Citizens Community Bancorp Inc.
Form 10-Q
August 10, 2018

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

At August 10, 2018 there were 5,914,379 shares of the registrant's common stock, par value $0.01 per share, outstanding.

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PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
June 30, 2018 (unaudited) and September 30, 2017
(derived from audited financial statements)
(in thousands, except share and per share data)

	June 30, 2018	September 30, 2017
Assets		
Cash and cash equivalents	$27,731	$ 41,677
Other interest-bearing deposits	8,160	8,148
Securities available for sale	119,702	95,883
Securities held to maturity	4,809	5,453
Non-marketable equity securities, at cost	6,862	7,292
Loans receivable	761,087	732,995
Allowance for loan losses	(6,458)	(5,942)
Loans receivable, net	754,629	727,053
Loans held for sale	1,778	2,334
Mortgage servicing rights	1,841	1,886
Office properties and equipment, net	9,947	9,645
Accrued interest receivable	3,306	3,291
Intangible assets	4,966	5,449
Goodwill	10,444	10,444
Foreclosed and repossessed assets, net	5,392	6,017
Bank owned life insurance ("BOLI")	11,581	11,343
Other assets	3,922	4,749
TOTAL ASSETS	$975,070	$ 940,664
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$744,536	$ 742,504
Federal Home Loan Bank advances	58,000	90,000
Other borrowings	29,059	30,319
Other liabilities	8,264	4,358
Total liabilities	839,859	867,181
Stockholders' equity:		
Preferred stock - $0.01 par value, $130.00 per share liquidation, 1,000,000 shares authorized, 500,000 shares issued and outstanding	61,289	—
Common stock— $0.01 par value, authorized 30,000,000; 5,914,379; and 5,888,816 shares issued and outstanding, respectively	59	59
Additional paid-in capital	63,850	63,383
Retained earnings	12,904	10,764
Unearned deferred compensation	(716)	(456)
Accumulated other comprehensive loss	(2,175)	(267)
Total stockholders' equity	135,211	73,483
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$975,070	$ 940,664

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations (unaudited)
Three and Nine Months Ended June 30, 2018 and 2017
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest and dividend income:				
Interest and fees on loans	$8,865	$6,030	$26,125	$18,632
Interest on investments	905	591	2,409	1,476
Total interest and dividend income	9,770	6,621	28,534	20,108
Interest expense:				
Interest on deposits	1,432	1,035	3,884	3,204
Interest on FHLB borrowed funds	412	164	987	500
Interest on other borrowed funds	446	107	1,300	308
Total interest expense	2,290	1,306	6,171	4,012
Net interest income before provision for loan losses	7,480	5,315	22,363	16,096
Provision for loan losses	650	—	850	—
Net interest income after provision for loan losses	6,830	5,315	21,513	16,096
Non-interest income:				
Service charges on deposit accounts	413	325	1,303	1,065
Interchange income	338	203	946	575
Loan servicing income	337	62	1,011	205
Gain on sale of mortgage loans	226	206	709	490
Loan fees and service charges	116	96	357	418
Insurance commission income	187	—	540	—
Settlement proceeds	—	—	—	283
Gains (losses) on available for sale securities	4	—	(17)	29
Other	146	99	532	295
Total non-interest income	1,767	991	5,381	3,360
Non-interest expense:				
Compensation and related benefits	3,840	2,395	11,201	7,629
Occupancy	733	565	2,199	2,196
Office	417	304	1,281	897
Data processing	720	476	2,157	1,402
Amortization of intangible assets	161	38	484	119
Amortization of mortgage servicing rights	84	—	250	—
Advertising, marketing and public relations	185	75	480	243
FDIC premium assessment	94	79	351	231
Professional services	735	382	1,746	1,218
Loss (gain) on repossessed assets, net	450	(11)	464	(16)
Other	455	316	1,507	1,050
Total non-interest expense	7,874	4,619	22,120	14,969
Income before provision for income taxes	723	1,687	4,774	4,487
Provision for income taxes	220	604	1,590	1,530
Net income attributable to common stockholders	$503	$1,083	$3,184	$2,957
Per share information:				
Basic earnings	$0.09	$0.21	$0.54	$0.56

Diluted earnings	$0.08	$0.20	$0.52	$0.56
Cash dividends paid	$—	$—	$0.20	$0.16

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Comprehensive Income (unaudited)
Three and Nine months ended June 30, 2018 and 2017
(in thousands)

	Three Months Ended		Nine Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income attributable to common stockholders	$503	$1,083	$3,184	$2,957
Other comprehensive income (loss), net of tax:				
Securities available for sale				
Net unrealized losses arising during period	(164)	514	(1,755)	(770)
Reclassification adjustment for (losses) gains included in net income	—	—	(16)	17
Other comprehensive loss	(164)	514	(1,771)	(753)
Comprehensive income	$339	$1,597	$1,413	$2,204

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statement of Changes in Stockholders' Equity (unaudited)
Nine Months Ended June 30, 2018
(in thousands, except shares and per share data)

	Common Stock		Preferred Stock	Additional Paid-In Capital	Retained Earnings	Unearned Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Amount					
Balance, October 1, 2017	5,888,816	$ 59	$ —	$ 63,383	$ 10,764	$ (456)	$ (267)	$ 73,483
Net income					3,184			3,184
Preferred stock issued net of costs			61,289					61,289
Reclassification of certain deferred tax effects (1)					137		(137)	—
Other comprehensive loss, net of tax							(1,771)	(1,771)
Forfeiture of unvested shares	(11,847)			(124)		124		—
Surrender of restricted shares of common stock	(1,809)			(25)				(25)
Restricted Common stock awarded under the equity incentive plan	33,230			561		(561)		—
Common stock repurchased	(53)			(1)				(1)
Common stock options exercised	6,042			50				50
Stock option expense				6				6
Amortization of restricted stock						177		177
Cash dividends ($0.20 per share)					(1,181)			(1,181)
Balance, June 30, 2018	5,914,379	$ 59	$ 61,289	$ 63,850	$ 12,904	$ (716)	$ (2,175)	$ 135,211

(1) Amounts reclassified to retained earnings due to early adoption of ASU 2018-02. For further information, refer to Note 1.

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows (unaudited)
Nine Months Ended June 30, 2018 and 2017
(in thousands)

	Nine Months Ended June 30, 2018	June 30, 2017
Cash flows from operating activities:		
Net income attributable to common stockholders	$3,184	$2,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premium/discount on securities	736	575
Depreciation	749	674
Provision for loan losses	850	—
Net realized loss (gain) on sale of securities	17	(29)
Amortization of intangible assets	484	119
Amortization of restricted stock	177	48
Net stock based compensation expense	6	23
(Gain) loss on sale of office properties and equipment	(4)	2
Provision for deferred income taxes	137	456
Net loss (gain) from disposals of foreclosed properties	489	(16)
Provision for valuation allowance on foreclosed properties	—	—
Gain on sale of loans held for sale, net	(709)	(490)
Proceeds from sale of loans held for sale	37,989	19,530
Origination of loans held for sale	(29,689)	(19,857)
Decrease (increase) in accrued interest receivable and other assets	1,952	319
Decrease in other liabilities	3,906	(1,755)
Total adjustments	17,090	(401)
Net cash provided by operating activities	20,274	2,556
Cash flows from investing activities:		
Purchase of investment securities	(34,123)	(16,239)
Purchase of bank owned life insurance	—	(3,500)
Net increase in interest-bearing deposits	(12)	(250)
Proceeds from sale of securities available for sale	31	10,644
Principal payments on investment securities	7,609	6,458
Proceeds from sale of non-marketable equity securities	8,114	953
Purchase of non-marketable equity securities	(7,684)	(417)
Proceeds from sale of foreclosed properties	2,171	713
Net (increase) decrease in loans	(36,741)	53,888
Net capital expenditures	(2,562)	(366)
Net cash received from sale of office properties	73	7
Net cash (used in) provided by investing activities	(63,124)	51,891
Cash flows from financing activities:		
Net (decrease) increase in Federal Home Loan Bank advances	(32,000)	8,609
Decrease in other borrowings	(1,260)	—
Net increase (decrease) in deposits	2,032	(38,544)
Proceeds from sale of preferred stock, net of costs	61,289	—
Surrender of restricted shares of common stock	(25)	(17)
Exercise of common stock options	50	67

