

Citizens Community Bancorp Inc.
Form 10-Q
February 13, 2018

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 December 31, 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

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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

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 February 13, 2018 there were 5,902,481 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

CITIZENS COMMUNITY BANCORP, INC.
 FORM 10-Q
 December 31, 2017
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PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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CITIZENS COMMUNITY BANCORP, INC.

Consolidated Balance Sheets

December 31, 2017 (unaudited) and September 30, 2017

(derived from audited financial statements)

(in thousands, except share data)

	December 31, 2017	September 30, 2017
Assets		
Cash and cash equivalents	\$47,215	\$41,677
Other interest-bearing deposits	7,155	8,148
Securities available for sale "AFS"	96,548	95,883
Securities held to maturity "HTM"	5,227	5,453
Non-marketable equity securities, at cost	8,151	7,292
Loans receivable	730,918	732,995
Allowance for loan losses	(5,859)	(5,942)
Loans receivable, net	725,059	727,053
Loans held for sale	2,179	2,334
Mortgage servicing rights	1,866	1,886
Office properties and equipment, net	8,517	9,645
Accrued interest receivable	3,189	3,291
Intangible assets	5,287	5,449
Goodwill	10,444	10,444
Foreclosed and repossessed assets, net	7,031	6,017
Other assets	15,164	16,092
TOTAL ASSETS	\$943,032	\$940,664
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$741,069	\$742,504
Federal Home Loan Bank advances	94,000	90,000
Other borrowings	29,899	30,319
Other liabilities	3,610	4,358
Total liabilities	868,578	867,181
Stockholders' equity:		
Common stock— \$0.01 par value, authorized 30,000,000, 5,883,603 and 5,888,816 shares issued and outstanding, respectively	59	59
Additional paid-in capital	63,348	63,383
Retained earnings	12,104	10,764
Unearned deferred compensation	(391)	(456)
Accumulated other comprehensive (loss) income	(666)	(267)
Total stockholders' equity	74,454	73,483
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$943,032	\$940,664

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations (unaudited)
Three Months Ended December 31, 2017 and 2016
(in thousands, except per share data)

	Three Months Ended December	
	31, 2017	December 31, 2016
Interest and dividend income:		
Interest and fees on loans	\$8,721	\$ 6,530
Interest on investments	691	418
Total interest and dividend income	9,412	6,948
Interest expense:		
Interest on deposits	1,202	1,119
Interest on FHLB borrowed funds	261	173
Interest on other borrowed funds	422	99
Total interest expense	1,885	1,391
Net interest income before provision for loan losses	7,527	5,557
Provision for loan losses	100	—
Net interest income after provision for loan losses	7,427	5,557
Non-interest income:		
Net gains on sale of available for sale securities	—	29
Service charges on deposit accounts	460	398
Loan fees and service charges	776	533
Settlement proceeds	—	—
Other	703	283
Total non-interest income	1,939	1,243
Non-interest expense:		
Compensation and benefits	3,555	2,604
Occupancy	705	1,068
Office	438	281
Data processing	704	472
Amortization of intangible assets	162	43
Amortization of mortgage servicing rights	90	—
Advertising, marketing and public relations	149	63
FDIC premium assessment	142	83
Professional services	688	401
Other	510	378
Total non-interest expense	7,143	5,393
Income before provision for income taxes	2,223	1,407
Provision for income taxes	883	467
Net income attributable to common stockholders	\$ 1,340	\$ 940
Per share information:		
Basic earnings	\$0.23	\$ 0.18
Diluted earnings	\$0.23	\$ 0.18
Cash dividends paid	\$—	\$—

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

Three months ended December 31, 2017 and 2016

(in thousands, except per share data)

	Three Months Ended December	
	31, 2017	December 31, 2016
Net income attributable to common stockholders	\$1,340	\$ 940
Other comprehensive income (loss), net of tax:		
Securities available for sale		
Net unrealized losses arising during period	(399)	(1,683)
Reclassification adjustment for gains included in net income	—	17
Other comprehensive loss	(399)	(1,666)
Comprehensive gain (loss)	\$941	\$ (726)

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statement of Changes in Stockholders' Equity (unaudited)

