subject to change; thus the allocations are management's estimate of the loan loss categories in which the probable and inherent loss has occurred as of the date of our assessment. Of the nine factors, we believe the following have the greatest impact on our customers' ability to repay loans and our ability to recover potential losses through collateral sales: (1) lending policies and procedures; (2) economic and business conditions; and (3) the value of the underlying collateral. As loan balances and estimated losses in a particular loan type decrease or increase and as the factors and resulting allocations are monitored by management, changes in the risk profile of the various parts of the loan portfolio may be reflected in the allocated allowance. The general component covers non-impaired loans and is based on historical loss experience adjusted for these and other qualitative factors. In addition, management continues to refine the ALL

estimation process as new information becomes available. These refinements could also cause increases or decreases in the ALL. The unallocated portion of the ALL is intended to account for imprecision in the estimation process or relevant current information that may not have been considered in the process.

**Nonperforming Loans, Potential Problem Loans and Foreclosed Properties.** We practice early identification of non-accrual and problem loans in order to minimize the Bank's risk of loss. Non-performing loans are defined as non-accrual loans and restructured loans that were 90 days or more past due at the time of their restructure, or when management determines that such classification is warranted. The accrual of interest income is discontinued on our loans according to the following schedule:

52

---

- Commercial/agricultural real estate loans, past due 90 days or more;
  - Commercial/agricultural non-real estate loans, past due 90 days or more;
  - Closed ended consumer non-real estate loans past due 120 days or more; and
  - Residential real estate loans and open ended consumer non-real estate loans past due 180 days or more.
- When interest accruals are discontinued, interest credited to income is reversed. If collection is in doubt, cash receipts on non-accrual loans are used to reduce principal rather than being recorded as interest income. A TDR typically involves the granting of some concession to the borrower involving a loan modification, such as modifying the payment schedule or making interest rate changes. TDR loans may involve loans that have had a charge-off taken against the loan to reduce the carrying amount of the loan to fair market value as determined pursuant to ASC 310-10.

The following table identifies the various components of non-performing assets and other balance sheet information as of the dates indicated below and changes in the ALL for the periods then ended:

	June 30, 2017 and Nine Months Then Ended	September 30, 2016 and Twelve Months Then Ended		
Nonperforming assets:				
Nonaccrual loans	\$ 6,035	\$ 3,191		
Accruing loans past due 90 days or more	681	380		
Total nonperforming loans ("NPLs") (1)	6,716	3,571		
Other real estate owned (1)	580	725		
Other collateral owned	42	52		
Total nonperforming assets ("NPAs")	\$ 7,338	\$ 4,348		
Troubled Debt Restructurings ("TDRs")	\$ 3,389	\$ 3,733		
Nonaccrual TDRs	\$ 393	\$ 515		
Average outstanding loan balance	\$ 546,921	\$ 512,475		
Loans, end of period (2)	\$ 519,403	\$ 574,439		
Total assets, end of period	\$ 665,641	\$ 695,865		
ALL, at beginning of period	\$ 6,068	\$ 6,496		
Loans charged off:				
Residential real estate	(160	)	(140	)
Commercial/Agricultural real estate	—		—	
Consumer non-real estate	(293	)	(460	)
Commercial/Agricultural non-real estate	(9	)	(118	)
Total loans charged off	(462	)	(718	)
Recoveries of loans previously charged off:				
Residential real estate	8		11	
Commercial/Agricultural real estate	—		—	
Consumer non-real estate	141		204	
Commercial/Agricultural non-real estate	1		—	
Total recoveries of loans previously charged off:	150		215	
Net loans charged off ("NCOs")	(312	)	(503	)
Additions to ALL via provision for loan losses charged to operations	—		75	
ALL, at end of period	\$ 5,756		\$ 6,068	
Ratios:				
ALL to NCOs (annualized)	1,383.65	%	1,206.36	%
NCOs (annualized) to average loans	0.08	%	0.10	%
ALL to total loans	1.11	%	1.06	%
NPLs to total loans	1.29	%	0.62	%
NPAs to total assets	1.10	%	0.62	%

(1) Total Nonperforming assets increased due to the CBN acquisition in Fiscal 2016. Acquired nonperforming loans were \$4,289 and \$1,778 at June 30, 2017 and September 30, 2016, respectively. Acquired other real estate owned property balances were \$138 and \$212 at June 30, 2017 and September 30, 2016, respectively.

(2) Total loans at June 30, 2017, include \$33,660 in consumer and other loans purchased from a third party. See Note 3 in the accompanying Condensed Consolidated Financial Statements regarding the separate restricted reserve account established for these purchased consumer loans.