Repurchase shares of common stock	(1)	(16)
Cash dividends paid	(1,181)	(843)
Net cash provided by (used in) financing activities	28,904	(30,744)
Net (decrease) increase in cash and cash equivalents	(13,946)	23,703
Cash and cash equivalents at beginning of period	41,677	10,046
Cash and cash equivalents at end of period	$27,731	$33,749

Supplemental cash flow information:		
Cash paid during the period for:		
Interest on deposits	$3,907	$3,172
Interest on borrowings	$2,119	$584
Income taxes	$920	$979
Supplemental noncash disclosure:		
Transfers from loans receivable to foreclosed and repossessed assets	$591	$543

See accompanying condensed notes to unaudited consolidated financial statements.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)
(UNAUDITED)

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

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

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

The consolidated income of the Company is principally derived from the income of the Bank, the Company's wholly owned subsidiary, serving customers in Wisconsin, Minnesota and Michigan through 22 branch locations. Its primary markets include the Chippewa Valley Region in Wisconsin, the Twin Cities and Mankato Minnesota, and various rural communities around these areas. The Bank offers traditional community banking services to businesses, agricultural operators and consumers, including one to four family residential mortgages.

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

In preparing these consolidated financial statements, we evaluated the events and transactions that occurred subsequent to the balance sheet date as of June 30, 2018 and through the date the financial statements were available to be issued for items that should potentially be recognized or disclosed in these consolidated financial statements.

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

On June 20, 2018, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with United Bancorporation ("Parent") and its wholly-owned subsidiary, United Bank, a Wisconsin chartered bank ("United Bank"), pursuant to which the Company will, subject to the terms and conditions set forth therein, acquire 100% of the common stock of United Bank (the "Acquisition") for approximately $50.7 million in cash, subject to adjustment as provided in the Stock Purchase Agreement. At the closing of the Acquisition, United Bank will become a wholly-owned subsidiary of the Company. Immediately following the closing of the Acquisition, the Company intends to merge United Bank with and into the Bank.

On June 20, 2018, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with each of a limited number of institutional and other accredited investors, including certain officers and directors of the Company (collectively the "Purchasers"), pursuant to which the Company sold an aggregate of 500,000 shares of the Company's 8.00% Series A Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, par value $0.01 per share, (the "Series A Preferred Stock"), in a private placement (the "Private Placement") at $130.00 per share, for aggregate gross proceeds of $65 million. The Securities Purchase Agreement contains customary representations, warranties, and covenants of the Company and the Purchasers.

Each share of Series A Preferred Stock will be mandatorily convertible into ten shares of common stock following receipt of stockholder approval of the issuance of the shares of common stock into which the Series A Preferred Stock is expected to be converted. The Company has scheduled a special meeting of stockholders on September 25, 2018 for purposes of a stockholder vote regarding approval of issuance of the shares of common stock into which the Series

A Preferred Stock is expected to be converted.

The accompanying consolidated interim financial statements are unaudited. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Unless otherwise stated herein, and except for shares and per share amounts, all amounts are in thousands.

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

Use of Estimates – Preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, fair value of financial instruments, the allowance for loan losses, mortgage servicing rights, foreclosed and repossessed assets, valuation of acquired intangible assets, useful lives for depreciation and amortization, indefinite-lived intangible assets, stock-based compensation and long-lived assets, deferred tax assets, uncertain income tax positions and contingencies. Management does not anticipate any material changes to estimates made herein in the near term. Factors that may cause sensitivity to the aforementioned estimates include, but are not limited to: those items described under the caption, "Risk Factors" in Item 1A of the annual report on Form 10-K for the year ended September 30, 2017, filed with the SEC on December 13, 2017, external market factors such as market interest rates and unemployment rates, changes to operating policies and procedures, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period.

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

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

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

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

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

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

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

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

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

A loan is impaired when full payment under the loan terms is not expected. Impaired loans consist of all TDRs, as well as individual substandard loans not considered a TDR when full payment under the loan terms is not expected. All TDRs are individually evaluated for impairment. See Note 3, "Loans, Allowance for Loan Losses and Impaired Loans" for more information on what we consider to be a TDR. If a TDR or substandard loan is deemed to be impaired, a specific ALL allocation may be established so that the loan is reported, net, at the lower of (a) outstanding principal balance, (b) the present value of estimated future cash flows using the loan's existing rate; or (c) at the fair value of any collateral, less estimated disposal costs, if repayment is expected solely from the underlying collateral of the loan. For TDRs less than 90 days past due, and certain substandard loans that are less than 90 days delinquent, the likelihood of the loan migrating to over 90 days past due is also taken into account when determining the specific ALL allocation for these particular loans. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, as well as non-TDR commercial loans, are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

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

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

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

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

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

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

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

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

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

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

Goodwill and other intangible assets-The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, "Intangibles - Goodwill and Other." The Company records the excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumed, as goodwill. The Company amortizes acquired intangible assets with definite useful economic lives over their useful economic lives utilizing the straight-line method. On a periodic basis, management assesses whether events or changes in circumstances indicate that the carrying amounts of the intangible assets may be impaired. The Company does not amortize goodwill and any acquired intangible asset with an indefinite useful economic life, but reviews them for impairment at a reporting unit level on an annual basis, or when events or changes in circumstances indicate that the carrying amounts may be impaired. A reporting unit is defined as any distinct, separately identifiable component of the Company's one operating segment for which complete, discrete financial information is available and reviewed regularly by the segment's management. The Company has one reporting unit as of September 30, 2017 which is related to its banking activities. The Company has performed the required goodwill impairment test and has determined that goodwill was not impaired as of September 30, 2017.

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

The Tax Cuts and Jobs Act of 2017 ("the Tax Act"), enacted on December 22, 2017, reduces corporate Federal income tax rates for the Company from 34% to 24.5% for 2018, and 21% for 2019. GAAP requires the impact of the provisions of the Tax Act be accounted for in the period of enactment. At December 31, 2017, we had not completed our accounting for the tax effects of enactment of the Tax Act; however, in certain cases, as described below, we made a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to enactment. The Company revalued its net deferred tax assets to account for the future impact of lower corporate taxes. For the items for which we were able to determine a reasonable estimate, we recorded an increased provisional amount of income tax expense of $275 in December 2017, related to the revaluation of the deferred tax assets to both the revaluation of timing differences and the unrealized loss on securities. In the second and third quarter of fiscal 2018, we reviewed our analysis from first quarter and determined there were no material changes warranting any further adjustment.

Provisional amounts. Deferred tax assets and liabilities: We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Tax Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amounts recorded in December 2017 related to the re-measurement of our deferred tax balance was $275.

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

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

Company also receives contingent commissions from insurance companies which are based on the overall profitability of their relationship based primarily on the loss experience of the insurance placed by the Company. Contingent commissions from insurance companies are recognized when determinable. Commission revenue is included in non-interest insurance commission income in the consolidated statement of operations.

Earnings Per Share – Basic earnings per common share is net income or loss divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable during the period, consisting of stock options outstanding under the Company’s stock incentive plans that have an exercise price that is less than the Company's stock price on the reporting date and the Series A Preferred Stock which is mandatorily convertible into ten shares of common stock following receipt of stockholder approval of the issuance of the shares of common stock into which the Series A Preferred Stock is expected to be converted. .

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

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

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

Recent Accounting Pronouncements - In February 2018, the FASB issued Accounting Standards Update ("ASU") 2018-02, "Income Statement--Reporting Comprehensive Income (Topic 220): Reclassification of Certain Income Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for certain stranded tax effects resulting from the Tax Cuts and Jobs Act. For public entities, ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company adoption of ASU 2018-02 in the current period resulted in a reclassification of $137 from AOCI to retained earnings and had no material effect on the Company's consolidated results of operations, financial position or cash flows.

