Citizens Community Bancorp Inc.
Form 10-K
December 10, 2018

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

FORM 10-K

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	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 Act). Yes ¨ No x

The aggregate market value of common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, March 29, 2018, was approximately $78.1 million.

APPLICABLE ONLY TO CORPORATE REGISTRANTS
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:
At December 10, 2018 there were 10,953,512 shares of the registrant's common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
None

CITIZENS COMMUNITY BANCORP, INC.
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September 30, 2018
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As used in this report, the terms “we,” “us,” “our,” “Citizens Community Bancorp” and the “Company” mean Citizens Community Bancorp, Inc. and its wholly owned subsidiary, Citizens Community Federal N.A., unless the context indicates another meaning. As used in this report, the term “Bank” means our wholly owned subsidiary, Citizens Community Federal N.A.

Forward-Looking Statements

Certain matters discussed in this Form 10-K contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and the Company intends that these forward-looking statements be covered by the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as “anticipate,” “believe,” “could,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” “would,” or the negative of those terms or other words of s meaning. Similarly, statements that describe the Company’s future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are inherently subject to many uncertainties in the Company’s operations and business environment.

Factors that could affect actual results or outcomes include the matters described under the caption “Risk Factors” in Item 1A of this report and the following:

- conditions in the financial markets and economic conditions generally;
- the possibility of a deterioration in the residential real estate markets;
- interest rate risk;
- lending risk;
- the sufficiency of loan allowances;
- changes in the fair value or ratings downgrades of our securities;
- competitive pressures among depository and other financial institutions;
- our ability to realize the benefits of net deferred tax assets;
- our ability to maintain or increase our market share;
- acts of terrorism and political or military actions by the United States or other governments;
- legislative or regulatory changes or actions, or significant litigation, adversely affecting the 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;
- difficulties and delays in integrating the acquired business operations or fully realizing the cost savings and other benefits;
- changes in federal or state tax laws;
- changes in accounting principles, policies or guidelines and their impact on financial performance;
- restrictions on our ability to pay dividends; and
- the potential volatility of our stock price.

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

PART 1

ITEM 1. BUSINESS

General

Citizens Community Bancorp, Inc. (the "Company") is a Maryland corporation organized in 2004. The Company is a bank holding company and is subject to regulation by the Office of the Comptroller of the Currency ("OCC") and by the Federal Reserve Bank. Our primary activities consist of holding the stock of our wholly-owned subsidiary bank, Citizens Community Federal N.A. (the "Bank"), and providing commercial, agricultural and consumer banking activities through the Bank. At September 30, 2018, we had approximately $975 million in total assets, $747 million in deposits, and $136 million in equity. Unless otherwise noted herein, all monetary amounts in this report, other than share, per share and capital ratio amounts, are stated in thousands.

Citizens Community Federal N.A.

The Bank is a federally chartered National Bank serving customers in Wisconsin, Minnesota and Michigan through 21 full-service branch locations as of September 30, 2018. 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.

Wells Insurance Agency, a Minnesota corporation formed in 1976 and wholly owned subsidiary of the Bank ("WIA"), provides financial and insurance products to customers of the Bank and members of the general public in the Bank's market area. Intercompany interest income and interest expenses are eliminated in the preparation of the consolidated financial statements. WIA maintains adequate cash at the Bank to fund operations.

Acquisitions

On June 20, 2018, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with United Bancorporation and its wholly-owned subsidiary, United Bank, a Wisconsin chartered bank ("United Bank") to acquire 100% of the common stock of United Bank . On October 19, 2018, the Company completed the acquisition of United Bank. In connection with the acquisition, the Company merged United Bank with and into the Bank, with the Bank surviving the merger. Our financial statements for the fiscal year ended September 30, 2018 do not include the impact of the October 19, 2018 closing of the United Bank acquisition. The Company plans to file separate financial statements and pro forma financial information, as required by SEC rules, in a Current Report on Form 8-K within the prescribed 75-day period following consummation of the acquisition of United Bank. See Note 19, "Subsequent Events" for additional information.

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 expanded the Bank's market share in Mankato and southern Minnesota, and added seven branch locations along with expanded services through Wells Insurance Agency, Inc.. For further disclosure and discussion, see Note 2, "Acquisitions".

Capital Raising Transactions

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.

On September 28, 2018, each share of Series A Preferred Stock was mandatorily converted into 10 shares of common stock following receipt of stockholder approval of the issuance of the 5,000,000 shares of common stock.

