

Citizens Community Bancorp Inc.
Form 10-Q
February 13, 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 December 31, 2016

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

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, 2017 there were 5,266,895 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

CITIZENS COMMUNITY BANCORP, INC.
 FORM 10-Q
 December 31, 2016
 INDEX

| | Page Number |
|---------------------------------------------------------------------------------------------------------------------------------|----------------|
| <u>Part I – FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements</u> | |
| <u>Consolidated Balance Sheets as of December 31, 2016 (Unaudited) and September 30, 2016</u> | 4 |
| <u>Consolidated Statements of Operations (Unaudited) for the three months ended December 31, 2016 and 2015</u> | 5 |
| <u>Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the three months ended December 31, 2016 and 2015</u> | 6 |
| <u>Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the three months ended December 31, 2016</u> | 7 |
| <u>Consolidated Statements of Cash Flows (Unaudited) for the three months ended December 31, 2016 and 2015</u> | 8 |
| <u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u> | 9 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 38 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 54 |
| Item 4. <u>Controls and Procedures</u> | 56 |
| <u>Part II – OTHER INFORMATION</u> | 57 |
| Item 1. <u>Legal Proceedings</u> | 57 |
| Item 1A. <u>Risk Factors</u> | 58 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 58 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 58 |
| Item 4. <u>Mine Safety Disclosures</u> | 58 |
| Item 5. <u>Other Information</u> | 58 |
| Item 6. <u>Exhibits</u> | 58 |
| <u>SIGNATURES</u> | 59 |

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, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 4. Controls and Procedures.

ITEM 1. FINANCIAL STATEMENTS

3

CITIZENS COMMUNITY BANCORP, INC.

Consolidated Balance Sheets

December 31, 2016 (unaudited) and September 30, 2016

(derived from audited financial statements)

(in thousands, except share data)

| | December 31, 2016 | September 30, 2016 |
|----------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$20,444 | \$10,046 |
| Other interest-bearing deposits | 745 | 745 |
| Securities available for sale "AFS" | 81,136 | 80,123 |
| Securities held to maturity "HTM" | 6,235 | 6,669 |
| Non-marketable equity securities, at cost | 5,365 | 5,034 |
| Loans receivable | 548,904 | 574,439 |
| Allowance for loan losses | (5,917) | (6,068) |
| Loans receivable, net | 542,987 | 568,371 |
| Office properties and equipment, net | 5,166 | 5,338 |
| Accrued interest receivable | 2,073 | 2,032 |
| Intangible assets | 829 | 872 |
| Goodwill | 4,663 | 4,663 |
| Foreclosed and repossessed assets, net | 784 | 776 |
| Other assets | 15,987 | 11,196 |
| TOTAL ASSETS | \$686,414 | \$695,865 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Deposits | \$535,112 | \$557,677 |
| Federal Home Loan Bank advances | 73,491 | 59,291 |
| Other borrowings | 11,000 | 11,000 |
| Other liabilities | 2,985 | 3,353 |
| Total liabilities | 622,588 | 631,321 |
| | | |
| Stockholders' equity: | | |
| Common stock— \$0.01 par value, authorized 30,000,000, 5,261,170 and 5,260,098 shares issued and outstanding, respectively | 53 | 53 |
| Additional paid-in capital | 54,983 | 54,963 |
| Retained earnings | 10,047 | 9,107 |
| Unearned deferred compensation | (205) | (193) |
| Accumulated other comprehensive income (loss) | (1,052) | 614 |
| Total stockholders' equity | 63,826 | 64,544 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$686,414 | \$695,865 |

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations (unaudited)
Three Months Ended December 31, 2016 and 2015 (As Restated)
(in thousands, except per share data)

| | Three Months Ended | |
|------------------------------------------------------|-------------------------|------------------------------------------|
| | December 31, 2016 | December 31, 2015 (As Restated) |
| Interest and dividend income: | | |
| Interest and fees on loans | \$6,530 | \$ 5,250 |
| Interest on investments | 418 | 424 |
| Total interest and dividend income | 6,948 | 5,674 |
| Interest expense: | | |
| Interest on deposits | 1,119 | 956 |
| Interest on FHLB borrowed funds | 173 | 165 |
| Interest on other borrowed funds | 99 | — |
| Total interest expense | 1,391 | 1,121 |
| Net interest income before provision for loan losses | 5,557 | 4,553 |
| Provision for loan losses | — | 75 |
| Net interest income after provision for loan losses | 5,557 | 4,478 |
| Non-interest income: | | |
| Net gains on sale of available for sale securities | 29 | — |
| Service charges on deposit accounts | 398 | 423 |
| Loan fees and service charges | 603 | 321 |
| Other | 283 | 206 |
| Total non-interest income | 1,313 | 950 |
| Non-interest expense: | | |
| Salaries and related benefits | 2,674 | 2,218 |
| Occupancy | 1,068 | 569 |
| Office | 281 | 252 |
| Data processing | 472 | 409 |
| Amortization of core deposit intangible | 43 | 14 |
| Advertising, marketing and public relations | 63 | 137 |
| FDIC premium assessment | 83 | 85 |
| Professional services | 401 | 172 |
| Other | 378 | 259 |
| Total non-interest expense | 5,463 | 4,115 |
| Income before provision for income taxes | 1,407 | 1,313 |
| Provision for income taxes | 467 | 466 |
| Net income attributable to common stockholders | \$940 | \$ 847 |
| Per share information: | | |
| Basic earnings | \$0.18 | \$ 0.16 |
| Diluted earnings | \$0.18 | \$ 0.16 |
| 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, 2016 and 2015 (As Restated)

(in thousands, except per share data)

| | Three Months Ended | |
|----------------------------------------------------------------------------------|-------------------------|------------------------------------------|
| | December 31, 2016 | December 31, 2015 (As Restated) |
| Net income attributable to common stockholders | \$940 | \$ 847 |
| Other comprehensive income (loss), net of tax: | | |
| Securities available for sale | | |
| Net unrealized losses arising during period | (1,683) | (190) |
| Reclassification adjustment for gains included in net income | 17 | — |
| Other comprehensive loss | (1,666) | (190) |
| Comprehensive (loss) gain | \$(726) | \$ 657 |
| 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, 2016

(in thousands, except shares and per share data)

| | Common Stock Shares | 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 | | | | 940 | | | 940 |
| Other comprehensive income (loss), net of tax | | | | | | (1,666) | (1,666) |
| Common stock awarded under the equity incentive plan | 2,500 | | 28 | | (28) | | — |
| Common stock repurchased | (1,428) | | (16) | | | | (16) |
| Stock option expense | | | 8 | | | | 8 |
| Amortization of restricted stock | | | | | 16 | | 16 |
| Balance, December 31, 2016 | 5,261,170 | \$ 53 | \$ 54,983 | \$ 10,047 | \$ (205) | \$ (1,052) | \$ 63,826 |

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows (unaudited)
Three Months Ended December 31, 2016 and 2015 (As Restated)
(in thousands, except per share data)

| | Three Months Ended | |
|-----------------------------------------------------------------------------------|-------------------------|------------------------------------------|
| | December 31, 2016 | December 31, 2015 (As Restated) |
| Cash flows from operating activities: | | |
| Net income attributable to common stockholders | \$940 | \$847 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net amortization of premium/discount on securities | 244 | 280 |
| Depreciation | 282 | 216 |
| Provision for loan losses | — | 75 |
| Net realized gain on sale of securities | (29) | — |
| Amortization of core deposit intangible | 43 | 14 |
| Amortization of restricted stock | 16 | 27 |
| Stock based compensation expense | 8 | 16 |
| Loss on sale of office properties | 2 | — |
| Provision for deferred income taxes | 412 | 34 |
| Net gains (losses) from disposals of foreclosed properties | 10 | (52) |
| (Increase) decrease in accrued interest receivable and other assets | (3,859) | 245 |
| Decrease in other liabilities | (368) | (500) |
| Total adjustments | (3,239) | 355 |
| Net cash (used in) provided by operating activities | (2,299) | 1,202 |
| Cash flows from investing activities: | | |
| Purchase of investment securities | (15,739) | (9,989) |
| Net increase in interest-bearing deposits | — | (250) |
| Proceeds from sale of securities available for sale | 10,644 | — |
| Principal payments on investment securities | 1,525 | 2,441 |
| Purchase of non-marketable equity securities | (331) | — |
| Proceeds from sale of foreclosed properties | 270 | 473 |
| Net decrease (increase) in loans | 24,820 | (3,592) |
| Net capital expenditures | (118) | (349) |
| Net cash received from sale of office properties | 7 | — |
| Net cash provided by (used in) investing activities | 21,078 | (11,266) |
| Cash flows from financing activities: | | |
| Net increase in Federal Home Loan Bank advances | 14,200 | — |
| Net (decrease) increase in deposits | (22,565) | 1,434 |
| Surrender of restricted shares of common stock | — | (12) |
| Repurchase shares of common stock | (16) | — |
| Cash dividends paid | — | — |
| Net cash (used in) provided by financing activities | (8,381) | 1,422 |
| Net increase (decrease) in cash and cash equivalents | 10,398 | (8,642) |
| Cash and cash equivalents at beginning of period | 10,046 | 23,872 |
| Cash and cash equivalents at end of period | \$20,444 | \$15,230 |
| Supplemental cash flow information: | | |

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

Cash paid during the period for:

| | | |
|------------------------|---------|-------|
| Interest on deposits | \$1,091 | \$960 |
| Interest on borrowings | \$264 | \$164 |
| Income taxes | \$2 | \$690 |

Supplemental noncash disclosure:

| | | |
|----------------------------------------------------------------------|-------|-------|
| Transfers from loans receivable to foreclosed and repossessed assets | \$288 | \$323 |
|----------------------------------------------------------------------|-------|-------|

See accompanying condensed notes to unaudited consolidated financial statements.