Three Months Ended December 31, 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, 2017	5,888,816	\$ 59	\$ 63,383	\$ 10,764	\$ (456)	\$ (267)	\$ 73,483
Net income				1,340			1,340
Other comprehensive loss, net of tax						(399)	(399)
Forfeiture of unvested shares	(10,410)		(104)		104		—
Surrender of restricted shares of common stock	—		—				—
Common stock awarded under the equity incentive plan	4,000		55		(55)		—
Common stock repurchased	—		—				—
Common stock options exercised	1,250		9				9
Common stock canceled/retired Wells ESOP	(53)		(1)				(1)
Stock option expense			6				6
Amortization of restricted stock					16		16
Cash dividends (\$0.16 per share)				—			—
Balance, December 31, 2017	5,883,603	\$ 59	\$ 63,348	\$ 12,104	\$ (391)	\$ (666)	\$ 74,454

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows (unaudited)
Three Months Ended December 31, 2017 and 2016
(in thousands, except per share data)

	Three Months Ended	
	December 31, 2017	December 31, 2016
Cash flows from operating activities:		
Net income attributable to common stockholders	\$1,340	\$940
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premium/discount on securities	209	244
Depreciation	235	282
Provision for loan losses	100	—
Net realized gain on sale of securities	—	(29)
Amortization of intangible assets	162	43
Amortization of restricted stock	16	16
Stock based compensation expense	6	8
Loss on sale of office properties	—	2
Provision for deferred income taxes	—	412
Net loss from disposals of foreclosed properties	13	10
Decrease (increase) in accrued interest receivable and other assets	250	(3,859)
Increase (decrease) in other liabilities	435	(368)
Total adjustments	1,426	(3,239)
Net cash provided by (used in) operating activities	2,766	(2,299)
Cash flows from investing activities:		
Purchase of investment securities	(3,311)	(15,739)
Net decrease in interest-bearing deposits	993	—
Proceeds from sale of securities available for sale	—	10,644
Principal payments on investment securities	2,009	1,525
Proceeds from sale of non-marketable equity securities	56	—
Purchase of non-marketable equity securities	(915)	(331)
Proceeds from sale of foreclosed properties	542	270
Net decrease in loans	1,795	24,820
Net capital expenditures	(550)	(118)
Net cash received from sale of office properties	—	7
Net cash provided by investing activities	619	21,078
Cash flows from financing activities:		
Net increase in Federal Home Loan Bank advances	4,000	14,200
Decrease in other borrowings	(420)	—
Net decrease in deposits	(1,435)	(22,565)
Exercise of common stock options	9	—
Common stock canceled/retired Wells ESOP	(1)	—
Repurchase shares of common stock	—	(16)
Net cash provided by (used in) financing activities	2,153	(8,381)
Net increase in cash and cash equivalents	5,538	10,398
Cash and cash equivalents at beginning of period	41,677	10,046
Cash and cash equivalents at end of period	\$47,215	\$20,444

Supplemental cash flow information:

Cash paid during the period for:

Interest on deposits	\$1,245	\$1,091
Interest on borrowings	\$577	\$264
Income taxes	\$—	\$2

Supplemental noncash disclosure:

Transfers from loans receivable to foreclosed and repossessed assets \$125 \$288

See accompanying condensed notes to unaudited consolidated financial statements.

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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, serving customers in Wisconsin, Minnesota and Michigan through 21 branch locations. Its primary markets include the Chippewa Valley Region in Wisconsin, the Twin Cities and Mankato Minnesota, and various rural communities around these areas. The Bank offers traditional community banking services to businesses, Agricultural operators and consumers, including one to four family residential mortgages.

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 December 31, 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.

On August 18, 2017, the Company completed its merger with Wells Financial Corporation ("WFC"), pursuant to the merger agreement, dated March 17, 2017. At that time, the separate corporate existence of WFC ceased, and the Company survived the merger. In connection with the merger, the Company caused Wells Federal Bank to merge with and into the Bank, with the Bank surviving the merger. The merger expands the Bank's market share in Mankato and southern Minnesota, and added seven branch locations along with expanded services through Wells Insurance Agency, Inc.

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.