An aging analysis of the Company's originated and acquired loans as of June 30, 2017 and September 30, 2016, respectively, was as follows

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Nonaccrual Loans	Recorded Investment > 89 Days and Accruing
June 30, 2017						
Originated loans	\$ 2,157	\$ 523	\$ 2,011	\$ 4,691	\$ 1,750	\$ 677
Acquired loans	461	45	2,098	2,604	4,285	4
Total	\$ 2,618	\$ 568	\$ 4,109	\$ 7,295	\$ 6,035	\$ 681
September 30, 2016						
Originated loans	\$ 1,677	\$ 1,273	\$ 1,372	\$ 4,322	\$ 1,600	\$ 380
Acquired loans	100	96	1,491	1,687	1,591	—
Total	\$ 1,777	\$ 1,369	\$ 2,863	\$ 6,009	\$ 3,191	\$ 380

We believe our credit and underwriting policies continue to support more effective lending decisions by the Bank, which increases the likelihood of maintaining loan quality going forward. Moreover, we believe the favorable trends noted in previous quarters regarding our nonperforming loans and nonperforming assets reflect our continued adherence to improved underwriting criteria and practices along with improvements in macroeconomic factors in our credit markets. We believe our current ALL is adequate to cover probable losses in our current loan portfolio.

Non-performing loans of \$6,716 at June 30, 2017, which included \$393 of non-accrual troubled debt restructured originated loans, reflected an increase of \$3,145 from the non-performing loans balance of \$3,571 at September 30, 2016. The increase was mainly due to acquired nonperforming loan balances. Most of these non-performing loan relationships are secured primarily by collateral including residential real estate and commercial or agricultural assets. Our non-performing assets were \$7,338 at June 30, 2017, or 1.10% of total assets, compared to \$4,348, or 0.62% of total assets at September 30, 2016. The increase in non-performing assets since September 30, 2016 was primarily due to the deterioration of two larger, acquired agricultural loans through the merger of CBN, as reported three months earlier.

Other real estate owned ("OREO") decreased by \$145, from \$725 at September 30, 2016 to \$580 at June 30, 2017. Other collateral owned decreased \$10 during the nine months ended June 30, 2017 to \$42 from the September 30, 2016 balance of \$52. We continue to aggressively liquidate OREO and other collateral owned as part of our overall credit risk strategy.

Net charge offs for the nine month period ended June 30, 2017 were \$312, compared to \$335 for the same prior year period. The ratio of annualized net charge-offs to average loans receivable was 0.08% for the nine month period ended June 30, 2017, compared to 0.10% for the twelve months ended September 30, 2016.

Investment Securities. We manage our securities portfolio in an effort to enhance income and provide liquidity. Our investment portfolio is comprised of securities available for sale and securities held to maturity. The weighted average life of the investment portfolio was 4.7 years at June 30, 2017, compared with 4.0 years at September 30, 2016. The modified duration of the investment portfolio was 4.2 years at June 30, 2017, compared with 3.7 years at September 30, 2016.

Securities held to maturity were \$5,653 at June 30, 2017, compared with \$6,669 at September 30, 2016. Securities available for sale, which represent the majority of our investment portfolio, were \$78,475 at June 30, 2017, compared with \$80,123 at September 30, 2016.

The amortized cost and market values of our available for sale securities by asset categories as of the dates indicated below were as follows:

Securities available for sale	Amortized Fair	
	Cost	Value
June 30, 2017		
U.S. government agency obligations	\$ 14,851	\$14,522
Obligations of states and political subdivisions	32,732	32,887
Mortgage-backed securities	31,054	30,930
Federal Agricultural Mortgage Corporation	71	136
Totals	\$ 78,708	\$78,475
September 30, 2016		
U.S. government agency obligations	\$ 16,388	\$16,407
Obligations of states and political subdivisions	33,405	34,012
Mortgage-backed securities	28,861	29,247
Federal Agricultural Mortgage Corporation	70	81
Trust preferred securities	376	376
Totals	\$ 79,100	\$80,123

The amortized cost and fair value of our held to maturity securities by asset categories as of the dates noted below were as follows:

Securities held to maturity	Amortized Fair	
	Cost	Value
June 30, 2017		
Obligations of states and political subdivisions	\$ 1,312	\$1,329
Mortgage-backed securities	4,341	4,481
Totals	\$ 5,653	\$5,810
September 30, 2016		
Obligations of states and political subdivisions	\$ 1,315	\$1,335
Mortgage-backed securities	5,354	5,609
Totals	\$ 6,669	\$6,944

The composition of our available for sale portfolios by credit rating as of the dates indicated below was as follows:

Securities available for sale	June 30, 2017		September 30, 2016	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
U.S. government agency	\$45,905	\$45,453	\$45,249	\$45,654
AAA	726	731	730	747
AA	24,949	25,039	25,574	26,006
A	5,334	5,458	5,414	5,567
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	1,794	1,794	2,133	2,149
Total	\$78,708	\$78,475	\$79,100	\$80,123

The composition of our held to maturity portfolio by credit rating as of the dates indicated was as follows:

Securities held to maturity	June 30, 2017		September 30, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. government agency	\$4,341	\$4,481	\$5,354	\$5,609
AAA	—	—	—	—
AA	—	—	—	—
A	962	970	965	982
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	350	359	350	353
Total	\$5,653	\$5,810	\$6,669	\$6,944

At June 30, 2017, securities with a book value of \$2,792 were pledged against a line of credit with the Federal Reserve Bank of Minneapolis. As of June 30, 2017, this line of credit had a zero balance. The Bank has pledged U.S. Government Agency securities with a book value of \$7,824 and mortgage-backed securities with a book value of \$19,166 as collateral against specific municipal deposits.