8

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 Company and 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 16 full-service offices, 14 stand-alone locations and 2 branches predominantly 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 December 31, 2016 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.

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 months ended December 31, 2015 compared to the initially reported results, are as follows: Total non-interest expense increased by \$21 for the quarter ended December 31, 2015. Net income decreased by \$13 for the quarter ended December 31, 2015. The effects of the restatements on the Company's consolidated balance sheets, consolidated statements of cash flows and earnings per share for the restated quarterly period ended December 31, 2015 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, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 4. Controls and Procedures, 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 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 - Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 June, 2016 the FASB issued Accounting Standards Update (“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.

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.

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 expects the adoption of ASU 2016-02 to have no material effect on the Company's consolidated 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 – 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 December 31, 2016 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) |
|--------------------------------------------------|------------|---------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| December 31, 2016 | | | | |
| Investment securities: | | | | |
| U.S. government agency obligations | \$ 15,079 | \$ — | \$ 15,079 | \$ — |
| Obligations of states and political subdivisions | 32,147 | — | 32,147 | — |
| Mortgage-backed securities | 33,416 | — | 33,416 | — |
| Federal Agricultural Mortgage Corporation | 116 | — | 116 | — |
| Trust preferred securities | 378 | — | — | 378 |
| Total | \$ 81,136 | \$ — | \$ 80,758 | \$ 378 |
| 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 three months ended December 31, 2016 and year ended September 30, 2016:

| Securities available for sale | Fair value measurements using significant unobservable inputs (Level 3) Three months ended December 31, 2016 | Year ended September 30, 2016 |
|---------------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------|
| Balance, beginning of period | \$ 376 | \$ — |
| Payments received | — | — |
| Total gains or losses (realized/unrealized) | | |
| Included in earnings | 2 | — |
| Included in other comprehensive income | — | — |
| Transfers in and/or out of Level 3 | — | 376 |
| Balance, end of period | \$ 378 | \$ 376 |

Assets Measured on a Nonrecurring Basis

The following tables present the financial instruments measured at fair value on a nonrecurring basis as of December 31, 2016 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) |
|------------------------------------------|------------|---------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| December 31, 2016 | | | | |
| Foreclosed and repossessed assets, net | \$784 | \$ | — \$ | —\$ 784 |
| Impaired loans with allocated allowances | 2,287 | — | — | 2,287 |
| Total | \$3,071 | \$ | — \$ | —\$ 3,071 |
| 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 December 31, 2016.

| | Fair Value | Valuation Techniques (1) | Significant Unobservable Inputs (2) | Range |
|------------------------------------------|------------|--------------------------|-------------------------------------|----------|
| December 31, 2016 | | | | |
| Foreclosed and repossessed assets, net | \$784 | Appraisal value | Estimated costs to sell | 10 - 15% |
| Impaired loans with allocated allowances | \$2,287 | 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 December 31, 2016. 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 December 31, 2016 and represents a level 3 measurement.

Federal Home Loan Bank 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 | December 31, 2016 | | September 30, 2016 | |
|-------------------------------------------|-----------------------|-------------------|----------------------|--------------------|----------------------|
| | | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial assets: | | | | | |
| Cash and cash equivalents | (Level 1) | \$20,444 | \$20,444 | \$10,046 | \$10,046 |
| Interest-bearing deposits | (Level 1) | 745 | 750 | 745 | 760 |
| Securities available for sale "AFS" | See above | 81,136 | 81,136 | 80,123 | 80,123 |
| Securities held to maturity "HTM" | (Level II) | 6,235 | 6,343 | 6,669 | 6,944 |
| Non-marketable equity securities, at cost | (Level II) | 5,365 | 5,365 | 5,034 | 5,034 |
| Loans receivable, net | (Level III) | 542,987 | 555,321 | 568,371 | 585,679 |
| Accrued interest receivable | (Level 1) | 2,073 | 2,073 | 2,032 | 2,032 |
| Financial liabilities: | | | | | |
| Deposits | (Level III) | \$535,112 | \$539,073 | \$557,677 | \$561,919 |
| FHLB advances | (Level III) | 73,491 | 73,305 | 59,291 | 59,557 |
| Other borrowings | (Level 1) | 11,000 | 11,000 | 11,000 | 11,000 |
| Other liabilities | (Level 1) | 2,830 | 2,830 | 3,353 | 3,353 |
| Accrued interest payable | (Level 1) | 155 | 155 | 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 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 December 31, 2016:

| | 1 to 5 | 6 | 7 | 8 9 | TOTAL |
|------------------------------------------|------------|-------|----------|------|-----------|
| Originated Loans: | | | | | |
| Residential real estate: | | | | | |
| One to four family | \$ 149,213 | \$— | \$ 1,967 | \$— | \$151,180 |
| Commercial/Agricultural real estate: | | | | | |
| Commercial real estate | 62,724 | — | — | — | 62,724 |
| Agricultural real estate | 4,803 | — | — | — | 4,803 |
| Multi-family real estate | 15,550 | — | — | — | 15,550 |
| Construction and land development | 12,812 | — | — | — | 12,812 |
| Consumer non-real estate: | | | | | |
| Originated indirect paper | 111,264 | 10 | 232 | —1 | 111,507 |
| Purchased indirect paper | 44,006 | — | — | — | 44,006 |
| Other Consumer | 17,755 | — | 95 | —1 | 17,851 |
| Commercial/Agricultural non-real estate: | | | | | |
| Commercial non-real estate | 20,624 | — | 179 | — | 20,803 |
| Agricultural non-real estate | 9,621 | — | — | — | 9,621 |
| Total originated loans | \$448,372 | \$10 | \$2,473 | \$—2 | \$450,857 |
| Acquired Loans: | | | | | |
| Residential real estate: | | | | | |
| One to four family | \$24,095 | \$600 | \$189 | \$— | \$24,884 |
| Commercial/Agricultural real estate: | | | | | |
| Commercial real estate | 28,058 | 33 | 353 | — | 28,444 |
| Agricultural real estate | 19,844 | 11 | 4,278 | — | 24,133 |
| Multi-family real estate | — | — | — | — | — |
| Construction and land development | 2,575 | — | 135 | — | 2,710 |
| Consumer non-real estate: | | | | | |
| Other Consumer | 591 | 9 | 4 | — | 604 |
| Commercial/Agricultural non-real estate: | | | | | |
| Commercial non-real estate | 11,245 | — | 1,405 | — | 12,650 |
| Agricultural non-real estate | 4,359 | 7 | 100 | — | 4,466 |
| Total acquired loans | \$90,767 | \$660 | \$6,464 | \$— | \$97,891 |
| Total Loans: | | | | | |
| Residential real estate: | | | | | |
| One to four family | \$173,308 | \$600 | \$2,156 | \$— | \$176,064 |
| Commercial/Agricultural real estate: | | | | | |
| Commercial real estate | 90,782 | 33 | 353 | — | 91,168 |
| Agricultural real estate | 24,647 | 11 | 4,278 | — | 28,936 |
| Multi-family real estate | 15,550 | — | — | — | 15,550 |
| Construction and land development | 15,387 | — | 135 | — | 15,522 |
| Consumer non-real estate: | | | | | |
| Originated indirect paper | 111,264 | 10 | 232 | —1 | 111,507 |
| Purchased indirect paper | 44,006 | — | — | — | 44,006 |
| Other Consumer | 18,346 | 9 | 99 | —1 | 18,455 |
| Commercial/Agricultural non-real estate: | | | | | |
| Commercial non-real estate | 31,869 | — | 1,584 | — | 33,453 |
| Agricultural non-real estate | 13,980 | 7 | 100 | — | 14,087 |
| Gross loans | \$539,139 | \$670 | \$8,937 | \$—2 | \$548,748 |
| Less: | | | | | |

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

| | |
|--------------------------------|-----------|
| Net deferred loan costs (fees) | 156 |
| Allowance for loan losses | (5,917) |
| Loans receivable, net | \$542,987 |