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, mortgage servicing rights, foreclosed and repossessed assets, valuation of acquired intangible assets, useful lives for depreciation and amortization, indefinite-lived intangible assets, stock-based compensation 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: those items described under the caption, "Risk Factors" in Item 1A of the annual report on Form 10-K for the year ended September 30, 2017, filed with the SEC on December 13, 2017, 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; the Company's intent and ability to sell the debt security prior to recovery, that it is more likely than not that the Company will not sell the security prior to recovery, 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 in other comprehensive income or loss as separate components of stockholders' 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. Non-credit components of the unrealized losses on available for sale securities 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 assured.

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 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.

Mortgage Servicing Rights- Mortgage servicing rights ("MSR") assets initially arose as a result of the WFC merger. WFC had retained the right to service certain loans sold in the secondary market. The Company continues to sell loans to investors in the secondary market and generally retains the rights to service mortgage loans sold to others. MSR assets are initially measured at fair value; assessed at least annually for impairment; carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value. MSR assets are amortized in proportion to and over the period of estimated net servicing income, with the amortization recorded in non-interest expense in the consolidated statement of operations.

The valuation of MSRs and related amortization thereon are based on numerous factors, assumptions and judgments, such as those for: changes in the mix of loans, interest rates, prepayment speeds, and default rates. Changes in these factors, assumptions and judgments may have a material effect on the valuation and amortization of MSRs. Although management believes that the assumptions used to evaluate the MSRs for impairment are reasonable, future adjustment may be necessary if future economic conditions differ substantially from the economic assumptions used to determine the value of MSRs.

Acquired Loans -Loans acquired in connection with acquisitions are recorded at their acquisition-date fair value with no carryover of related allowance for credit losses. Any allowance for loan loss on these pools reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received). Determining the fair value of the acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Management considers a number of factors in evaluating the acquisition-date fair value including the remaining life of the acquired loans, delinquency status, estimated prepayments, payment options and other loan features, internal risk grade, estimated value of the underlying collateral and interest rate environment.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if we expect to fully collect the new carrying value of the loans. As such, we may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield.

Loans acquired with deteriorated credit quality are accounted for in accordance with Accounting Standards Codification (“ASC”) 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30) if, at acquisition, the loans have evidence of credit quality deterioration since origination and it is probable that all contractually required payments will not be collected. At acquisition, the Company considers several factors as indicators that an acquired loan has evidence of deterioration in credit quality. These factors include loans 90 days or more past due, loans with an internal

risk grade of substandard or below, loans classified as non-accrual by the acquired institution, and loans that have been previously modified in a troubled debt restructuring.

Under the ASC 310-30 model, the excess of cash flows expected to be collected at acquisition over recorded fair value is referred to as the accretable yield and is the interest component of expected cash flow. The accretable yield is recognized into income over the remaining life of the loan if the timing and/or amount of cash flows expected to be collected can be reasonably estimated (the accretion method). If the timing or amount of cash flows expected to be collected cannot be reasonably estimated, the cost recovery method of income recognition is used. The difference between the loan's total scheduled principal and interest payments over all cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the non-accretable difference. The non-accretable difference represents contractually required principal and interest payments which the Company does not expect to collect.

Over the life of the loan, management continues to estimate cash flows expected to be collected. Decreases in expected cash flows are recognized as impairments through a charge to the provision for loan losses resulting in an increase in the allowance for loan losses. Subsequent improvements in cash flows result in first, reversal of existing valuation allowances recognized subsequent to acquisition, if any, and next, an increase in the amount of accretable yield to be subsequently recognized in interest income on a prospective basis over the loan's remaining life.

Acquired loans that were not individually determined to be purchased with deteriorated credit quality are accounted for in accordance with ASC 310-20, Nonrefundable Fees and Other Costs (ASC 310-20), whereby the premium or discount derived from the fair market value adjustment, on a loan-by-loan or pooled basis, is recognized into interest income on a level yield basis over the remaining expected life of the loan or pool.