Internet Website

We maintain a website at www.ccf.us. We make available through that website, free of charge, copies of our Annual report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements for our annual stockholders' meetings and amendments to those reports or documents, as soon as reasonably practicable after we electronically file those materials with, or furnish them to, the Securities and Exchange Commission ("SEC"). We

are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants.

Selected Consolidated Financial Information
This information is included in Item 6; “Selected Financial Data” herein.

Yields Earned and Rates Paid

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

Rate/Volume Analysis

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

Average Balance, Interest and Average Yields and Rates

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

Lending Activities

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

Our total gross outstanding loans, before net deferred loan costs and unamortized discounts on acquired loans, as of September 30, 2018, were $762,693, consisting of $353,020 in commercial agricultural real estate loans, $102,843 in commercial/agricultural non-real estate loans, $209,781 in residential real estate loans and $97,089 in consumer non-real estate loans. See Item 7; “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, under the heading “Balance Sheet Analysis” for further analysis of our loan portfolio.

Investment Activities

We maintain a portfolio of investments, consisting primarily of mortgage-backed securities, U.S. Government sponsored agency securities, bonds and other obligations issued by states and their political subdivisions, corporate debt securities and corporate asset based securities. We attempt to balance our portfolio to manage interest rate risk, regulatory requirements, and liquidity needs while providing an appropriate rate of return commensurate with the risk of the investment. See Item 7; “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, under the heading “Balance Sheet Analysis Investment Securities” for further analysis of our investment portfolio.

Deposits and Other Sources of Funds

General. The Company's primary sources of funds are deposits; amortization, prepayments and maturities of outstanding loans; other short- term investments; and funds provided from operations.

Deposits. We offer a broad range of deposit products through our branches, including demand deposits, various savings and money-market accounts and certificates of deposit. Deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. At September 30, 2018, our total deposits were $746,529 including interest bearing deposits of $659,034 and non-interest bearing deposits of $87,495.

Borrowings. In addition to our primary sources of funds, we maintain access to additional sources of funds through borrowing, including FHLB borrowings, lines of credit with the Federal Reserve Bank, our Revolving Loan and our Note. See Item 7; “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, under the heading “Balance Sheet Analysis Federal Home Loan Bank (FHLB) advances and other borrowings” for further analysis of our borrowings.

Competition

We compete with other financial institutions and businesses both in attracting and retaining deposits and making loans in all of our principal markets. We believe the primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, technology, convenient locations and office hours, and alternative delivery systems. One such delivery system is remote deposit capture for those commercial customers

that are not conveniently located near one of our branches or mobile banking for retail customers. Competition for deposit products comes primarily from other banks, credit unions and non-bank competitors, including insurance companies, money market and mutual funds, and other investment

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alternatives. We believe the primary factors in competing for loans are interest rates, loan origination fees, and the quality and the range of lending services. Successful loan originations tend to depend not only on interest rate and terms of the loan but also on being responsive and flexible to the customer's needs. Competition for loans comes primarily from other banks, mortgage banking firms, credit unions, finance companies, leasing companies and other financial intermediaries. Some of our competitors are not subject to the same degree of regulation as that imposed on national banks or federally insured institutions, and these other institutions may be able to price loans and deposits more aggressively. We also face direct competition from other banks and their holding companies that have greater assets and resources than ours. However, we have been able to compete effectively with other financial institutions by building customer relationships with a focus on small-business solutions, including internet and mobile banking, electronic bill pay and remote deposit capture.

Regulation and Supervision

The banking industry is highly regulated, and the Company and the Bank are subject to numerous laws and regulations. As a bank holding company, the Company is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the “FRB”). The Bank is also subject to regulation, supervision and examination by the OCC. The Bank is a member of the Federal Reserve System and the Federal Home Loan Bank System. In addition, the Bank’s deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over the Bank.

The following is a brief summary of material statutes and regulations that affect the Company and the Bank. The following summary is not a complete discussion or analysis and is qualified in its entirety by reference to the statutes and regulations summarized below. Changes in statutes, regulations and policies applicable to the Company or the Bank cannot be predicted with certainty, but they may have a material effect on the business and earnings of the Company.

