Citizens Community Bancorp Inc.
Form 10-K
December 29, 2016

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 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 incorporation or organization)	(IRS Employer Identification Number)

2174 EastRidge Center, Eau Claire, WI 54701
(Address of principal executive offices)
715-836-9994
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.01 par value per share	NASDAQ Global Market[SM]

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the past 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 ý 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 x No ¨

Indicate by check mark if the disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small 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 x

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

The aggregate market value of the voting and non-voting, if applicable, stock held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was approximately $44,207,525. Shares of the registrant's common stock held or beneficially owned by any executive officer or director of the registrant have been excluded from this computation because such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

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 December 29, 2016 there were 5,261,170 shares of the registrant's common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2017 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III of this report.

As used in this report, the terms "we," "us," "our," "Citizens Community Bancorp" and the "Company" mean Citizens Community Bancorp, Inc. and its wholly owned subsidiary, Citizens Community Federal N.A., unless the context indicates another meaning. As used in this report, the term "Bank" means our wholly owned subsidiary, Citizens Community Federal N.A.

CITIZENS COMMUNITY BANCORP, INC.
FORM 10-K
September 30, 2016
TABLE OF CONTENTS

EXPLANATORY NOTE REGARDING RESTATEMENT

As disclosed in our Current Report on Form 8-K filed on December 29, 2016, the Company's audit committee determined that the Company's 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 ended December 31, 2015, March 31, 2016 and June 30, 2016 (the "Restated Periods"), should not be relied upon due to errors identified in such financial statements related to the accrual for professional expenses for the Restated Periods. In addition, investors should no longer rely upon the preliminary earnings release for the quarterly period ended September 30, 2016, the reports of Baker Tilly Virchow Krause, LLP for the fiscal years ended September 30, 2014 and 2015, and other communications relating to these consolidated financial statements. Unless otherwise noted herein, all monetary amounts in this report, other than share, per share and capital ratio amounts, are stated in thousands.
This Annual Report on Form 10-K of the Company for the fiscal year ended September 30, 2016, includes restatement of
our previously filed consolidated balance sheets 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 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 detail regarding the restatement of the financial statements for the fiscal years ended September 30, 2014 and 2015, see Note 2, Financial Restatements, to Consolidated Financial Statements in Item 8 of this Form 10-K. For the revised quarterly results of operations for the fiscal years ended September 30, 2015 and 2016, see "Selected Quarterly Financial Data" under Item 7 of this Form 10-K.
We believe that presenting all of this information regarding the Restated Periods in this Annual Report allows investors to
review all pertinent data in a single presentation. We have not filed amendments to our annual or quarterly reports for the fiscal
years ended September 30, 2014 and 2015 or quarterly reports for the quarterly periods ended December 31, 2015, March 31,
2016 and June 30, 2016 or the preliminary earnings release for the quarterly period ended September 30, 2016 furnished on a
Form 8-K filed on October 28, 2016 (collectively, the "Affected Reports"). Accordingly, investors should rely only on the
financial information and other disclosures regarding the Restated Periods in this Annual Report on Form 10-K, and not on the
Affected Reports or any reports, earnings releases or similar communications relating to those periods.

Forward-Looking Statements

Certain matters discussed in this Form 10-K contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and the Company intends that these forward-looking statements be covered by the safe harbor for forward-looking statements contained in 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,” “would,” or the negative of those terms or other words of s meaning. Similarly, statements that describe the Company’s future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are inherently subject to many uncertainties 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 this report 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.

PART 1

ITEM 1. BUSINESS

General

Citizens Community Bancorp, Inc. (the "Company") is a Maryland corporation organized in 2004. The Company is a bank holding company and is subject to regulation by the Office of the Comptroller of the Currency (“OCC”) and by the Federal Reserve Bank. Our primary activities consist of holding the stock of our wholly-owned subsidiary bank, Citizens Community Federal N.A. (the "Bank"), and providing consumer, commercial and agricultural banking activities through the Bank. At September 30, 2016, we had approximately $696 million in total assets, $558 million in deposits, and $65 million in equity. Unless otherwise noted herein, all monetary amounts in this report, other than share, per share and capital ratio amounts, are stated in thousands.

Citizens Community Federal N.A.

The Bank is a federally chartered National Bank with 20 full-service offices; thirteen stand-alone locations and 7 in-store branches as of September 30, 2016

On May 16, 2016, the Company successfully completed the acquisition through merger of Community Bank of Northern Wisconsin ("CBN"), with the Bank surviving the merger. The Merger expands our presence in our Rice Lake, Wisconsin market with five additional branches. Under the terms of the Merger Agreement, the total purchase price paid in a combination of cash and debt issued by the Company was $17,447, which represented a $16,762 book value of CBN as of April 30, 2016, less a capital dividend of $4,342 declared by CBN, plus a $5,000 fixed premium and daily interest through May 16, 2016 in the amount of $27. The acquisition resulted in the following increases to our balance sheet as of the acquisition date: approximately $112,000 in loans, $151,000 in deposits, $4,228 of goodwill, $11,000 of debt, and $607 in a core deposit intangible.

In August 2016, we announced the closing of four in-store branches located in Eastern Wisconsin, effective November 2016. As of September 30, 2016, the Bank had twenty full-service branch offices plus one leased location with a full-service ATM which accepts cash and check deposits. After the closure of the four branch offices in Eastern Wisconsin, effective November 17, 2016, the Bank has 16 full-service offices: thirteen stand-alone locations and 3 in-store branches. We intend to continue to review our branch network to deploy assets and capital in growth markets and exit markets where we believe we have limited growth opportunities. Through all of our branch locations in Wisconsin, Minnesota and Michigan, we provide a variety of commercial and consumer banking products and services to customers, including online and mobile banking options.

Internet Website

We maintain a website at www.ccf.us. We make available through that website, free of charge, copies of our Annual report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements for our annual stockholders' meetings and amendments to those reports or documents, as soon as reasonably practicable after we electronically file those materials with, or furnish them to, the Securities and Exchange Commission ("SEC"). We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants.

Selected Consolidated Financial Information

This information is included in Item 6; "Selected Financial Data" herein.

Yields Earned and Rates Paid

This information is included in Item 7; "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Statement of Operations Analysis" herein.

Rate/Volume Analysis

This information is included in Item 7; "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Statement of Operations Analysis" herein.

Average Balance, Interest and Average Yields and Rates

This information is included in Item 7; "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Statement of Operations Analysis" herein.

Lending

We offer a variety of loan products including commercial loans, agricultural loans, residential mortgages, home equity lines-of-credit, commercial and industrial (C&I) loans and consumer loans. We make real estate, consumer, commercial and agricultural loans in accordance with the basic lending policies established by Bank management and approved by our Board of Directors. We focus our lending activities on individual consumers and small commercial borrowers within our market areas. Our lending has been historically concentrated primarily within Wisconsin, Minnesota and Michigan. Competitive and economic pressures exist in our lending markets, and recent and any future developments in (a) the general economy, (b) real estate lending markets, and (c) the banking regulatory environment could have a material adverse effect on our business and operations. These factors may impact the credit quality of our existing loan portfolio, or adversely impact our ability to originate sufficient high quality loans in the future.

Our total gross outstanding loans, before net deferred loan costs, as of September 30, 2016, were $574,248, consisting of $187,738 in residential real estate loans, $152,853 in commercial/agricultural real estate loans, $188,009 in consumer non-real estate loans, and $45,648 in commercial/agricultural non-real estate loans.

Investments

We maintain a portfolio of investments, consisting primarily of U.S. Government sponsored agency securities, bonds and other obligations issued by states and their political subdivisions and mortgage-backed securities. We attempt to balance our portfolio to manage interest rate risk, regulatory requirements, and liquidity needs while providing an appropriate rate of return commensurate with the risk of the investment.

Deposits

We offer a broad range of deposit products through our branches, including demand deposits, various savings and money-market accounts and certificates of deposit. Deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. At September 30, 2016, our total deposits were $557,677 including interest bearing deposits of $512,269 and non-interest bearing deposits of $45,408.

Competition

We compete with other financial institutions and businesses both in attracting and retaining deposits and making loans in all of our principal markets. We believe the primary factors in competing for deposits are interest rates, personalized services,

the quality and range of financial services, technology, convenience of office locations and office hours. Competition for deposit products comes primarily from other banks, credit unions and non-bank competitors, including insurance companies, money market and mutual funds, and other investment alternatives. We believe the primary factors in competing for loans are interest rates, loan origination fees, and the quality and the range of lending services. Competition for loans comes primarily from other banks, mortgage banking firms, credit unions, finance companies, leasing companies and other financial intermediaries. Some of our competitors are not subject to the same degree of regulation as that imposed on national banks or federally insured institutions, and these other institutions may be able to price loans and deposits more aggressively. We also face direct competition from other banks and their holding companies that have greater assets and resources than ours.

Regulation and Supervision
The Bank is examined and regulated by the Office of the Comptroller of Currency (OCC), and the Company is examined and regulated by the Federal Reserve Bank of Minneapolis. The Bank is a member of the Federal Reserve System and Federal Home Loan Bank of Chicago, which is one of the 12 regional banks in the Federal Home Loan Bank System. In addition, the Bank's deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over the Bank.

Capital Adequacy

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve
quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices.
Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The OCC, Federal Reserve and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The risk-based guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution's or holding company's capital, in turn, is classified in one of two tiers, depending on type:

Core Capital (Tier 1). Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, qualifying trust preferred securities, less goodwill, most intangible assets and certain other assets; and

Supplementary Capital (Tier 2). Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible loan and lease losses, subject to limitations.

New Capital Rules

In July 2013, the federal banking regulators issued new regulations relating to capital, referred to as the "Basel III Rules."

The Basel III Rules apply to both depository institutions and their holding companies. Although parts of the Basel III Rules
apply only to large, complex financial institutions, substantial portions of the Basel III Rules apply to the Bank and the Company. The Basel III Rules include requirements contemplated by the Dodd-Frank Act as well as certain standards initially
adopted by the Basel Committee on Banking Supervision in December 2010.

The Basel III Rules include new risk-based and leverage capital ratio requirements and refine the definition of what constitutes “capital” for purposes of calculating those ratios. Effective January 1, 2015, the minimum capital level requirements
applicable to the Company and the Bank under the Basel III Rules are: (i) a new common equity Tier 1 risk-based capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. Common equity Tier 1 capital consists of retained
earnings and common stock instruments, subject to certain adjustments, as well as accumulated other comprehensive income
(“AOCI”) except to the extent that the Company and the Bank exercise a one-time irrevocable option to exclude certain components of AOCI.

The Basel III Rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum risk-based capital requirements. The conservation buffer, when added to the capital requirements, results in the following minimum ratios: (i) a common equity Tier 1 risk-based capital ratio of 7.0%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers if its capital level is below the buffered ratio. Although these new capital ratios do not become fully phased in until 2019, it is anticipated that the banking regulators will expect bank holding companies and banks to meet these requirements well ahead of that date.

The Basel III Rules also revise the prompt corrective action framework (as discussed below), which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels do not meet certain thresholds. These revisions became effective January 1, 2015. The prompt correction action rules include a common equity Tier 1 capital component and increase certain other capital requirements for the various thresholds. As of January 1, 2015, insured depository institutions are required to meet the following capital levels in order to qualify as "well-capitalized:" (i) a new common equity Tier 1 risk-based capital ratio of 6.5%; (ii) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (iii) a total risk-based capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from current rules).

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements to meet well-capitalized standards and future regulatory change could impose higher capital standards as a routine matter. The Bank, as a matter of prudent management, targets as its goal the maintenance of capital ratios which exceed these minimum requirements and that are consistent with the Bank's risk profile.

The Basel III Rules set forth certain changes in the methods of calculating certain risk-weighted assets, which in turn affect the calculation of risk based ratios. Under the Basel III Rules, higher or more sensitive risk weights are assigned to various categories of assets, including certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on nonaccrual, foreign exposures and certain corporate exposures. In addition, these rules include greater recognition of collateral and guarantees, and revised capital treatment for derivatives and repo-style transactions.

Employees

At December 29, 2016, we had 145 full-time employees and 176 total employees, company-wide. We have no unionized employees, and we are not subject to any collective bargaining agreements.

ITEM 1A. RISK FACTORS

The risks described below are not the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our future business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In such cases, the trading price of our common stock could decline.

We have restated our prior consolidated financial statements, which may lead to additional risks and uncertainties, including shareholder litigation. This Annual Report on Form 10-K of the Company for the fiscal year ended September 30, 2016, includes 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 determination to restate these financial statements was made by our Audit Committee upon management's recommendation.

As a result of these events, we have become subject to a number of additional risks and uncertainties, including substantial unanticipated costs for accounting and legal fees in connection with or related to the restatement. If litigation did occur, we may incur additional substantial defense costs regardless of the outcome. Likewise, such events might cause a diversion of our management's time and attention. If we do not prevail in any such litigation, we could be required to pay substantial damages or settlement costs.

We have identified a material weakness in our internal control over financial reporting which could, if not remediated, result in additional material misstatements in our financial statements. Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. As disclosed in Item 9A, management identified a material weakness in our internal control over financial reporting related to an overestimate of accruals for professional expenses during the fiscal years ended September 30, 2015 and 2014 and an underestimate of accruals for such expenses during quarterly periods of the fiscal year ended September 30, 2016. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, our management concluded that our internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission in Internal Control—An Integrated Framework (2013). We have developed a remediation plan designed to address this material weakness. If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results, which could lead to substantial additional costs for accounting and legal fees and shareholder litigation.

Our internal controls and procedures may fail or be circumvented. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable assurances that the objectives of the system are met. Any (a) failure or circumvention of our controls and procedures, (b) failure to adequately address any internal control deficiencies, or (c) failure to comply with regulations related to controls and procedures could have a material effect on our business, consolidated financial condition and results of operations. See Item 9A "Controls and Procedures" for further discussion of our internal controls.