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 and other intangible assets-The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, "Intangibles - Goodwill and Other." The Company records the excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumed, as goodwill. The Company amortizes acquired intangible assets with definite useful economic lives over their useful economic lives utilizing the straight-line method. On a periodic basis, management assesses whether events or changes in circumstances indicate that the carrying amounts of the intangible assets may be impaired. The Company does not amortize goodwill and any acquired intangible asset with an indefinite useful economic life, but reviews them for

impairment at a reporting unit level on an annual basis, or when events or changes in circumstances indicate that the carrying amounts may be impaired. A reporting unit is defined as any distinct, separately identifiable component of the Company's one operating segment for which complete, discrete financial information is available and reviewed regularly by the segment's management. The Company has one reporting unit as of September 30, 2017 which is related to its banking activities. The Company has performed the required goodwill impairment test and has determined that goodwill was not impaired as of September 30, 2017.

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.

The Tax Cuts and Jobs Act of 2017 ("the Tax Act"), enacted on December 22, 2017, reduces corporate Federal income tax rates for the Company from 34% to 24.5% for 2018, and 21% for 2019. GAAP requires the impact of the provisions of the Tax Act be accounted for in the period of enactment. At December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Tax Act; however, in certain cases, as described below, we have made a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to enactment. The Company revalued its net deferred tax assets to account for the future impact of lower corporate taxes. For the items for which we were able to determine a reasonable estimate, we recorded an increased provisional amount of income tax expense of \$275 in December 2017, related to the revaluation of the deferred tax assets to both the revaluation of timing differences and the unrealized loss on securities. The increase was partially offset by an approximately \$135 reduction in income tax expense due to a lower corporate tax rate.

Provisional amounts. Deferred tax assets and liabilities: We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amounts recorded related to the re-measurement of our deferred tax balance was \$275.

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.

Revenue Recognition - The Company recognizes revenue in the consolidated statements of operations as it is earned and when collectability is reasonably assured. The primary source of revenue is interest income from interest earning assets, which is recognized on the accrual basis of accounting using the effective interest method. The recognition of revenues from interest earning assets is based upon formulas from underlying loan agreements, securities contracts or other similar contracts. Non-interest income is recognized on the accrual basis of accounting as services are provided or as transactions occur. Non-interest income includes fees from brokerage and advisory service, deposit accounts, merchant services, ATM and debit card fees, mortgage banking activities, and other miscellaneous services and transactions. Commission revenue is recognized as of the effective date of the insurance policy or the date the customer is billed, whichever is later. The Company also receives contingent commissions from insurance companies which are based on the overall profitability of their relationship based primarily on the loss experience of the insurance placed by the Company. Contingent commissions from insurance companies are recognized when determinable. Commission revenue is included in other non-interest income in the consolidated statement of operations.

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,

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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 excepted 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. 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.

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 and ASU 2014-09 are 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. Based on our evaluation under the current guidance, we estimate that substantially all of our interest income and non-interest income will not be impacted by the adoption of these standards, because either the revenue from those contracts with customers is covered by other guidance in U.S. GAAP, or the anticipated revenue recognition outcomes with the adoption of these standards will likely be similar to our current revenue recognition practices. The company evaluated certain non-interest revenue streams, including deposit related fees, service charges and interchange fees, to determine the potential impact of the guidance on the Company's consolidated financial statements. The Company is expected to use the modified retrospective method for transition, in which the cumulative effect will be recognized at the date of adoption with no restatement of comparative periods presented. The Company expects additional financial statement disclosures of non-interest

income revenue streams and associated internal controls to be implemented along with the adoption of these standards. In addition, we are reviewing our business processes, systems and controls to support recognition and disclosures under the new standard. The Company expects that the adoption of ASUs 2016-12 and 2014-09 will have no material effect on the Company's consolidated results of operations, financial position or cash flows.

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 expects the adoptions of ASU 2016-09 to have no material effect on the Company's results of operations, financial position or 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 has not yet evaluated the impact of ASU 2016-02 on the Company's results of operations, financial position or cash flows.