20

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 |

21

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/Agricultural 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 | \$ 224 | \$5,917 |
| Allowance for Loan Losses at December 31, 2016: | | | | | | |
| Amount of allowance for loan losses arising from loans individually evaluated for impairment | \$399 | \$ — | \$46 | \$ 32 | \$ — | \$477 |
| Amount of allowance for loan losses arising from loans collectively evaluated for impairment | \$1,413 | \$ 1,872 | \$1,292 | \$ 639 | \$ 224 | \$5,440 |
| Loans Receivable as of December 31, 2016: | | | | | | |
| Ending balance of originated loans | \$149,450 | \$ 95,889 | \$175,250 | \$ 30,424 | \$ — | \$451,013 |
| Ending balance of purchased credit-impaired loans | 256 | 2,097 | 4 | 867 | — | 3,224 |
| Ending balance of other acquired loans | 24,628 | 53,190 | 600 | 16,249 | — | 94,667 |
| Ending balance of loans | \$174,334 | \$ 151,176 | \$175,854 | \$ 47,540 | \$ — | \$548,904 |
| | \$4,459 | \$ — | \$609 | \$ 179 | \$ — | \$5,247 |

Ending balance: individually
evaluated for impairment

Ending balance: collectively
evaluated for impairment

| | | | | | |
|------------|------------|------------|-----------|------|------------|
| \$ 169,875 | \$ 151,176 | \$ 175,245 | \$ 47,361 | \$ — | \$ 543,657 |
|------------|------------|------------|-----------|------|------------|

22

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

| | Residential Real Estate | Commercial/Agriculture Real Estate | Consumer Non-real Estate | Commercial/Agricultural Non-real Estate | Unallocated | Total |
|----------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------|--------------------------------|--------------------------------------------|-------------|-----------|
| Year Ended September 30, 2016: | | | | | | |
| Allowance for Loan Losses: | | | | | | |
| Beginning balance, October 1, 2015 | \$2,364 | \$ 989 | \$1,620 | \$ 1,271 | \$ 252 | \$6,496 |
| Charge-offs | (140) | | (460) | (118) | — | (718) |
| Recoveries | 11 | — | 204 | — | — | 215 |
| Provision | 30 | 10 | 35 | — | — | 75 |
| Allowance allocation adjustment | (226) | 884 | 67 | (501) | (224) | — |
| Total Allowance on originated loans | \$2,039 | \$ 1,883 | \$1,466 | \$ 652 | \$ 28 | \$6,068 |
| Purchased credit impaired loans | — | — | — | — | — | — |
| Other acquired loans | — | — | — | — | — | — |
| Total Allowance on acquired loans | \$— | \$ — | \$— | \$ — | \$ — | \$— |
| Ending balance, September 30, 2016 | \$2,039 | \$ 1,883 | \$1,466 | \$ 652 | \$ 28 | \$6,068 |
| Allowance for Loan Losses at September 30, 2016: | | | | | | |
| Amount of allowance for loan losses arising from loans individually evaluated for impairment | \$503 | \$ — | \$85 | \$ 40 | \$ — | \$628 |
| Amount of allowance for loan losses arising from loans collectively evaluated for impairment | \$1,536 | \$ 1,883 | \$1,381 | \$ 612 | \$ 28 | \$5,440 |
| Loans Receivable as of September 30, 2016: | | | | | | |
| Ending balance of originated loans | \$160,655 | \$ 92,374 | \$189,441 | \$ 27,963 | \$ — | \$470,433 |
| Ending balance of purchased credit-impaired loans | 577 | 2,309 | 4 | 897 | — | 3,787 |
| Ending balance of other acquired loans | 26,200 | 56,446 | 785 | 16,788 | — | 100,219 |
| Ending balance of loans | \$187,432 | \$ 151,129 | \$190,230 | \$ 45,648 | \$ — | \$574,439 |
| Ending balance: individually evaluated for impairment | \$4,640 | \$ — | \$578 | \$ 179 | \$ — | \$5,397 |
| Ending balance: collectively evaluated for impairment | \$182,792 | \$ 151,129 | \$189,652 | \$ 45,469 | \$ — | \$569,042 |

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 December 31, 2016, the maximum credit limit for these purchased consumer loans was \$50,000. As of December 31, 2016, the balance of these purchased consumer loans was \$44,006

compared to \$49,221 as of September 30, 2016. As of September 30, 2016, purchases from the third party have been suspended as we review procedures and documentation requirements on any future purchases. 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.

23

The weighted average rate earned on these purchased consumer loans was 4.27% as of December 31, 2016. 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 | | Commercial/Agriculture Real Estate Loans | | Consumer non-Real Estate | | Commercial/Agriculture non-Real Estate | | Totals | |
|---------------------------|-------------------------|--------------------|------------------------------------------|--------------------|--------------------------|--------------------|----------------------------------------|--------------------|-------------------|--------------------|
| | December 31, 2016 | September 30, 2016 | December 31, 2016 | September 30, 2016 | December 31, 2016 | September 30, 2016 | December 31, 2016 | September 30, 2016 | December 31, 2016 | September 30, 2016 |
| Performing loans | | | | | | | | | | |
| Performing TDR loans | \$2,616 | \$3,955 | \$— | \$1,378 | \$275 | \$288 | \$— | \$1,478 | \$2,891 | \$7,099 |
| Performing loans other | 170,107 | 181,734 | 148,212 | 148,803 | 175,184 | 189,641 | 45,866 | 43,892 | 539,369 | 564,070 |
| Total performing loans | 172,723 | 185,689 | 148,212 | 150,181 | 175,459 | 189,929 | 45,866 | 45,370 | 542,260 | 571,169 |
| Nonperforming loans (1) | | | | | | | | | | |
| Nonperforming TDR loans | 598 | 516 | — | 948 | 40 | 43 | — | 99 | 638 | 1,606 |
| Nonperforming loans other | 1,013 | 1,227 | 2,964 | — | 355 | 258 | 1,674 | 179 | 6,006 | 1,664 |
| Total nonperforming loans | 1,611 | 1,743 | 2,964 | 948 | 395 | 301 | 1,674 | 278 | 6,644 | 3,270 |
| Total loans | \$174,334 | \$187,432 | \$151,176 | \$151,129 | \$175,854 | \$190,230 | \$47,540 | \$45,648 | \$548,904 | \$574,439 |

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

An aging analysis of the Company's real estate, commercial/agriculture real estate, consumer and other loans and purchased third party loans as of December 31, 2016 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 |
|------------------------------------------|------------------------------|------------------------------|-------------------------------|-------------------|-----------|----------------|---------------------|--------------------------------------------------------|
| December 31, 2016 | | | | | | | | |
| Residential real estate: | | | | | | | | |
| One to four family | \$1,864 | \$454 | \$1,244 | \$3,562 | \$172,502 | \$176,064 | \$976 | \$635 |
| Commercial/Agricultural real estate: | | | | | | | | |
| Commercial real estate | 4 | 105 | 104 | 213 | 90,955 | 91,168 | 460 | — |
| Agricultural real estate | 22 | 1,940 | 563 | 2,525 | 26,411 | 28,936 | 2,503 | — |
| Multi-family real estate | — | — | — | — | 15,550 | 15,550 | — | — |
| Construction and land development | — | — | 35 | 35 | 15,487 | 15,522 | — | — |
| Consumer non-real estate: | | | | | | | | |
| Originated indirect paper | 299 | 58 | 65 | 422 | 111,085 | 111,507 | 94 | 35 |
| Purchased indirect paper | 744 | 272 | 210 | 1,226 | 42,780 | 44,006 | — | 210 |
| Other Consumer | 150 | 25 | 32 | 207 | 18,248 | 18,455 | 43 | 14 |
| Commercial/Agricultural non-real estate: | | | | | | | | |
| Commercial non-real estate | — | — | 157 | 157 | 33,296 | 33,453 | 1,584 | — |
| Agricultural non-real estate | 70 | — | 90 | 160 | 13,927 | 14,087 | 90 | — |
| Total | \$3,153 | \$2,854 | \$2,500 | \$8,507 | \$540,241 | \$548,748 | \$5,750 | \$894 |
| 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 December 31, 2016, the Company has identified impaired loans of \$8,543, consisting of \$3,529 TDR loans, \$3,224 purchased credit impaired loans, and \$1,790 substandard non-TDR loans. The \$8,543 total of impaired loans includes \$2,960 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 December 31, 2016 and September 30, 2016 was as follows:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|-----------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| December 31, 2016 | | | | | |
| With No Related Allowance Recorded: | | | | | |
| Residential real estate | \$ 2,975 | \$ 2,975 | \$ — | \$ 4,080 | \$ 27 |
| Commercial/agriculture real estate | 2,097 | 2,097 | — | 2,212 | — |
| Consumer non-real estate | 317 | 317 | — | 298 | 8 |
| Commercial/agricultural non-real estate | 867 | 867 | — | 1,552 | — |
| Total | \$ 6,256 | \$ 6,256 | \$ — | \$ 8,142 | \$ 35 |
| With An Allowance Recorded: | | | | | |
| Residential real estate | \$ 1,812 | \$ 1,812 | \$ 399 | \$ 1,852 | \$ 12 |
| Commercial/agriculture real estate | — | — | — | — | — |
| Consumer non-real estate | 296 | 296 | 46 | 319 | — |
| Commercial/agricultural non-real estate | 179 | 179 | 32 | 179 | — |
| Total | \$ 2,287 | \$ 2,287 | \$ 477 | \$ 2,350 | \$ 12 |
| December 31, 2016 Totals: | | | | | |
| Residential real estate | \$ 4,787 | \$ 4,787 | \$ 399 | \$ 5,932 | \$ 39 |
| Commercial/agriculture real estate | 2,097 | 2,097 | — | 2,212 | — |
| Consumer non-real estate | 613 | 613 | 46 | 617 | 8 |
| Commercial/agricultural non-real estate | 1,046 | 1,046 | 32 | 1,731 | — |
| Total | \$ 8,543 | \$ 8,543 | \$ 477 | \$ 10,492 | \$ 47 |

| | 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 7 delinquent TDRs greater than 60 days past due with a recorded investment of \$834 at December 31, 2016, 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 December 31, 2016 and September 30, 2016. There were no TDR commitments or unused lines of credit as of December 31, 2016.