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

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

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

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

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

In June, 2016 the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.” ASU 2016-13 is intended to provide financial statement users with more decision-useful information about the excepted credit losses on financial instruments and other commitments to extend credit. For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has not yet evaluated the potential effects of adopting ASU 2016-13 on the Company’s consolidated results of operations, financial position or cash flows. The Company has not yet evaluated the potential effects of adopting ASU 2016-13 on the Company's consolidated results of operations, financial position or cash flows.
In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients.” ASU 2016-12 is intended to address certain specific issues identified by the FASB-IASB Joint Transition Resource Group for Revenue Recognition with respect to ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” For public entities, ASU 2016-12 and ASU 2014-09 are effective on a retrospective basis for the annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted. Based on our evaluation under the current guidance, we estimate that substantially all of our interest income and non-interest income will not be impacted by the adoption of these standards, because either the revenue from those contracts with customers is covered by other guidance in U.S. GAAP, or the anticipated revenue recognition outcomes with the adoption of these standards will likely be similar to our current revenue recognition practices. The company evaluated certain non-interest revenue streams, including deposit related fees, service charges and interchange fees, to determine the potential impact of the guidance on the Company's consolidated financial statements. The Company is expected to use the modified retrospective method for transition, in which the cumulative effect will be recognized at the date of adoption with no restatement of comparative periods presented. The Company expects additional financial statement disclosures of non-interest income revenue streams and associated internal controls to be implemented along with the adoption of these standards. In addition, we are reviewing our business processes, systems and controls to support recognition and disclosures under the new standard. The Company expects that the adoption of ASUs 2016-12 and 2014-09 will have no material effect on the Company's consolidated results of operations, financial position or cash flows.
In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 is intended to simplify certain areas of share-based payment transaction accounting, including the income tax consequences, equity or liability classification of certain share awards, and classification on the statement of cash flows. ASU 2016-09 is effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. The Company adoption of ASU 2016-09 had no material effect on the Company's results of operations, financial position or cash flows.
In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company has not yet evaluated the impact of ASU 2016-02 on the Company's results of operations, financial position or cash flows.
In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”. ASU 2016-01 is intended to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. For public entities, ASU 2016-01 is effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted, except for certain provisions of ASU 2016-01, which are not applicable to the Company. The Company expects the adoption of ASU 2016-01 to have no material effect on the Company's consolidated results of operations, financial position or cash flows.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost, estimated fair value and related unrealized gains and losses on securities available for sale and held to maturity as of June 30, 2018 and September 30, 2017, respectively, were as follows:

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2018				
U.S. government agency obligations	$ 37,067	$ 7	$ 1,088	$ 35,986
Obligations of states and political subdivisions	35,518	18	558	34,978
Mortgage-backed securities	44,653	24	1,214	43,463
Agency securities	104	119	—	223
Corporate debt securities	5,360	—	308	5,052
Total available for sale securities	$ 122,702	$ 168	$ 3,168	$ 119,702
September 30, 2017				
U.S. government agency obligations	$ 18,454	$ 35	$ 448	$ 18,041
Obligations of states and political subdivisions	35,656	270	131	35,795
Mortgage-backed securities	36,661	124	311	36,474
Agency Securities	147	83	—	230
Corporate debt securities	5,410	—	67	5,343
Total available for sale securities	$ 96,328	$ 512	$ 957	$ 95,883

Held to maturity securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2018				
Obligations of states and political subdivisions	$ 1,308	$ —	$ 1	$ 1,307
Mortgage-backed securities	3,501	44	25	3,520
Total held to maturity securities	$ 4,809	$ 44	$ 26	$ 4,827
September 30, 2017				
Obligations of states and political subdivisions	$ 1,311	$ 17	$ —	$ 1,328
Mortgage-backed securities	4,142	136	1	4,277
Total held to maturity securities	$ 5,453	$ 153	$ 1	$ 5,605

As of June 30, 2018, the Bank has pledged U.S. Government Agency securities with a market value of $2,191 as collateral against a borrowing line of credit with the Federal Reserve Bank. However, as of June 30, 2018, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of June 30, 2018, the Bank has pledged U.S. Government Agency securities with a market value of $5,490, mortgage-backed securities with a market value of $22,779 and interest bearing investment CD's with a carrying value of $746 as collateral against specific municipal deposits.

The estimated fair value of securities at June 30, 2018 and September 30, 2017, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities on mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Expected maturities may differ from contractual maturities on certain agency and municipal securities due to the call feature.

Available for sale securities	June 30, 2018		September 30, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,663	$ 1,657	$ 160	$ 160
Due after one year through five years	17,493	17,331	15,008	15,056
Due after five years through ten years	41,136	39,826	30,586	30,330
Due after ten years	17,653	17,202	13,766	13,633
	$ 77,945	$ 76,016	$ 59,520	$ 59,179
Mortgage backed securities	44,653	43,463	36,661	36,474
Securities without contractual maturities	104	223	147	230
Total available for sale securities	$ 122,702	$ 119,702	$ 96,328	$ 95,883

Held to maturity securities	June 30, 2018		September 30, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 1,308	$ 1,307	$ 1,311	$ 1,328
Mortgage backed securities	3,501	3,520	4,142	4,277
Total held to maturity securities	$ 4,809	$ 4,827	$ 5,453	$ 5,605

Securities with unrealized losses at June 30, 2018 and September 30, 2017, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

Available for sale securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2018						
U.S. government agency obligations	$ 25,149	$ 358	$ 10,281	$ 730	$ 35,430	$ 1,088
Obligations of states and political subdivisions	26,592	390	3,666	168	30,258	558
Mortgage backed securities	30,404	753	8,885	461	39,289	1,214
Corporate debt securities	5,052	308	—	—	5,052	308
Total	$ 87,197	$ 1,809	$ 22,832	$ 1,359	$ 110,029	$ 3,168
September 30, 2017						
U.S. government agency obligations	$ 8,296	$ 186	$ 6,932	$ 262	$ 15,228	$ 448
Obligations of states and political subdivisions	8,170	62	3,701	69	11,871	131
Mortgage backed securities	14,167	96	9,753	215	23,920	311
Corporate debt securities	5,343	67	—	—	5,343	67
Total	$ 35,976	$ 411	$ 20,386	$ 546	$ 56,362	$ 957

Held to maturity securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2018						
Obligations of states and political subdivisions	$1,132	$ 1	$ —	$ —	$1,132	$ 1
Mortgage-backed securities	2,409	25	—	—	2,409	25
Total	$3,541	$ 26	$ —	$ —	$3,541	$ 26
September 30, 2017						
Obligations of states and political subdivisions	$—	$ —	$ —	$ —	$—	$ —
Mortgage-backed securities	406	1	—	—	406	1
Total	$406	$ 1	$ —	$ —	$406	$ 1

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

Portfolio Segments:

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

Commercial and agricultural real estate loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Management examines current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The level of owner-occupied property versus non-owner-occupied property are tracked and monitored on a regular basis. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Loan-to-value ratios on loans secured by farmland generally do not exceed 75%.

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

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

Credit Quality/Risk Ratings:
Management utilizes a numeric risk rating system to identify and quantify the Bank’s risk of loss within its loan portfolio. Ratings are initially assigned prior to funding the loan, and may be changed at any time as circumstances warrant.
Ratings range from the highest to lowest quality based on factors that include measurements of ability to pay, collateral type and value, borrower stability and management experience. The Bank’s loan portfolio is presented below in accordance with the risk rating framework that has been commonly adopted by the federal banking agencies. The definitions of the various risk rating categories are as follows:
1 through 4 - Pass. A "Pass" loan means that the condition of the borrower and the performance of the loan is satisfactory or better.
5 - Watch. A "Watch" loan has clearly identifiable developing weaknesses that deserve additional attention from management. Weaknesses that are not corrected or mitigated, may jeopardize the ability of the borrower to repay the loan in the future.
6 - Special Mention. A "Special Mention" loan has one or more potential weakness that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution’s credit position in the future.
7 - Substandard. A "Substandard" loan is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Assets classified as substandard must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
8 - Doubtful. A "Doubtful" loan has all the weaknesses inherent in a Substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.
9 - Loss. Loans classified as "Loss" are considered uncollectible, and their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, and a partial recovery may occur in the future.