Our business may be adversely affected by conditions in the financial markets and economic conditions generally. We operate primarily in the Wisconsin, Minnesota and Michigan markets. As a result, our financial condition, results of operations and cash flows are significantly impacted by changes in the economic conditions in those areas. In addition, our business is susceptible to broader economic trends within the United States economy. From December 2007 to June 2009, the United States economy experienced the worst economic downturn since the Great Depression, resulting in a general reduction of business activity and growth across industries and regions as well as significant increases in unemployment. Many businesses experienced serious financial difficulties due to the lack of consumer spending and liquidity in the credit markets. The financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes. General declines in home prices and the resulting impact on sub-prime mortgages, and eventually, all mortgage and real estate classes as well as equity markets resulted in continued widespread shortages of liquidity across the financial services industry. Moreover, the country and our geographic region experienced high rates of unemployment which negatively impacted the creditworthiness of our borrowers and customer base.

Although the economy has been in the recovery phase since 2009, the recovery has been weak and there can be no assurance that the economy will not enter into another recession, whether in the near term or long term. Continuation of the slow recovery or another economic downturn or sustained, high unemployment levels may negatively impact our operating results. Additionally, adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans. These factors could expose us to an increased risk of loan defaults and losses and could have an adverse impact on our earnings.

Deterioration in the markets for residential real estate, including secondary residential mortgage loan markets, could reduce our net income and profitability. During the severe recession that lasted from 2007 to 2009, softened residential housing markets, increased delinquency and default rates, and volatile and constrained secondary credit markets negatively impacted the mortgage industry. Our financial results were adversely affected by these effects including changes in real estate values, primarily in Wisconsin, Minnesota and Michigan, and our net income declined as a result. Decreases in real estate values adversely affected the value of property used as collateral for loans as well as investments in our portfolio. Continued slow growth in the economy since 2009 has resulted in increased competition and lower rates, which has negatively impacted our net income and profits.

The foregoing changes could affect our ability to originate loans and deposits, the fair value of our financial assets and liabilities and the average maturity of our securities portfolio. An increase in the level of interest rates may also adversely affect the ability of certain of our borrowers to repay their obligations. If interest rates paid on deposits or other borrowings were to increase at a faster rate than the interest rates earned on loans and investments, our net income would be adversely affected.

We are subject to interest rate risk. Through our banking subsidiary, the Bank, our profitability depends in large part on our net interest income, which is the difference between interest earned from interest-earning assets, such as loans and mortgage-backed securities, and interest paid on interest-bearing liabilities, such as deposits and borrowings. Our net interest income will be adversely affected if market interest rates change such that the interest we pay on deposits and borrowings increase faster than the interest earned on loans and investments. 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 due to many factors that are beyond our control, including but not limited to: general economic conditions and government policy decisions, especially policies of the Federal Reserve Bank. 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. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk.

We are subject to lending risk. There are inherent risks associated with our lending activities. These risks include the impact of changes in interest rates and changes in the economic conditions in the markets we serve, as well as those across the United States. An increase in interest rates or weakening economic conditions (such as high levels of unemployment) could adversely impact the ability of borrowers to repay outstanding loans, or could substantially weaken the value of collateral securing those loans. Downward pressure on real estate values could increase the potential for problem loans and thus have a direct impact on our consolidated results of operations.

Our allowance for loan losses may be insufficient. To address risks inherent in our loan portfolio, we maintain an allowance for loan losses that represents management’s best estimate of probable losses that exist within our loan portfolio. The level of the allowance reflects management’s continuing evaluation of various factors, including specific credit risks, historical loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio. Determining the appropriate level of the allowance for loan losses involves a high degree of subjectivity and requires us to make estimates of significant credit risks, which may undergo material changes. In evaluating our impaired loans, we assess repayment expectations and determine collateral values based on all information that is available to us. However, we must often make subjective decisions based on our assumption about the creditworthiness of the borrowers and the values of collateral securing these loans.

Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of our control, may require an increase in our allowance for loan losses. In addition, bank regulatory agencies periodically examine our allowance for loan losses and may require an increase in the allowance or the recognition of further loan charge-offs, based on judgments different from those of our management.

If charge-offs in future periods exceed our allowance for loan losses, we will need to take additional loan loss provisions to increase our allowance for loan losses. Any additional loan loss provision will reduce our net income or increase our net loss, which could have a direct material adverse effect on our financial condition and results of operations.

Changes in the fair value or ratings downgrades of our securities may reduce our stockholders’ equity, net earnings, or regulatory capital ratios. At September 30, 2016, $80,123 of our securities, were classified as available for sale and $6,669 were classified as held to maturity. The estimated fair value of our available for sale securities portfolio may increase or decrease depending on market conditions. Our available for sale securities portfolio is comprised primarily of fixed-rate securities. We increase or decrease stockholders’ equity by the amount of the change in unrealized gain or loss (the difference between the estimated fair value and amortized cost) of our available for sale securities portfolio, net of the related tax benefit or provision, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in our reported stockholders’ equity, as well as our book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold, the decrease may be recovered over the life of the securities.

We conduct a periodic review and evaluation of our securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. Factors which we consider in our analysis include, but are not limited to, the severity and duration of the decline in fair value of the security, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, our intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value and the likelihood of any near-term fair value recovery. We generally view changes in fair value caused by changes in interest rates as temporary, which is consistent with our experience. If we deem such decline to be other-than-temporary related to credit losses, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income in the period in which the decline in value occurs.

We have, in the past, recorded other than temporary impairment ("OTTI") charges, principally arising from investments in non-agency mortgage-backed securities. We continue to monitor our securities portfolio as part of our ongoing OTTI evaluation process. No assurance can be given that we will not need to recognize OTTI charges related to securities in the future. Future OTTI charges would cause decreases to both Tier 1 and Risk-based capital levels which may expose the Company and/or the Bank to additional regulatory restrictions.

The capital that we are required to maintain for regulatory purposes is impacted by, among other factors, the securities ratings on our portfolio. Therefore, ratings downgrades on our securities may also have a material adverse effect on our risk-based regulatory capital levels.

Competition may affect our results. We face strong competition in originating loans, in seeking deposits and in offering other banking services. We compete with commercial banks, trust companies, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms. Our market area is also served by commercial banks and savings associations that are substantially larger than us in terms of deposits and loans and have greater human and financial resources. This competitive climate can make it difficult to establish, maintain and retain relationships with new and existing customers and can lower the rate we are able to charge on loans, increase the rates we must offer on deposits, and affect our charges for other services. Those factors can, in turn, adversely affect our results of operations and profitability.

We may not have sufficient pre-tax net income in future periods to fully realize the benefits of our net deferred tax assets. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence. Based on future pre-tax net income projections and the planned execution of existing tax planning strategies, we believe that it is more likely than not that we will fully realize the benefits of our net deferred tax assets. However, our current assessment is based on assumptions and judgments that may or may not reflect actual future results. If a valuation allowance becomes necessary, it could have a material adverse effect on our consolidated results of operations and financial condition.

Maintaining or increasing our market share may depend on lowering prices and market acceptance of new products and services. Our success depends, in part, on our ability to adapt our products and services to evolving industry standards and customer demands. We face increasing pressure to provide products and services at lower prices, which can reduce our net interest margin and revenues from our fee-based products and services. In addition, the widespread adoption of new technologies, including internet and mobile banking services, could require us to make substantial expenditures to modify or adapt our existing products and services. Also, these and other capital investments in our business may not produce expected growth in earnings anticipated at the time of the expenditure. We may not be successful in introducing new products and services, achieving market acceptance of our products and services, or developing and maintaining loyal customers, which in turn, could adversely affect our results of operations and profitability.

Acts or threats of terrorism and political or military actions by the United States or other governments could adversely affect general economic industry conditions. Geopolitical conditions may affect our earnings. Acts or threats of terrorism and political actions taken by the United States or other governments in response to terrorism, or similar activity, could adversely affect general or industry conditions and, as a result, our consolidated financial condition and results of operations.

We operate in a highly regulated environment, and are subject to changes, which could increase our cost structure or have other negative impacts on our operations. The banking industry is extensively regulated at the federal and state levels. Insured depository institutions and their holding companies are subject to comprehensive regulation and supervision by financial regulatory authorities covering all aspects of their organization, management and operations. Specifically, the Dodd-Frank Wall Street Reform and Consumer Protection Act has resulted in the elimination of the Office of Thrift Supervision, tightening of capital standards, and the creation of the new Consumer Financial Protection Bureau. Moreover, it has resulted, or is likely to result, in new laws, regulations and regulatory supervisors that are expected to increase our cost of operations. In addition, the recent change to the Office of the Comptroller of the Currency ("OCC") as our primary regulator may result in interpretations different than those formerly provided by the Office of Thrift Supervision. In addition to its regulatory powers, the OCC also has significant enforcement authority that it can use to address banking practices that it believes to be unsafe and unsound, violations of laws, and capital and operational deficiencies. Regulation includes, among other things, capital and reserve requirements, permissible investments and lines of business, dividend limitations, limitations on products and services offered, loan limits, geographical limits, consumer credit regulations, community reinvestment requirements and restrictions on transactions with affiliated parties. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the Deposit Insurance Fund, our depositors and the public, rather than our stockholders. We are also subject to regulation by the SEC. Failure to comply with applicable laws, regulations or policies could result in sanction by regulatory agencies, civil monetary penalties, and/or damage to our reputation, which could have a material adverse effect on our business, consolidated financial condition and results of operations. In addition, any change in government regulation could have a material adverse effect on our business.

We are subject to increases in FDIC insurance premiums and special assessments by the FDIC, which will adversely affect our earnings. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. For example, during 2008 and 2009, higher levels of bank failures dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which, in part, permanently raised the current standard maximum deposit insurance amount to $250,000 per customer (up from $100,000). These programs placed additional stress on the Deposit Insurance Fund. In order to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund, the FDIC increased assessment rates of the insured institutions. If additional bank or financial institution failures increase, or if the cost of resolving prior failures exceeds expectations, we may be required to pay even higher FDIC premiums than the current levels. Any future increases or required prepayments of FDIC insurance premiums may adversely impact our earnings and financial condition.

Customers may decide not to use banks to complete their financial transactions, which could result in a loss of income to us. Technology and other changes are allowing customers to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, customers can now pay bills and transfer funds directly without going through a bank. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits.

We could experience an unexpected inability to obtain needed liquidity. Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets and its access to alternative sources of funds. We seek to ensure our funding needs are met by maintaining an appropriate level of liquidity through asset/liability management. If we become unable to obtain funds when needed, it could have a material adverse effect on our business and, in turn, our consolidated financial condition and results of operations. Moreover, it could limit our ability to take advantage of what we believe to be good market opportunities for expanding our loan portfolio.

Future growth, operating results or regulatory requirements may require us to raise additional capital but that capital may not be available. We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. To the extent our future operating results erode capital or we elect to expand through loan growth or acquisition, we may be required to raise additional capital.

Our ability to raise capital will depend on conditions in the capital markets, which are outside of our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise capital when needed or on favorable terms. If we cannot raise additional capital when needed or if we are subject to material unfavorable terms for such capital, we may be subject to increased regulatory supervision and the imposition of restrictions on our growth and business. These actions could negatively impact our ability to operate or further expand our operations and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on our consolidated financial condition and results of operations.

We may not be able to attract or retain key people. Our success depends, in part, on our ability to attract and retain key people. Competition for the best people in most activities engaged in by us can be intense and we may not be able to hire people or retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our local markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We continually encounter technological change. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology driven by new or modified products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We rely on network and information systems and other technologies, and, as a result, we are subject to various Cybersecurity risks. Cybersecurity refers to the combination of technologies, processes and procedures established to protect information technology systems and data from unauthorized access, attack, or damage. Our business involves the storage and transmission of customers' personal information. While we have internal policies and procedures designed to prevent or limit the effect of a failure, interruption or security breach of our information systems, as well as contracts and service agreements with applicable outside vendors, we cannot be assured that any such failures, interruptions or security breaches will not occur or, if they do, that they will be addressed adequately. Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, could severely harm our business. Although we have implemented measures to prevent security breaches, cyber incidents and other security threats, our facilities and systems, and those of third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human error, or other similar events that could have a material adverse effect on our business. Furthermore, the storage and transmission of such data is regulated at the federal and state level. Privacy information security laws and regulation changes, and compliance therewith, may result in cost increases due to system changes and the development of new administrative processes. If we fail to comply with applicable laws and regulations or experience a data security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our vendors, our reputation could be damaged, possibly resulting in lost future business, and we could be subject to fines, penalties, administrative orders and other legal risks as a result of a breach or non-compliance.

The acquisition of bank assets, bank branches and other entities involves risks. We recently acquired through merger, Community Bank of Northern Wisconsin (CBN). In the future, we may acquire additional bank assets, bank branches or other entities. Although the integration of CBN into our operations has been successfully completed, we cannot assure you that we will be able to adequately or profitably manage any such future acquisitions. The acquisition of bank assets, bank branches and other entities involves risk, including exposure to unknown or contingent liabilities, the uncertainties of asset quality assessment, the difficulty and expense of integrating the operations and personnel of the acquired companies with ours, the potential negative effects on our other operations of the diversion of management's time and attention, and the possible loss of key employees and customers of the acquires. Our failure to execute our internal growth strategy or our acquisition strategy could adversely affect our business, results of operations, financial condition, and future prospects.

We are subject to changes in accounting principles, policies or guidelines. Our financial performance is impacted by accounting principles, policies and guidelines. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses.

From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. Changes in these standards are continuously occurring, and given recent economic conditions, more drastic changes may occur. The implementation of such changes could have a material adverse effect on our financial condition and results of operations.

Our ability to pay dividends depends primarily on dividends from our banking subsidiary, the Bank, which is subject to regulatory and other limitations. We are a bank holding company and our operations are conducted primarily by our banking subsidiary, the Bank. Since we receive substantially all of our revenue from dividends from the Bank, our ability to pay dividends on our common stock depends on our receipt of dividends from the Bank.