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 – 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 December 31, 2017 and September 30, 2017, respectively, were as follows:

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2017				
U.S. government agency obligations	\$ 18,098	\$ 19	\$ 526	\$ 17,591
Obligations of states and political subdivisions	35,519	135	240	35,414
Mortgage-backed securities	38,490	79	549	38,020
Agency securities	147	89	2	234
Corporate debt securities	5,393	—	104	5,289
Total available for sale securities	\$ 97,647	\$ 322	\$ 1,421	\$ 96,548

September 30, 2017

U.S. government agency obligations	\$ 18,454	\$ 35	\$ 448	\$ 18,041
Obligations of states and political subdivisions	35,656	270	131	35,795
Mortgage-backed securities	36,661	124	311	36,474
Agency Securities	147	83	—	230
Corporate debt securities	5,410	—	67	5,343
Total available for sale securities	\$ 96,328	\$ 512	\$ 957	\$ 95,883

Held to maturity securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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December 31, 2017

Obligations of states and political subdivisions	\$ 1,310	\$ 1	\$ 2	\$ 1,309
Mortgage-backed securities	3,917	100	5	4,012
Total held to maturity securities	\$ 5,227	\$ 101	\$ 7	\$ 5,321

September 30, 2017

Obligations of states and political subdivisions	\$ 1,311	\$ 17	\$ —	\$ 1,328
Mortgage-backed securities	4,142	136	1	4,277
Total held to maturity securities	\$ 5,453	\$ 153	\$ 1	\$ 5,605

As of December 31, 2017, the Bank has pledged U.S. Government Agency with a market value of \$2,500 as collateral against a borrowing line of credit with the Federal Reserve Bank. However, as of December 31, 2017, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2017, the Bank has pledged U.S. Government Agency securities with a market value of \$7,421 and mortgage-backed securities with a market value of \$18,836 as collateral against specific municipal deposits.

The estimated fair value of securities at December 31, 2017 and September 30, 2017, 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.

	December 31, 2017		September 30, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available for sale securities				
Due in one year or less	\$299	\$ 299	\$160	\$ 160
Due after one year through five years	15,377	15,291	15,008	15,056
Due after five years through ten years	30,427	29,983	30,586	30,330
Due after ten years	12,907	12,721	13,766	13,633
	\$59,010	\$ 58,294	\$59,520	\$ 59,179
Mortgage backed securities	38,490	38,020	36,661	36,474
Securities without contractual maturities	147	234	147	230
Total available for sale securities	\$97,647	\$ 96,548	\$96,328	\$ 95,883

	December 31, 2017		September 30, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to maturity securities				
Due after one year through five years	\$1,310	\$ 1,309	\$1,311	\$ 1,328
Mortgage backed securities	3,917	4,012	4,142	4,277
Total held to maturity securities	\$5,227	\$ 5,321	\$5,453	\$ 5,605

Securities with unrealized losses at December 31, 2017 and September 30, 2017, 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						
December 31, 2017						
U.S. government agency obligations	\$3,952	\$ 35	\$10,976	\$ 491	\$14,928	\$ 526
Obligations of states and political subdivisions	17,702	168	3,043	72	20,745	240
Mortgage backed securities	21,934	258	9,786	291	31,720	549
Agency securities	41	2	—	—	41	2
Corporate debt securities	5,289	104	—	—	5,289	104
Total	\$48,918	\$ 567	\$23,805	\$ 854	\$72,723	\$ 1,421
September 30, 2017						
U.S. government agency obligations	\$8,296	\$ 186	\$6,932	\$ 262	\$15,228	\$ 448
Obligations of states and political subdivisions	8,170	62	3,701	70	11,871	132
Mortgage backed securities	14,167	96	9,753	215	23,920	311
Corporate debt securities	5,343	67	—	—	5,343	67
Total	\$35,976	\$ 411	\$20,386	\$ 547	\$56,362	\$ 958

Held to maturity securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2017						
Obligations of states and political subdivisions	\$1,133	\$ 1	\$140	\$ 1	\$1,273	\$ 2
Mortgage-backed securities	368	5	—	—	368	5
Total	\$1,501	\$ 6	\$140	\$ 1	\$1,641	\$ 7
September 30, 2017						
Obligations of states and political subdivisions	\$—	\$ —	\$—	\$ —	\$—	\$ —
Mortgage-backed securities	406	1	—	—	406	1
Total	\$406	\$ 1	\$—	\$ —	\$406	\$ 1

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.

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%.

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 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. 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 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.