Below is a summary of originated and acquired loans by type and risk rating as of June 30, 2018:

	1 to 5	6	7	8	9	TOTAL
Originated Loans:						
Residential real estate:						
One to four family	$119,680	$—	$2,348	$—	$—	$122,028
Purchased HELOC loans	15,237	—	—	—	—	15,237
Commercial/Agricultural real estate:						
Commercial real estate	156,560	200	—	—	—	156,760
Agricultural real estate	22,709	530	500	—	—	23,739
Multi-family real estate	42,230	—	130	—	—	42,360
Construction and land development	11,212	—	—	—	—	11,212
Consumer non-real estate:						
Originated indirect paper	66,649	—	142	—	—	66,791
Purchased indirect paper	19,801	—	—	—	—	19,801
Other Consumer	15,444	—	105	—	—	15,549
Commercial/Agricultural non-real estate:						
Commercial non-real estate	58,620	—	17	—	—	58,637
Agricultural non-real estate	15,360	960	472	—	—	16,792
Total originated loans	$543,502	$1,690	$3,714	$—	$—	$548,906
Acquired Loans:						
Residential real estate:						
One to four family	$78,392	$—	$1,936	$—	$—	$80,328
Commercial/Agricultural real estate:						
Commercial real estate	46,926	2,046	2,794	—	—	51,766
Agricultural real estate	42,921	903	3,318	—	—	47,142
Multi-family real estate	3,158	—	189	—	—	3,347
Construction and land development	3,548	—	498	—	—	4,046
Consumer non-real estate:						
Other Consumer	3,485	—	29	—	—	3,514
Commercial/Agricultural non-real estate:						
Commercial non-real estate	14,547	253	1,326	—	—	16,126
Agricultural non-real estate	9,192	182	200	—	—	9,574
Total acquired loans	$202,169	$3,384	$10,290	$—	$—	$215,843
Total Loans:						
Residential real estate:						
One to four family	$198,072	$—	$4,284	$—	$—	$202,356
Purchased HELOC loans	15,237	—	—	—	—	15,237
Commercial/Agricultural real estate:						
Commercial real estate	203,486	2,246	2,794	—	—	208,526
Agricultural real estate	65,630	1,433	3,817	—	—	70,881
Multi-family real estate	45,388	—	319	—	—	45,707
Construction and land development	14,760	—	498	—	—	15,258
Consumer non-real estate:						
Originated indirect paper	66,649	—	142	—	—	66,791
Purchased indirect paper	19,801	—	—	—	—	19,801
Other Consumer	18,929	—	134	—	—	19,063
Commercial/Agricultural non-real estate:						
Commercial non-real estate	73,167	253	1,342	—	—	74,763
Agricultural non-real estate	24,552	1,142	672	—	—	26,366

Gross loans	$745,671	$5,074	$14,004	$—	$—	$764,749
Less:						
Unearned net deferred fees and costs and loans in process						693
Unamortized discount on acquired loans						(4,355)
Allowance for loan losses						(6,458)
Loans receivable, net						$754,629

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

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

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

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

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

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

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

	Residential Real Estate	Commercial/Agriculture Real Estate	Consumer Non-real Estate	Commercial/Agricultural Non-real Estate	Unallocated	Total
Nine Months Ended June 30, 2018:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2017	$1,458	$ 2,523	$936	$ 897	$ 128	$5,942
Charge-offs	(78)	(1)	(265)	(5)	—	(349)
Recoveries	46	—	93	12	—	151
Provision	—	455	35	130	—	620
Allowance allocation adjustment	(351)	54	(112)	(22)	151	(280)
Total allowance on originated loans	1,075	3,031	687	1,012	279	6,084
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans:	—	—	—	—	—	—
Beginning balance, October 1, 2017	—	—	—	—	—	—
Charge-offs	(42)	(73)	(30)	—	—	(145)
Recoveries	6	—	3	—	—	9
Provision	70	120	25	15	—	230
Allowance allocation adjustment	114	83	65	18	—	280
Total allowance on other acquired loans	148	130	63	33	—	374
Total Allowance on acquired loans	148	130	63	33	—	374
Ending balance, June 30, 2018	$1,223	$ 3,161	$750	$ 1,045	$ 279	$6,458
Allowance for Loan Losses at June 30, 2018:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$191	$ —	$25	$ 25	$ —	$241
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$1,032	$ 3,161	$725	$ 1,020	$ 279	$6,217
Loans Receivable as of June 30, 2018:						—
Ending balance of originated loans	$137,265	$ 234,071	$102,141	$ 75,429	$ —	$548,906
Ending balance of purchased credit-impaired loans	456	7,558	—	1,612	—	9,626
Ending balance of other acquired loans	79,872	98,743	3,514	24,088	—	206,217
Ending balance of loans	$217,593	$ 340,372	$105,655	$ 101,129	$ —	$764,749
Ending balance: individually evaluated for impairment	$7,668	$ 8,228	$397	$ 2,472	$ —	$18,765
Ending balance: collectively evaluated for impairment	$209,925	$ 332,144	$105,258	$ 98,657	$ —	$745,984

	Residential Real Estate	Commercial/Agriculture Real Estate	Consumer Non-real Estate	Commercial/Agricultural Non-real Estate	Unallocated	Total
Nine months ended June 30, 2017:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2016	$2,039	$ 1,883	$1,466	$ 652	$ 28	$6,068
Charge-offs	(159)	—	(294)	(9)	—	(462)
Recoveries	8	—	141	1	—	150
Provision	—	—	—	—	—	—
Allowance allocation adjustment	(427)	461	(234)	88	112	—
Total Allowance on originated loans	$1,461	$ 2,344	$1,079	$ 732	$ 140	$5,756
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans	—	—	—	—	—	—
Total Allowance on acquired loans	—	—	—	—	—	—
Ending balance, June 30, 2017	$1,461	$ 2,344	$1,079	$ 732	$ 140	$5,756
Allowance for Loan Losses at June 30, 2017:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$203	$ —	$32	$ 6	$ —	$241
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$1,258	$ 2,344	$1,047	$ 726	$ 140	$5,515
Loans Receivable as of June 30, 2017:						
Ending balance of originated loans	$136,527	$ 123,183	$141,984	$ 34,521	$ —	$436,215
Ending balance of purchased credit-impaired loans	247	1,813	4	905	—	2,969
Ending balance of other acquired loans	19,961	46,310	411	13,537	—	80,219
Ending balance of loans	$156,735	$ 171,306	$142,399	$ 48,963	$ —	$519,403
Ending balance: individually evaluated for impairment	$4,170	$ 266	$551	$ 659	$ —	$5,646
Ending balance: collectively evaluated for impairment	$152,565	$ 171,040	$141,848	$ 48,304	$ —	$513,757

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

In February 2016, the Bank selectively purchased loans from Central Bank in Rice Lake and Barron, Wisconsin in the amount of $16,363. In May 2016, the Bank acquired loans from Community Bank of Northern Wisconsin ("CBN"), headquartered in Rice Lake, Wisconsin totaling $111,740. In August 2017, the Bank acquired loans from Wells Federal, headquartered in Wells, Minnesota totaling $189,077.

During October 2012, the Bank entered into an agreement to purchase short term consumer loans from a third party on an ongoing basis. As part of the servicer agreement entered into in connection with this purchase agreement, the third party seller agreed to purchase or substitute performing consumer loans for all contracts that become 120 days past due. Pursuant to the ongoing loan purchase agreement, a restricted reserve account was established at 3% of the outstanding consumer loan balances purchased up to a maximum of $1,000, with such percentage amount of the loans being deposited into a segregated reserve account. The funds in the reserve account are to be released to compensate the Bank for any purchased loans that are not purchased back by the seller or substituted with performing loans and are ultimately charged off by the Bank. During the first quarter of fiscal 2015, the Board of Directors increased the limit of these purchased consumer loans to a maximum of $50,000. As of September 30, 2017, new purchases from this third party were terminated. As of June 30, 2018, the balance of these purchased consumer loans was $19,801 compared to $29,555 as of September 30, 2017. The balance in the cash reserve account at June 30, 2018 was $622, which is included in Deposits on the accompanying Consolidated Balance Sheet. To date, the Company has not charged off or experienced losses related to the purchased loans.