| | December 31, 2016 | September 30, 2016 |
|----------------------------------|----------------------|-----------------------|
| Troubled debt restructure loans: | | |
| Accrual status | \$ 3,119 | \$ 3,218 |
| Non-accrual status | 410 | 515 |
| Total | \$ 3,529 | \$ 3,733 |

The following provides detail, including specific reserve and reasons for modification, related to loans identified as TDRs during the three months ended December 31, 2016 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 |
|-----------------------------------------|---------------------|---------------|------------------|------------------------|-------|--------------------------------------------------|---------------------------------------------------|------------------|
| Three months ended December 31, 2016 | | | | | | | | |
| TDRs: | | | | | | | | |
| Residential real estate | 2 | \$ — | \$ — | \$ 73 | \$ — | \$ 73 | \$ 73 | \$ — |
| Commercial/Agricultural real estate | — | — | — | — | — | — | — | — |
| Consumer non-real estate | 1 | — | — | — | 4 | 4 | 4 | — |
| Commercial/Agricultural non-real estate | — | — | — | — | — | — | — | — |
| Totals | 3 | \$ — | \$ — | \$ 73 | \$ 4 | \$ 77 | \$ 77 | \$ — |
| | 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 December 31, 2016 and September 30, 2016, was as follows:

| | December 31, 2016 | | September 30, 2016 | |
|-----------------------------------------|----------------------------------|------------|----------------------------------|------------|
| | Number of Recorded Modifications | Investment | Number of Recorded Modifications | Investment |
| Troubled debt restructurings: | | | | |
| Residential real estate | 30 | \$ 3,214 | 32 | \$ 3,413 |
| Commercial/Agricultural real estate | — | — | — | — |
| Consumer non-real estate | 22 | 315 | 21 | 320 |
| Commercial/Agricultural non-real estate | — | — | — | — |
| Total troubled debt restructurings | 52 | \$ 3,529 | 53 | \$ 3,733 |

The following table provides information related to restructured loans that were considered in default as of December 31, 2016 and September 30, 2016:

| | December 31, 2016 | | September 30, 2016 | |
|-----------------------------------------|---------------------------------------------|----------|---------------------------------------------|----------|
| | Number of Investment Modifications | Recorded | Number of Investment Modifications | Recorded |
| Troubled debt restructurings: | | | | |
| Residential real estate | 9 | \$ 669 | 9 | \$ 516 |
| Commercial/Agricultural real estate | 7 | 1,787 | 6 | 948 |
| Consumer non-real estate | 4 | 40 | 4 | 43 |
| Commercial/Agricultural non-real estate | 3 | 1,466 | 2 | 99 |
| Total troubled debt restructurings | 23 | \$ 3,962 | 21 | \$ 1,606 |

Included above are three TDR loans that became in default during the three months ended December 31, 2016. 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:

| | December 31, 2016 |
|--------------------------------------------------|----------------------|
| Accountable for under ASC 310-30 (PCI loans) | |
| Outstanding balance | \$ 3,224 |
| Carrying amount | \$ 1,959 |
| Accountable for under ASC 310-20 (non-PCI loans) | |
| Outstanding balance | \$ 94,667 |
| Carrying amount | \$ 94,483 |
| Total acquired loans | |
| Outstanding balance | \$ 97,891 |
| Carrying amount | \$ 96,442 |

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

| | December 31, 2016 |
|-------------------------------------------|----------------------|
| Balance at beginning of period | \$ 192 |
| Acquisitions | — |
| Reduction due to unexpected early payoffs | — |
| Reclass from non-accretable difference | — |
| Disposals/transfers | — |
| Accretion | (8) |
| Balance at end of period | \$ 184 |

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 December 31, 2016 and September 30, 2016, respectively, were as follows:

| Available for sale securities | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--------------------------------------------------|----------------|------------------------|-------------------------|----------------------|
| December 31, 2016 | | | | |
| U.S. government agency obligations | \$ 15,695 | \$ 4 | \$ 620 | \$ 15,079 |
| Obligations of states and political subdivisions | 32,808 | 13 | 674 | 32,147 |
| Mortgage-backed securities | 33,937 | 50 | 571 | 33,416 |
| Federal Agricultural Mortgage Corporation | 70 | 46 | — | 116 |
| Trust preferred securities | 378 | — | — | 378 |
| Total available for sale securities | \$ 82,888 | \$ 113 | \$ 1,865 | \$ 81,136 |
| 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 |
| December 31, 2016 | | | | |
| Obligations of states and political subdivisions | \$ 1,314 | \$ 7 | \$ 1 | \$ 1,320 |
| Mortgage-backed securities | 4,921 | 107 | 5 | 5,023 |
| Total held to maturity securities | \$ 6,235 | \$ 114 | \$ 6 | \$ 6,343 |
| 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 December 31, 2016, the Bank has pledged U.S. Government Agency and mortgage backed securities with a carrying value, book value, of \$3,107 as collateral against a borrowing line of credit with the Federal Reserve Bank. However, as of December 31, 2016, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2016, the Bank has pledged U.S. Government Agency securities with a carrying value, book value, of \$7,820 and mortgage-backed securities with a carrying value, book value, of \$20,419 as collateral against specific municipal deposits.

The estimated fair value of securities at December 31, 2016 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.

| | December 31, 2016 | | September 30, 2016 | |
|----------------------------------------|----------------------|-------------------------|-----------------------|-------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Available for sale securities | | | | |
| Due in one year or less | \$230 | \$ 230 | \$230 | \$ 230 |
| Due after one year through five years | 11,720 | 11,568 | 14,463 | 14,546 |
| Due after five years through ten years | 30,432 | 29,661 | 28,289 | 28,798 |
| Due after ten years | 40,506 | 39,677 | 36,118 | 36,549 |
| Total available for sale securities | \$82,888 | \$ 81,136 | \$79,100 | \$ 80,123 |

| | December 31, 2016 | | September 30, 2016 | |
|----------------------------------------|----------------------|-------------------------|-----------------------|-------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Held to maturity securities | | | | |
| Due after one year through five years | \$1,314 | \$ 1,320 | \$1,315 | \$ 1,335 |
| Due after five years through ten years | 3,081 | 3,126 | 1,504 | 1,559 |
| Due after ten years | 1,840 | 1,897 | 3,850 | 4,050 |
| Total held to maturity securities | \$6,235 | \$ 6,343 | \$6,669 | \$ 6,944 |

NOTE 5 – FEDERAL HOME LOAN BANK ADVANCES

A summary of Federal Home Loan Bank advances at December 31, 2016 and September 30, 2016 was as follows:

| | As of December 31, 2016 | Weighted Average Rate | As of September 30, 2016 | Weighted Average Rate |
|---------------------------------------|----------------------------------|-----------------------------|--------------------------------|-----------------------------|
| Maturing during the fiscal year | | | | |
| Ended September 30, | | | | |
| 2017 | \$ 59,661 | 0.69 % | \$ 45,461 | 0.86 % |
| 2018 | 10,100 | 1.74 % | 6,100 | 2.24 % |
| 2019 | 3,730 | 1.87 % | 7,730 | 1.41 % |
| Total fixed maturity | \$ 73,491 | 0.90 % | \$ 59,291 | 1.07 % |
| Advances with amortizing principal | — | — % | — | — % |
| Total advances | \$ 73,491 | 0.90 % | \$ 59,291 | 1.07 % |
| Irrevocable standby letters of credit | \$ 9,560 | | \$ 10,560 | |
| Total credit outstanding | \$ 83,051 | | \$ 69,851 | |

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

| | | | | |
|--|-----------|--------|-----------|--------|
| | \$ 11,000 | 3.57 % | \$ 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 December 31, 2016, the Bank's available and unused portion of this borrowing arrangement was approximately \$67,728. The weighted average remaining term of the borrowings at December 31, 2016 is 5.18 months compared to 8.32 months at September 30, 2016.

Maximum month-end amounts outstanding were \$74,291 and \$67,474 during the three month periods ended December 31, 2016 and 2015, 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 \$196,765 of real estate mortgage loans.

31

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 September 30, 2016, 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 December 31, 2016, 1,428 shares have been repurchased.