Securities Regulation and Listing

Our common stock is registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and is listed on the NASDAQ Global Market under the symbol “CZWI.” We are subject to the information, proxy solicitation, insider trading, corporate governance, and other disclosure requirements and restrictions of the Exchange Act, as well as the Securities Act of 1933 (the “Securities Act”), both administered by the SEC. As a company listed on the NASDAQ Global Market, we are subject to NASDAQ standards for listed companies.

The Company is currently a “smaller reporting company” which allows us to provide certain simplified and scaled disclosures in our filings with the SEC. In June 2018, the SEC adopted amendments that raised the thresholds for a company to be eligible to provide scaled disclosures as a smaller reporting company to $250 million of public float. As such, we will remain a smaller reporting company for so long as the market value of the Company’s common stock held by non-affiliates as of the end of its most recently completed second fiscal quarter is less than $250 million. Although we remain a smaller reporting company, we have become an “accelerated filer” because our public float exceeds $75 million.

Sarbanes-Oxley Act.

The Sarbanes-Oxley Act of 2002 (SOX) was enacted to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. SOX and the SEC’s implementing regulations include provisions addressing, among other matters, the duties, functions and qualifications of audit committees for all public companies; certification of financial statements by the chief executive officer and the chief financial officer; the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer’s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; disclosure of off-balance sheet transactions; a prohibition on personal loans to directors and officers, except (in the case of banking companies) loans in the normal course of business; expedited filing requirements for reports of beneficial ownership of company stock by insiders; disclosure of a code of ethics for senior officers, and of any change or waiver of such code; the formation of a public accounting oversight board; auditor independence; disclosure of fees paid to the company's auditors for non-audit services and limitations on the provision of such services; attestation requirements for company management and external auditors,

relating to internal controls and procedures; and various increased criminal penalties for violations of federal securities laws.

Section 404 of SOX requires management of the Company to undertake a periodic assessment of the adequacy and effectiveness of the Company's internal control over financial reporting. Since the Company has become an "accelerated filer, " we have become subject to the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that an independent registered public accounting firm provide an attestation report on the Company's internal control over financial reporting and the operating effectiveness of these controls, making the public reporting process more costly. The Company has incurred, and expects to continue to incur, costs in connection with its on-going compliance with Section 404.

The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) significantly changed the regulatory structure for financial institutions and their holding companies, including with respect to lending, deposit, investment, trading and operating activities. Among other provisions, the Dodd-Frank Act:

- permanently increased the FDIC's standard maximum deposit insurance amount to $250,000, changed the FDIC insurance assessment base to assets rather than deposits and increased the reserve ratio for the deposit insurance fund to ensure the future strength of the fund;
- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- created and centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (the "CFPB"). Smaller institutions are subject to rules promulgated by the CFPB and are also examined and supervised by their federal banking regulators for consumer compliance purposes;
- imposed limits for debit card interchange fees for issuers that have assets greater than $10 billion, which also could affect the amount of interchange fees collected by financial institutions with less than $10 billion in assets;
- restricted the preemption of state law by federal law and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption;
- imposed comprehensive regulation of the over-the-counter derivatives market subject to significant rulemaking processes, to include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;
- established new requirements related to mortgage lending, including prohibitions against payment of steering incentives and provisions relating to underwriting standards, disclosures, appraisals and escrows;
- prohibited banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (the Volcker Rule); and
- implemented corporate governance revisions that apply to all public companies, not just financial institutions.

Federal banking regulators and other agencies including, among others, the FRB, the OCC and the CFPB, have been engaged in extensive rule-making efforts under the Dodd-Frank Act. Some of the rules that have been adopted or proposed to comply with Dodd-Frank Act mandates are discussed in more detail below.

2018 Regulatory Reform

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "EGRRCPA"), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory relief for community banks such as the Bank.

The EGRRCPA, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion by instructing the federal banking regulators to establish a single "Community Bank Leverage Ratio" of between 8 and 10 percent. Any qualifying depository institution or its holding company that exceeds the "community bank leverage ratio" will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying depository institution that exceeds the new ratio will be considered to be "well capitalized" under the prompt corrective action rules. The EGRRCPA also expands the category of holding companies that may rely on the "Small Bank Holding Company and Savings and Loan Holding Company Policy Statement" (the "HC Policy Statement") by raising the maximum amount of assets a qualifying holding company may have from $1 billion to $3 billion. This expansion also excludes such holding companies from the minimum capital requirements of the Dodd-Frank Act. In addition, the EGRRCPA includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Section 201 requires the Federal banking agencies to promulgate a rule establishing a new "Community Bank Leverage Ratio" of 8%-10% for depository institutions and depository institution holding companies, including banks and bank holding companies, with less than $10 billion in total consolidated assets. If such a depository institution or holding

company maintains tangible equity in excess of this leverage ratio, it would be deemed to be in compliance with (1) the leverage and risk-based capital requirements promulgated by the Federal banking agencies; (2) in the case of a depository institution, the capital ratio