The weighted average rate earned on these purchased consumer loans was 4.20% as of June 30, 2018.

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

	Residential Real Estate		Commercial/Agriculture Real Estate Loans		Consumer non-Real Estate		Commercial/Agriculture non-Real Estate		Totals	
	June 30, 2018	September 30, 2017	June 30, 2018	September 30, 2017	June 30, 2018	September 30, 2017	June 30, 2018	September 30, 2017	June 30, 2018	September 30, 2017
Performing loans										
Performing TDR loans	$3,481	$3,085	$1,663	$1,890	$122	$167	$496	$88	$5,762	$5,230
Performing loans other	211,871	242,198	335,972	268,619	105,305	131,695	98,502	77,213	751,650	719,725
Total performing loans	215,352	245,283	337,635	270,509	105,427	131,862	98,998	77,301	757,412	724,955
Nonperforming loans (1)										
Nonperforming TDR loans	508	593	540	—	17	28	1,383	—	2,448	621
Nonperforming loans other	1,733	1,758	2,197	3,391	211	447	748	1,823	4,889	7,419
Total nonperforming loans	2,241	2,351	2,737	3,391	228	475	2,131	1,823	7,337	8,040
Total loans	$217,593	$247,634	$340,372	$273,900	$105,655	$132,337	$101,129	$79,124	$764,749	$732,995

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

An aging analysis of the Company's residential real estate, commercial/agriculture real estate, consumer and other loans and purchased third party loans as of June 30, 2018 and September 30, 2017, respectively, was as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Nonaccrual Loans	Recorded Investment > 89 Days and Accruing
June 30, 2018								
Residential real estate:								
One to four family	$2,966	$906	$1,352	$5,224	$197,132	$202,356	$ 1,681	$ 560
Purchased HELOC loans	404	—	—	404	14,833	15,237	—	—
Commercial/Agricultural real estate:								
Commercial real estate	865	—	197	1,062	207,464	208,526	400	—
Agricultural real estate	975	949	2,210	4,134	66,747	70,881	2,210	—
Multi-family real estate	—	—	130	130	45,577	45,707	130	—
Construction and land development	220	—	85	305	14,953	15,258	123	—
Consumer non-real estate:								
Originated indirect paper	169	20	27	216	66,575	66,791	45	5
Purchased indirect paper	410	205	136	751	19,050	19,801	—	135
Other Consumer	198	28	18	244	18,819	19,063	33	10
Commercial/Agricultural non-real estate:								
Commercial non-real estate	1,061	165	181	1,407	73,356	74,763	1,257	—
Agricultural non-real estate	785	155	581	1,521	24,845	26,366	748	—
Total	$8,053	$2,428	$4,917	$15,398	$749,351	$764,749	$ 6,627	$ 710
September 30, 2017								
Residential real estate:								
One to four family	$2,811	$393	$1,228	$4,432	$225,131	$229,563	$ 2,200	$ 151
Purchased HELOC loans	$250	—	—	250	17,821	18,071	—	—
Commercial/Agricultural real estate:								
Commercial real estate	332	70	282	684	159,278	159,962	572	—
Agricultural real estate	57	—	2,405	2,462	65,540	68,002	2,723	96
Multi-family real estate	—	—	—	—	26,228	26,228	—	—
Construction and land development	—	—	—	—	19,708	19,708	—	—
Consumer non-real estate:								
Originated indirect paper	426	112	123	661	85,071	85,732	74	80
Purchased indirect paper	601	305	221	1,127	28,428	29,555	—	221
Other Consumer	120	79	57	256	20,412	20,668	76	25
Commercial/Agricultural non-real estate:								
Commercial non-real estate	75	23	156	254	54,997	55,251	1,618	—
Agricultural non-real estate	757	—	120	877	22,996	23,873	189	16
Total	$5,429	$982	$4,592	$11,003	$725,610	$736,613	$ 7,452	$ 589

At June 30, 2018, the Company has identified impaired loans of $23,233, consisting of $8,210 TDR loans, of which $5,762 are performing TDR loans, $9,626 purchased credit impaired loans, and $5,397 substandard non-TDR loans, which includes $2,908 of non-PCI acquired loans. At September 30, 2017, the Company identified impaired loans of $24,359, consisting of $5,851 TDR loan, of which $5,230 are performing TDR loans, $12,035 purchased credit impaired loans, and $6,473 substandard non-TDR loans, which includes $2,387 of non-PCI acquired loans. A loan is identified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Performing TDRs consist of loans that have been modified and are performing in accordance with the modified terms for a sufficient length of time, generally six months, or loans that were modified on a proactive basis. A summary of the Company's impaired loans as of June 30, 2018 and September 30, 2017 was as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2018					
With No Related Allowance Recorded:					
Residential real estate	$ 6,220	$ 6,220	$ —	$ 5,117	$ 242
Commercial/agriculture real estate	11,866	11,866	—	12,246	312
Consumer non-real estate	315	315	—	374	28
Commercial/agricultural non-real estate	2,967	2,967	—	4,381	84
Total	$ 21,368	$ 21,368	$ —	$ 22,118	$ 666
With An Allowance Recorded:					
Residential real estate	$ 1,685	$ 1,685	$ 192	$ 1,442	$ 38
Commercial/agriculture real estate	—	—	—	—	—
Consumer non-real estate	81	81	25	175	—
Commercial/agricultural non-real estate	99	99	25	61	—
Total	$ 1,865	$ 1,865	$ 242	$ 1,678	$ 38
June 30, 2018 Totals:					
Residential real estate	$ 7,905	$ 7,905	$ 192	$ 6,559	$ 280
Commercial/agriculture real estate	11,866	11,866	—	12,246	312
Consumer non-real estate	396	396	25	549	28
Commercial/agricultural non-real estate	3,066	3,066	25	4,442	84
Total	$ 23,233	$ 23,233	$ 242	$ 23,796	$ 704

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2017					
With No Related Allowance Recorded:					
Residential real estate	$ 4,015	$ 4,015	$ —	$ 3,440	$ 9
Commercial/agriculture real estate	12,626	12,626	—	4,460	2
Consumer non-real estate	433	433	—	340	16
Commercial/agricultural non-real estate	5,795	5,795	—	2,628	11
Total	$ 22,869	$ 22,869	$ —	$ 10,868	$ 38
With An Allowance Recorded:					
Residential real estate	$ 1,198	$ 1,198	$ 214	$ 1,545	$ 2
Commercial/agriculture real estate	—	—	—	—	—
Consumer non-real estate	269	269	65	306	—
Commercial/agricultural non-real estate	23	23	23	101	—
Total	$ 1,490	$ 1,490	$ 302	$ 1,952	$ 2
September 30, 2017 Totals:					
Residential real estate	$ 5,213	$ 5,213	$ 214	$ 4,985	$ 11
Commercial/agriculture real estate	12,626	12,626	—	4,460	2
Consumer non-real estate	702	702	65	646	16
Commercial/agricultural non-real estate	5,818	5,818	23	2,729	11
Total	$ 24,359	$ 24,359	$ 302	$ 12,820	$ 40

Troubled Debt Restructuring – A TDR includes a loan modification where a borrower is experiencing financial difficulty and the Bank grants a concession to that borrower that the Bank would not otherwise consider except for the borrower's financial difficulties. Concessions include, but are not limited to, an extension of loan terms, renewals of existing balloon loans, reductions in interest rates and consolidating existing Bank loans at modified terms. A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management's assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until a sufficient period of performance under the restructured terms has occurred at which time it is returned to accrual status. There were 7 delinquent TDRs greater than 60 days past due with a recorded investment of $1,117 at June 30, 2018, compared to 3 such loans with a recorded investment of $504 at September 30, 2017.

Following is a summary of TDR loans by accrual status as of June 30, 2018 and September 30, 2017.