The Company is a legal entity separate and distinct from its banking subsidiary. As a bank holding company, the Company is subject to certain restrictions on its ability to pay dividends under applicable banking laws and regulations. Federal bank regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal bank regulators have stated that paying dividends that deplete a banking organization’s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The ability of the Bank to pay dividends to us is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. The Bank may not be able to generate adequate cash flow to pay us dividends

in the future. The Company's ability to pay dividends is also subject to the terms of its Amended and Restated Loan Agreement with First Tennessee Bank National Association ("FTB") dated September 30, 2017, which prohibits the Company from making dividend payments while an event of default has occurred and is continuing under the loan agreement or from allowing payment of a dividend which would create an event of default. The Company has pledged 100% of Bank stock as collateral for the loan and credit facilities with FTB. The inability to receive dividends from the Bank could have an adverse effect on our business and financial condition.
Furthermore, holders of our common stock are only entitled to receive the dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically paid cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

Our shares of common stock are thinly traded and our stock price may be more volatile. Because our common stock is thinly traded, its market price may fluctuate significantly more than the stock market in general or the stock prices of similar companies, which are exchanged, listed or quoted on the NASDAQ Stock Market. We believe there are 4,774,635 shares of our common stock held by nonaffiliates as of December 16, 2016. Thus, our common stock will be less liquid than the stock of companies with broader public ownership, and as a result, the trading prices for our shares of common stock may be more volatile. Among other things, trading of a relatively small volume of our common stock may have a greater impact on the trading price of our stock than would be the case if our public float were larger. On August 31, 2016, the Company announced its intention to repurchase up to 525,200 shares of its common stock, or approximately 10 percent of the current outstanding shares from time to time through October 1, 2017, however, the Company's share repurchase plan does not obligate it to acquire any specific number of shares. In addition, price volatility over a given period may cause the average price at which the Company repurchases its own stock to exceed the stock's price at a given point in time.
ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2016 (in thousands)
ADMINISTRATIVE OFFICES:			
2174 EastRidge Center (5) Eau Claire, WI 54701	Lease	September 30, 2018	
BRANCH OFFICES			
Appleton Branch (9) (3) 3701 E Calumet Street Appleton, WI 54915	Lease	January 31, 2019	
Hallie Traditional Branch (2) 2727 Commercial Boulevard Chippewa Falls, WI 54729	Lease	October 31, 2026	
Fairfax Branch 219 Fairfax Street Altoona, WI 54720	Owned	N/A	$ 740
Fond du Lac Branch (9) (3) 377 N Rolling Meadows Dr Fond du Lac, WI 54936	Lease	January 31, 2019	
Oshkosh Branch (9) (3) 351 S Washburn Street Oshkosh, WI 54904	Lease	January 31, 2019	
Neenah Branch (9) (3) 1155 Winneconne Avenue Neenah, WI 54956	Lease	March 31, 2019	
Rice Lake South Traditional Branch (11) 2850 Decker Drive Rice Lake, WI 54868	Lease	October 14, 2023	
Barron Branch (4) 436 E LaSalle Ave Barron, WI 54821	Lease	January 31, 2021	
Rice Lake North 1204 W Knapp Street Rice Lake, 54868	Owned	N/A	$ 1,416
Brill Branch (7) 2789 22nd Street Rice Lake, WI 54868	Lease	October 31, 2018	

15

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2016 (in thousands)	
Ladysmith Branch (8) 810 Miner Ave W Ladysmith, WI 54848	Leased	April 30, 2018		
Ridgeland Branch 101 Center Street Ridgeland, WI 54763	Owned	N/A	$	446
Spooner Branch 322 North River Street Spooner, WI 54801	Owned	N/A	$	631
Full-Service ATM - Gordy's County Market (10) 3310 E Hamilton Ave. Eau Claire, WI 54701	Leased	September 30, 2020		
Westside Branch 2125 Cameron Street Eau Claire, WI 54703	Owned	N/A	$	234
Lake Orion Branch (1) 688 S. LaPeer Road Lake Orion, MI 48362	Lease	February 28, 2017		
Rochester Hills Branch 310 W Tienken Road Rochester Hills, MI 48306	Owned	N/A	$	239
Faribault Branch (9) 150 Western Avenue Faribault, MN 55021	Lease	January 31, 2019		
Mankato Traditional Branch (6) 180 St. Andrews Drive Mankato, MN 56001	Lease	October 31, 2025		
Oakdale Branch (12) 7035 10th Street North Oakdale, MN 55128	Lease	September 30, 2020		
Red Wing Branch (9) 295 Tyler Road S Red Wing, MN 55066	Lease	March 3, 2018		

(1) Effective March 1, 2007, Citizens Community Federal N.A. has a right to cancel this lease, with the cancellation to take effect 90 days after it exercises the right to cancel.
(2) Leased Lake Hallie traditional location opened on September 22, 2016 with a predetermined rent increase each year and a lessee option to extend the lease by up to two five-year periods, each at predetermined rent rates.
(3) Effective on or about November 15, 2016, the Appleton and Neenah, Wisconsin Branch offices, located within Walmart stores will close. Effective on or about November 16, 2016, the Fond du Lac and Oshkosh, Wisconsin Branch offices, located within Walmart stores will close.
(4) Leased Barron location has a lessee option to extend the lease by one, five-year period at a predetermined rent rate.
(5) Leased Eastridge Center location has a predetermined rent rate increase each year and a right to renew for two additional periods of three years, each at negotiated conditions.
(6) Leased Mankato traditional location has a predetermined rent increase each year and a lessee option to extend the lease by up to two five-year periods, each at predetermined rent rates.
(7) Leased Brill location has a lessee option to extend the lease by up to one, two-year period, at a negotiated amount.
(8) Leased Ladysmith location is on a fixed monthly amount until expiration.
(9) On October 18, 2013, the Bank exercised its first lessee option to extend all these leases up to one five-year period, each at predetermined rent rates. Leased Walmart locations each have a lessee option to extend the lease by up to one, five-year period, each at predetermined rent rates.
(10) Leased Gordy's branch location closed on September 23, 2015 and was replaced with a full-service ATM which accepts cash and check deposits. The leased ATM location within Gordy's has a lessee option to extend the lease by up to one five-year period at a predetermined rent rate.
(11) Leased Rice Lake South traditional location has a lessee option to extend the lease by up to two five-year periods, each at predetermined rent rates.
(12) Leased Oakdale branch location has a predetermined rent rate increase each year.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company and/or the Bank occasionally become 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 4. MINE SAFETY DISCLOSURES

None

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Historically, trading in shares of our common stock has been limited. Citizens Community Bancorp, Inc. common stock is traded on the NASDAQ Global Market under the symbol “CZWI”.

The following table summarizes high and low bid prices and cash dividends declared for our common stock for the periods indicated. Bid prices are as provided by the Yahoo Finance System. The reported high and low prices represent interdealer bid prices, without retail mark-up, mark-downs or commission, and may not necessarily represent actual transactions.

	High	Low	Cash dividends per share
Fiscal 2016			
First Quarter (three months ended December 31, 2015)	$9.49	$8.81	$ —
Second Quarter (three months ended March 31, 2016)	$9.73	$8.84	$ 0.12
Third Quarter (three months ended June 30, 2016)	$11.60	$8.80	$ —
Fourth Quarter (three months ended September 30, 2016)	$11.32	$9.26	$ —
Fiscal 2015			
First Quarter (three months ended December 31, 2014)	$9.43	$8.59	$ —
Second Quarter (three months ended March 31, 2015)	$9.50	$8.60	$ 0.08
Third Quarter (three months ended June 30, 2015)	$9.50	$8.56	$ —
Fourth Quarter (three months ended September 30, 2015)	$9.40	$8.80	$ —

The closing price per share of Citizens Community Bancorp, Inc. common stock on September 30, 2016 (the last trading day of our fiscal year end) was $11.18.

We had approximately 339 stockholders of record at December 29, 2016. The number of stockholders does not separately reflect persons or entities that hold their stock in nominee or "street" name through various brokerage firms. We believe that the number of beneficial owners of our common stock on that date was substantially greater.

The holders of our common stock are entitled to receive such dividends when and as declared by our Board of Directors and approved by our regulators. In determining the payment of cash dividends, our Board of Directors considers our earnings, capital and debt servicing requirements, the financial ratio guidelines of our regulators, our financial condition and other relevant factors.

The Company's ability to pay dividends on its common stock is dependent on the dividend payments it receives from the Bank, since the Company receives substantially all of its revenue in the form of dividends from the Bank. Future dividends are not guaranteed and will depend on the Company's ability to pay them.

The Company is a legal entity separate and distinct from its banking subsidiary. As a bank holding company, the Company is subject to certain restrictions on its ability to pay dividends under applicable banking laws and regulations. Federal bank regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal bank regulators have stated that paying dividends that deplete a banking organization's capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

The Company's ability to pay dividends is also subject to the terms of its Amended and Restated Loan Agreement with First Tennessee Bank National Association dated September 30, 2016, which prohibits the Company from making dividend payments while an event of default has occurred and is continuing under the loan agreement or from allowing payment of a dividend which would create an event of default.

The following table reflects the annual cash dividend paid in the fiscal years ended September 30, 2016 and 2015 respectively.

	2016	2015
Cash dividends per share	$ 0.12	$ 0.08
Stockholder record date	03/11/2016	03/13/2015
Dividend payment date	03/25/2016	03/27/2015

ITEM 6. SELECTED FINANCIAL DATA

	Year ended September 30, (dollars in thousands, except per share data)				
	2016	2015 (As Restated)	2014 (As Restated)	2013	2012
Selected Results of Operations Data:					
Interest income	25,084	$ 23,004	$ 24,033	$ 24,575	$ 27,085
Interest expense	5,007	4,438	4,275	5,312	6,591
Net interest income	20,077	18,566	19,758	19,263	20,494
Provision for loan losses	75	656	1,910	3,143	4,440
Net interest income after provision for loan losses	20,002	17,910	17,848	16,120	16,054
Fees and service charges	2,923	3,006	2,868	2,584	2,068
Net impairment losses recognized in earnings	—	—	(78)	(797)	(1,332)
Net gain (loss) on sale of available for sale securities	63	60	(168)	552	243
Other non-interest income	929	847	794	712	693
Non-interest income	3,915	3,913	3,416	3,051	1,672
Non-interest expense	20,058	17,403	17,224	17,489	17,359
Income before provision for income taxes	3,859	4,420	4,040	1,682	367
Income tax provision	1,286	1,614	1,530	635	161
Net income	$ 2,573	$ 2,806	$ 2,510	$ 1,047	$ 206
Per Share Data: (1)					
Net income per share (basic) (1)	$ 0.49	$ 0.54	$ 0.49	$ 0.20	$ 0.04
Net income per share (diluted) (1)	$ 0.49	$ 0.54	$ 0.48	$ 0.20	$ 0.04
Cash dividends per common share	$ 0.12	$ 0.08	$ 0.04	$—	$—
Book value per share at end of period	$ 12.27	$ 11.74	$ 11.23	$ 10.51	$ 10.73
Tangible book value per share at end of period	$ 11.22	$ 11.72	$ 11.20	$ 10.47	$ 10.68

CITIZENS COMMUNITY BANCORP, INC.
FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

	Year ended September 30, (dollars in thousands, except per share data)				
	2016	2015 (As Restated)	2014 (As Restated)	2013	2012
Selected Financial Condition Data:					
Total assets	$695,865	$580,148	$569,815	$554,521	$530,183
Investment securities	86,792	87,933	70,974	79,695	67,111
Total loans, net of deferred costs (fees)	574,439	450,510	470,366	440,863	427,789
Total deposits	557,677	456,298	449,767	447,398	422,058
Short-term FHLB borrowings	45,461	33,600	20,000	7,500	22,100
Other FHLB borrowings	13,830	25,291	38,891	42,500	27,150
Other borrowings (2)	11,000	—	—	—	—
Total shareholders’ equity	64,544	61,454	58,019	54,185	55,103
Weighted average common shares outstanding	5,241,458	5,208,708	5,163,373	5,151,413	5,133,707
Performance Ratios:					
Return on average assets	0.40 %	0.49 %	0.45 %	0.19 %	0.04 %
Return on average total shareholders’ equity	4.08 %	4.70 %	4.47 %	1.92 %	0.38 %
Net interest margin (3)	3.27 %	3.36 %	3.61 %	3.62 %	3.94 %
Net interest spread (3)					
Average during period	3.15 %	3.24 %	3.54 %	3.51 %	3.81 %
End of period	3.31 %	3.15 %	3.58 %	3.69 %	3.84 %
Net overhead ratio (4)	2.39 %	2.35 %	2.46 %	2.66 %	2.94 %
Average loan-to-average deposit ratio	101.08 %	101.63 %	101.57 %	99.91 %	98.68 %
Average interest bearing assets to average interest bearing liabilities	114.38 %	114.15 %	109.35 %	109.92 %	109.99 %
Efficiency ratio (5)	83.60 %	77.42 %	74.08 %	75.67 %	73.87 %
Asset Quality Ratios:					
Non-performing loans to total loans (6)	0.62 %	0.27 %	0.34 %	0.59 %	1.05 %
Allowance for loan losses to:					
Total loans (net of unearned income)	1.06 %	1.44 %	1.38 %	1.40 %	1.34 %
Non-performing loans	169.92 %	532.02 %	410.47 %	236.96 %	127.44 %
Net charge-offs to average loans	0.10 %	0.14 %	0.35 %	0.62 %	0.84 %
Non-performing assets to total assets	0.62 %	0.37 %	0.46 %	0.66 %	0.95 %
Capital Ratios:					
Shareholders’ equity to assets (7)	9.28 %	10.59 %	10.18 %	9.77 %	10.39 %
Average equity to average assets (7)	9.87 %	10.39 %	9.98 %	10.08 %	10.12 %
Tier 1 capital (leverage ratio) (8)	9.3 %	10.6 %	10.1 %	9.9 %	10.2 %
Total risk-based capital (8)	14.1 %	16.8 %	16.3 %	16.3 %	15.4 %

(1) Earnings per share are based on the weighted average number of shares outstanding for the period.
(2) Consists of a term note from First Tennessee Bank National Association to finance the acquisition of CBN and matures on May 15, 2021.
(3) Net interest margin represents net interest income as a percentage of average interest earning assets, and net interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
(4)

Net overhead ratio represents the difference between non-interest expense and non-interest income, divided by average assets.