NOTE 6 – INCOME TAXES

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

| | Three months ended December 31, 2016 | Three months ended December 31, 2015 (As Restated) |
|----------------------------------|--------------------------------------|----------------------------------------------------|
| Current tax provision | | |
| Federal | \$ 43 | \$ 381 |
| State | 12 | 64 |
| | 55 | 445 |
| Deferred tax (benefit) provision | | |
| Federal | 354 | 14 |
| State | 58 | 7 |
| | 412 | 21 |
| Total | \$ 467 | \$ 466 |

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:

| | Three months ended December 31, 2016 | Three months ended December 31, 2015 (As Restated) |
|-----------------------------------------|--------------------------------------|----------------------------------------------------|
| | Amount Rate | Amount Rate |
| Tax expense at statutory rate | \$478 34.0 % | \$446 34.0 % |
| State income taxes net of federal taxes | 70 5.0 | 71 5.5 |
| Tax exempt interest | (56) (4.0) | (36) (2.7) |
| Other | (25) (1.8) | (15) (1.2) |
| Total | \$467 33.2 % | \$466 35.5 % |

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 December 31, 2016 and September 30, 2016, respectively:

| | December 31, 2016 | September 30, 2016 |
|------------------------------------------------------|----------------------|-----------------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 2,318 | \$ 2,377 |
| Deferred loan costs/fees | 72 | 77 |
| Director/officer compensation plans | 73 | 299 |
| Net unrealized loss on securities available for sale | 701 | — |
| Economic performance accruals | — | 131 |
| Other | 162 | 177 |
| Deferred tax assets | 3,326 | 3,061 |
| Deferred tax liabilities: | | |
| Office properties and equipment | (267) | (291) |
| Net unrealized gain on securities available for sale | — | (409) |
| Other | (98) | (98) |
| Deferred tax liabilities | (365) | (798) |
| Net deferred tax assets | \$ 2,961 | \$ 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 December 31, 2016 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 December 31, 2016, 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 three month periods ended December 31, 2016 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 \$0 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 December 31, 2016 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 December 31, 2016, 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

December 31, 2016, 284,778 options had been granted under this plan to eligible participants.

33

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 December 31, 2016, 46,591 restricted shares under this plan were granted. As of December 31, 2016, 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 five-year period from the grant date. 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 \$16 and \$27 for the three months ended December 31, 2016 and December 31, 2015, respectively.

Restricted Common Stock Award

| | December 31, 2016 | | 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 | 2,500 | 11.04 | 11,591 | 10.98 |
| Vested | — | — | (13,127) | 7.17 |
| Forfeited | — | — | (22,162) | 7.54 |
| Unvested and outstanding fiscal to date | 25,659 | \$ 9.73 | 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 month periods ended December 31, 2016 and December 31, 2015 was \$8 and \$16, 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 | — | | | |
| Forfeited or expired | — | | | |
| Outstanding at December 31, 2016 | 140,706 | \$ 8.67 | 6.97 | |
| Exercisable at December 31, 2016 | 49,520 | \$ 7.27 | 3.84 | \$ 256 |
| Fully vested and expected to vest | 140,706 | \$ 8.67 | 6.97 | \$ 530 |

| | | | | |
|-----------------------------------|-----------|---------|------|--------|
| 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 | \$ | -\$131 |
| Cash received from options exercised | \$ | -\$289 |
| Tax benefit realized from options exercised | \$ | -\$9 |

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 three months ended December 31, 2016 and 2015:

| | 2016 | | 2015 | | | |
|--------------------------------------------------------------------|-------------------|-------------|-------------------|-------------------|-------------|-------------------|
| | Before-Tax Amount | Tax Expense | Net-of-Tax Amount | Before-Tax Amount | Tax Expense | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | | | | |
| Net unrealized losses arising during the period | \$(2,828) | \$1,145 | \$(1,683) | \$(316) | \$126 | \$(190) |
| Less: reclassification adjustment for gains included in net income | 29 | (12) | 17 | — | — | — |
| Other comprehensive loss | \$(2,799) | \$1,133 | \$(1,666) | \$(316) | \$126 | \$(190) |

The changes in the accumulated balances for each component of other comprehensive income (loss) for the twelve months ended September 30, 2016 and the three months ended December 31, 2016 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, net of tax | 863 | (35) | 828 |
| Ending balance, September 30, 2016 | \$ 614 | \$ — | \$ 614 |
| Current year-to-date other comprehensive loss, net of tax | (1,666) | — | (1,666) |
| Ending balance, December 31, 2016 | \$ (1,052) | \$ — | \$ (1,052) |

Reclassifications out of accumulated other comprehensive income (loss) for the three months ended December 31, 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 | \$ 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 three months ended December 31, 2015 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 | | |

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

| | | | |
|----------------------------------------|----|---|---------------------------------------------------|
| Sale of securities | \$ | — | Net gain on sale of available for sale securities |
| Tax Effect | — | | Provision for income taxes |
| Total reclassifications for the period | \$ | — | Net income attributable to common shareholders |

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

36

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 December 31, 2016, the Company recorded a liability on the accompanying Consolidated Balance Sheet of \$513 for the aggregate amount of the benefit obligation due plan participants for the final lump sum payment amounts due in January 2017.

The components of the SERP and Directors' Retirement plans' cost at December 31, 2016 and September 30, 2016 are summarized below.

| | December 31, 2016 | September 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 | (533) | (78) |
| Ending accrued benefit cost | \$ 513 | \$ 1,046 |

Amounts recognized in consolidated balance sheets:

| | |
|--------------------|--------------------------------|
| Pension obligation | December 31, 2016 \$ 513 |
|--------------------|--------------------------------|

| | |
|----------------------------------------------------------|------|
| Prior service cost | — |
| Net loss (gain) | — |
| Total accumulated other comprehensive income, before tax | \$ — |

37

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 and uncertainties related to the restatement of our prior consolidated financial statements;
- risks related to the remediation of the identified material weakness in our internal control over financial reporting;
- 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;
- 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 December 31, 2016, and our consolidated results of operations for the three months ended December 31, 2016, compared to the same period in the prior fiscal year for the three months ended December 31, 2015. 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, and Item 4. Controls and Procedures 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 month periods ended December 31, 2016 and 2015, respectively:

| | Three Months Ended December 31, | |
|---------------------------------------|---------------------------------------|-----------------------|
| | 2016 | 2015 (As Restated) |
| Net income as reported | \$940 | \$ 847 |
| EPS - basic, as reported | \$0.18 | \$ 0.16 |
| EPS - diluted, as reported | \$0.18 | \$ 0.16 |
| Cash dividends paid | \$— | \$— |
| Return on average assets (annualized) | 0.54 % | 0.58 % |
| Return on average equity (annualized) | 5.81 % | 5.52 % |
| Efficiency ratio, as reported (1) | 79.52 % | 75.01 % |

(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 \$5,557 for the three month period ended December 31, 2016, an increase of \$1,004 or 22.05% from the prior comparable three month period. The increase was primarily due to the increase in loan balances due to the CBN acquisition on May 16, 2016.

The net interest margin of 3.36% for the three months ended December 31, 2016 represents a 14 bp increase from a net interest margin of 3.22% for the three months ended December 31, 2015 due to higher yields on earning assets. Total loans were \$548,904 at December 31, 2016, a decrease of \$25,535, or 4.45%, 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 indirect lending business. Total deposits were \$535,112 at December 31, 2016, a decrease of \$22,565, or 4.05%, from their balances at September 30, 2016, mainly due to deposit run-off related to the CBN acquisition and the announced closure of the four Eastern Wisconsin 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 slightly increased from \$130 for the three months ended December 31, 2015 to \$151 for the three months ended December 31, 2016. Continued lower levels of net loan charge-offs in recent periods led to a decreased provision for loan losses of \$0 for the three month period ended December 31, 2016, compared to \$75 for the three months ended December 31, 2015. Annualized net loan charge-offs as a percentage of average loans were 0.11% for the three months ended December 31, 2016, compared to 0.12% for the three months ended December 31, 2015. Non-interest income increased from \$950 for the three months ended December 31, 2015 to \$1,313 for the three months ended December 31, 2016, mainly due to gains on payoffs from purchased credit impaired loans in the amount of \$206 and an increase in secondary market fee income generated from customer mortgage activity due to advantages over the ARM loan portfolio mortgage offerings.

Non-interest expense increased \$1,348 for the three months ended December 31, 2016 from \$4,115 to \$5,463, compared to the three month period ended December 31, 2015. During the current three month period, salaries and related benefits cost increased \$456, mainly due to the addition of new employees related to the CBN acquisition. Occupancy expenses increased \$499, primarily due to rent termination costs related to the four branch closures in Eastern Wisconsin. Professional fees and other non-interest expenses increased due to legal, audit and branch closure expenses.

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

40

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.

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

41

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 December 31, 2016, 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 month periods ended December 31, 2016 and 2015, respectively.

Tax equivalent net interest income was \$5,628 and \$4,613 for the three months ended December 31, 2016 and December 31, 2015, respectively. The net interest margin for the three month period ended December 31, 2016 was 3.36% compared to 3.22% for the three month period ended December 31, 2015.