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Below is a summary of originated and acquired loans by type and risk rating as of December 31, 2017:

	1 to 5	6	7	8 9	TOTAL
Originated Loans:					
Residential real estate:					
One to four family	\$126,364	\$—	\$2,032	\$—	\$128,396
Purchased HELOC loans	16,968	—	—	—	16,968
Commercial/Agricultural real estate:					
Commercial real estate	110,614	48	153	—	110,815
Agricultural real estate	11,019	483	78	—	11,580
Multi-family real estate	30,722	—	146	—	30,868
Construction and land development	12,682	—	—	—	12,682
Consumer non-real estate:					
Originated indirect paper	79,290	8	194	—	79,492
Purchased indirect paper	26,210	—	—	—	26,210
Other Consumer	14,386	—	79	—	14,465
Commercial/Agricultural non-real estate:					
Commercial non-real estate	39,498	—	96	—	39,594
Agricultural non-real estate	11,004	708	937	—	12,649
Total originated loans	\$478,757	\$1,247	\$3,715	\$—	\$483,719
Acquired Loans:					
Residential real estate:					
One to four family	\$90,183	\$761	\$1,737	\$—	\$92,681
Commercial/Agricultural real estate:					
Commercial real estate	55,831	1,737	3,260	—	60,828
Agricultural real estate	47,860	628	4,959	—	53,447
Multi-family real estate	1,497	—	211	—	1,708
Construction and land development	6,615	—	541	—	7,156
Consumer non-real estate:					
Other Consumer	4,710	—	67	—	4,777
Commercial/Agricultural non-real estate:					
Commercial non-real estate	17,272	423	1,534	—	19,229
Agricultural non-real estate	10,944	25	92	—	11,061
Total acquired loans	\$234,912	\$3,574	\$12,401	\$—	\$250,887
Total Loans:					
Residential real estate:					
One to four family	\$216,547	\$761	\$3,769	\$—	\$221,077
Purchased HELOC loans	16,968	—	—	—	16,968
Commercial/Agricultural real estate:					
Commercial real estate	166,445	1,785	3,413	—	171,643
Agricultural real estate	58,879	1,111	5,037	—	65,027
Multi-family real estate	32,219	—	357	—	32,576
Construction and land development	19,297	—	541	—	19,838
Consumer non-real estate:					
Originated indirect paper	79,290	8	194	—	79,492
Purchased indirect paper	26,210	—	—	—	26,210
Other Consumer	19,096	—	146	—	19,242
Commercial/Agricultural non-real estate:					
Commercial non-real estate	56,770	423	1,630	—	58,823
Agricultural non-real estate	21,948	733	1,029	—	23,710

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Gross loans	\$713,669	\$4,821	\$16,116	\$ — —	\$734,606
Less:					
Unearned net deferred fees and costs and loans in process					1,252
Unamortized discount on acquired loans					(4,940)
Allowance for loan losses					(5,859)
Loans receivable, net					\$725,059

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

	1 to 5	6	7	8 9	TOTAL
Originated Loans:					
Residential real estate:					
One to four family	\$130,837	\$—	\$1,543	\$—	\$132,380
Purchased HELOC loans	18,071	—	—	—	18,071
Commercial/Agricultural real estate:					
Commercial real estate	96,953	49	153	—	97,155
Agricultural real estate	10,051	497	80	—	10,628
Multi-family real estate	24,338	—	148	—	24,486
Construction and land development	12,399	—	—	—	12,399
Consumer non-real estate:					
Originated indirect paper	85,330	8	394	—	85,732
Purchased indirect paper	29,555	—	—	—	29,555
Other Consumer	14,361	—	135	—	14,496
Commercial/Agricultural non-real estate:					
Commercial non-real estate	35,102	—	96	—	35,198
Agricultural non-real estate	10,798	708	987	—	12,493
Total originated loans	\$467,795	\$1,262	\$3,536	\$—	\$472,593
Acquired Loans:					
Residential real estate:					
One to four family	\$94,932	\$873	\$1,378	\$—	\$97,183
Commercial/Agricultural real estate:					
Commercial real estate	57,795	1,814	3,198	—	62,807
Agricultural real estate	51,516	266	5,592	—	57,374
Multi-family real estate	1,519	—	223	—	1,742
Construction and land development	6,739	—	570	—	7,309
Consumer non-real estate:					
Other Consumer	6,130	—	42	—	6,172
Commercial/Agricultural non-real estate:					
Commercial non-real estate	18,257	372	1,424	—	20,053
Agricultural non-real estate	11,259	28	93	—	11,380
Total acquired loans	\$248,147	\$3,353	\$12,520	\$—	\$264,020
Total Loans:					
Residential real estate:					
One to four family	\$225,769	\$873	\$2,921	\$—	\$229,563
Purchased HELOC loans	18,071	—	—	—	18,071
Commercial/Agricultural real estate:					
Commercial real estate	154,748	1,863	3,351	—	159,962
Agricultural real estate	61,567	763	5,672	—	68,002
Multi-family real estate	25,857	—	371	—	26,228
Construction and land development	19,138	—	570	—	19,708
Consumer non-real estate:					
Originated indirect paper	85,330	8	394	—	85,732
Purchased indirect paper	29,555	—	—	—	29,555
Other Consumer	20,491	—	177	—	20,668
Commercial/Agricultural non-real estate:					
Commercial non-real estate	53,359	372	1,520	—	55,251
Agricultural non-real estate	22,057	736	1,080	—	23,873