Deposits. Deposits decreased to \$519,133 at June 30, 2017, from \$557,677 at September 30, 2016, largely due to the announced closure of the four Eastern Wisconsin branches.

The following is a summary of deposits by type at June 30, 2017 and September 30, 2016, respectively:

	June 30, 2017	September 30, 2016
Non-interest bearing demand deposits	\$49,582	\$ 45,408
Interest bearing demand deposits	49,366	48,934
Savings accounts	53,124	52,153
Money market accounts	128,435	137,234
Certificate accounts	238,626	273,948
Total deposits	\$519,133	\$ 557,677

Since December 2012, we have closed eighteen branches and sold the deposits and loans in one retail branch, resulting in ten markets we have exited. As of September 30, 2016, the deposit account balances remaining in these ten exited markets totaled \$85,395, including the four closed branches in Eastern Wisconsin. As of June 30, 2017, these deposit account balances have declined to \$57,024. We expect these deposit balances to continue to decline as certificates mature and accounts are closed.

Our objective is to grow core deposits and build customer relationships in our core markets by expanding our branch network, deposit product offerings, including Treasury Management, and providing excellent customer service. Management expects to continue to place emphasis on both retaining and generating additional core deposits in 2017 through competitive pricing of deposit products, our branch delivery systems that have already been established and electronic banking.

Institutional certificates of deposit as a funding source increased to \$31,340 at June 30, 2017 from \$22,822 as of September 30, 2016. Institutional certificates of deposit remain an important part of our deposit mix as we continue to pursue funding sources to lower the Bank's cost of funds.

The Bank had \$19,752 and \$22,773 in brokered deposits at June 30, 2017 and September 30, 2016, respectively. Brokered deposit levels are within all regulatory directives thereon.

Federal Home Loan Bank (FHLB) advances (borrowings) and Other Borrowings. FHLB advances were \$67,900 as of June 30, 2017 and \$59,291 as of September 30, 2016, as we continue to utilize these advances, as necessary, to supplement core deposits to meet our funding and liquidity needs, and as we evaluate all options to lower the Bank's cost of funds. In March 2017, the Bank prepaid \$9,830 in FHLB borrowings with an average rate of 2.10% and average remaining maturity of 13.17 months. The prepayment fee totaled \$104 and is included in other non-interest expense for the current three and nine months ended, June 30, 2017, on the Consolidated Statement of Operations.

The weighted average remaining term of the borrowings at June 30, 2017 was 1.60 months compared to 8.32 months at September 30, 2016.

57

---

On May 16, 2016, we entered into a Loan Agreement with First Tennessee Bank National Association ("FTN") evidencing an \$11,000 term loan maturing on May 15, 2021. The proceeds from the Loan were used by the Company for the sole purpose of financing the acquisition, by merger, of CBN. On September 30, 2016, we amended and restated the loan Agreement with FTN whereby FTN extended a \$3,000 revolving line of credit to the Company for the purpose of financing the previously announced stock repurchase program, pursuant to which the Company may purchase up to 525,200 shares of its common stock, or approximately 10 percent of the outstanding shares from time to time through October 1, 2017. At June 30, 2017, the available and unused portion of this borrowing arrangement was \$3,000. The Company has pledged 100% of Bank stock as collateral for the FTN loan and credit facilities. As of June 30, 2017, 1,428 shares have been repurchased.

On May 30, 2017, we entered into the Second Amended and Restated Loan Agreement (the "Loan Agreement") with FTN whereby FTN terminated the undrawn \$3,000 revolving line of credit and extended a \$5,000 term loan facility to the Company for the purpose of financing its previously announced merger with Wells Financial Corp. The Loan Agreement provides for funding on a date no later than September 30, 2017, subject to certain customary conditions and the consummation of the merger with Wells Financial Corp substantially simultaneously with funding. The Loan Agreement provides for a floating interest rate that is the London interbank offered rate ("LIBOR") plus 270 basis points, which will be reset quarterly, and the maturity date will be five years from closing.