	June 30, 2018	September 30, 2017
Troubled debt restructure loans:		
Accrual status	$ 5,860	$ 5,230
Non-accrual status	2,350	621
Total	$ 8,210	$ 5,851

There were no TDR commitments or unused lines of credit meeting our TDR criteria as of June 30, 2018.

The following provides detail, including specific reserve and reasons for modification, related to loans identified as TDRs during the nine months ended June 30, 2018 and the year ended September 30, 2017:

	Number of Contracts	Modified Rate	Modified Payment	Modified Under-writing	Other	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Nine months ended June 30, 2018 TDRs:								
Residential real estate	8	$ —	$ —	$ 710	$ 49	$ 759	$ 759	$ —
Commercial/Agricultural real estate	9	—	410	759	568	1,737	1,737	—
Consumer non-real estate	1	—	—	3	—	3	3	—
Commercial/Agricultural non-real estate	8	—	84	486	1,300	1,870	1,870	—
Totals	26	$ —	$ 494	$ 1,958	$ 1,917	$ 4,369	$ 4,369	$ —

	Number of Contracts	Modified Rate	Modified Payment	Modified Under-writing	Other	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Year ended September 30, 2017 TDRs:								
Residential real estate	9	$ —	$ —	$ 679	$ 236	$ 915	$ 915	$ 24
Commercial/Agricultural real estate	8	—	—	1,822	68	1,890	1,890	—
Consumer non-real estate	4	—	—	4	28	32	32	—
Commercial/Agricultural non-real estate	2	—	—	—	93	93	93	—
Totals	23	$ —	$ —	$ 2,505	$ 425	$ 2,930	$ 2,930	$ 24

A summary of loans by loan segment modified in a troubled debt restructuring as of June 30, 2018 and September 30, 2017, was as follows:

	June 30, 2018		September 30, 2017	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings:				
Residential real estate	35	$ 3,989	32	$ 3,678
Commercial/Agricultural real estate	16	2,203	8	1,890
Consumer non-real estate	18	139	20	195
Commercial/Agricultural non-real estate	9	1,879	2	88
Total troubled debt restructurings	78	$ 8,210	62	$ 5,851

The following table provides information related to restructured loans that were considered in default as of June 30, 2018 and September 30, 2017:

	June 30, 2018		September 30, 2017	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings:				
Residential real estate	3	$ 409	4	$ 593
Commercial/Agricultural real estate	3	665	—	—
Consumer non-real estate	3	17	3	28
Commercial/Agricultural non-real estate	5	1,258	—	—
Total troubled debt restructurings	14	$ 2,349	7	$ 621

Included above are two TDR loans that became in default during the three months ended June 30, 2018.

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

	June 30, 2018
Accountable for under ASC 310-30 (Purchased Credit Impaired "PCI" loans)	
Outstanding balance	$9,626
Carrying amount	$7,738
Accountable for under ASC 310-20 (non-PCI loans)	
Outstanding balance	$206,217
Carrying amount	$203,750
Total acquired loans	
Outstanding balance	$215,843
Carrying amount	$211,488

The following table provides changes in accretable yield for all acquired loans accounted for under ASC 310-20:

	June 30, 2018
Balance at beginning of period	$2,893
Acquisitions	—
Reduction due to unexpected early payoffs	—
Reclass from non-accretable difference	—
Disposals/transfers	—
Accretion	(426)
Balance at end of period	$2,467

NOTE 4 – MORTGAGE SERVICING RIGHTS

Mortgage servicing rights--Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid balances of these loans as of June 30, 2018 and September 30, 2017 were $281,076 and $282,392, respectively, and consisted of one to four family residential real estate loans. These loans are serviced primarily for the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and the Federal National Mortgage Association.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in deposits were $2,610 and $3,208, at June 30, 2018 and September 30, 2017, respectively. Mortgage servicing rights activity for the nine months ended June 30, 2018 and year ended September 30, 2017 were as follows:

	Nine Months Ended June 30, 2018	Twelve Months Ended September 30, 2017
Balance at beginning of period	$1,886	$—
MSR asset acquired	—	1,909
MSRs capitalized	206	13
Amortization during the period	(251)	(36)
Valuation allowance at end of period	—	—
Net book value at end of period	$1,841	$1,886
Fair value of MSR asset at end of period	$2,269	$1,951
Residential mortgage loans serviced for others	$281,076	$282,392
Net book value of MSR asset to loans serviced for others	0.65%	0.67%

NOTE 5 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

A summary of Federal Home Loan Bank advances and other borrowings at June 30, 2018 and September 30, 2017 is as follows:

	6/30/2018	9/30/2017
Advances from FHLB:		
Fixed rates	$ 29,000	$ 90,000
Overnight borrowings	29,000	—
Total FHLB advances	58,000	90,000
Senior notes:		
Variable rate due in May 2021	9,778	10,694
Variable rate due in August 2022	4,625	5,000
	14,403	15,694
Subordinated notes:		
6.75% due August 2027, variable rate commencing August 2022	5,000	5,000
6.75% due August 2027, variable rate commencing August 2022	10,000	10,000
	15,000	15,000
Less: unamortized debt issuance costs	(344)	(375)
Total other borrowings	29,059	30,319
TOTALS	$ 87,059	$ 120,319

Federal Home Loan Bank Advances and Irrevocable Standby Letters of Credit

The Bank had an outstanding balance of $29,000 with a rate of 2.12% on the FHLB variable rate overnight borrowings at June 30, 2018. All fixed rate advances from the FHLB mature on various dates through July 2018. Each Federal Home Loan Bank advance is payable at the maturity date, with a prepayment penalty for fixed rate advances. The FHLB variable rate open line of credit and fixed rate advances are secured by $311,179 of real estate and commercial and industrial loans.

The Bank has an irrevocable Standby Letter of Credit Master Reimbursement Agreement with the Federal Home Loan Bank. This irrevocable standby letter of credit ("LOC") is supported by loan collateral as an alternative to directly pledging investment securities on behalf of a municipal customer as collateral for their interest bearing deposit balances. These balances were $45,005 and $30,233 at June 30, 2018 and September 30, 2017, respectively.

At June 30, 2018, the Bank’s available and unused portion of this borrowing arrangement was approximately $208,160, compared to $92,959 as of September 30, 2017.

Maximum month-end amounts outstanding under this borrowing agreement were $109,500 and $90,000 during the nine months ended June 30, 2018 and year ended September 30, 2017, respectively.

Senior Notes and Revolving Line of Credit

On May 16, 2016, the Company entered into a Loan Agreement evidencing an $11,000 term loan maturing on May 15, 2021, payable in sixteen consecutive quarterly principal installments beginning on August 15, 2017. Installment nos. 1 to 15, inclusive, being in the amount of approximately $306 each, and installment no. 16, a balloon payment, being for the entire then-unpaid principal balance, due and payable on May 15, 2021, if not paid sooner. The proceeds from the Loan were used by the Company for the sole purpose of financing the acquisition, by merger, of CBN.

On May 30, 2017, the Company extended a $5,000 term loan facility for the sole purpose of financing the acquisition, by merger, of Wells Financial Corporation. On August 17, 2017, this term loan was funded and matures on August 15, 2022 with a ten year amortization.

The variable rate senior notes provide for a floating interest rate that resets quarterly at rates that are indexed to the three-month London interbank offered rate ("LIBOR") plus 2.70%. The contractual interest rates for those notes ranged from 4.01% to 5.07% during the nine months ended June 30, 2018, and from 3.44% to 4.01% during the year ended September 30, 2017.

The weighted average contractual interest rates payable were 5.07% and 4.01% at June 30, 2018 and September 30, 2017, respectively.

Subordinated Notes

On August 10, 2017, the Company issued $15,000 of subordinated notes maturing on August 10, 2027. The proceeds of the notes were used by the Company for the sole purpose of financing the acquisition, by merger, of Wells Financial Corporation.

The subordinated notes are unsecured and are subordinate to the claims of other creditors of the Company. The subordinated notes mature in August 2027, and convert to variable interest rate notes in August 2022. These notes provide for an annual fixed interest rate for the first five years of 6.75%. After the fixed interest period and through maturity, the interest rate will be reset quarterly to equal the three-month LIBOR rate, plus 4.90%. Interest on the Notes will be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year through the maturity date.