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requirements to be considered “well capitalized” under the Federal banking agencies’ “prompt corrective action” regime; and (3) “any other capital or leverage requirements” to which the depository institution or holding company is subject, in each case unless the appropriate Federal banking agency determines otherwise based on the particular institution’s risk profile. In carrying out these requirements, the Federal banking agencies are required to consult with State banking regulators and notify the applicable State banking regulator of any qualifying community bank that exceeds or no longer exceeds the Community Bank Leverage Ratio.

It is difficult at this time to predict when or how any new standards under the EGRRCPA will ultimately be applied to us or what specific impact the EGRRCPA and the yet-to-be-written implementing rules and regulations will have on community banks.

Capital Adequacy

Banks and bank holding companies, as regulated institutions, are required to maintain minimum levels of capital. The FRB and the OCC have adopted minimum risk-based capital requirements (Tier 1 capital, common equity Tier 1 capital (“CET1”) and total capital) and leverage capital requirements, as well as guidelines that define components of the calculation of capital and the level of risk associated with various types of assets. Financial institutions are expected
to maintain a level of capital commensurate with the risk profile assigned to their assets in accordance with the guidelines.

In addition to the minimum risk-based capital and leverage ratios, banking organizations must maintain a “capital conservation buffer” consisting of CET1 in an amount equal to 2.5% of risk-weighted assets in order to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. In order to avoid those restrictions, the capital conservation buffer effectively increases the minimum CET1 capital, Tier 1 capital, and
total capital ratios for U.S. banking organizations to 7.0%, 8.5%, and 10.5%, respectively. Banking organizations with capital levels that fall within the buffer will be required to limit dividends, share repurchases or redemptions (unless replaced within the same calendar quarter by capital instruments of equal or higher quality), and discretionary bonus payments. The capital conservation buffer will be fully phased in on January 1, 2019.

The Bank’s capital categories are determined solely for the purpose of applying the “prompt corrective action” rules described below and they are not necessarily an accurate representation of its overall financial condition or prospects for other purposes. Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting
brokered deposits, and certain other restrictions on its business. See “Bank Regulation - Prompt Corrective Action” below.

Bank Holding Company Regulation

As a bank holding company, the Company is subject to the Bank Holding Company Act of 1956 (the “BHCA”) and regulation and supervision by the FRB. A bank holding company is required to obtain the approval of the FRB before making certain acquisitions or engaging in certain activities. Bank holding companies and their subsidiaries are also subject to restrictions on transactions with insiders and affiliates.

A bank holding company is required to obtain the approval of the FRB before it may acquire all or substantially all of the assets of any bank, and before it may acquire ownership or control of the voting shares of any bank if, after giving effect to the acquisition, the bank holding company would own or control more than five percent of the voting shares of such bank. The approval of the FRB is also required for the merger or consolidation of bank holding companies.

Pursuant to the BHCA, the FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuation of such activity or ownership constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The Company is required to file periodic reports with the FRB and provide any additional information the FRB may require. The FRB also has the authority to examine the Company and its subsidiaries, as well as any arrangements between the Company and its subsidiaries, with the cost of any such examinations to be borne by the Company.

Banking subsidiaries of bank holding companies are also subject to certain restrictions imposed by federal law in

dealings with their holding companies and other affiliates.
Bank Regulation
Anti-Money Laundering and OFAC Regulation. The Bank is subject to a number of anti-money laundering laws ("AML") and regulations. The Bank Secrecy Act of 1970 ("BSA") and subsequent laws and regulations require the Bank to take steps to prevent the use of the Bank or its systems from facilitating the flow of illegal or illicit money or terrorist funds. Those requirements include ensuring effective board and management oversight, establishing policies and procedures, performing comprehensive risk assessments, developing effective monitoring and reporting capabilities, ensuring adequate training and establishing a comprehensive independent audit of BSA compliance activities.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“Patriot Act”) significantly expanded the AML and financial transparency laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Regulations promulgated under the Patriot Act impose various requirements on financial institutions, such as standards for verifying client identification at account opening and maintaining expanded records (including “Know Your Customer” and “Enhanced Due Diligence” practices) and other obligations to maintain appropriate policies, procedures and controls to aid the process of preventing, detecting, and reporting money laundering and terrorist financing. An institution subject to the Patriot Act must provide AML training to employees, designate an AML compliance officer and annually audit the AML program to assess its effectiveness. The FDIC continues to issue regulations and additional guidance with respect to the application and requirements of BSA and AML.