(5) Efficiency ratio represents non-interest expense, divided by the sum of net interest income and non-interest income, excluding impairment losses from OTTI.

20

(6) Non-performing loans are either 90+ days past due or nonaccrual. Non-performing assets consist of non-performing loans plus other real estate owned plus other collateral owned.
(7) Presented on a consolidated basis.
(8) Presented on a Bank (i.e. regulatory) basis.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
GENERAL
The following discussion sets forth management’s discussion and analysis of our consolidated financial condition and results of operations that should be read in conjunction with our consolidated financial statements, related notes, the selected financial data and the statistical information presented elsewhere in this report for a more complete understanding of the following discussion and analysis. Unless otherwise noted, years refer to the Company’s fiscal years ended September 30, 2016 and 2015.

RESTATEMENT SUMMARY
This Annual Report on Form 10-K of the Company for the fiscal year ended September 30, 2016, includes 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 detail regarding the restatement of the financial statements for the fiscal years ended September 30, 2014 and 2015, see Note 2, Financial Restatements, to Consolidated Financial Statements in Item 8 of this Form 10-K. For the revised quarterly results of operations for the fiscal years ended September 30, 2015 and 2016, see “Selected Quarterly Financial Data” under Item 7 of this Form 10-K.
We believe that presenting all of this information regarding the Restated Periods in this Annual Report allows investors to
review all pertinent data in a single presentation. We have not filed amendments to our annual or quarterly reports for the fiscal
years ended September 30, 2014 and 2015 or quarterly reports for the quarterly periods ended December 31, 2015, March 31,
2016 and June 30, 2016 or the preliminary earnings release for the quarterly period ended September 30, 2016 furnished on an

Form 8-K filed on October 28, 2016 (collectively, the “Affected Reports”). Accordingly, investors should rely only on the
financial information and other disclosures regarding the Restated Periods in this Annual Report on Form 10-K, and not on the
Affected Reports or any reports, earnings releases or similar communications relating to those periods.

PERFORMANCE SUMMARY

The following is a brief summary of some of the significant factors that affected our operating results in 2016. See the remainder of this section for a more thorough discussion. 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.

We reported net income of $2,573 for the year ended September 30, 2016, compared to net income of $2,806 for the year ended September 30, 2015. Diluted earnings per share were $0.49 for 2016 compared to $0.54 for the year ended September 30, 2015. Return on average assets for the year ended September 30, 2016 was 0.40%, compared to 0.49% for the year ended September 30, 2015. The return on average equity was 4.08% for 2016 and 4.70% for 2015. An annual cash dividend in the amount of $0.12 per share and $0.08 per share was paid in the fiscal year ended September 30, 2016 and 2015, respectively.

Key factors behind the earnings results were:

- Net interest income was $20,077 for 2016, an increase of $1,511, or 8.14% from $18,566 for 2015, due to an increase in the level of interest earning assets related to the acquisition of CBN. Interest income increased to $25,084 from $23,004, or 9.04% from 2015 to 2016. Meanwhile, interest expense increased to $5,007 from $4,438, or 12.82% from 2015 to 2016 .
- The net interest margin for 2016 was 3.27% compared to 3.36% for 2015. The 9 bp decrease in net interest margin was mainly attributable to an 7 bp decrease in the yield on interest earning assets during 2016. Yield on loans decreased 9 bps while yields on investment securities increased 5 bps year over year, respectively, during these two periods.
- Provision for loan losses was reduced to $75 for fiscal 2016, compared to $656 for fiscal 2015, due to improved asset quality of our originated loans.
- Non-interest income, was $3,915 for 2016 and $3,913 for 2015.
- Non-interest expense was $20,058 for 2016, an increase of $2,655 from an amount of $17,403 in 2015. The increased non-interest expense for 2016 was related to higher compensation and benefit costs, one-time merger related costs and branch closure costs.
- We recognized a tax provision of $1,286 and $1,614 for 2016 and 2015, respectively.
- Total loans were $574,439 at September 30, 2016, an increase of $123,929, or 27.51% from their levels at September 30, 2015. Total deposits were $557,677 as of September 30, 2016, compared to $456,298 at September 30, 2015, an increase of $101,379, or 22.22% from their levels at September 30, 2015. The increased loan and deposit balances largely relate to the CBN acquisition.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with Accounting Standards Generally Accepted in the United States of America ("GAAP") as applied in the United States. 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 the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Some of these estimates are more critical than others. Below is a discussion of our critical accounting estimates

Allowance for Loan Losses.

We maintain an allowance for loan losses to absorb probable and inherent losses in our loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable incurred losses in our 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 loan portfolio, historical loss experience, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, prevailing economic conditions and other relevant factors determined by management. 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. Specific allocations for collateral dependent loans are based on fair value of the underlying collateral relative to the unpaid principal balance of individually impaired loans. For loans that are not collateral dependent, the specific allocation is based on the present value of expected future cash flows discounted at the loan’s original effective interest rate through the repayment period; 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 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, when taken as a whole, reflects estimated probable 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, 6, 8 and 15 of Condensed Notes to Consolidated Financial Statements.
Income Taxes.
Amounts provided for income tax expenses are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income taxes, which arise principally from temporary differences between the amounts reported in the financial statements and the tax basis of certain assets and liabilities, are included in the amounts provided for income taxes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and if necessary, tax planning strategies in making this assessment.
The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and application of specific provisions of federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management’s current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the deferred tax assets and liabilities are adequate and properly recorded in the accompanying consolidated financial statements. As of September 30, 2016, management does not believe a valuation allowance related to the realizability of its deferred tax assets is necessary.
STATEMENT OF OPERATIONS ANALYSIS
2016 compared to 2015
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 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 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.

Tax equivalent net interest income was $20,344 for 2016, compared to $18,698 for 2015. Interest income on tax exempt securities is computed on a tax equivalent basis. The net interest margin for 2016 was 3.27% compared to 3.36% for 2015. The 9 bp decrease in net interest margin was mainly attributable to a 9 bp decrease in yield on loans as many loans have repriced or been originated in a lower interest rate environment. Competitive pricing on new and refinanced loans resulted in loan volume at lower rates, as well as increased refinancing of one to four family loans due to the current low rate environment, both contributed to reduced loan yields in 2016. Partially offsetting the decline in loan yields, was a 5 bp increase in the yield on investment securities. The investment securities yield increased through the purchase of higher yielding non-taxable municipal investment grade securities.

The cost of deposits increased slightly in 2016 to 0.88% from 0.87% in 2015. The slight increase reflects a larger balance of certificates of deposit acquired in the CBN acquisition.

Competitive pricing on new and refinanced loans resulted in loan volume at lower rates, as well as increased refinancing of one to four family loans due to the current low rate environment, both contributed to reduced loan yields in 2016. Certain FHLB advances were purchased, with shorter term maturities and lower interest rates than in the previous fiscal year, offset by longer term, higher rate borrowings used to finance the acquisition of CBN and certain deposits from closed branches were replaced with higher rate interest bearing deposits, causing the increase in rates on our interest-bearing liabilities.

As shown in the rate/volume analysis table below, positive volume changes resulted in a $1,987 increase in net interest income in 2016. Average loan volume increases were due to commercial real estate and non-real estate loan growth in the current fiscal year over the prior fiscal year, arising from management's strategy to continue to diversify its credit portfolio. The increase and changes in the composition of interest earning assets resulted in a $2,215 increase in interest income for 2016, and a $569 increase in interest expense due to the composition change in interest bearing liabilities. Rate changes on interest earning assets caused a decrease in interest income by $309 and increased interest expense by $32, for a net impact of a $341 decrease in net interest income between 2016 and 2015.

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table shows tax equivalent 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. Also presented is the weighted average yield on interest earning assets, rates paid on interest bearing liabilities and the resultant spread at September 30 for each of the last two fiscal years. Non-accruing loans have been included in the table as loans carrying a zero yield.

Average interest earning assets were $621,571 in 2016 compared to $556,937 in 2015. Average loans outstanding increased to $504,972 in 2016 from $457,707 in 2015. Interest income on loans increased $1,766, of which $2,198 related to the increase in average outstanding balances, offset by a reduction in interest income due to lower yields on such loans in the amount of $432.

Average interest bearing liabilities increased $55,528 in 2016 from their 2015 levels. The increase in average interest bearing liabilities was primarily due to deposits acquired in the CBN acquisition and borrowings used to facilitate the purchase. Average interest bearing deposits increased $41,870, or 9.61% to $477,571 in 2016. Interest expense on interest bearing deposits increased $370 during 2016 from the volume and mix changes and increased $22 from the impact of the rate environment, resulting in an aggregate increase of $392 in interest expense on interest bearing deposits.

	Year ended September 30, 2016			Year ended September 30, 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	$18,873	$70	0.37 %	$19,456	$47	0.24 %
Loans receivable	504,972	23,407	4.64 %	457,707	21,641	4.73 %
Interest bearing deposits	2,378	47	1.98 %	1,495	30	2.01 %
Investment securities (1)	90,565	1,655	1.83 %	73,282	1,307	1.78 %
Non-marketable equity securities, at cost	4,783	172	3.60 %	4,997	111	2.22 %
Total interest earning assets	$621,571	$25,351	4.08 %	$556,937	$23,136	4.15 %
Average interest bearing liabilities:						
Savings accounts	$33,538	$43	0.13 %	$27,608	$30	0.11 %
Demand deposits	36,878	240	0.65 %	20,797	156	0.75 %
Money market accounts	141,938	585	0.41 %	143,194	632	0.44 %
CD’s	239,363	3,037	1.27 %	221,827	2,727	1.23 %
IRA’s	25,854	295	1.14 %	22,275	263	1.18 %
Total deposits	$477,571	$4,200	0.88 %	$435,701	$3,808	0.87 %
FHLB advances and other borrowings	65,857	807	1.23 %	52,199	630	1.21 %
Total interest bearing liabilities	$543,428	$5,007	0.92 %	$487,900	$4,438	0.91 %
Net interest income		$20,344			$18,698	
Interest rate spread			3.16 %			3.24 %
Net interest margin			3.27 %			3.36 %
Average interest earning assets to average interest bearing liabilities			114.38 %			114.15 %

(1) For the 12 months ended September 30, 2016 and 2015, the average balance of the tax exempt investment securities, included in investment securities, were $29,232 and $15,019 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. As shown in the rate/volume analysis table below, positive volume changes resulted in a $1,987 increase in net interest income in 2016. Average loan volume increases were due largely to the acquisition of CBN. The increase and changes in the composition of interest earning assets resulted in a $2,215 increase in interest income for 2016, and a $569 increase in interest expense due to the acquisition. Rate changes on interest earning assets caused a decrease in interest income by $309 and increased interest expense by $32, for a net impact of a $341 decrease in net interest income between 2016 and 2015.

	Year ended September 30, 2016 v. 2015 Increase (decrease) due to		
	Volume (1)	Rate (1)	Total Increase / (Decrease)
Interest income:			
Cash and cash equivalents	$(1)	$24	$ 23
Loans receivable	2,198	(432)	1,766
Interest bearing deposits	17	—	17
Investment securities	315	33	348
Non-marketable equity securities, at cost	(5)	66	61
Total interest earning assets	$2,524	$(309)	$ 2,215
Interest expense:			
Savings accounts	$7	$6	$ 13
Demand deposits	108	(24)	84
Money market accounts	(6)	(41)	(47)
CD's	220	90	310
IRA's	41	(9)	32
Total deposits	370	22	392
FHLB Advances and other borrowings	167	10	177
Total interest bearing liabilities	537	32	569
Net interest income (loss)	$1,987	$(341)	$ 1,646

(1) the change in interest due to both rate and volume has been allocated in proportion to the relationship to the dollar amounts of the change in each.

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.

Net loan charge-offs for the years ended September 30, 2016 and 2015 were $503 and $666, respectively. Net charge-offs to average loans were 0.10% for 2016 compared to 0.14% for 2015. For 2016, non-performing loans increased by $2,350 to $3,571 from $1,221 at September 30, 2015. Refer to the "Risk Management and the Allowance for Loan Losses" section below for more information related to non-performing loans.

We recorded provisions for loan losses of $75 and $656 for the years ended September 30, 2016 and 2015, respectively. Management believes that the provision taken for the year ended September 30, 2016 is adequate in view of the present condition of the Bank's loan portfolio and the sufficiency of collateral supporting non-performing loans. We are continually monitoring non-performing loan relationships and will make provisions, as necessary, if the facts and circumstances change. 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 other factors 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 Note 1 “Nature of Business and Summary of Significant Accounting Policies - Allowance for Loan Losses” to our consolidated financial statements for further analysis of the provision for loan losses.

Non-Interest Income. The following table reflects the various components of non-interest income for the years ended September 30, 2016 and 2015, respectively.

	Twelve months ended September 30, 2016	2015	Change: 2016 over 2015
Noninterest Income:			
Net gains on available for sale securities	$63	$60	5.00 %
Service charges on deposit accounts	1,627	1,715	(5.13)%
Loan fees and service charges	1,296	1,291	0.39 %
Other	929	847	9.68 %
Total non-interest income	$3,915	$3,913	0.05 %

Service charges on deposit accounts decreased $88 during 2016 mainly due to a decrease in electronic banking fee and NSF fee income. Loan fees and service charges increased $5 during 2016 mainly due to commercial loan origination and servicing fees.

Non-Interest Expense. The following table reflects the various components of non-interest expense for the years ended September 30, 2016 and 2015, respectively.