On May 30, 2017, we entered into a Subordinated Note Purchase Agreement ("Note Purchase Agreement") with EJF Debt Opportunities Master Fund, LP (the "Purchaser"), pursuant to which the Purchaser agreed to purchase 6.75% fixed-to-floating subordinated notes in the aggregate principal amount of \$15,000 (the "Notes"). The Note Purchase Agreement is expected to fund in the fourth fiscal quarter of 2017. The Notes will provide for a maturity date to occur ten years from the date of issuance. The Notes will provide for an annual interest rate for the first five years following issuance of the Notes (the "Fixed Interest Period") of 6.75%, subject to adjustment at funding if, and, to the extent that, the 10-Year Treasury Constant Maturity Index exceeds 2.5% on the business day immediately preceding funding, as quoted by the Federal Reserve Board in Federal Reserve Statistical Release H.15 (519). After the Fixed Interest Period and through maturity (the "Floating Interest Period"), the interest rate will be reset quarterly, to equal the three-month LIBOR plus 490 basis points. Interest on the Notes will be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year through the maturity date.

Stockholders' Equity. Total stockholders' equity was \$66,010 at June 30, 2017, compared to \$64,544 at September 30, 2016. Total stockholders' equity increased by \$1,466, primarily as a result of an increase in retained earnings during the nine months ended June 30, 2017.

Liquidity and Asset / Liability Management. Liquidity management refers to our ability to ensure cash is available in a timely manner to meet loan demand and depositors' needs, and meet other financial obligations as they become due without undue cost, risk or disruption to normal operating activities. Asset / liability management refers to our ability to efficiently and effectively utilize customer deposits and other funding sources to generate sufficient risk-weighted yields on interest earning assets. We manage and monitor our short-term and long-term liquidity positions and needs through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. A key metric we monitor is our liquidity ratio, calculated as cash, twelve month projected principal and interest payments, floater bond receivable and Bank Owned Life Insurance divided by deposits maturing in less than one-year and Federal Home Loan Bank borrowings due in the next twelve months. At June 30, 2017, our liquidity ratio was 8.74%, which is above our targeted liquidity ratio of at least 7.0%.

Our primary sources of funds are deposits; amortization, prepayments and maturities of outstanding loans; other short-term investments; and funds provided from operations. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, and to fund loan commitments. While scheduled payments from the amortization of loans and maturing short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Although \$133,588 of our \$238,626 (56.0%) CD portfolio as of June 30, 2017 will mature within the next 12 months, we have historically retained a majority of our maturing CD's. However, \$19,522,

or 14.6%, of the CD maturities within the next 12 months are from deposits located within the ten markets we have exited and we don't expect to retain a majority of these CD's. We are currently attempting to strengthen customer relationships, by building core deposit relationships through new deposit product offerings to our consumer and commercial loan customers. In the present interest rate environment, and based on maturing yields, this should also improve our cost of funds. While we believe that our branch network attracts core deposits and enhances the Bank's long-term liquidity, a key component to our broader liquidity management strategy, we continue to analyze the profitability of our branch network.

We maintain access to additional sources of funds including FHLB borrowings and lines of credit with the Federal Reserve Bank, US Bank, Bankers' Bank and First Tennessee Bank. We utilize FHLB borrowings to leverage our capital base, to provide funds for our lending and investment activities, and to manage our interest rate risk. Our borrowing arrangement with

the FHLB calls for pledging certain qualified real estate loans, and borrowing up to 75% of the value of those loans, not to exceed 35% of the Bank's total assets. As of June 30, 2017, we have approximately \$64,320 available under this arrangement, as compared to \$90,500 at September 30, 2016. We also maintain lines of credit of \$1,834 with the Federal Reserve Bank, \$5,000 with US Bank, \$13,500 with Bankers' Bank and \$11,000 with First Tennessee Bank as part of our contingency funding plan. The Federal Reserve Bank line of credit is based on 80% of the collateral value of the agency securities being held at the Federal Reserve Bank. The Bankers' Bank and First Tennessee line of credit is a discretionary line of credit. As of June 30, 2017, our line of credit balance with the Federal Home Loan Bank was \$67,900. As of the same date, our line of credit balance with the Federal Reserve Bank, US Bank, Bankers' Bank and First Tennessee Bank was \$0.

**Off-Balance Sheet Liabilities.** Some of our financial instruments have off-balance sheet risk. These instruments include unused commitments for lines of credit, overdraft protection lines of credit and home equity lines of credit, as well as commitments to extend credit. As of June 30, 2017, the Company had \$47,106 in unused commitments, compared to \$28,476 in unused commitments as of September 30, 2016.

**Capital Resources.** As of June 30, 2017, as shown in the table below, our Tier 1 and Risk-based capital levels exceeded levels necessary to be considered "Well Capitalized" under Prompt Corrective Action provisions for both the Bank and at the Company level.