As shown in the rate/volume analysis in the following pages, volume changes resulted in an increase of \$1,055 in net interest income for the three month period ended December 31, 2016 compared to the comparable prior year period. The increase and changes in the composition of interest earning assets resulted in an increase of \$1,250 for the three month period ended December 31, 2016, compared to the same period in the prior year. Rate changes on interest earning assets increased net interest income by \$36 for the three month periods ended December 31, 2016. Rate changes on interest-bearing liabilities increased interest expense by \$76 over the same period in the prior year, resulting in a net decrease of \$40 in net interest income as a result of changes in interest rates due to competitive pricing during the three month period ended December 31, 2016. Rate increases on investment securities are reflective of longer term investments at higher rates.

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 month period ended December 31, 2016, and for the comparable prior year three month period. Non-accruing loans have been included in the table as loans carrying a zero yield.

Average interest earning assets were \$664,319 and \$568,003 for the three month period ended December 31, 2016 and December 31, 2015, respectively. Interest income on interest earning assets was \$7,020 and \$5,734 for the three month periods ended December 31, 2016 and December 31, 2015, 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. Interest income on loans was \$6,530 and \$5,250 for the three month periods ended December 31, 2016 and December 31, 2015, respectively. The increase in loan interest income in the current year three month periods was primarily due to an increase in loans due to the CBN acquisition. Interest income on investment securities was \$430 and \$424 for the three month periods ended December 31, 2016 and December 31, 2015, respectively. The slight increase is due to an increase in rates on longer term investments.

Average interest-bearing liabilities were \$576,276 and \$496,547 for the three month periods ended December 31, 2016 and December 31, 2015, respectively. Interest expense on interest-bearing liabilities was \$1,392 and \$1,121 for the three month periods ended December 31, 2016 and December 31, 2015, respectively. Interest expense increased during the current three month periods compared to the comparable prior year periods, due to increases in deposit balances from the recent acquisition.

For the three months ended December 31, 2016, interest expense on interest-bearing deposits increased \$132, from volume and mix changes and increased \$31 from the impact of the rate environment, resulting in an aggregate increase of \$163 in interest expense on interest-bearing deposits relative to December 31, 2015. Interest expense on FHLB advances and other borrowings increased \$63 from volume and mix changes and increased \$45 from the impact of the rate environment during the three month period ended December 31, 2016 for an aggregate increase \$108 for the three month period.

NET INTEREST INCOME ANALYSIS ON A TAX EQUIVALENT BASIS

(Dollar amounts in thousands)

Three months ended December 31, 2016 compared to the three months ended December 31, 2015:

| | Three months ended December 31, 2016 | | | Three months ended December 31, 2015 | | |
|-------------------------------------------------------------------------|-----------------------------------------|--------------------------------|---------------------------|-----------------------------------------|--------------------------------|---------------------------|
| | Average Balance | Interest Income/ Expense | Average Yield/ Rate | Average Balance | Interest Income/ Expense | Average Yield/ Rate |
| Average interest earning assets: | | | | | | |
| Cash and cash equivalents | \$10,238 | \$ 12 | 0.47 % | \$19,575 | \$ 15 | 0.30 % |
| Loans | 561,519 | 6,530 | 4.61 % | 451,809 | 5,250 | 4.61 % |
| Interest-bearing deposits | 745 | 3 | 1.60 % | 3,055 | 17 | 2.21 % |
| Investment securities (1) | 86,617 | 430 | 1.97 % | 88,938 | 424 | 1.89 % |
| Non-marketable equity securities, at cost | 5,200 | 45 | 3.43 % | 4,626 | 28 | 2.40 % |
| Total interest earning assets | \$664,319 | \$ 7,020 | 4.19 % | \$568,003 | \$ 5,734 | 4.01 % |
| Average interest-bearing liabilities: | | | | | | |
| Savings accounts | \$43,743 | \$ 17 | 0.15 % | \$27,019 | \$ 8 | 0.12 % |
| Demand deposits | 48,989 | 74 | 0.60 % | 23,952 | 44 | 0.73 % |
| Money market | 130,057 | 134 | 0.41 % | 144,284 | 154 | 0.42 % |
| CD's | 245,646 | 814 | 1.31 % | 219,873 | 683 | 1.23 % |
| IRA's | 29,000 | 80 | 1.09 % | 22,528 | 67 | 1.18 % |
| Total deposits | 497,435 | 1,119 | 0.89 % | 437,656 | 956 | 0.87 % |
| FHLB Advance and other borrowings | 78,841 | 273 | 1.37 % | 58,891 | 165 | 1.11 % |
| Total interest-bearing liabilities | \$576,276 | \$ 1,392 | 0.96 % | \$496,547 | \$ 1,121 | 0.90 % |
| Net interest income | | \$ 5,628 | | | \$ 4,613 | |
| Interest rate spread | | | 3.23 % | | | 3.11 % |
| Net interest margin | | | 3.36 % | | | 3.22 % |
| Average interest earning assets to average interest-bearing liabilities | | | 1.15 | | | 1.14 |

(1) For the three months ended ended December 31, 2016 and 2015, the average balances of the tax exempt investment securities, included in investment securities, were \$31,986 and \$26,572, 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.

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 December 31, 2016 compared to the three months ended December 31, 2015.

| | Increase (decrease) due to | | |
|-------------------------------------------|----------------------------|---------|----------|
| | Volume | Rate | Net |
| Interest income: | | | |
| Cash and cash equivalents | \$ (9) | \$ 6 | \$ (3) |
| Loans | 1,276 | 4 | 1,280 |
| Interest-bearing deposits | (10) | (4) | (14) |
| Investment securities | (11) | 17 | 6 |
| Non-marketable equity securities, at cost | 4 | 13 | 17 |
| Total interest earning assets | 1,250 | 36 | 1,286 |
| Interest expense: | | | |
| Savings accounts | 6 | 3 | 9 |
| Demand deposits | 40 | (10) | 30 |
| Money market accounts | (15) | (5) | (20) |
| CD's | 83 | 48 | 131 |
| IRA's | 18 | (5) | 13 |
| Total deposits | 132 | 31 | 163 |
| FHLB Advance and other borrowings | 63 | 45 | 108 |
| Total interest bearing liabilities | 195 | 76 | 271 |
| Net interest income (loss) | \$ 1,055 | \$ (40) | \$ 1,015 |

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. Prior to the past 3 years, higher charge off levels and the negative influence of certain qualitative and general economic factors discussed above under “Critical Accounting Estimates—Allowance for Loan Losses”, made it necessary to increase our provision to ensure an adequate ALL. 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 September 30, 2017.

Net loan charge-offs for the three month period ended December 31, 2016 were \$151, compared to \$130, for the comparable prior year period. Annualized net charge-offs to average loans were 0.11% for the three months ended December 31, 2016, compared to 0.12% for the comparable period in the prior year. Non-accrual loans were \$5,750 at December 31, 2016, compared to \$3,191 at September 30, 2016. Of the \$2,559 increase in non-accrual loans, \$3,346 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 three month periods ended December 31, 2016 and December 31, 2015, respectively. Management believes that the provision taken for the current year three 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.

44

Non-interest Income (Loss). The following table reflects the various components of non-interest income for the three month period ended December 31, 2016 and 2015, respectively.

| | Three months ended December 31, | | | |
|-------------------------------------------|---------------------------------|-------|--------|---|
| | 2016 | 2015 | Change | % |
| Non-interest Income: | | | | |
| Net gain on available for sale securities | \$29 | \$— | — | % |
| Service charges on deposit accounts | 398 | 423 | (5.91) | % |
| Loan fees and service charges | 603 | 321 | 87.85 | % |
| Other | 283 | 206 | 37.38 | % |
| Total non-interest income | \$1,313 | \$950 | 38.21 | % |

The decrease of \$25 in service charges on deposit accounts for the three month period ended December 31, 2016, was primarily due to a decrease in overdraft fee income. Overdraft fees and charges have decreased industry wide, as customers utilize online and mobile tools to better manage their finances, an industry trend we have also experienced. Loan fees and service charges increased \$282, mainly due to gains on payoffs from purchased credit impaired loans in the amount of \$206 and an increase in secondary market fee income generated from customer mortgage activity due to advantages over the ARM loan portfolio mortgage offerings. Total non-interest income increased \$363 during the current three month period ended December 31, 2016 over the prior year period.

Non-interest Expense. The following table reflects the various components of non-interest expense for the three month period ended December 31, 2016 and 2015, respectively.

| | Three months ended December 31, | | | |
|---------------------------------------------|---------------------------------|---------|---------|---|
| | 2016 | 2015 | Change | % |
| Non-interest Expense: | | | | |
| Salaries and related benefits | \$2,674 | \$2,218 | 20.56 | % |
| Occupancy - net | 1,068 | 569 | 87.70 | |
| Office | 281 | 252 | 11.51 | |
| Data processing | 472 | 409 | 15.40 | |
| Amortization of core deposit intangible | 43 | 14 | 207.14 | |
| Advertising, marketing and public relations | 63 | 137 | (54.01) | |
| FDIC premium assessment | 83 | 85 | (2.35) | |
| Professional services | 401 | 172 | 133.14 | |
| Other | 378 | 259 | 45.95 | |
| Total non-interest expense | \$5,463 | \$4,115 | 32.76 | % |

Non-interest expense (annualized) / Average assets 3.14 % 2.81 % 11.74 %

During the three months ended December 31, 2016, salaries and related benefits costs increased \$456 relative to the comparable prior year period, primarily due to the addition of new employees related to the CBN acquisition. During the current three month period, occupancy expense increased primarily due to rent termination costs related to the four branch closures in Eastern Wisconsin. 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 month period ended December 31, 2016, compared to the same period in the prior year. Professional fees and other non-interest expenses increased due to legal, audit and branch closure

expenses. Total non-interest expense increased increased \$1,348, for the three month period ended December 31, 2016, compared to the same period in the prior year.