	Years ended September 30, 2016	(As Restated) 2015	Change: 2016 over 2015
Noninterest Expense:			
Salaries and related benefits	$9,866	$8,667	13.83 %
Occupancy	2,826	2,872	(1.60)%
Office	1,225	1,105	10.86 %
Data processing	1,802	1,590	13.33 %
Amortization of core deposit	111	57	94.74 %
Advertising, marketing and public relations	701	659	6.37 %
FDIC premium assessment	394	390	1.03 %
Professional services	1,368	887	54.23 %
Other	1,765	1,176	50.09 %
Total noninterest expense	$20,058	$17,403	15.26 %
Noninterest expense (annualized) / Average assets	3.14 %	3.03 %	

Salaries and related benefits increased due to the addition of personnel related to the CBN acquisition and severance costs associated with branch closures. Occupancy costs, consisting primarily of office rental and depreciation expenses, decreased during the current twelve month period over the same period in the prior year due in part to branch closures. The current year did not reflect a full year of depreciation related to the acquisition of CBN branch facilities. Data processing expenses increased in 2016 due to increased costs associated with converting the CBN system and expenses related to servicing a larger customer base. The amortization of core deposit expenses increased in 2016 due to the establishment of a core deposit intangible and its related amortization. Advertising, marketing and public relations expenses increased during 2016 over 2015 due to expenses associated with rebranding the CBN facilities and marketing the CBN customers. Professional services expense increased in the current year due to increased use of outside professionals in connection to the acquisition, relative to the prior year. Other expenses increased in the current twelve month period due to higher insurance costs and contract termination fees as a result of the CBN merger.

Income Taxes. Income tax provision was $1,286 for the year ended September 30, 2016, compared to $1,614 for the year ended September 30, 2015. The decrease in income tax provision resulted primarily from the decrease in pre-tax income to $3,859 for the year ended September 30, 2016 compared to pre-tax income of $4,420 for 2015. Our effective tax rate declined from 36.5% at September 30, 2015 to 33.3% at September 30, 2016 , as a result of additional purchases of tax exempt security investments.

See Note 1, “Nature of Business and Summary of Significant Accounting Policies” and Note 15, “Income Taxes” in the accompanying Notes to Consolidated Financial Statements for a further discussion of income tax accounting. Income tax expense recorded in the accompanying Consolidated Statements of Operations involves interpretation and application of certain accounting pronouncements and federal and state tax codes and is, therefore, considered a critical accounting policy. We undergo examination by various taxing authorities. Such taxing authorities may require that changes in the amount of tax expense or the amount of the valuation allowance be recognized when their interpretations differ from those of management, based on their judgments about information available to them at the time of their examinations.

BALANCE SHEET ANALYSIS

Loans. Total loans outstanding, net of deferred loan fees and costs, increased to $574,439 at September 30, 2016, a 27.51% increase from their balance of $450,510 at September 30, 2015. The following table reflects the composition, or mix, of our loan portfolio at September 30, for the last five completed fiscal years:

	2016 Amount	Percent	2015 Amount	Percent	2014 Amount	Percent	2013 Amount	Percent	2012 Amount	Percen
Real estate loans:										
Residential real estate	$187,738	32.7 %	$181,205	40.2 %	$223,025	47.4 %	$252,958	57.4 %	$272,441	63.7
Commercial/Agricultural real estate	152,853	26.7 %	63,265	14.1 %	39,061	8.3 %	12,531	2.8 %	680	0.2
Total real estate loans	$340,591	59.4 %	$244,472	54.3 %	$262,086	55.7 %	$265,489	60.2 %	$273,121	63.9
Non-real estate loans:										
Consumer non-real estate	188,009	32.7 %	193,600	43.0 %	199,157	42.3 %	173,185	39.3 %	153,658	35.9
Commercial/Agricultural non-real estate	45,648	7.9 %	10,010	2.1 %	6,076	1.3 %	154	— %	68	—
Total non-real estate loans	$233,657	40.6 %	$203,608	45.1 %	$205,233	43.6 %	$173,339	39.3 %	$153,726	35.9
Gross loans	$574,248		$448,080		$467,319		$438,828		$426,847	
Net deferred loan costs (fees)	$191	— %	$2,430	0.6 %	$3,047	0.7 %	$2,035	0.5 %	$942	0.2
Total loans (net of unearned income and deferred expense)	$574,439	100.0%	$450,510	100.0%	$470,366	100.0%	$440,863	100.0%	$427,789	100.0
Allowance for loan losses	$(6,068)		$(6,496)		$(6,506)		$(6,180)		$(5,745)	
Total loans receivable, net	$568,371		$444,014		$463,860		$434,683		$422,044	

At September 30, 2016, real estate loans increased $96,119 or 39.3% from their balance at September 30, 2015 with the largest portion of the increase represented by commercial/agricultural real estate loans which increased $89,588. Residential real estate loans increased $6,533 to $187,738 at September 30, 2016. A substantial portion of the increase in real estate loans was related to the acquisition of CBN. Non-real estate loans increased $30,049, or 14.8% from

September 30, 2015 to September 30, 2016. Consumer non-real estate loans totaled $188,009 at September 30, 2016, or a decrease of $5,591 from the prior year end. Beginning in the fiscal fourth quarter the company ceased originating loan volume through its indirect dealer network. Commercial non-real estate loans increased $35,638 to $45,648 from $10,010 one year earlier. The change in composition of the loan portfolio over the past year reflects the impact of the CBN acquisition and a termination of the origination of indirect consumer loan products.

The following table sets forth, for our last five fiscal years, fixed and adjustable rate loans in our loan portfolio:

	2016 Amount	Percent	2015 Amount	Percent	2014 Amount	Percent	2013 Amount	Percent	2012 Amount	Percen
Fixed rate loans:										
Real estate loans:										
Residential real estate	$173,051	30.1 %	$177,708	39.5 %	$219,977	46.8 %	$250,718	56.9 %	$269,368	63.0
Commercial/Agricultural real estate	92,030	16.0 %	47,837	10.6 %	39,061	8.3 %	12,531	2.8 %	680	0.2
Total fixed rate real estate loans	265,081	46.1 %	225,545	50.1 %	259,038	55.1 %	263,249	59.7 %	270,048	63.2
Non-real estate loans:										
Consumer non-real estate	188,009	32.7 %	193,598	43.0 %	199,157	42.3 %	173,185	39.3 %	153,658	35.9
Commercial/Agricultural non-real estate	25,839	4.5 %	5,031	1.1 %	6,076	1.3 %	154	— %	68	—
Total fixed rate non-real estate loans	213,848	37.2 %	198,629	44.1 %	205,233	43.6 %	173,339	39.3 %	153,726	35.9
Total fixed rate loans	478,929	83.4 %	424,174	94.2 %	464,271	98.7 %	436,588	99.0 %	423,774	99.1
Adjustable rate loans:										
Real estate:										
Residential real estate	14,687	2.6 %	3,498	0.8 %	3,048	0.7 %	2,240	0.5 %	3,073	0.7
Commercial/Agricultural real estate	60,823	10.6 %	15,429	3.4 %	—	0.0 %	—	0.0 %	—	0.0
Total adjustable rate real estate loans	75,510	13.2 %	18,927	4.2 %	3,048	0.7 %	2,240	0.5 %	3,073	0.7
Non-real estate loans:										
Consumer non-real estate	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0
Commercial/Agricultural non-real estate	19,809	3.4 %	4,979	1.1 %	—	0.0 %	—	0.0 %	—	0.0
Total adjustable rate non-real estate loans	19,809	3.4 %	4,979	1.1 %	—	0.0 %	—	0.0 %	—	0.0
Total adjustable rate loans	95,319	16.6 %	23,906	5.3 %	3,048	0.7 %	2,240	0.5 %	3,073	0.7
Gross loans	574,248		448,080		467,319		438,828		426,847	
Net deferred loan costs	191	— %	2,430	0.5 %	3,047	0.6 %	2,035	0.5 %	942	0.2
Total loans (net of unearned income)	574,439	100.0%	450,510	100.0%	470,366	100.0%	440,863	100.0%	427,789	100.0
Allowance for loan losses	(6,068)		(6,496)		(6,506)		(6,180)		(5,745)	
Total loans receivable, net	$568,371		$444,014		$463,860		$434,683		$422,044	

The Bank offers loans with fixed and adjustable interest rates. At September 30, 2016, fixed rate loans were $478,929 while adjustable rate loans were $95,319. Though the balance of fixed rate loans increased due to the CBN acquisition, fixed rate loans declined to 83.4% of gross loans in 2016 compared to 94.2% in 2015. Consumer non-real estate loans represent the largest balance of fixed rate loans at $188,009 at September 30, 2016 followed by residential real estate loans at $173,051, commercial/agricultural real estate loans at $92,030 and commercial/agricultural non-real estate loans at $25,839. Residential real estate loans consist mainly of fixed-rate conventional home mortgages and home equity loans.

Adjustable rate loans increased $71,413 from $23,906 to $95,319 at September 30, 2016 with the increase due largely to acquired loans through the CBN acquisition. The largest component of the adjustable rate loan portfolio was represented by commercial/agricultural real estate loans at $60,823 at September 30, 2016.

Our loan portfolio is diversified by types of borrowers and industry groups within the market areas that we serve. Significant loan concentrations are considered to exist for a financial entity when the amounts of loans to multiple borrowers engaged in similar activities cause them to be similarly impacted by economic or other conditions. We have identified certain loan types within our loan portfolio, including one to four family real estate loans and consumer loans secured by recreational collateral that represent concentrations in our portfolio. At September 30, 2016, one to four family real estate loans totaled $187,738 or 32.7% of total loans, compared to $181,206 or 40.2% at September 30, 2015. At September 30, 2016, consumer loans secured by recreational collateral totaled $108,253 or 18.9% of total loans, compared to $116,895 or 25.9% of total loans at September 30, 2015. The Bank has ceased originating indirect consumer loans, and therefore will be decreasing its investment in this asset class.

In order to limit exposure to interest rate risk, we have developed strategies to shorten the average maturity of our fixed rate loan portfolio by originating shorter term loans, offering new adjustable rate loan products and arranging loan sales of longer term fixed rate loans.

Loan amounts and their contractual maturities for the years presented are as follows:

	Real estate				Non-real estate					
	Residential real estate		Commercial/Agricultural real estate		Consumer non-real estate		Commercial/Agricultural non-real estate		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2017 (1)	$8,596	4.65 %	$ 28,912	5.09 %	$2,244	8.81 %	$ 20,296	4.31 %	$60,048	4.90 %
2018	3,417	4.69 %	17,412	4.49 %	3,571	7.16 %	5,249	4.77 %	29,649	4.89 %
2019	8,726	4.95 %	19,715	5.92 %	58,290	4.66 %	2,587	5.09 %	89,318	4.98 %
2020-2021	22,009	4.32 %	28,130	4.72 %	23,110	6.04 %	7,174	5.23 %	80,423	5.03 %
2022-2023	19,971	3.73 %	11,875	5.20 %	14,232	6.12 %	6,579	5.44 %	52,657	4.92 %
2024-2038	79,042	4.80 %	43,024	4.98 %	86,562	5.30 %	3,763	3.32 %	212,391	5.02 %
2039 and after	45,977	4.81 %	3,785	5.22 %	—	— %	—	— %	49,762	4.84 %
	$187,738	4.63 %	$ 152,853	5.18 %	$188,009	5.33 %	$ 45,648	4.63 %	$574,248	4.97 %

(1) Includes loans having no stated maturity and overdraft loans.

We believe that the critical factors in the overall management of credit or loan quality are sound loan underwriting and administration, systematic monitoring of existing loans and commitments, effective loan review on an ongoing basis, recording an adequate allowance to provide for incurred loan losses, and reasonable non-accrual and charge-off policies.

Risk Management and the 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 accompanying Consolidated Statements of Operations as Provision for Loan Losses. See "Provision for Loan Losses" above. 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 on the affected loan.

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 accuracy of the ALL. However, any such modifications could result in materially different ALL levels in future periods.

Changes in the ALL by loan portfolio segment for the years presented were as follows:

	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

	Residential Real Estate	Commercial/Agriculture Real Estate	Consumer Non-real Estate	Commercial/Agricultural Non-real Estate	Unallocated	Total
Year ended September 30, 2015						
Allowance for Loan Losses:						
Beginning balance, October 1, 2014	$ 2,759	$ —	$ 3,747	$ —	$ —	$ 6,506
Charge-offs	(405)	—	(601)	—	—	(1,006)
Recoveries	69	—	271	—	—	340
Provision	382	16	258	—	—	656
Allowance allocation adjustment	(441)	973	(2,055)	1,271	252	—
Ending balance, September 30, 2015	$ 2,364	$ 989	$ 1,620	$ 1,271	$ 252	$ 6,496

The specific credit allocation for the ALL is based on a regular analysis of all originated 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 September 30, 2016, we had 109 such impaired loans, all secured by real estate or personal property with an aggregate recorded investment of $5,397 See Note 5, "Loans, Allowance for Loan Losses and Impaired Loans" of our accompanying consolidated financial statements for information on what we consider to be impaired loans. The total for the 42 such individual loans where estimated fair value was less than their book value (i.e. we deemed impairment to exist) was $2,412 for which $605 in specific ALL was recorded as of September 30, 2016.

At September 30, 2016, there were 56 individual substandard loans, not considered TDRs, with an aggregate recorded investment of $1,664. The total for the 19 such individual loans where estimated fair value was less than their book value (i.e. we deemed impairment to exist) was $297 for which $59 in specific ALL was recorded as of September 30, 2016.

	9/30/2016	6/30/2016	Quarters ended 3/31/16	12/31/2015	9/30/2015
Component 1 - Specific credit allocation	$ 628	611	162	225	$ 582
Component 2 - General and unallocated allowance	5,440	5,625	6,141	6,216	5,914
Allowance for loan losses	$ 6,068	$ 6,236	$ 6,303	$ 6,441	$ 6,496

At September 30, 2016, the allowance for loan losses was $6,068, or 1.06% of our total loan portfolio, compared to an allowance for loan losses of $6,496, or 1.44% of the total loan portfolio at September 30, 2015. This level was based on our analysis of the loan portfolio risk at each of September 30, 2016 and September 30, 2015, as discussed above. At September 30, 2016, the ALL was 1.44% of our total loan portfolio, excluding the third party purchased consumer loans referenced elsewhere herein, compared to 1.58% of the total loan portfolio excluding these third party purchased consumer loans at September 30, 2015. 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 of such loans or substituted with performing loans and are ultimately charged off by the Bank.

The Bank increased its commercial and agricultural loan portfolios from last year as part of its strategic plan. The increased loan volume and introduction of new loan products carries an elevated level of risk as the Bank doesn't have a long history in these business lines. However, we believe our current ALL is adequate to cover probable losses in our current loan portfolio.