Below are the amounts and ratios for our capital levels as of the dates noted below for the Bank.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2017 (Unaudited)						
Total capital (to risk weighted assets)	\$73,117,000	15.4 %	\$38,002,000	>= 8.0 %	\$47,502,000	>= 10.0 %
Tier 1 capital (to risk weighted assets)	67,361,000	14.2 %	28,501,000	>= 6.0 %	38,002,000	>= 8.0 %
Common equity tier 1 capital (to risk weighted assets)	67,361,000	14.2 %	21,376,000	>= 4.5 %	30,876,000	>= 6.5 %
Tier 1 leverage ratio (to adjusted total assets)	67,361,000	10.3 %	26,165,000	>= 4.0 %	32,706,000	>= 5.0 %
As of September 30, 2016 (Audited)						
Total capital (to risk weighted assets)	\$72,345,000	14.1 %	\$41,189,000	>= 8.0 %	\$51,487,000	>= 10.0 %
Tier 1 capital (to risk weighted assets)	66,278,000	12.9 %	30,892,000	>= 6.0 %	41,189,000	>= 8.0 %
Common equity tier 1 capital (to risk weighted assets)	66,278,000	12.9 %	23,169,000	>= 4.5 %	33,466,000	>= 6.5 %
Tier 1 leverage ratio (to adjusted total assets)	66,278,000	9.3 %	28,428,000	>= 4.0 %	35,535,000	>= 5.0 %

At June 30, 2017, the Bank was categorized as "Well Capitalized" under Prompt Corrective Action Provisions, as determined by the OCC, our primary regulator.



Below are the amounts and ratios for our capital levels as of the dates noted below for the Company.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2017 (Unaudited)						
Total capital (to risk weighted assets)	\$66,639,000	14.0%	\$38,002,000	>= 8.0%	\$47,502,000	>= 10.0%
Tier 1 capital (to risk weighted assets)	60,883,000	12.8%	28,501,000	>= 6.0%	38,002,000	>= 8.0%
Common equity tier 1 capital (to risk weighted assets)	60,883,000	12.8%	21,376,000	>= 4.5%	30,876,000	>= 6.5%
Tier 1 leverage ratio (to adjusted total assets)	60,883,000	9.3%	26,165,000	>= 4.0%	32,706,000	>= 5.0%
As of September 30, 2016 (Audited)						
Total capital (to risk weighted assets)	\$64,811,000	12.6%	\$41,189,000	>= 8.0%	\$51,487,000	>= 10.0%
Tier 1 capital (to risk weighted assets)	58,743,000	11.4%	30,892,000	>= 6.0%	41,189,000	>= 8.0%
Common equity tier 1 capital (to risk weighted assets)	58,743,000	11.4%	23,169,000	>= 4.5%	33,466,000	>= 6.5%
Tier 1 leverage ratio (to adjusted total assets)	58,743,000	8.3%	28,428,000	>= 4.0%	35,535,000	>= 5.0%

At June 30, 2017, the Company was categorized as "Well Capitalized" under Prompt corrective Action Provisions.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Our Risk When Interest Rates Change.** The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time and are not predictable or controllable. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. Like other financial institutions, our interest income and interest expense are affected by general economic conditions and policies of regulatory authorities, including the monetary policies of the Federal Reserve. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

**How We Measure Our Risk of Interest Rate Changes.** As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk through several means including through the use of third party reporting software. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

In order to manage the potential for adverse effects of material and prolonged increases in interest rates on our results of operations, we adopted asset and liability management policies to better align the maturities and re-pricing terms of our interest-earning assets and interest-bearing liabilities. These policies are implemented by our Asset and Liability Management Committee ("ALCO"). The ALCO is comprised of members of senior management and the Board of Directors. The ALCO establishes guidelines for and monitors the volume and mix of our assets and funding sources, taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The Committee's objectives are to manage assets and funding sources to produce results that are consistent with liquidity, cash flow, capital adequacy, growth, risk and profitability goals for the Bank. The ALCO meets on a regularly scheduled basis to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to net present value of portfolio equity analysis. At each meeting, the Committee recommends strategy changes, as appropriate, based on this review. The Committee

is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the Bank's Board of Directors on a regularly scheduled basis.

In order to manage our assets and liabilities and achieve desired levels of liquidity, credit quality, cash flow, interest rate risk, profitability and capital targets, we have focused our strategies on:

- originating shorter-term secured consumer, commercial and agricultural loan maturities;
- originating variable rate commercial and agricultural loans;
- managing our funding needs by utilizing core deposits, institutional certificates of deposits and borrowings as appropriate to extend terms and lock in fixed interest rates;
- reducing non-interest expense and managing our efficiency ratio by implementing technologies to enhance customer service and increase employee productivity;
- realigning supervision and control of our branch network by modifying their configuration, staffing, locations and reporting structure to focus resources on our most productive markets;
- managing our exposure to changes in interest rates, including but not limited to the sale of longer term fixed rate consumer loans if the analysis proves advantageous to the Bank; and
- originating ARM loans with a term of 7 years or less to minimize the impact of sudden rate changes.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the ALCO may determine to increase or decrease the Bank's interest rate risk position somewhat in order to manage net interest margin.