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. Based on their administration by the United States Department of the Treasury's Office of Foreign Assets Control (“OFAC”), these are typically known as the “OFAC” rules. The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “United States persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to United States jurisdiction (including property in the possession or control of United States persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

Failure of a financial institution to maintain and implement adequate BSA, AML and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution and result in material fines and sanctions. The Bank has implemented policies and procedures to comply with the foregoing requirements.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, in which all institutions are placed. The federal banking agencies have also specified by regulation the relevant capital levels for each category.

A “well-capitalized” bank is one that is not required to meet and maintain a specific capital level for any capital measure pursuant to any written agreement, order, capital directive, or prompt corrective action directive, and has a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a CET1 capital ratio of at least 6.5%, and a Tier 1 leverage ratio of at least 5%. Generally, a classification as well capitalized will place a bank outside of the regulatory zone for
purposes of prompt corrective action. However, a well-capitalized bank may be reclassified as “adequately capitalized” based on criteria other than capital, if the federal regulator determines that a bank is in an unsafe or unsound condition, or is engaged in unsafe or unsound practices, which requires certain remedial action.

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

Deposit Insurance. The deposits of the Bank are insured by the Deposit Insurance Fund (DIF) of the FDIC up to the limits set forth under applicable law and are subject to the deposit insurance premium assessments of the DIF. Under the Dodd-Frank Act, the maximum per depositor FDIC insurance amount increased from $100,000 to $250,000. The

FDIC applies a risk-based system for setting deposit insurance assessments, which was amended by the Dodd-Frank Act. Under this system, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rate based on certain specified financial ratios or, if applicable, its long-term debt ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. In addition to deposit insurance assessments, the FDIC is authorized to collect assessments from FDIC insured depository institutions to service the outstanding obligations of Financing Corporation (FICO).

The Dodd-Frank Act changed the assessment formula for determining deposit insurance premiums and modified certain insurance coverage provisions of the FDIA. The FDIC's implementing rules redefined the base for FDIC insurance assessments from the amount of insured deposits to average consolidated total assets less average tangible equity.

Federal Home Loan Bank ("FHLB") System. The Bank is a member of the FHLB of Chicago, which is one of the 11 regional Federal Home Loan Banks. The primary purpose of the FHLBs is to provide funding to their saving association members in support of the home financing credit function of the members. Each FHLB serves as a reserve or central bank for its members within its assigned region. FHLBs are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. FHLBs make loans or advances to members in accordance with policies and procedures established by the board of directors of the FHLB. These policies and procedures are subject to the regulation and oversight of the Federal Housing Financing Board. All advances from a FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. Long-term advances are required to be used for residential home financing and small business and agricultural loans.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Chicago. As of September 30, 2018, the Bank had $3,015 million in FHLB stock, which was in compliance with this requirement. The Bank receives dividends on its FHLB stock.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions or holding company formations.

The federal banking agencies have adopted regulations which measure a bank's compliance with its CRA obligations on a performance-based evaluation system. This system bases CRA ratings on an institution's actual lending service and investment performance rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. The ratings range from "outstanding" to a low of "substantial noncompliance."

The Bank had a CRA rating of "Satisfactory" as of its most recent regulatory examination.

Consumer Compliance and Fair Lending Laws. The Bank is subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Patriot Act, BSA, the Foreign Account Tax Compliance Act, CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, various state law counterparts, and the Consumer Financial Protection Act of 2010, which constitutes part of the Dodd-Frank Act. The enforcement of fair lending laws has been an increasing area of focus for regulators, including the OCC and CFPB.

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act of 2017 ("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. The Company anticipates that this tax rate change should reduce its federal income tax liability in future years, but the Company did recognize certain effects of the tax law changes related to the revaluation of the deferred tax assets to both the revaluation of timing differences and the unrealized loss on securities. See Item 7; "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Critical Accounting Estimates Income Taxes."