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 of our ALL 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.

The following table identifies the various components of non-performing assets as of the dates indicated below:

	September 30, 2016	2015	2014	2013	2012
Nonperforming assets:					
Nonaccrual loans	$3,191	$748	$1,184	$2,125	$4,508
Accruing loans past due 90 days or more	380	473	401	483	—
Total nonperforming loans (“NPLs”)	3,571	1,221	1,585	2,608	4,508
Other real estate owned	725	838	1,025	873	497
Other collateral owned	52	64	25	155	45
Total nonperforming assets (“NPAs”)	$4,348	$2,123	$2,635	$3,636	$5,050
Troubled Debt Restructurings (“TDRs”)	$3,733	$4,010	$5,581	$8,618	$8,135
Nonaccrual TDRs	$515	$332	$249	$1,108	$1,329
Average outstanding loan balance	$512,475	$460,438	$455,615	$434,326	$429,768
Loans, end of period (1)	574,439	450,510	470,366	440,863	427,789
Total assets, end of period	695,865	580,148	569,815	554,521	530,183
ALL, at beginning of period	6,496	6,506	6,180	5,745	4,898
Loans charged off:					
Residential real estate	(140)	(405)	(1,238)	(1,525)	(1,984)
Commercial/Agricultural real estate	—	—	—	—	—
Consumer non-real estate	(460)	(601)	(689)	(1,494)	(1,965)
Commercial/Agricultural non-real estate	(118)	—	—	—	—
Total loans charged off	(718)	(1,006)	(1,927)	(3,019)	(3,949)
Recoveries of loans previously charged off:					
Residential real estate	11	69	94	36	30
Commercial/Agricultural real estate	—	—	—	—	—
Consumer non-real estate	204	271	249	275	326
Commercial/Agricultural non-real estate	—	—	—	—	—
Total recoveries of loans previously charged off:	215	340	343	311	356
Net loans charged off (“NCOs”)	(503)	(666)	(1,584)	(2,708)	(3,593)
Additions to ALL via provision for loan losses charged to operations	75	656	1,910	3,143	4,440
ALL, at end of period	$6,068	$6,496	$6,506	$6,180	$5,745
Ratios:					
ALL to NCOs (annualized)	1,206.36 %	975.38 %	410.73 %	228.21 %	159.89 %
NCOs (annualized) to average loans	0.10 %	0.14 %	0.35 %	0.62 %	0.84 %
ALL to total loans	1.06 %	1.44 %	1.38 %	1.40 %	1.34 %
NPLs to total loans	0.62 %	0.27 %	0.34 %	0.59 %	1.05 %
NPAs to total assets	0.62 %	0.37 %	0.46 %	0.66 %	0.95 %
Total Assets:	$695,865	$580,148	$569,815	$554,521	$530,183

(1) Total loans at September 30, 2016 included $49,221 in purchased indirect paper consumer loans purchased from a third party. See Note 5 in the accompanying Notes to Consolidated Financial Statements regarding the separate restricted reserve account established for these purchased consumer loans.

Loans 90 days or more past due decreased slightly during the year ended September 30, 2016 compared to the comparable prior year period, which management believes is indicative of stabilization of the loan portfolio with seasonal fluctuation, expected quarterly. Nonaccrual loans increased from $748 to $3,191 in 2016, primarily due to loans acquired in the CBN acquisition. We believe our credit and underwriting policies continue to support more effective lending decisions by the

33

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.

For fiscal 2016, net loan charge-offs declined to $503 from $666 one year earlier. The majority of the charge-offs were consumer non-real estate loans as were the majority of the loan recoveries. Due to the improved credit quality of originated loans throughout the year, Management believes lower reserves were needed in 2016. In the third quarter, the Bank completed the acquisition of CBN which resulted in a higher level of non-performing assets. However, the assets were recorded at fair market value which lessened the need for additional reserves on the acquired assets as of September 30, 2016. Certain external factors may result in higher future losses but are not readily determinable at this time, including, but not limited to: unemployment rates, increased taxes and continuing increased regulatory expectations with respect to ALL levels. As a result, our analysis may show a need to increase our ALL as a percentage of total loans and nonperforming loans for the near future. Loans charged-off are subject to periodic review and specific efforts are taken to achieve maximum recovery of principal, accrued interest and related expenses on the loans charged off.

Nonperforming Loans, Potential Problem Loans and Foreclosed Properties. We employ early identification of non-accrual and problem loans in order to minimize the risk of loss. Non-performing loans are defined as either 90 days or more past due or non-accrual. The accrual of interest income 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 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 recorded as interest income. Restructuring a loan 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. Restructured 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. Restructured loans that comply with the restructured terms are considered performing loans.

Non-performing loans increased $2,350 during the year ended September 30, 2016 from their balances at 2015 fiscal year end. The increase related mostly to new assets acquired in the CBN transaction which were recorded at fair market value at the time of the acquisition, totaled $1,749. These non-performing loan relationships are secured primarily by collateral including residential real estate or the consumer assets financed by the loans.

Non-performing assets include non-performing loans, other real estate owned and other collateral owned. Our non-performing assets were $4,348 at September 30, 2016, or 0.62% of total assets. This represented an increase from $2,123, or 0.37% of total assets, at September 30, 2015. The increase since September 30, 2015 was primarily due to an increase in non-performing loans acquired with CBN that were recorded at fair market value at the time of the acquisition.

Other real estate owned and other collateral owned is comprised of foreclosed collateral assets held by the Bank until sold. Other real estate owned (OREO) decreased by $114 and other collateral owned decreased by $12 during the year ended September 30, 2016 from their balances as of September 30, 2015. We continue to aggressively liquidate our OREO and other collateral owned as part of our overall credit risk strategy.

Investment Securities. We manage our securities portfolio in an effort to improve interest rate risk, enhance income, and provide liquidity. Our investment portfolio is comprised of securities available for sale and securities held to maturity.

Securities held to maturity (recorded at amortized cost) were $6,669 at September 30, 2016, compared with $8,012 at September 30, 2015. Securities available for sale (recorded at fair value), which represent the majority of our investment portfolio, were $80,123 at September 30, 2016, compared with $79,921 at September 30, 2015.

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

Available for sale securities	Amortized Cost	Fair Value
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
Total available for sale securities	$ 79,100	$80,123
September 30, 2015		
U.S. government agency obligations	$ 15,240	$15,020
Obligations of states and political subdivisions	27,573	27,407
Mortgage-backed securities	37,451	37,440
Non-agency mortgage-backed securities	71	54
Total available for sale securities	$ 80,335	$79,921

Held to maturity securities	Amortized Cost	Fair Value
September 30, 2016		
Obligations of states and political subdivisions	$ 1,315	$1,335
Mortgage-backed securities	5,354	5,609
Total held to maturity securities	$ 6,669	$6,944
September 30, 2015		
Obligations of states and political subdivisions	$ 1,319	$1,318
Mortgage-backed securities	6,693	6,901
Total held to maturity securities	$ 8,012	$8,219

The amortized cost and fair values of our investment securities by maturity, as of September 30, 2016 were as follows:

Available for sale securities	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 230	$ 230
Due after one year through five years	14,463	14,546
Due after five years through ten years	28,289	28,798
Due after ten years	36,118	36,549
Total available for sale securities	$ 79,100	$ 80,123

Held to maturity securities	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 1,315	$ 1,335
Due after five years through ten years	1,504	1,559
Due after ten years	3,850	4,050
Total held to maturity securities	$ 6,669	$ 6,944

The following tables show the fair value and gross unrealized losses of securities with unrealized losses at September 30, 2016 and 2015, respectively, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position:

Available for sale securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016:						
U.S. government agency obligations	$4,039	$ 4	$2,494	$ 25	$6,533	$ 29
Obligations of states and political subdivisions	2,885	7	1,338	15	4,223	22
Mortgage-backed securities	1,385	1	1,137	3	2,522	4
Federal Agricultural Mortgage Corporation	—	—	—	—	—	—
Total available for sale securities	$8,309	$ 12	$4,969	$ 43	$13,278	$ 55
September 30, 2015:						
U.S. government agency obligations	$4,960	$ 14	$10,060	$ 206	$15,020	$ 220
Obligations of states and political subdivisions	13,864	155	2,234	92	16,098	247
Mortgage-backed securities	22,018	93	3,590	51	25,608	144
Federal Agricultural Mortgage Corporation	—	—	54	17	54	17
Total available for sale securities	$40,842	$ 262	$15,938	$ 366	$56,780	$ 628

Held to maturity securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016:						
Obligations of states and political subdivisions	$—	$ —	$ —	$ —	$—	$ —
Mortgage-backed securities	—	—	—	—	—	—
Total held to maturity securities	$—	$ —	$ —	$ —	$—	$ —
September 30, 2015:						
Obligations of states and political subdivisions	$904	$ 4	$ —	$ —	$904	$ 4
Mortgage-backed securities	—	—	—	—	—	—
Total held to maturity securities	$904	$ 4	$ —	$ —	$904	$ 4

Unrealized losses reflected in the preceding tables have not been included in results of operations because the unrealized loss was not deemed other-than-temporary. Management has determined that more likely than not, the Company neither intends to sell, nor will it be required to sell each debt security before its anticipated recovery, and therefore recovery of cost will occur.

The composition of our investment securities portfolio by credit rating as of the periods indicated below was as follows:

Available for sale securities	September 30, 2016 Amortized Cost	2016 Fair Value	2015 Amortized Cost	2015 Fair Value
Agency	$45,249	$45,654	$52,692	$52,460
AAA	730	747	734	735
AA	25,574	26,006	22,228	22,057
A	5,414	5,567	2,970	2,959
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	2,133	2,149	1,711	1,710
Total available for sale securities	$79,100	$80,123	$80,335	$79,921

Held to maturity securities	September 30, 2016 Amortized Cost	2016 Fair Value	2015 Amortized Cost	2015 Fair Value
Agency	$5,354	$5,609	$6,693	$6,901
AAA	—	—	—	—
AA	—	—	—	—
A	965	982	969	968
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	350	353	350	350
Total held to maturity securities	$6,669	$6,944	$8,012	$8,219

At September 30, 2016, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $2,685 as collateral against a borrowing line of credit with the Federal Reserve Bank. However, as of September 30, 2016, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of September 30, 2016, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $6,163 and mortgage-backed securities with a carrying value of $20,856 as collateral against specific municipal deposits.

Intangible Assets. We have other intangibles of $872, comprised of core deposit intangible assets arising from various acquisitions from 2002 through 2016. Amortization expense, calculated on a straight line basis, was $111 and $57 for the years ended September 30, 2016 and 2015, respectively. Annually, we assess the reasonableness of the remaining useful life assumptions assigned to each core deposit intangible asset. No changes were made during 2016 in the remaining useful lives of our core deposit intangibles, which originally ranged from approximately 7 to 15 years.

Deposits. Deposits are our largest source of funds. Average total deposits for 2016 were $477,571, an increase of 9.61% from the level of average total deposits for 2015. Total deposits increased to $557,677 at September 30, 2016, from $456,298 at September 30, 2015, due primarily to deposits acquired in the CBN transaction totaling $151,020 and deposits purchased from Central Bank in Rice Lake and Barron, Wisconsin totaling $27,131, partially offset by deposit runoff in the markets where branch closures took place and a reduction in checking balances from Insider accounts related to the CBN acquisition. As of September 30, 2016, the balance in the municipal money market accounts was approximately $32,016 and the balance in municipal certificate of deposit accounts was approximately $16,051.

Our objective is to grow core deposits and build customer relationships with convenience, customer service, and by expanding our deposit product offerings with competitive pricing. Management expects to continue to place emphasis on both retaining and generating additional core deposits in 2017 through competitive pricing of deposit products and through the branch delivery systems that we have already established, as well as through online and mobile banking options. We anticipate CD and money market deposits from our closed branches to continue running off over time as we have experienced in the past.

Institutional certificates of deposit as a funding source decreased $9,277 from their balance as of September 30, 2015. 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.

Brokered deposits were $5,003 and $22,773 at September 30, 2016 and September 30, 2015. Brokered deposit levels are within all regulatory directives thereon.

Federal Home Loan Bank (FHLB) advances and other borrowings. FHLB advances were $59,291 and $58,891 at September 30, 2016 and September 30, 2015, respectively, 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 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 $64,544 at September 30, 2016, versus $61,453 at September 30, 2015. The increase resulted primarily from net income of $2,573 for the year ended September 30, 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. 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 and investments with maturities less than one-year divided by deposits with maturities less than or equal to one-year. At September 30, 2016, our liquidity ratio was 6.25 percent, which was below our targeted liquidity ratio of 10 percent. We view this as acceptable given our access to lines of credit totaling $115,500 as explained below.

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 $141,397 of our $273,948 (51.6%) CD portfolio will mature within the next 12 months, we have historically retained a majority of our maturing CD’s. However, due to strategic pricing decisions regarding rate matching and branch closures, our retention rate may decrease in the future. Through new deposit product offerings to our branch and commercial customers, we are currently attempting to strengthen customer relationships to attract additional non-rate sensitive deposits. In our present interest rate environment, and based on maturing yields, this should also improve our cost of funds.

We maintain access to additional sources of funds including FHLB borrowings and lines of credit with the Federal Reserve Bank, US Bank, First Tennessee Bank, NA and Bankers’ 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. Currently, we have approximately $90,500 available under this arrangement. We also maintain lines of credit of $3,500 with the Federal Reserve Bank, $5,000 with US Bank, $3,000 with First Tennessee Bank, NA and $13,500 with Bankers’ Bank as part of our contingency funding plan.

In reviewing our adequacy of liquidity, we review and evaluate historical financial information, including information regarding general economic conditions, current ratios, management goals and the resources available to meet our anticipated liquidity needs. Management believes that our liquidity is adequate and, to management's knowledge, there are no known events or uncertainties that will result or are likely to reasonably result in a material increase or decrease in our liquidity.