The following table sets forth, at March 31, 2017 (the most recent date available), an analysis of our interest rate risk as measured by the estimated changes in Economic Value of Equity ("EVE") resulting from an immediate and permanent shift in the yield curve (up 300 basis points and down 100 basis points). As of June 30, 2017, due to the current level of interest rates, EVE estimates for decreases in interest rates greater than 100 basis points are not meaningful.

Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	Economic Value of Equity (EVE)			EVE Ratio (EVE as a % of Assets)	
	Amount	Change	% Change	EVE Ratio	Change
	(Dollars in thousands)				
+300 bp	\$73,792	\$(33,338)	(31)%	11.99%	(382) bp
+200 bp	88,516	(18,614)	(17)%	13.88%	(193)
+100 bp	100,323	(6,807)	(6)%	15.23%	(58)
0 bp	107,130	—	—	15.81%	—
-100 bp	106,262	(868)	(1)%	15.36%	(45)

(1) Assumes an immediate and parallel shift in the yield curve at all maturities.

The following table sets forth, at September 30, 2016, an analysis of our interest rate risk as measured by the estimated changes in EVE resulting from an immediate and permanent shift in the yield curve (up 300 basis points and down 100 basis points).

Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	Economic Value of Equity (EVE)			EVE Ratio (EVE as a % of Assets)	
	Amount	Change	% Change	EVE Ratio	Change
	(Dollars in thousands)				
+300 bp	\$60,132	\$(35,255)	(37)%	9.44%	(408) bp
+200 bp	76,060	(19,327)	(20)%	11.49%	(203)
+100 bp	88,509	(6,878)	(7)%	12.92%	(60)
0 bp	95,387	—	—	13.52%	—

-100 bp 93,928 (1,459 ) (2 )% 13.05% (47 )

(1) Assumes an immediate and parallel shift in the yield curve at all maturities.

Our overall interest rate sensitivity is demonstrated by net interest income shock analysis which measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of change in our net interest income over the next 12 months in the event of an immediate and parallel shift in the yield curve (up 300 basis points

61

---

and down 100 basis points). The table below presents our projected change in net interest income for the various rate shock levels at March 31, 2017 (the most recent date available) and September 30, 2016.

Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	Change in Net Interest Income Over One Year Horizon			
	At March 31, 2017		At September 30, 2016	
	Dollar Change in Net Interest Income (in thousands)	Percentage Change	Dollar Change in Net Interest Income (in thousands)	Percentage Change
+300 bp	\$(3,080)	(13.16)%	\$(2,790)	(11.14)%
+200 bp	(1,662)	(7.10)%	(1,552)	(6.20)%
+100 bp	(603)	(2.57)%	(678)	(2.71)%
0 bp	(38)	(0.16)%	(290)	(1.16)%
-100 bp	170	0.73%	(222)	(0.88)%

(1) Assumes an immediate and parallel shift in the yield curve at all maturities.

Note: The table above may not be indicative of future results.

The assumptions used to measure and assess interest rate risk include interest rates, loan prepayment rates, deposit decay (runoff) rates, and the market values of certain assets under differing interest rate scenarios. Actual values may differ from those projections set forth above should market conditions vary from the assumptions used in preparing the analysis. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates.

#### ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as amended (The "Exchange Act") that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that the information required to be disclosed in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have designed our disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives. We carried out an evaluation as of June 30, 2017, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2017 at reaching a level of reasonable assurance.

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On March 22, 2017, Paul Parshall, a purported Wells stockholder, filed a putative stockholder class action and derivative complaint in the District Court of Faribault County, Minnesota captioned Paul Parshall v. Wells Financial Corp., et al. The complaint was subsequently amended on June 15, 2017. The lawsuit names as defendants Wells, each of the current members of the Wells board and CCBI. The amended complaint asserts that the director defendants breached their fiduciary duties by initiating a process to sell Wells that undervalues Wells; by agreeing to the merger agreement at a price that does not reflect Wells' true value; by either failing to inform themselves of Wells' true value or disregarding such value; by entering into a preclusive merger agreement; and by failing to make adequate disclosure in the registration statement on Form S-4 as filed on June 2, 2017. The amended complaint further asserts that Wells and CCBI aided and abetted the purported breaches of fiduciary duty. The amended complaint

62

---

seeks (i) a declaration that the action may be maintained as a class action; (ii) injunctive relief to prevent the consummation of the merger; (iii) in the event the merger is consummated, rescission of the transaction or rescissionary damages; (iv) an order directing the defendants to account to the plaintiff for damages because of alleged wrongdoing; (v) an award to plaintiff of costs and disbursements including attorneys' and experts' fees; and (vi) other relief as may be just and proper. The defendants believe this lawsuit is without merit and intend to vigorously defend against the allegations.