Debt Issuance Costs

Debt issuance costs, consisting primarily of investment banking and loan origination fees, of $380 were incurred in conjunction with the senior and the issuance of subordinated notes for the year ended September 30, 2017. The unamortized amount of debt issuance costs at June 30, 2018 and September 30, 2017 was $344 and $375. These debt issuance costs are included in other borrowings on the consolidated balance sheet.

Maturities of FHLB advances and other borrowings are as follows:

Fiscal years ending September 30,	
2018	$58,000
2019	—
2020	—
2021	9,778
2022	4,594
Thereafter	14,687
	$87,059

NOTE 6 – STOCK-BASED COMPENSATION

In February 2005, the Company’s stockholders approved the Company’s 2004 Recognition and Retention Plan. This plan provides for the grant of up to 113,910 shares of the Company’s common stock to eligible participants under this plan. As of June 30, 2018, 113,910 restricted shares under this plan were granted. In February 2005, the Company’s stockholders also approved the Company’s 2004 Stock Option and Incentive Plan. This plan provides for the grant of nonqualified and incentive stock options and stock appreciation rights to eligible participants under the plan. The plan provides for the grant of awards for up to 284,778 shares of the Company’s common stock. At June 30, 2018, 284,778 options had been granted under this plan to eligible participants. This plan was terminated on January 18, 2018.

In February 2008, the Company’s stockholders approved the Company’s 2008 Equity Incentive Plan. The aggregate number of shares of common stock reserved and available for issuance under the 2008 Equity Incentive Plan is 597,605 shares. Under this Plan, the Compensation Committee may grant stock options and stock appreciation rights that, upon exercise, result in the issuance of 426,860 shares of the Company’s common stock. The Committee may also grant shares of restricted stock and restricted stock units for an aggregate of 170,745 shares of Company common stock under this plan. As of June 30, 2018, 89,183 restricted shares under this plan were granted. As of June 30, 2018, 181,000 options had been granted to eligible participants. As of January 18, 2018, no new awards will be granted

under the 2008 Equity Incentive Plan.
Restricted shares granted to date under the 2004 Recognition and Retention Plan and the 2008 Equity Incentive Plan were awarded at no cost to the employee and vest pro rata over a two to five-year period from the grant date, as determined by the Board of Directors at issuance. Options granted to date under these plans vest pro rata over a five-year period from the grant date. Unexercised, nonqualified stock options expire within 15 years of the grant date and unexercised incentive stock options expire within 10 years of the grant date.

On March 27, 2018, the stockholders of Citizens Community Bancorp, Inc. approved the 2018 Equity Incentive Plan at the 2018 Annual Meeting of Stockholders. The aggregate number of shares of common stock reserved and available for issuance under the 2018 Equity Incentive Plan is 350,000 shares. As of June 30, 2018, 13,707 restricted shares had been granted under this plan. As of June 30, 2018, no stock options had been granted under this plan.
Compensation expense related to restricted stock awards from these plans was $94 and $177 for the three and nine months ended June 30, 2018, compared to $15 and $31 for the three and nine months ended June 30, 2017.
Restricted Common Stock Award

	June 30, 2018		September 30, 2017	
	Number of Shares	Weighted Average Grant Price	Number of Shares	Weighted Average Grant Price
Restricted Shares				
Unvested and outstanding at beginning of fiscal year	42,378	$ 12.07	23,159	$ 9.59
Granted	33,230	13.77	25,569	13.53
Vested	(6,579)	12.73	(6,350)	8.88
Forfeited	(11,847)	10.45	—	—
Unvested and outstanding fiscal to date	57,182	$ 13.32	42,378	$ 12.07

The Company accounts for stock-based employee compensation related to the Company's 2004 Stock Option and Incentive Plan and the 2008 Equity Incentive Plan using the fair-value-based method. Accordingly, management records compensation expense based on the value of the award as measured on the grant date and then the Company recognizes that cost over the vesting period for the award. The compensation cost recognized for stock-based employee compensation related to both plans for the three and nine month periods ended June 30, 2018 was $5 and $6, respectively. The compensation cost recognized for stock-based employee compensation related to both plans for the three and nine month periods ended June 30, 2017, was $8 and $15, respectively.
Common Stock Option Awards

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
2018				
Outstanding at September 30, 2017	146,606	$ 9.45		
Granted	8,000	13.60		
Exercised	(6,042)	8.11		
Forfeited or expired	(26,894)	—		
Outstanding at June 30, 2018	121,670	$ 9.82	5.78	
Exercisable at June 30, 2018	56,770	$ 8.04	3.38	$ 387
Fully vested and expected to vest	121,670	$ 9.82	5.78	$ 526
2017				
Outstanding at September 30, 2016	140,706	$ 8.67		
Granted	23,000	13.75		
Exercised	(14,100)	8.27		
Forfeited or expired	(3,000)	11.00		
Outstanding at September 30, 2017	146,606	$ 9.45	6.68	
Exercisable at September 30, 2017	57,712	$ 7.70	3.89	$ 361
Fully vested and expected to vest	146,606	$ 9.45	6.68	$ 659

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

	2018	2017
Intrinsic value of options exercised	$ 33	$69
Cash received from options exercised	$ 50	$114
Tax benefit realized from options exercised	$ —	$—

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

	2018	2017
Dividend yield	1.18%	1.16%
Risk-free interest rate	2.4 %	2.2 %
Weighted average expected life (years)	10	10
Expected volatility	2.3 %	2.4 %

NOTE 7 – PREFERRED STOCK

On June 20, 2018, the Company entered into a Securities Purchase Agreement with each of a limited number of institutional and other accredited investors, including certain officers and directors of the Company, pursuant to which the Company sold an aggregate of 500,000 shares of the Company's 8.00% Series A Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, par value $0.01 per share, in a private placement at $130.00 per share, for aggregate gross proceeds of $65 million. The Securities Purchase Agreement contains customary representations, warranties, and covenants of the Company and the Purchasers.

The 500,000 shares of the Company's 8.00% Series A Preferred Stock, totaling $61,289, net of issuance costs, is included in total stockholder's equity on the consolidated balance sheets. These issuance costs totaled $3,711 and consisted of legal, accounting and placement fees.

Each share of Series A Preferred Stock will be mandatorily convertible into ten shares of common stock following receipt of stockholder approval of the issuance of the shares of common stock into which the Series A Preferred Stock is expected to be converted. The Company has scheduled a special meeting of stockholders on September 25, 2018 for purposes of a stockholder vote regarding approval of issuance of the shares of common stock into which the Series A Preferred Stock is expected to be converted.

NOTE 8 – FAIR VALUE ACCOUNTING

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

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

Level 2- Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3- Significant unobservable inputs that reflect the Company's assumptions about the factors that market participants would use in pricing an asset or liability.

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

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

Assets Measured on a Recurring Basis

The following tables present the financial instruments measured at fair value on a recurring basis as of June 30, 2018 and September 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Investment securities:				
U.S. government agency obligations	$35,986	$ —	$ 35,986	$ —
Obligations of states and political subdivisions	34,978	—	34,978	—
Mortgage-backed securities	43,463	—	43,463	—
Agency Securities	223	—	223	—
Corporate debt securities	5,052	—	5,052	—
Total	$119,702	$ —	$ 119,702	$ —
September 30, 2017				
Investment securities:				
U.S. government agency obligations	$18,041	$ —	$ 18,041	$ —
Obligations of states and political subdivisions	35,795	—	35,795	—
Mortgage-backed securities	36,474	—	36,474	—
Agency securities	230	—	230	—
Corporate debt securities	5,343	—	5,343	—
Total	$95,883	$ —	$ 95,883	$ —

Assets Measured on Nonrecurring Basis

The following tables present the financial instruments measured at fair value on a nonrecurring basis as of June 30, 2018 and September 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Foreclosed and repossessed assets, net	$5,392	$ —	$ —	$ 5,392
Impaired loans with allocated allowances	1,865	—	—	1,865
Mortgage servicing rights	2,269	—	—	2,269
Total	$9,526	$ —	$ —	$ 9,526
September 30, 2017				
Foreclosed and repossessed assets, net	$6,017	$ —	$ —	$ 6,017
Impaired loans with allocated allowances	1,490	—	—	1,490
Mortgage servicing rights	1,951	—	—	1,951
Total	$9,458	$ —	$ —	$ 9,458

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

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

The following table represents additional quantitative information about assets measured at fair value on a recurring and nonrecurring basis and for which we have utilized Level 3 inputs to determine their fair value at June 30, 2018.