Off-Balance Sheet Arrangements. In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments, issued to meet customer financial needs. Such financial instruments are recorded in the financial statements when they become payable. 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 September 30, 2016, the

Company had approximately $28,476 in unused commitments, compared to approximately $24,097 in unused commitments as of September 30, 2015. See Note 12 "Financial Instruments with Off-Balance Sheet Risk" for further detail.
Capital Resources. As of September 30, 2016, 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 September 30, 2016						
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%
As of September 30, 2015 (As Restated)						
Total capital (to risk weighted assets)	$65,848,000	16.8%	$31,443,000	>= 8.0%	$39,304,000	>= 10.0%
Tier 1 capital (to risk weighted assets)	60,915,000	15.5%	23,583,000	>= 6.0%	31,443,000	>= 8.0%
Common equity tier 1 capital (to risk weighted assets)	60,915,000	15.5%	17,687,000	>= 4.5%	25,548,000	>= 6.5%
Tier 1 leverage ratio (to adjusted total assets)	60,915,000	10.6%	23,031,000	>= 4.0%	28,788,000	>= 5.0%

At September 30, 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 September 30, 2016						
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%
As of September 30, 2015 (As Restated)						
Total capital (to risk weighted assets)	$66,524,000	16.9%	$31,443,000	>= 8.0%	$39,304,000	>= 10.0%
Tier 1 capital (to risk weighted assets)	61,591,000	15.7%	23,583,000	>= 6.0%	31,443,000	>= 8.0%
Common equity tier 1 capital (to risk weighted assets)	61,591,000	15.7%	17,687,000	>= 4.5%	25,548,000	>= 6.5%
Tier 1 leverage ratio (to adjusted total assets)	61,591,000	10.7%	23,031,000	>= 4.0%	28,788,000	>= 5.0%

At September 30, 2016, the Company was categorized as "Well Capitalized" under Prompt Corrective Action Provisions.

Selected Quarterly Financial Data

The following is selected financial data summarizing the results of operations, as restated, for each quarter in the years ended September 30, 2015 and 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 effect of these restatements on the Company's 2015 and 2016 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. See Note 2, Restatement of Previously Issued Financial Statements, to Consolidated Financial Statements in Item 8 for a discussion of the review and effect of the restatement.

Year ended September 30, 2016:

	December 31, (As Restated)	March 31, (As Restated)	June 30, (As Restated)	September 30, (As Restated)
Interest income	$ 5,674	$ 5,742	$ 6,474	$ 7,194
Interest expense	1,121	1,115	1,295	1,476
Net interest income	4,553	4,627	5,179	5,718
Provision for loan losses	75	—	—	—
Net interest income after provision for loan losses	4,478	4,627	5,179	5,718
Non-interest income	950	810	1,013	1,142
Non-interest expense	4,115	4,410	4,804	6,729
Income before income tax expense	1,313	1,027	1,388	131
Provision (benefit) for income tax	466	352	513	(45)
Net income	$ 847	$ 675	$ 875	$ 176
Basic earnings per share	$ 0.16	$ 0.13	$ 0.16	$ 0.04
Diluted earnings per share	$ 0.16	$ 0.13	$ 0.16	$ 0.04
Dividends paid	$ —	$ 0.12	$ —	$ —

Year ended September 30, 2015:

	December 31, (As Restated)	March 31, (As Restated)	June 30, (As Restated)	September 30, (As Restated)
Interest income	$ 5,960	$ 5,692	$ 5,621	$ 5,731
Interest expense	1,119	1,107	1,095	1,117
Net interest income	4,841	4,585	4,526	4,614
Provision for loan losses	235	150	150	121
Net interest income after provision for loan losses	4,606	4,435	4,376	4,493
Non-interest income	1,034	924	931	1,024
Non-interest expense	4,407	4,336	4,273	4,387
Income before income tax expense	1,233	1,023	1,034	1,130

Provision for income tax	466	375	370	403
Net income	$ 767	$ 648	$ 664	$ 727
Basic earnings per share	$ 0.15	$ 0.12	$ 0.13	$ 0.14
Diluted earnings per share	$ 0.15	$ 0.12	$ 0.13	$ 0.14
Dividends paid	$ —	$ 0.08	$ —	$ —

41

ITEM 7A. 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 the Bank's senior management and 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 agriculture loan maturities;
- originating variable rate commercial and agriculture 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. During our fiscal 2015 first and fourth quarters, fixed rate residential mortgage loans were sold in the amount of \$8,095 and \$8,745, respectively. Additional loan sales may occur in the future if the analysis proves advantageous to the Bank; and
- originating balloon mortgage 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 the Bank's interest rate risk position somewhat in order to maintain or improve its 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 September 30, 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 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).

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)	
+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.

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 in Net Interest Income (in thousands)	Percentage Change	Dollar 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT BY CITIZENS COMMUNITY BANCORP, INC.'S MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining an effective system of internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. The Company's system of internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that pertain to identifying accrued expenses and the maintenance of records in accordance with GAAP.

Under the supervision of the Audit Committee and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon that evaluation, management concluded that such controls and procedures were ineffective as of September 30, 2016 as evidenced by the material weakness described below, principally related to the Company's period-end financial reporting and consolidation processes.

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 and underestimated for the quarterly
periods of the fiscal 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. As a result of the material weakness in internal control over financial reporting described above, management concluded that the Company's internal control over financial reporting was not effective as of September 30, 2016 based on the criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

Remediation of the Material Weakness in Internal Control Over Financial Reporting

We have begun to remediate the material weakness described above, including assessing the need for additional remediation
steps and implementing additional measures to remediate the underlying causes that gave rise to the material weakness.

The following remediation steps are among the measures currently being implemented at the time of this filing by management:

- 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.

The audit committee has directed management to develop a plan and timetable for the implementation of the foregoing remedial measures and will monitor their implementation.

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.

CITIZENS COMMUNITY BANCORP, INC.
December 29, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors
Citizens Community Bancorp, Inc. and Subsidiary
Eau Claire, WI

We have audited the accompanying consolidated balance sheets of Citizens Community Bancorp, Inc. and Subsidiary (the "Company") as of September 30, 2016 and 2015, and the related consolidated statements of operations, other comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Community Bancorp, Inc. and Subsidiary as of September 30, 2016 and 2015 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its 2014 and 2015 financial statements to correct errors.

As further described in Note 3 to the consolidated financial statements, on May 16, 2016, the Company completed a business combination with Community Bank of Northern Wisconsin.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
December 29, 2016

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
September 30, 2016 and September 30, 2015 (As Restated)
(in thousands, except share data)

	September 30, 2016	September 30, 2015 (As Restated)
Assets		
Cash and cash equivalents	$10,046	$23,872
Other interest bearing deposits	745	2,992
Securities available for sale "AFS"	80,123	79,921
Securities held to maturity "HTM"	6,669	8,012
Non-marketable equity securities, at cost	5,034	4,626
Loans receivable	574,439	450,510
Allowance for loan losses	(6,068)	(6,496)
Loans receivable, net	568,371	444,014
Office properties and equipment, net	5,338	2,669
Accrued interest receivable	2,032	1,574
Intangible assets	872	104
Goodwill	4,663	—
Foreclosed and repossessed assets, net	776	902
Other assets	11,196	11,462
TOTAL ASSETS	$695,865	$580,148
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$557,677	$456,298
Federal Home Loan Bank advances	59,291	58,891
Other borrowings	11,000	—
Other liabilities	3,353	3,506
Total liabilities	631,321	518,695
Stockholders' equity:		
Common stock—$0.01 par value, authorized 30,000,000; 5,260,098 and 5,232,579 shares issued and outstanding, respectively	53	52
Additional paid-in capital	54,963	54,740
Retained earnings	9,107	7,163
Unearned deferred compensation	(193)	(288)
Accumulated other comprehensive gain (loss)	614	(214)
Total stockholders' equity	64,544	61,453
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$695,865	$580,148

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations
Years Ended September 30, 2016 and 2015 (As Restated)
(in thousands, except per share data)

	2016	2015 (As Restated)
Interest and dividend income:		
Interest and fees on loans	$23,407	$ 21,641
Interest and dividends on investments	1,677	1,363
Total interest and dividend income	25,084	23,004
Interest expense:		
Interest on deposits	4,200	3,808
Interest on FHLB borrowed funds	664	630
Interest on other borrowed funds	143	—
Total interest expense	5,007	4,438
Net interest income before provision for loan losses	20,077	18,566
Provision for loan losses	75	656
Net interest income after provision for loan losses	20,002	17,910
Non-interest income:		
Net gains on sale of available for sale securities	63	60
Service charges on deposit accounts	1,627	1,715
Loan fees and service charges	1,296	1,291
Other	929	847
Total non-interest income	3,915	3,913
Non-interest expense:		
Salaries and related benefits	9,866	8,667
Occupancy	2,826	2,872
Office	1,225	1,105
Data processing	1,802	1,590
Amortization of core deposit intangible	111	57
Advertising, marketing and public relations	701	659
FDIC premium assessment	394	390
Professional services	1,368	887
Other	1,765	1,176
Total non-interest expense	20,058	17,403
Income before provision for income tax	3,859	4,420
Provision for income taxes	1,286	1,614
Net income attributable to common stockholders	$2,573	$ 2,806
Per share information:		
Basic earnings	$0.49	$ 0.54
Diluted earnings	$0.49	$ 0.54
Cash dividends paid	$0.12	$ 0.08

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Other Comprehensive Income
Years ended September 30, 2016 and 2015 (As Restated)
(in thousands, except per share data)

	2016	2015 (As Restated)
Net income attributable to common stockholders	$2,573	$ 2,806
Other comprehensive income, net of tax:		
Securities available for sale		
Net unrealized gains arising during period	825	584
Reclassification adjustment for gains (losses) included in net income	38	36
Unrealized gains on securities	863	620
Defined benefit plans:		
Amortization of unrecognized prior service costs and net (losses) gains	(35)	8
Total other comprehensive income, net of tax	828	628
Comprehensive income	$3,401	$ 3,434

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Changes in Stockholders’ Equity
Years Ended September 30, 2016 and 2015
(in thousands, except Shares)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, September 30, 2014 (1)	5,167,061	$ 52	$ 54,257	$ 4,775 (1)	$ (223)	$ (842)	$ 58,019
Net income				2,806			2,806
Other comprehensive income, net of tax						628	628
Surrender of vested shares	(3,937)		(36)				(36)
Common stock awarded under the equity incentive plan	17,500		161		(161)		—
Common stock options exercised	51,955		299				299
Stock option expense			59				59
Amortization of restricted stock					96		96
Cash dividends ($0.08 per share)				(418)			(418)
Balance, September 30, 2015	5,232,579	$ 52	$ 54,740	$ 7,163	$ (288)	$ (214)	$ 61,453
Net income				2,573			2,573
Other comprehensive income, net of tax						828	828
Forfeiture of unvested shares	(22,162)		(176)		176		—
Surrender of restricted shares of common stock	(5,425)		(50)				(50)
Common stock awarded under the equity incentive plan	11,591		127		(127)		—
Common stock options exercised	43,515	1	289				290
Stock option expense			33				33
Amortization of restricted stock					46		46
Cash dividends ($0.12 per share)				(629)			(629)
Balance, September 30, 2016	5,260,098	$ 53	$ 54,963	$ 9,107	$ (193)	$ 614	$ 64,544

(1) The opening balance of retained earnings was adjusted by $726 thousand for a material correction of prior period errors. Refer to Note 2, "Restatement of Previously Issued Financial Statements"
See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows
Years Ended September 30, 2016 and 2015 (As Restated)
(in thousands, except per share data)

	2016		2015 (As Restated)	
Cash flows from operating activities:				
Net income attributable to common stockholders	$	2,573	$	2,806
Adjustments to reconcile net income to net cash provided by operating activities:				
Net amortization of premium/discount on securities	1,135		910	
Depreciation	1,071		1,382	
Provision for loan losses	75		656	
Net realized gain on sale of securities	(63	)	(60	)
Amortization of core deposit intangible	111		57	
Amortization of restricted stock	46		96	
Stock based compensation expense	33		59	
Loss on sale of office properties	—		8	
Provision (benefit) for deferred income taxes	449		(141	)
Net (gains) losses from disposals of foreclosed and repossessed assets	(70	)	31	
Provision for valuation allowance on foreclosed properties	—		57	
Provision for valuation allowance on foreclosed acquired properties	42		—	
Decrease (increase) in accrued interest receivable and other assets	698		(460	)
(Decrease) increase in other liabilities	(402	)	376	
Total adjustments	3,125		2,971	
Net cash provided by operating activities	5,698		5,777	
Cash flows from investing activities:				

Purchase of investment securities	(19,665)	(54,232)
Net decrease (increase) in interest-bearing deposits	7,241	(2,747)
Proceeds from sale of securities available for sale	21,712	29,285
Principal payments on investment securities	16,183	8,171
Proceeds from sale of non-marketable equity securities	—	889
Purchase of Federal Reserve Bank (FRB) stock	(3)	—
Proceeds from sale of foreclosed properties	1,261	1,323
Net decrease in loans	2,846	17,927
Net capital expenditures	(961)	(331)
Net cash received in business combinations	20,658	—
Net cash provided by investing activities	49,272	285
Cash flows from financing activities:		
Net decrease in Federal Home Loan Bank advances	(2,600)	—
Increase in other borrowings to fund business combination	11,000	—
Net (decrease) increase in deposits	(76,772)	6,531
Surrender of restricted shares of common stock	(50)	(36)
Exercise of common stock options	290	299
Termination of director retirement plan/supplemental executive retirement plan	(35)	—
Cash dividends paid	(629)	(418)
Net cash (used in) provided by financing activities	(68,796)	6,376
Net (decrease) increase in cash and cash equivalents	(13,826)	12,438
Cash and cash equivalents at beginning of period	23,872	11,434
Cash and cash equivalents at end of period	$ 10,046	$ 23,872

50

Supplemental cash flow information:		
Cash paid during the year for:		
Interest on deposits	$4,091	$2,852
Interest on borrowings	$759	$466
Income taxes	$1,484	$1,214
Supplemental noncash disclosure:		
Transfers from loans receivable to foreclosed and repossessed assets	$630	$1,263
Fair value of assets acquired, net of cash and cash equivalents	$167,469	$—
Fair value of liabilities assumed, net of cash and cash equivalents	$154,250	$—