#### Item 1A. RISK FACTORS

A detailed discussion of the Company's risk factors is disclosed in Part I, Item 1A, "Risk Factors," of the Company's Form 10-K, for the fiscal year ended September 30, 2016. With the exception of the following risk factors there have been no material changes to the risk factors disclosed in our Form 10-K.

The success of the Merger and integration of Wells into the Company's operations will depend on a number of uncertain factors.

The success of the Merger will depend on a number of factors, including, without limitation:

- the Company's ability to integrate the branch offices acquired from Wells Federal Bank into the Bank's current operations;
- the Company's ability to limit the outflow of deposits held by its new customers in the acquired branch offices and to successfully retain and manage loans acquired in the Merger;
- the Company's ability to control the incremental non-interest expenses from the acquired branch offices; and
- the Company's ability to retain and attract the appropriate personnel to staff the acquired branch offices.

Integrating the acquired branch offices will be a significant undertaking, and may be affected by general market and economic conditions or government actions affecting the financial industry generally. No assurance can be given that the Company will be able to integrate the acquired branch offices successfully, and the integration process could result in the loss of key employees, the disruption of ongoing business, or inconsistencies in standards, controls, procedures and policies that adversely affect the Company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the Merger. The Company may also encounter unexpected difficulties or costs during the integration that could adversely affect its earnings and financial condition. Additionally, no assurance can be given that the operation of the acquired branches will not adversely affect the Company's existing profitability, that the Company will be able to achieve results in the future similar to those achieved by its existing banking business, or that the Company will be able to manage any growth resulting from the Merger effectively.

Combining the Company and Wells may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the Merger may not be realized.

The Company and Wells have operated and, until the completion of the Merger, will continue to operate, independently. The success of the Merger, including anticipated benefits and cost savings, will depend, in part, on the Company's ability to successfully combine and integrate the businesses of the Company and Wells in a manner that permits growth opportunities, and does not materially disrupt existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses, or inconsistencies in standards, controls, procedures, and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors, and employees or to achieve the anticipated benefits and cost savings of the Merger. The loss of key employees could adversely affect the Company's ability to successfully conduct its business, which could have an adverse effect on the Company's financial results and the value of its common stock. If the Company experiences difficulties with the integration process and attendant systems conversion, the anticipated benefits of the Merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause the Company and/or Wells to lose customers or cause customers to remove their accounts from the Company and/or Wells and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of the Company and Wells during this transition period and for an undetermined period after completion of the Merger on the combined company. In addition, the actual cost savings of

the Merger could be less than anticipated.

The combined company may be unable to retain the Company and/or Wells personnel successfully after the Merger is completed.

The success of the Merger will depend in part on the combined company's ability to retain the talents and dedication of key employees currently employed by the Company and Wells. It is possible that these employees may decide not to remain with the Company or Wells, as applicable, while the Merger is pending or with the combined company after the Merger is completed. If key employees terminate their employment, or if an insufficient number of employees is retained to maintain effective operations, the combined company's business activities may be adversely affected and management's attention may be diverted from successfully integrating Wells to hiring suitable replacements, all of which may cause the combined company's business to suffer.

64

---



In addition, the Company and Wells may not be able to locate suitable replacements for any key employees who leave either company, or to offer employment to potential replacements on reasonable terms.

The Merger Agreement may be terminated in accordance with its terms and the Merger may not be completed.

The Merger Agreement is subject to a number of conditions which must be fulfilled in order to complete the Merger. Those conditions include: the approval of the Merger by the Wells stockholders, the receipt of all required regulatory approvals and expiration or termination of all statutory waiting periods in respect thereof, absence of any order prohibiting completion of the Merger, receipt of consents of counterparties to certain Wells contracts that will continue in effect after the Merger, the absence of any event, change or development between the date of signing the Merger Agreement and completion of the Merger that could have a material adverse effect on Wells or the Company, the accuracy of representations and warranties under the Merger Agreement (subject to the materiality standards set forth in the Merger Agreement), and the Company's and Wells' performance of their respective obligations under the Merger Agreement in all material respects. These conditions to the closing of the Merger may not be fulfilled in a timely manner or at all and, accordingly, the Merger may be delayed or may not be completed.

In addition, if the Merger is not completed by October 31, 2017 (subject to extension under certain circumstances), either the Company or Wells may choose not to proceed with the Merger, and the parties can mutually decide to terminate the Merger Agreement at any time, before or after stockholder approval. In addition, the Company and Wells may elect to terminate the Merger Agreement in certain other circumstances.

Failure to complete the Merger could negatively impact the stock price and the future business and financial results of the Company.