	Fair Value	Valuation Techniques (1)	Significant Unobservable Inputs (2)	Range
June 30, 2018				
Foreclosed and repossessed assets, net	$5,392	Appraisal value	Estimated costs to sell	10 - 15%
Impaired loans with allocated allowances	$1,865	Appraisal value	Estimated costs to sell	10 - 15%
Mortgage servicing rights	$2,269	Discounted cash flows	Discounted rates	9.5% - 12.5%
September 30, 2017				
Foreclosed and repossessed assets, net	$6,017	Appraisal value	Estimated costs to sell	10 - 15%
Impaired loans with allocated allowances	$1,490	Appraisal value	Estimated costs to sell	10 - 15%
Mortgage servicing rights	$1,951	Discounted cash flows	Discounted rates	9.5% - 12.5%

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

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

Fair Values of Financial Instruments

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

Cash and Cash Equivalents

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

Other Interest-Bearing Deposits

Fair value of interest bearing deposits is estimated using a discounted cash flow analysis based on current interest rates being offered by instruments with similar terms and represents a level 2 measurement.

Non-marketable Equity Securities, at cost

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

Loans Receivable, net

Fair value is estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as real estate, C&I and consumer. The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity date using market discount rates reflecting the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Bank's repayment schedules for each loan classification. The fair value of variable rate loans

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approximates carrying value. The net carrying value of the loans acquired through the CBN and WFC acquisition approximates the fair value of the loans at June 30, 2018. The fair value of loans is considered to be a level 3 measurement.

Loans Held for Sale

Fair values are based on quoted market prices of similar loans sold on the secondary market.

Mortgage Servicing Rights

Fair values are estimated using discounted cash flows based on current market rates and conditions.

Impaired Loans (carried at fair value)

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

Foreclosed Assets (carried at fair value)

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

Accrued Interest Receivable and Payable

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

Deposits

The fair value of deposits with no stated maturity, such as demand deposits, savings accounts, and money market accounts, is the amount payable on demand at the reporting date and represents a level 1 measurement. The fair value of fixed rate certificate accounts is calculated by using discounted cash flows applying interest rates currently being offered on similar certificates and represents a level 3 measurement. The net carrying value of fixed rate certificate accounts acquired through the CBN acquisition approximates the fair value of the certificates at June 30, 2018 and represents a level 3 measurement.

Federal Home Loan Bank ("FHLB") Advances

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

Off-Balance Sheet Instruments

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

		June 30, 2018		September 30, 2017	
	Valuation Method Used	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	(Level I)	$27,731	$27,731	$41,677	$41,677
Other interest-bearing deposits	(Level II)	8,160	8,048	8,148	8,143
Securities available for sale "AFS"	See above	119,702	119,702	95,883	95,883
Securities held to maturity "HTM"	(Level II)	4,809	4,827	5,453	5,605
Non-marketable equity securities, at cost	(Level I)	6,862	6,862	7,292	7,292
Loans receivable, net	(Level III)	754,629	749,079	727,053	737,119
Loans held for sale	(Level II)	1,778	1,778	2,334	2,334
Mortgage servicing rights	(Level III)	1,841	2,269	1,886	1,951
Accrued interest receivable	(Level 1)	3,306	3,306	3,291	3,291
Financial liabilities:					
Deposits	(Level III)	$744,536	$748,555	$742,504	$746,025
FHLB advances	(Level II)	58,000	57,999	90,000	89,998
Other borrowings	(Level I)	29,059	29,059	30,319	30,319
Accrued interest payable	(Level I)	336	336	227	227

NOTE 9 – OTHER COMPREHENSIVE INCOME (LOSS)

The following table shows the tax effects allocated to each component of other comprehensive income for the nine months ended June 30, 2018 and 2017:

	2018 Before-Tax Amount	2018 Tax Expense	2018 Net-of-Tax Amount	2017 Before-Tax Amount	2017 Tax Expense	2017 Net-of-Tax Amount
Unrealized gains (losses) on securities:						
Net unrealized (losses) gains arising during the period	$(2,397)	$ 642	$ (1,755)	$(2,140)	$ 856	$ (1,284)
Less: reclassification adjustment for (losses) gains included in net income	(21)	5	(16)	29	(12)	17
Less: reclassification of certain deferred tax effects (1)	(137)	—	(137)	—	—	—
Other comprehensive loss	$(2,555)	$ 647	$ (1,908)	$(2,111)	$ 844	$ (1,267)

(1) Amounts reclassified to retained earnings due to early adoption of ASU 2018-02. For further information, refer to Note 1.

The changes in the accumulated balances for each component of other comprehensive income (loss) for the twelve months ended September 30, 2017 and the nine months ended June 30, 2018 were as follows:

	Unrealized Gains (Losses) on Securities	Defined Benefit Plans	Other Accumulated Comprehensive Income (Loss)
Balance, October 1, 2016	$ 614	$ —	$ 614
Current year-to-date other comprehensive loss, net of tax	(881)	—	(881)
Ending balance, September 30, 2017	$ (267)	$ —	$ (267)
Current year-to-date other comprehensive loss, net of tax	(1,908)	—	(1,908)
Ending balance, June 30, 2018	$ (2,175)	$ —	$ (2,175)

Reclassifications out of accumulated other comprehensive income (loss) for the nine months ended June 30, 2018 were as follows:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income (1)	Affected Line Item on the Statement of Operations
Unrealized gains and losses		
Sale of securities	$ —	Net gain on sale of available for sale securities
Realized losses on securities available for sale for OTTI write-down	(21)	Total fair value adjustments and other-than-temporary impairment
	(21)	
Tax Effect	5	Provision for income taxes
Total reclassifications for the period	$ (16)	Net income attributable to common shareholders

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

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

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income (1)	Affected Line Item on the Statement of Operations
Unrealized gains and losses		
Sale of securities	$ 29	Net gain on sale of available for sale securities
Tax Effect	(12)	Provision for income taxes
Total reclassifications for the period	$ 17	Net income attributable to common shareholders

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

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

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report 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 our Form 10-K for the fiscal year ended September 30, 2017, which was filed on December 13, 2017, and the following:

- 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;
- the risk that the acquisition of United Bank may be more difficult, costly or time consuming or that the expected benefits are not realized;
- failure to obtain applicable regulatory approvals and meet other closing conditions to the acquisition of United Bank on the expected terms and schedule;
- the risk that if the acquisition of United Bank were not completed it could negatively impact the stock price and the future business and financial results of the Company;
- difficulties and delays in integrating the acquired business operations or fully realizing the cost savings and other benefits;
- 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 Company or 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;
- the possibility that our internal controls and procedures could fail or be circumvented;
- our ability to attract and retain key personnel;
- our ability to keep pace with technological change;
- cybersecurity risks;
- risks posed by acquisitions and other expansion opportunities;
- changes in federal or state tax laws;
- litigation risk;
- changes in accounting principles, policies or guidelines and their impact on financial performance;
- restrictions on our ability to pay dividends; and

- the potential volatility of our stock price.

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

GENERAL

The following discussion sets forth management's discussion and analysis of our consolidated financial condition as of June 30, 2018, and our consolidated results of operations for the nine months ended June 30, 2018, compared to the same period in the prior fiscal year for the nine months ended June 30, 2017. This discussion should be read in conjunction with the interim consolidated financial statements and the condensed notes thereto included with this report and with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes related thereto included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on December 13, 2017. 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.

PERFORMANCE SUMMARY

The following table sets forth our results of operations and related summary information for the three and nine month periods ended June 30, 2018 and 2017, respectively:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Net income as reported	$ 503	$ 1,083	$	