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share data)
NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The financial statements of Citizens Community Federal N.A. (the “Bank”) included herein have been included by its parent company, Citizens Community Bancorp, Inc. (the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). As used in this annual 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.
On April 16, 2014, the U.S. Office of the Comptroller of the Currency (the "OCC"), the primary federal regulator for the Company and the Bank, provided written notice to the Bank of the OCC's approval for the Bank to convert to a national banking association (a "National Bank") and operate under the title of Citizens Community Federal National Association ("Citizens Community Federal N.A."). The consummation of the conversion to a National Bank was effective as of May 31, 2014.
On April 18, 2014, Citizens Community Bancorp, Inc. received written notice from the Federal Reserve Bank of Minneapolis (the "FRB") notifying the Company of the FRB's approval of the Company becoming a bank holding company as
a result of the conversion of the Bank from a federally-chartered savings bank to a National Bank, which approval was also effective as of May 31, 2014.
The consolidated income of the Company is principally derived from the income of the Bank, the Company’s wholly owned subsidiary. The Bank originates residential, commercial, agricultural, consumer and commercial and industrial (C&I) loans and accepts deposits from customers, primarily in Wisconsin, Minnesota and Michigan. The Bank operates 20 full-service offices; thirteen stand-alone locations and 7 in-store branches.
In August 2016, we announced the closing of four in-store branches located in Eastern Wisconsin, effective November 2016. We incurred accelerated depreciation costs totaling $89 and additional salaries and related benefits costs totaling $56 related to these branch closures as of September 30, 2016. We intend to continue to review our branch network to deploy assets and capital in growth markets and exit markets where we believe have limited growth opportunities. Through all of our branch locations in Wisconsin, Minnesota and Michigan, we provide a variety of commercial and consumer banking products and services to customers, including online and mobile banking options. 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 occurring subsequent to the balance sheet date of September 30, 2016 through the date on which the consolidated financial statements were available to be issued for items that should potentially be recognized or disclosed in these consolidated financial statements. As of December 16, 2016, there were no subsequent events which required recognition or disclosure.
Unless otherwise stated, all monetary amounts in these Notes to Consolidated Financial Statements, other than share, per share and capital ratio amounts, are stated in thousands.
Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Citizens Community Federal N.A. All significant inter-company 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, foreclosed and repossessed assets, valuation of acquired intangible assets, useful lives for depreciation and amortization, indefinite-lived intangible assets and long-lived assets, stock based compensation, deferred tax assets, uncertain income tax positions and contingencies. Management does not anticipate any material changes to estimates

made herein in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: those items described under the caption “Risk Factors” in Item 1A of the accompanying annual report on Form 10-K for the year ended September 30, 2016 and external market factors such as market interest rates and employment 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.

Cash and Cash Equivalents—For purposes of reporting cash flows in the consolidated financial statements, cash and cash equivalents include cash, due from banks, and interest bearing deposits with original maturities of three months or less.

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 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 securities.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. As part of such monitoring, the credit quality of individual securities and their issuer is assessed. Significant inputs used to measure the amount of other-than-temporary impairment related to credit loss include, but are not limited to; the Company's intent and ability to sell the debt security prior to recovery, that it is more likely than not that the Company will not sell the security prior to recovery, default and delinquency rates of the underlying collateral, remaining credit support, and historical loss severities. Adjustments to market value of available for sale securities that are considered temporary are recorded in other comprehensive income or loss as separate components of stockholders' equity, net of tax. If the unrealized loss of a security is identified as other-than-temporary based on information available, such as the decline in the creditworthiness of the issuer, external market ratings, or the anticipated or realized elimination of associated dividends, such impairments are further analyzed to determine if credit loss exists. If there is a credit loss, it will be recorded in the Company's consolidated statement of operations. Non-credit components of the unrealized losses on available for sale securities will continue to be recognized in other comprehensive income (loss), net of tax.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or 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 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.

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 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 non-real estate 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 ended consumer non-real estate 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/agricultural real estate and non-real estate 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 90 days or more.
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 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 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 5, “Loans, Allowance for Loan Losses and Impaired Loans” for more information on what we consider to be a TDR. For TDR's or substandard loans deemed to be impaired, a specific ALL allocation may be established so that the loan is reported, net, at the lower of (a) its outstanding principal balance; (b) the present value of the loan's estimated future cash flows using the loan’s existing rate; or (c) at the fair value of any loan 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 non-TDR commercial, consumer and residential real estate loans, are collectively evaluated for ALL purposes, and accordingly, are not separately identified for ALL 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 to be collected at acquisition, or the “nonaccretable" yield, are not recognized as a yield adjustment, a loss accrual, or a valuation allowance. Non-accretable yield represents estimated future credit losses expected to be incurred over the life of the loan. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through reclassification from non-accretable discount to accretable discount and adjustment of the yield on the loan into interest income over its remaining life. Decreases in expected cash flows are recognized as impairments through ALL. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition.
Non-marketable Equity Securities — Non-marketable equity securities are comprised of Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank (FRB) stock, and are carried at cost.
The Bank is a member of the FHLB system. Members are required to own a certain amount of FHLB stock based on the Bank’s level of borrowings from the FHLB and other factors, and may invest in additional amounts of FHLB stock. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) the impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Both cash and stock dividends are reported as income.

FHLB stock is evaluated quarterly for impairment. Quarterly cash dividends are paid on FHLB stock owned by members as a condition for required membership and also paid on stock owned based on activity.

The following table presents the membership and activity stock quarterly cash dividend annualized rates paid during fiscal 2016:

	Annualized Dividend Rate	
Quarterly Dividend Payment Date	Membership Stock	Activity Stock
November 2015	0.50%	2.50%
February 2016	0.60%	2.60%
May 2016	0.60%	2.80%
August 2016	0.60%	2.80%

Based on management's quarterly evaluation, no impairment has been recorded on these securities.

As a National Banking Association, the Bank must be a member of the Federal Reserve system. Each member bank is required to subscribe to Federal Reserve Stock in an amount equal to 6 percent of its capital and surplus. Although the par value of the stock is $100 per share, banks (including the Bank) pay only $50 per share at the time of purchase, with the understanding that the other half of the subscription amount is subject to call at any time. Dividends are paid at the statutory rate of 6 percent per annum, or $1.50 per share semi-annually on the last business day of June and December.

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 in the 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.

The following table provides changes in goodwill from September 30, 2015 through September 30, 2016:

Balance at beginning of period	$—
Select loans and deposit purchase from Central Bank (See Note 3)	435
CBN acquisition (See Note 3)	4,228
Valuation allowance	—
Balance at end of period	$4,663

Office Properties and Equipment—Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Maintenance and repair costs are charged to expense as incurred. Gains or losses on disposition of office properties and equipment are reflected in income. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 10 years. Leasehold improvements are depreciated using the straight-line (or accelerated) method with useful lives based on the lesser of (a) the estimated life of the lease, or (b) the estimated useful life of the leasehold improvement.

Intangible Assets—Intangible assets consist of core deposit intangible assets arising from acquisitions. They were initially measured at fair value and amortized over their estimated useful lives, ranging from 7 to 15 years. The balances of core deposit intangible assets were $872 and $104 at September 30, 2016 and 2015, respectively. Amortization expense related to these core deposit intangible assets was $111 and $57 for the years ended September 30, 2016 and 2015, respectively. Accumulated amortization on core deposit intangible assets was $2,527 and $2,416, at September 30, 2016 and 2015, respectively.

Interest Bearing Deposits—Other interest bearing deposits are certificate of deposit investments made by the Bank with other financial institutions that are carried at cost and mature within two to three years. Balances over $250 in those institutions are not insured by the FDIC and therefore pose a potential risk in the event the institution were to fail. As of September 30, 2016 and 2015, there were no uninsured deposits.

Advertising, Marketing and Public Relations Expense—The Company expenses all advertising, marketing and public relations costs as they are incurred. Total costs for the years ended September 30, 2016 and 2015 were $701 and $659, respectively.

Income Taxes – The Company accounts for income taxes in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification ("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 15, "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 carry forward periods, any experience with utilization of operating loss and tax credit carry forwards not expiring, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. Accordingly, the Company's evaluation is based on current tax laws as well as management's expectations of future performance.

Revenue Recognition - The Company recognizes revenue in the consolidated statements of operations as it is earned and when collectability is reasonably assured. The primary source of revenue is interest income from interest earning assets, which is recognized on the accrual basis of accounting using the effective interest method. The recognition of revenues from interest earning assets is based upon formulas from underlying loan agreements, securities contracts or other similar contracts. Non-interest income is recognized on the accrual basis of accounting as services are provided or as transactions occur. Non-interest income includes fees from brokerage and advisory service, deposit accounts, merchant services, ATM and debit card fees, mortgage banking activities, and other miscellaneous services and transactions.

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company-put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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.

Loss Contingencies—Loss contingencies, including claims and legal actions arising in the normal course of business, are recorded as liabilities when the likelihood of loss is probable and an amount of loss can be reasonably estimated.

Off-Balance-Sheet Financial Instruments—In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commitments under lines of credit arrangements, issued to meet customer financial needs. Such financial instruments are recorded in the financial statements when they become payable.

Other Comprehensive Income —Accumulated and other comprehensive income or loss is comprised of the unrealized and realized gains and losses on securities available for sale and pension liability adjustments, net of tax, and is shown on the accompanying Consolidated Statements of Other Comprehensive Income.

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.
Bank Owned Life Insurance (BOLI) - The Bank invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a select group of employees. The Bank is the owner and beneficiary of the policies. Income from the increase in cash surrender value of the policies as well as the receipt of death benefits is included in non-interest income on the consolidated statement of income.
Reclassifications – Certain items previously reported were reclassified for consistency with the current presentation.
Recent Accounting Standards - In August, 2016 the FASB issued Accounting Standards Update ("ASU") 2016-15, "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments". ASU 2016-15 is intended to provide specific guidance on how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, in order to reduce existing diversity in practice. For public entities, ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company has not yet evaluated the potential effects of adopting ASU 2016-15 on the Company's consolidated results of operations, financial position or cash flows.

In June, 2016 the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the excepted credit losses on financial instruments and other commitments to extend credit. For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has not yet evaluated the potential effects of adopting ASU 2016-13 on the Company's consolidated results of operations, financial position or cash flows.

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 expects the adoption of ASU 2016-09 to have no material effect on the Company's results of operations, financial position or cash flows.

In February, 2016, the FASB issued ASU 2016-02 - "Leases" (Topic 842). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company has not yet evaluated the impact of the adoption of ASU 2016-02 on the Company's results of operations, financial position or cash flows.

In January, 2016, the FASB issued ASU 2016-01 - "Recognition and Measurement of Financial Assets and Financial Liabilities” (Subtopic 825-10). 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 results of operations, financial position or cash flows.

NOTE 2 – RESTATEMENT of PREVIOUSLY ISSUED FINANCIAL RESTATEMENTS

The Company has restated its consolidated financial statements as of and for the fiscal years ended September 30, 2015 and 2014. In addition, the Company has restated its quarterly Consolidated Statements of Operations and Balance Sheets for each of the quarterly periods in the fiscal year ended September 30, 2015, and the first three quarters of the fiscal year ended September 30, 2016, as presented.

The restatements reflect adjustments to correct errors identified by management during the Company’s normal closing process, and in the course of the Company’s regularly scheduled audit. The restatements reflect adjustments to correct errors in certain of the Company’s period end expense accruals. The effect of the restatements on the Company’s Balance Sheets is not material, and the restatements have no effect on reported cash flow from operations. The nature and impact of these adjustments are described below and detailed in the tables below.

Overstatement of Expense Accruals

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-accrual of certain expense accruals over the restated periods resulted in an increase of pre-tax income of approximately $316 and $1,210 for the years ended September 30, 2015 and 2014, respectively, and after tax $192 and $726 respectively.

The cumulative impact of the above restatements as of September 30, 2015, is a $918 increase to retained earnings and consists of the following adjustments to the respective Statements of Operations:

	2015	2014
Salaries and related benefits expense	$24	$(217)
Advertising, marketing and public relations expense	89	(327)
Professional Services expense	(201)	(571)
Other expense	(228)	(95)
Total non-interest expense	(316)	(1,210)
Income before provision for income tax	316	1,210
Provision for income taxes	$124	$484
Net income attributable to common shareholders	192	726
Per share information:		
Basic earnings	0.04	0.14
Diluted earnings	0.04	0.14

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
September 30, 2015 and September 30, 2014
(in thousands, except share data)

	As Previously Reported on Form 10-K September 30, 2015	Adjustments	As Restated September 30, 2015	As Previously Reported on Form 10-K September 30, 2014	Adjustments	As Restated September 30, 2014
Assets						
Cash and cash equivalents	$ 23,872		$ 23,872	$ 11,434		$ 11,434
Other interest bearing deposits	2,992		2,992	245		245
Securities available for sale "AFS"	79,921		79,921	62,189		70,974
Securities held to maturity "HTM"	8,012		8,012	8,785		—
Non-marketable equity securities, at cost	4,626		4,626	5,515		5,515
Loans receivable	450,510		450,510	470,366		470,366
Allowance for loan losses	(6,496)		(6,496)	(6,506)		(6,506)
Loans receivable, net	444,014	—	444,014	463,860	—	463,860
Office properties and equipment, net	2,669		2,669	3,725		3,725
Accrued interest receivable	1,574		1,574	1,478		1,478
Intangible assets	104		104	161		161
Goodwill	—		—	—		—
Foreclosed and repossessed assets, net	902		902	1,050		1,050
Other assets	11,462		11,462	11,373		11,373
TOTAL ASSETS	$ 580,148	$ —	$ 580,148	$ 569,815	$ —	$ 569,815
Liabilities and Stockholders' Equity						
Liabilities:						
Deposits	$ 456,298		456,298	$ 449,767		449,767
Federal Home Loan Bank advances	58,891		58,891	58,891		58,891
Other borrowings	—		—	—		—
Other liabilities	4,424	(918)	3,506	3,864	(726)	3,138
Total liabilities	519,613	(918)	518,695	512,522		