Effects of Government Monetary Policy

The earnings of the Company are affected by general and local economic conditions and by the policies of various governmental regulatory authorities. In particular, the FRB regulates money supply, credit conditions and interest rates in order to influence general economic conditions, primarily through open market operations in United States Government Securities, varying the discount rate on member bank borrowings, setting reserve requirements against member and nonmember bank deposits, regulating interest rates payable by member banks on time and savings

deposits and expanding or contracting the money supply. FRB monetary policies have had a significant effect on the operating results of commercial banks and their holding companies, including the Bank and the Company, in the past and are expected to continue to do so in the future.

Employees

At December 10, 2018, we had 254 full-time employees and 282 total employees, company-wide. We have no unionized employees, and we are not subject to any collective bargaining agreements.

ITEM 1A. RISK FACTORS
The risks described below are not the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our future business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In such cases, the trading price of our common stock could decline.
Our business may be adversely affected by conditions in the financial markets and economic conditions generally. We operate primarily in the Wisconsin, Minnesota and Michigan markets. As a result, our financial condition, results of operations and cash flows are significantly impacted by changes in the economic conditions in those areas. In addition, our business is susceptible to broader economic trends within the United States economy. Economic conditions have a significant impact on the demand for our products and services, as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. A significant decline in general economic conditions caused by inflation, recession, tariffs, unemployment, changes in securities markets, changes in housing market prices or other factors could impact economic conditions and, in turn, could have a material adverse effect on our financial condition and results of operations.
Deterioration in the markets for residential real estate, including secondary residential mortgage loan markets, could reduce our net income and profitability. During the severe recession that lasted from 2007 to 2009, softened residential housing markets, increased delinquency and default rates, and volatile and constrained secondary credit markets negatively impacted the mortgage industry. Our financial results were adversely affected by these effects including changes in real estate values, primarily in Wisconsin, Minnesota and Michigan, and our net income declined as a result. Decreases in real estate values adversely affected the value of property used as collateral for loans as well as investments in our portfolio. Continued slow growth in the economy since 2009 resulted in increased competition and lower rates, which has negatively impacted our net income and profits.
The foregoing changes could affect our ability to originate loans and deposits, the fair value of our financial assets and liabilities and the average maturity of our securities portfolio. An increase in the level of interest rates may also adversely affect the ability of certain of our borrowers to repay their obligations. If interest rates paid on deposits or other borrowings were to increase at a faster rate than the interest rates earned on loans and investments, our net income would be adversely affected.
We are subject to interest rate risk. Through our banking subsidiary, the Bank, our profitability depends in large part on our net interest income, which is the difference between interest earned from interest-earning assets, such as loans and mortgage-backed securities, and interest paid on interest-bearing liabilities, such as deposits and borrowings. Our net interest income will be adversely affected if market interest rates change such that the interest we pay on deposits and borrowings increase faster than the interest earned on loans and investments. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time due to many factors that are beyond our control, including but not limited to: general economic conditions and government policy decisions, especially policies of the Federal Reserve Bank. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk.
We are subject to lending risk. There are inherent risks associated with our lending activities. These risks include the impact of changes in interest rates and changes in the economic conditions in the markets we serve, as well as those across the United States. An increase in interest rates or weakening economic conditions (such as high levels of unemployment) could adversely impact the ability of borrowers to repay outstanding loans, or could substantially weaken the value of collateral securing those loans. Downward pressure on real estate values could increase the potential for problem loans and thus have a direct impact on our consolidated results of operations.
We are subject to higher lending risks with respect to our commercial and agricultural banking activities which could adversely affect our financial condition and results of operations. Our loans include commercial and agricultural loans, which include loans secured by real estate as well as loans secured by personal property. Commercial real estate lending, including agricultural loans, 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. Agricultural non-real estate loans carry significant risks as they may involve larger balances concentrated with a single borrower or group of related borrowers. In addition, repayment of such loans depends on the successful operation or management of the farm property securing the loan for which an operating loan is utilized. Farming operations may be affected by factors outside of the borrower's control, including adverse weather conditions, such as drought, hail or floods that can severely limit crop yields and declines in market prices for agricultural products. Although the Bank manages lending risks through its underwriting and credit administration policies, no assurance can be given that such risks will not materialize, in which event, our financial condition, results of operations, cash flows and business prospects could be materially adversely affected.