If the Merger is not completed for any reason, including as a result of Wells stockholders declining to approve the Merger at the special meeting, the ongoing business of the Company may be adversely affected and, without realizing any of the benefits of having completed the Merger, the Company would be subject to a number of risks, including the following:

- the Company may experience negative reactions from the financial markets, including negative impacts on its stock price (to the extent that the current market price reflects a market assumption that the Merger will be completed);
- the Company may experience negative reactions from its customers, vendors and employees;
- the Company will have incurred substantial expenses and will be required to pay certain costs relating to the Merger, whether or not the Merger is completed; and

matters relating to the Merger (including integration planning) will require substantial commitments of time and resources by the Company's management, which would otherwise have been devoted to other opportunities that may have been beneficial to the Company as an independent company.

In addition to the above risks, if the Merger Agreement is terminated and the Company board seeks another merger or business combination, the Company's stockholders cannot be certain that the Company will be able to find a party willing to enter into such an arrangement.

The Company will incur significant transaction and merger-related costs in connection with the Merger.

The Company has incurred, and expects to continue to incur, a number of non-recurring costs associated with completing the Merger, combining the operations of the two companies and achieving the desired synergies. These fees and costs have been, and will continue to be, substantial. The Company will incur transaction fees and costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. Other significant non-recurring transaction costs related to the Merger include, but are not

limited to, fees paid to legal, financial and accounting advisors, as well as the costs and expenses of filing, printing and mailing the proxy statement/prospectus and all filing and other fees paid to the SEC in connection with the Merger. The Company continues to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the Merger and the integration of the two companies' businesses. Although the Company expects that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow the Company to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all.

Litigation relating to the Merger could require the Company and Wells to incur significant costs and suffer management distraction, as well as delay and/or enjoin the Merger.

On March 22, 2017, Paul Parshall, a purported Wells stockholder, filed a putative stockholder class action and derivative complaint in the District Court of Faribault County, Minnesota captioned Paul Parshall v. Wells Financial Corp., et al. The complaint

was subsequently amended on June 15, 2017. The lawsuit names as defendants Wells, each of the current members of the Wells board and CCBI. The amended complaint asserts that the director defendants breached their fiduciary duties by initiating a process to sell Wells that undervalues Wells; by agreeing to the merger agreement at a price that does not reflect Wells' true value; by either failing to inform themselves of Wells' true value or disregarding such value; by entering into a preclusive merger agreement; and by failing to make adequate disclosure in the registration statement on Form S-4 as filed on June 2, 2017. The amended complaint further asserts that Wells and CCBI aided and abetted the purported breaches of fiduciary duty. The amended complaint seeks (i) a declaration that the action may be maintained as a class action; (ii) injunctive relief to prevent the consummation of the merger; (iii) in the event the merger is consummated, rescission of the transaction or rescissionary damages; (iv) an order directing the defendants to account to the plaintiff for damages because of alleged wrongdoing; (v) an award to plaintiff of costs and disbursements including attorneys' and experts' fees; and (vi) other relief as may be just and proper. The defendants believe this lawsuit is without merit and intend to vigorously defend against the allegations.

Other potential plaintiffs may also file similar lawsuits challenging the proposed transaction. If the above-referenced case, and any additional cases, are not resolved, these lawsuits could prevent or delay completion of the Merger and result in significant costs to Wells and the Company, including costs associated with the indemnification of directors and officers. The defense or settlement of any lawsuit or claim that remains unresolved at the time the Merger is completed may adversely affect the Company's business, financial condition and results of operations.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

- (a) Exhibits

- 4.1 Subordinated Note Purchase Agreement between Citizens Community Bancorp, Inc. and EJF Debt Opportunities Master Fund, LP dated May 30, 2017 (filed as Exhibit 4.1 to the Company's current report on Form 8-K dated as of May 31, 2017 and incorporated herein by reference).
- 4.2 Form of Subordinated Note (filed as Exhibit 4.2 to the Company's current report on Form 8-K dated as of May 31, 2017 and incorporated herein by reference).
- 10.1 Amended and Restated Executive Employment Agreement by and between Citizens Community Bancorp, Inc., Citizens Community Federal, N.A. and Stephen Bianchi, dated May 25, 2017 (filed as Exhibit 10.1 to the Company's current report on Form 8-K dated as of May 26, 2017 and incorporated herein by reference).
- 10.2 Second Amended and Restated Loan Agreement with First Tennessee, National Association dated May 30, 2017 (filed as Exhibit 10.1 to the Company's current report on Form 8-K dated as of May 31, 2017 and incorporated herein by reference).
- 31.1 Rule 13a-14(a) Certification of the Company's Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of the Company's Chief Financial Officer
- 32.1\* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
- 101 The following materials from Citizens Community Bancorp, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statement of Changes in Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Condensed Notes to Consolidated Financial Statements.
- This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or \*incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CITIZENS COMMUNITY  
BANCORP, INC.**

Date: August 7, 2017 By: /s/ Stephen M. Bianchi  
Stephen M. Bianchi  
Chief Executive Officer

Date: August 7, 2017 By: /s/ Mark C. Oldenberg  
Mark C. Oldenberg  
Chief Financial Officer