45

Income Taxes. Income tax expense was \$467 and \$466 for the three months ended December 31, 2016 and December 31, 2015, respectively. The effective tax rate decreased from 35.5% to 33.2% from the three month periods ended December 31, 2016 and December 31, 2015, respectively.

BALANCE SHEET ANALYSIS

Loans. Gross Loan balances decreased by \$25,535, or 4.45%, to \$548,904 as of December 31, 2016 from \$574,439 at September 30, 2016 mainly due our increased focus on secondary market lending for one to four family residential loans and exiting the indirect lending business. At December 31, 2016, the loan portfolio was comprised of \$327,240 of loans secured by real estate, or 59.6% of total loans including \$151,176 in commercial and agricultural real estate loans, and \$221,508 of consumer and other non-real estate loans, or 40.4% of total loans. Consumer and other loans include secured consumer originated indirect loans of \$111,507 secured primarily by boats and travel trailers, \$44,006 of third party purchased indirect loans secured primarily by household goods, and C&I and agricultural non-real estate loans totaling \$47,540. 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.

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 December 31, 2016 and September 30, 2016, we had 123 and 109 such impaired loans, all secured by real estate or personal property with an aggregate recorded investment of \$5,247 and \$5,397, respectively. Of the impaired loans, respectively, there were 42 such individual loans where estimated fair value was less than their book value (i.e. we deemed impairment to exist) totaling \$2,287 for which \$477 in specific ALL was recorded as of December 31, 2016. At December 31, 2016, the ALL was \$5,917, or 1.08% 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 December 31, 2016, taking into account the factors discussed above. At December 31, 2016, the ALL was 1.17% 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:

- 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:

| | December 31, 2016 and Three Months Then Ended | September 30, 2016 and Twelve Months Then Ended | | |
|----------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------|----------|---|
| Nonperforming assets: | | | | |
| Nonaccrual loans | \$ 5,750 | \$ 3,191 | | |
| Accruing loans past due 90 days or more | 894 | 380 | | |
| Total nonperforming loans ("NPLs") (1) | 6,644 | 3,571 | | |
| Other real estate owned (1) | 655 | 725 | | |
| Other collateral owned | 129 | 52 | | |
| Total nonperforming assets ("NPAs") | \$ 7,428 | \$ 4,348 | | |
| Troubled Debt Restructurings ("TDRs") Originated Loans | \$ 3,529 | \$ 3,733 | | |
| Nonaccrual TDRs - Originated Loans | \$ 410 | \$ 515 | | |
| Average outstanding loan balance | \$ 561,672 | \$ 512,475 | | |
| Loans, end of period (2) | \$ 548,904 | \$ 574,439 | | |
| Total assets, end of period | \$ 686,414 | \$ 695,865 | | |
| ALL, at beginning of period | \$ 6,068 | \$ 6,496 | | |
| Loans charged off: | | | | |
| Residential real estate | (43 |) | (140 |) |
| Commercial/Agricultural real estate | — | | — | |
| Consumer non-real estate | (172 |) | (460 |) |
| Commercial/Agricultural non-real estate | — | | (118 |) |
| Total loans charged off | (215 |) | (718 |) |
| Recoveries of loans previously charged off: | | | | |
| Residential real estate | 3 | | 11 | |
| Commercial/Agricultural real estate | — | | — | |
| Consumer non-real estate | 61 | | 204 | |
| Commercial/Agricultural non-real estate | — | | — | |
| Total recoveries of loans previously charged off: | 64 | | 215 | |
| Net loans charged off ("NCOs") | (151 |) | (503 |) |
| Additions to ALL via provision for loan losses charged to operations | — | | 75 | |
| ALL, at end of period | \$ 5,917 | | \$ 6,068 | |
| Ratios: | | | | |
| ALL to NCOs (annualized) | 979.64 | % | 1,206.36 | % |
| NCOs (annualized) to average loans | 0.11 | % | 0.10 | % |
| ALL to total loans | 1.08 | % | 1.06 | % |
| NPLs to total loans | 1.21 | % | 0.62 | % |
| NPAs to total assets | 1.08 | % | 0.62 | % |

(1) Total Nonperforming assets increased due to the CBN acquisition in Fiscal 2016. Acquired nonperforming loans were \$5,090 and \$1,778 at December 31, 2016 and September 30, 2016, respectively. Acquired real estate owned property balances were \$143 and \$212 at December 31, 2016 and September 31, 2016, respectively.

(2) Total loans at December 31, 2016, include \$44,006 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 December 31, 2016 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 |
|--------------------|---------------------------|---------------------------|-------------------------------|-------------------|---------------------|--------------------------------------------------------|
| December 31, 2016 | | | | | | |
| Originated loans | \$ 2,584 | \$ 807 | \$ 1,676 | \$ 5,067 | \$ 1,252 | \$ 863 |
| Acquired loans | 568 | 2,048 | 824 | 3,440 | 4,498 | 31 |
| Total | \$ 3,152 | \$ 2,855 | \$ 2,500 | \$ 8,507 | \$ 5,750 | \$ 894 |
| 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 \$6,644 at December 31, 2016, which included \$410 of non-accrual troubled debt restructured originated loans, reflected an increase of \$3,073 from the non-performing loans balance of \$3,571 at September 30, 2016. The increase was mainly due to acquired nonperforming loan balances. These non-performing loan relationships are secured primarily by collateral including residential real estate or the consumer assets financed by the loans.

Our non-performing assets were \$7,428 at December 31, 2016, or 1.08% 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 a result of an increase in nonperforming loans acquired through the merger of CBN.

Other real estate owned ("OREO") decreased by \$70, from \$725 at September 30, 2016 to \$655 at December 31, 2016. Other collateral owned increased \$77 during the three months ended December 31, 2016 to \$129 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 three month period ended December 31, 2016 were \$151, compared to \$130 for the same prior year period. The ratio of annualized net charge-offs to average loans receivable was 0.11% for the three month period ended December 31, 2016, 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 5.0 years at December 31, 2016, compared with 4.0 years at September 30, 2016. The modified duration of the investment portfolio was 4.5 years at December 31, 2016, compared with 3.7 years at September 30, 2016.

Securities held to maturity were \$6,235 at December 31, 2016, compared with \$6,669 at September 30, 2016.

Securities available for sale, which represent the majority of our investment portfolio, were \$81,136 at December 31, 2016, 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 |
| December 31, 2016 | | |
| U.S. government agency obligations | \$ 15,695 | \$15,079 |
| Obligations of states and political subdivisions | 32,808 | 32,147 |
| Mortgage-backed securities | 33,937 | 33,416 |
| Federal Agricultural Mortgage Corporation | 70 | 116 |
| Trust preferred securities | 378 | 378 |
| Totals | \$ 82,888 | \$81,136 |
| 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 |
| December 31, 2016 | | |
| Obligations of states and political subdivisions | \$ 1,314 | \$1,320 |
| Mortgage-backed securities | 4,921 | 5,023 |
| Totals | \$ 6,235 | \$6,343 |
| 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 | December 31, 2016 | | September 30, 2016 | |
|-------------------------------|------------------------|------------|--------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | U.S. government agency | \$49,632 | \$48,495 | \$45,249 |
| AAA | 728 | 718 | 730 | 747 |
| AA | 24,991 | 24,471 | 25,574 | 26,006 |
| A | 5,406 | 5,330 | 5,414 | 5,567 |
| BBB | — | — | — | — |
| Below investment grade | — | — | — | — |
| Non-rated | 2,131 | 2,122 | 2,133 | 2,149 |
| Total | \$82,888 | \$81,136 | \$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 | December 31, 2016 | | September 30, 2016 | |
|-----------------------------|----------------------|---------------|-----------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| U.S. government agency | \$4,921 | \$5,023 | \$5,354 | \$5,609 |
| AAA | — | — | — | — |
| AA | — | — | — | — |
| A | 964 | 965 | 965 | 982 |
| BBB | — | — | — | — |
| Below investment grade | — | — | — | — |
| Non-rated | 350 | 355 | 350 | 353 |
| Total | \$6,235 | \$6,343 | \$6,669 | \$6,944 |

At December 31, 2016, securities with a carrying value of \$3,107 were pledged against a line of credit with the Federal Reserve Bank of Minneapolis. As of December 31, 2016, this line of credit had a zero balance. The Bank has pledged U.S. Government Agency securities with a carrying value of \$7,820 and mortgage-backed securities with a carrying value of \$20,419 as collateral against specific municipal deposits.

Deposits. Deposits decreased to \$535,112 at December 31, 2016, from \$557,677 at September 30, 2016, largely due to deposit run-off related to the CBN acquisition and the announced closure of the four Eastern Wisconsin branches.