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

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

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

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board ("FASB") has adopted a new accounting standard that will be effective for the Company for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance for loan losses Banking regulators expect the new accounting standard will increase the allowance for loan losses. Any change in the allowance for loan losses at the time of adoption will be an adjustment to retained earnings and would change the Bank's capital levels. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

Changes in the fair value or ratings downgrades of our securities may reduce our stockholders' equity, net earnings, or regulatory capital ratios. At September 30, 2018, $118,482 of our securities, were classified as available for sale and $4,619 were classified as held to maturity. The estimated fair value of our available for sale securities portfolio may increase or decrease depending on market conditions. Our available for sale securities portfolio is comprised of fixed-rate, and to a lessor extent, floating rate securities. We increase or decrease stockholders' equity by the amount of the change in unrealized gain or loss (the difference between the estimated fair value and amortized cost) of our available for sale securities portfolio, net of the related tax benefit or provision, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in our reported stockholders' equity, as well as our book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold, the decrease may be recovered over the life of the securities.

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

such decline to be other-than-temporary related to credit losses, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income in the period in which the decline in value occurs.

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

The capital that we are required to maintain for regulatory purposes is impacted by, among other factors, the securities ratings on our portfolio. Therefore, ratings downgrades on our securities may also have a material adverse effect on our risk-based regulatory capital levels.
Competition may affect our results. We face strong competition in originating loans, in seeking deposits and in offering other banking services. We compete with commercial banks, trust companies, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms. Our market area is also served by commercial banks and savings associations that are substantially larger than us in terms of deposits and loans and have greater human and financial resources. This competitive climate can make it difficult to establish, maintain and retain relationships with new and existing customers and can lower the rate we are able to charge on loans, increase the rates we must offer on deposits, and affect our charges for other services. Those factors can, in turn, adversely affect our results of operations and profitability.
We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.
We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and, therefore, our operating results may be materially adversely affected.
We may not have sufficient pre-tax net income in future periods to fully realize the benefits of our net deferred tax assets. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence. Based on future pre-tax net income projections and the planned execution of existing tax planning strategies, we believe that it is more likely than not that we will fully realize the benefits of our net deferred tax assets. However, our current assessment is based on assumptions and judgments that may or may not reflect actual future results. If a valuation allowance becomes necessary, it could have a material adverse effect on our consolidated results of operations and financial condition.
Maintaining or increasing our market share may depend on lowering prices and market acceptance of new products and services. Our success depends, in part, on our ability to adapt our products and services to evolving industry standards and customer demands. We face increasing pressure to provide products and services at lower prices, which can reduce our net interest margin and revenues from our fee-based products and services. In addition, the widespread adoption of new technologies, including internet and mobile banking services, could require us to make substantial expenditures to modify or adapt our existing products and services. Also, these and other capital investments in our business may not produce expected growth in earnings anticipated at the time of the expenditure. We may not be successful in introducing new products and services, achieving market acceptance of our products and services, or developing and maintaining loyal customers, which in turn, could adversely affect our results of operations and profitability.
Acts or threats of terrorism and political or military actions by the United States or other governments could adversely affect general economic industry conditions. Geopolitical conditions may affect our earnings. Acts or threats of terrorism and political actions taken by the United States or other governments in response to terrorism, or similar activity, could adversely affect general or industry conditions and, as a result, our consolidated financial condition and results of operations.
We operate in a highly regulated environment, and are subject to changes, which could increase our cost structure or have other negative impacts on our operations. The banking industry is extensively regulated at the federal and state levels. Insured depository institutions and their holding companies are subject to comprehensive regulation and supervision by financial regulatory authorities covering all aspects of their organization, management and operations. We are also subject to regulation by the SEC. Our compliance with these regulations, including compliance with regulatory commitments, is costly. Regulation includes, among other things, capital and reserve requirements,

permissible investments and lines of business, mergers and acquisitions, restrictions on transactions with insiders and affiliates, anti-money laundering regulations, dividend limitations, community reinvestment requirements, limitations on products and services offered, loan limits, geographical limits, and consumer credit regulations. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the Deposit Insurance Fund, our depositors and the public, rather than our stockholders. Failure to comply with applicable laws, regulations or policies could result in sanction by regulatory agencies, civil monetary penalties, and/or damage to our reputation, which could have a material adverse effect on our business, consolidated financial condition and results of operations. In addition, any change in government regulation could have a material adverse effect on our business.