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Gross loans	\$715,942	\$4,615	\$16,056	\$ — —	\$736,613
Less:					
Unearned net deferred fees and costs and loans in process					1,471
Unamortized discount on acquired loans					(5,089)
Allowance for loan losses					(5,942)
Loans receivable, net					\$727,053

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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/Agricultural Non-real Estate	Unallocated	Total
Three Months Ended December 31, 2017:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2017	\$1,458	\$ 2,523	\$936	\$ 897	\$ 128	\$5,942
Charge-offs	(24)	(1)	(193)	—	—	(218)
Recoveries	13	—	22	—	—	35
Provision	—	75	25	—	—	100
Allowance allocation adjustment	(8)	7	120	(17)	(102)	—
Total Allowance on originated loans	\$1,439	\$ 2,604	\$910	\$ 880	\$ 26	\$5,859
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans	—	—	—	—	—	—
Total Allowance on acquired loans	\$—	\$ —	\$—	\$ —	\$ —	\$—
Ending balance, December 31, 2017	\$1,439	\$ 2,604	\$910	\$ 880	\$ 26	\$5,859
Allowance for Loan Losses at December 31, 2017:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	\$223	\$ —	\$27	\$ 49	\$ —	\$299
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	\$1,216	\$ 2,604	\$883	\$ 831	\$ 26	\$5,560
Loans Receivable as of December 31, 2017:						
Ending balance of originated loans	\$145,735	\$ 165,960	\$121,033	\$ 52,243	\$ —	\$484,971
Ending balance of purchased credit-impaired loans	570	7,223	—	3,131	—	10,924
	91,028	113,163	4,725	26,107	—	235,023

Ending balance of other acquired
loans

Ending balance of loans	\$237,333	\$ 286,346	\$125,758	\$ 81,481	\$ —	\$730,918
Ending balance: individually evaluated for impairment	\$5,653	\$ 213	\$268	\$ 746	\$ —	\$6,880
Ending balance: collectively evaluated for impairment	\$231,680	\$ 286,133	\$125,490	\$ 80,735	\$ —	\$724,038

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	Residential Real Estate	Commercial/Agriculture Real Estate	Consumer Non-real Estate	Commercial/Agricultural Non-real Estate	Unallocated	Total
Three months ended December 31, 2016:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2016	\$ 2,039	\$ 1,883	\$ 1,466	\$ 652	\$ 28	\$6,068
Charge-offs	(43)	—	(172)	—	—	(215)
Recoveries	3	—	61	—	—	64
Provision	—	—	—	—	—	—
Allowance allocation adjustment	(187)	(11)	(17)	19	196	—
Total Allowance on originated loans	\$ 1,812	\$ 1,872	\$ 1,338	\$ 671	\$ 224	\$5,917
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans	—	—	—	—	—	—
Total Allowance on acquired loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ending balance, December 31, 2016	\$ 1,812	\$ 1,872	\$ 1,338	\$ 671		