The following is a summary of deposits by type at December 31, 2016 and September 30, 2016, respectively:

| | December 31, September 30, 2016 2016 | |
|--------------------------------------|-----------------------------------------|------------|
| Non-interest bearing demand deposits | \$ 47,463 | \$ 45,408 |
| Interest bearing demand deposits | 50,779 | 48,934 |
| Savings accounts | 51,826 | 52,153 |
| Money market accounts | 125,923 | 137,234 |
| Certificate accounts | 259,121 | 273,948 |
| Total deposits | \$ 535,112 | \$ 557,677 |

Since December 2012, we have closed sixteen 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 December 31, 2016, these deposit account balances have declined to \$72,157. 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 2016 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 \$25,438 at December 31, 2016 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 \$11,959 and \$22,773 in brokered deposits at December 31, 2016 and September 30, 2016, respectively. Brokered deposit levels are within all regulatory directives thereon.

Federal Home Loan Bank (FHLB) advances (borrowings). FHLB advances were \$73,491 as of December 31, 2016 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. On May 16, 2016, we entered into a Loan Agreement with First Tennessee Bank National Association ("FTB") 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 FTB whereby FTB extended a \$3,000 revolving line of credit to the Company for the purpose of financing the previously announced stock repurchase

51

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 September 30, 2016, the available and unused portion of this borrowing arrangement was \$3,000. The Company has pledged 100% of Bank stock as collateral for the FTB loan and credit facilities.

Stockholders' Equity. Total stockholders' equity was \$63,826 at December 31, 2016, compared to \$64,544 at September 30, 2016. Total stockholders' equity decreased by \$718, primarily as a result of a decrease in accumulated other comprehensive income during the three months ended December 31, 2016.

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 December 31, 2016, our liquidity ratio was 9.26%, which is slightly below our targeted liquidity ratio of 10.0%, but represents a 3.01% improvement relative to September 30, 2016.

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 \$132,168 of our \$259,121 (51.0%) CD portfolio as of December 31, 2016 will mature within the next 12 months, we have historically retained a majority of our maturing CD's. However, \$25,703, or 19.5%, 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. Through new deposit product offerings to our consumer and commercial loan customers, we are currently attempting to strengthen customer relationships by building core deposit relationships. 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 December 31, 2016, we have approximately \$67,728 available under this arrangement, as compared to \$90,500 at September 30, 2016. We also maintain lines of credit of \$2,036 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 December 31, 2016, our line of credit balance with the Federal Home Loan Bank was \$73,491. 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 December 31, 2016, the Company had \$31,581 in unused commitments, compared to \$28,476 in unused commitments as of September 30, 2016.

Capital Resources. As of December 31, 2016, 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 December 31, 2016 (Unaudited) | | | | | | |
| Total capital (to risk weighted assets) | \$73,302,000 | 14.7 % | \$39,852,000 | >= 8.0 % | \$49,815,000 | >= 10.0 % |
| Tier 1 capital (to risk weighted assets) | 67,385,000 | 13.5 % | 29,889,000 | >= 6.0 % | 39,852,000 | >= 8.0 % |
| Common equity tier 1 capital (to risk weighted assets) | 67,385,000 | 13.5 % | 22,417,000 | >= 4.5 % | 32,380,000 | >= 6.5 % |
| Tier 1 leverage ratio (to adjusted total assets) | 67,385,000 | 9.8 % | 27,538,000 | >= 4.0 % | 34,422,000 | >= 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 December 31, 2016, 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 December 31, 2016 (Unaudited) | | | | | | |
| Total capital (to risk weighted assets) | \$65,634,000 | 13.2% | \$39,852,000 | >= 8.0% | \$49,815,000 | >= 10.0% |
| Tier 1 capital (to risk weighted assets) | 59,717,000 | 12.0% | 29,889,000 | >= 6.0% | 39,852,000 | >= 8.0% |
| Common equity tier 1 capital (to risk weighted assets) | 59,717,000 | 12.0% | 22,417,000 | >= 4.5% | 32,380,000 | >= 6.5% |
| Tier 1 leverage ratio (to adjusted total assets) | 59,717,000 | 8.7% | 27,538,000 | >= 4.0% | 34,422,000 | >= 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 December 31, 2016, 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 September 30, 2016 (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 December 31, 2016, 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 | \$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.

The following table sets forth, at September 30, 2015, 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 | \$36,916 | \$(41,454) | (53)% | 7.10% (505) bp |
| +200 bp | 54,752 | (23,618) | (30)% | 10.06% (209) |

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

| | | | | | | |
|---------|--------|--------|---|--------|--------|--------|
| +100 bp | 68,836 | (9,534 |) | (12)% | 12.15% | (121) |
| 0 bp | 78,370 | — | — | | 13.36% | — |
| -100 bp | 80,768 | 2,398 | 3 | % | 13.45% | 9 |

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

55

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 and down 100 basis points). The table below presents our projected change in net interest income for the various rate shock levels at September 30, 2016 (the most recent date available) and September 30, 2015.

| Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1) | Change in Net Interest Income Over One Year Horizon | | | |
|----------------------------------------------------------------------------|--------------------------------------------------------|----------------------|---------------------------------------------------|----------------------|
| | At September 30, 2016 | | At September 30, 2015 | |
| | Dollar Change | | Dollar Change | |
| | in Net Interest Income (in thousands) | Percentage Change | in Net Interest Income (in thousands) | Percentage Change |
| +300 bp | \$ (2,790) | (11.14)% | \$ (1,921) | (9.53)% |
| +200 bp | (1,552) | (6.20)% | (909) | (4.50)% |
| +100 bp | (678) | (2.71)% | (368) | (1.83)% |
| 0 bp | (290) | (1.16)% | (221) | (1.09)% |
| -100 bp | (222) | (0.88)% | (309) | (1.53)% |

(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 December 31, 2016, 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 not effective as of December 31, 2016 because of the below material weakness:

Application of Accounting for Accrued Expenses.

The Company did not have effective controls to ensure the completeness, accuracy and proper classification of certain expenses and related accrued liabilities. Management discovered errors in recording certain expense accruals in its unaudited interim and audited annual financial statements for the fiscal years ended September 30, 2014 and 2015 and the unaudited interim financial statements for the quarterly periods during the fiscal year ended September 30, 2016, which were accounted for in non-interest expense on the Company's consolidated statements of operations. Management determined professional expenses were overestimated for the fiscal years 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.

This material weakness resulted in the misstatement and audit adjustments of financial statement line items and related financial disclosures, as disclosed in Note 2, Restatement of Previously Issued Financial Statements, to our consolidated financial statements included with our Form 10-K filed on December 29, 2016.

During the most recently completed fiscal quarter the Company made the following changes to its internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act in order to remediate the above material weakness:

- the addition of experienced accounting staff;
- a thorough review of the finance and accounting departments to ensure that the areas of responsibilities are properly matched to the staff competencies and that the lines of communication and processes are as effective as possible;
- a thorough review of the processes and procedures used in the Company's accounting; and
- development of a standardized method for the review, approval, and tracking of accrued expenses.

Management believes the measures described above will remediate the control deficiencies the Company has identified and strengthen its internal control over financial reporting. Management is committed to continuous improvement of the Company's internal control processes and will continue to diligently review the Company's financial reporting controls and procedures. As management continues to evaluate and work to improve internal control over financial reporting, the Company may determine to take additional measures to address control deficiencies or determine to modify certain of the remediation measures described above. The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In the normal course of business, the Company occasionally becomes involved in various legal proceedings. In our opinion, any liability from such proceedings would not have a material adverse effect on the business or financial condition of the Company.

Item 1A. RISK FACTORS

There are no material changes from the risk factors disclosed in Part I, Item 1A, "Risk Factors," of the Company's Form 10-K, for the fiscal year ended September 30, 2016. Please refer to that section for disclosures regarding the risks and uncertainties relating to our business.

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

(a) Not applicable.

(b) Not applicable.

(c) Share repurchase activity during the three months ended December 31, 2016 was as follows:

| Period | Total Number of Shares Repurchased | Average Price paid per share | Total Number of Shares Purchased as Part of Publicly Announced program | Maximum Number of Shares that May Yet Be Purchased Under the Program (a) |
|-------------------------|------------------------------------|------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------|
| 11/1/2016 to 11/30/2016 | 1,428 | \$ 11.12 | 1,428 | 523,772 |

(a) In August 2016, the Company's Board of Director's approved a program to repurchase up to 525,200 shares of the Company's common stock, from time to time through October 1, 2017, in open market or private transactions, through block trades, and pursuant to any trading plans that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission.

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

10.1 Employment Agreement by and between Citizens Community Federal N.A., Citizens Community Bancorp, Inc. and Mark C. Oldenberg entered into on October 4, 2016 with an effective date of January 1, 2017 (filed as Exhibit 10.1 to the Company's current report on Form 8-K dated as of October 6, 2016 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 December 31, 2016 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: February 13, 2017 By: /s/ Stephen M. Bianchi
Stephen M. Bianchi
Chief Executive Officer

Date: February 13, 2017 By: /s/ Mark C. Oldenberg
Mark C. Oldenberg
Chief Financial Officer