We have become subject to more stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or limit our ability to pay dividends or repurchase shares.
The Basel III Rules, which became effective for us on January 1, 2015, included new minimum risk-based capital and leverage ratios and refines the definition of what constitutes "capital" for calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from prior rules); and (iv) a Tier 1 leverage ratio of 4%. The Basel III Rules also establish a "capital conservation buffer" of 2.5%, and, when fully phased in, will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The capital conservation buffer will be fully phased in on January 1, 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount. The application of more stringent capital requirements could, among other things, result in lower returns on equity, and result in regulatory actions if we are unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of the Basel III Rules could result in our having to lengthen the term of our funding sources, change our business models or increase our holdings of liquid assets. Specifically, the Bank's ability to pay dividends will be limited if it does not have the capital conservation buffer required by the new capital rules, which may further limit the Company's ability to pay dividends to stockholders.
We are subject to increases in FDIC insurance premiums and special assessments by the FDIC, which will adversely affect our earnings. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. For example, during 2008 and 2009, higher levels of bank failures dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which, in part, permanently raised the current standard maximum deposit insurance amount to $250,000 per customer (up from $100,000). These programs placed additional stress on the Deposit Insurance Fund. In order to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund, the FDIC increased assessment rates of the insured institutions. If additional bank or financial institution failures increase, or if the cost of resolving prior failures exceeds expectations, we may be required to pay even higher FDIC premiums than the current levels. Any future increases or required prepayments of FDIC insurance premiums may adversely impact our earnings and financial condition.
Customers may decide not to use banks to complete their financial transactions, which could result in a loss of income to us. Technology and other changes are allowing customers to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, customers can now pay bills and transfer funds directly without going through a bank. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits.
We could experience an unexpected inability to obtain needed liquidity. Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets and its access to alternative sources of funds. We seek to ensure our funding needs are met by maintaining an appropriate level of liquidity through asset/liability management. If we become unable to obtain funds when needed, it could have a material adverse effect on our business and, in turn, our consolidated financial condition and results of operations. Moreover, it could limit our ability to take advantage of what we believe to be good market opportunities for expanding our loan portfolio.
Future growth, operating results or regulatory requirements may require us to raise additional capital but that capital may not be available. We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. To the extent our future operating results erode capital or we elect to expand through loan growth or acquisition, we may be required to raise additional capital.
Our ability to raise capital will depend on conditions in the capital markets, which are outside of our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise capital when needed or on favorable terms. If we cannot raise additional capital when needed or if we are subject to material unfavorable terms for such capital, we may be subject to increased regulatory supervision and the imposition of restrictions on our

growth and business. These actions could negatively impact our ability to operate or further expand our operations and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on our consolidated financial condition and results of operations.

Our internal controls and procedures may fail or be circumvented. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable assurances that the objectives of the system are met. Any (a) failure or circumvention of our controls and procedures, (b) failure to adequately address any internal control deficiencies, or (c) failure to comply with regulations related to controls and

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procedures could have a material effect on our business, consolidated financial condition and results of operations. See Item 9A "Controls and Procedures" for further discussion of our internal controls.

Our Reporting Obligations As A Public Company Are Costly. Reporting requirements of a public company change depending on the reporting classification in which the Company falls as of the end of its second quarter of each fiscal year. The Company is currently a "smaller reporting company" which allows us to provide certain simplified and scaled disclosures in our filings. We will remain a smaller reporting company for so long as the market value of the Company's common stock held by non-affiliates as of the end of its most recently completed second fiscal quarter is less than $250 million. Although we remain a smaller reporting company, we have become an "accelerated filer" because our public float exceeds $75 million. As such we have become subject to the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that an independent registered public accounting firm provide an attestation report on the effectiveness of internal control over financial reporting, making the public reporting process more costly.

We may not be able to attract or retain key people. Our success depends, in part, on our ability to attract and retain key people. We depend on the talents and leadership of our executive team, including Stephen M. Bianchi, our Chief Executive Officer, and James S. Broucek, our Chief Financial Officer. Competition for the best people in most activities engaged in by us can be intense, and we may not be able to hire people or retain them. Although Mr. Bianchi and Mr. Broucek are under employment agreements expiring in 2019 and 2020, respectively, unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our local markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

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

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

Acquisition and expansion activities may disrupt our business, dilute existing stockholders and adversely affect our operating results. We recently acquired through merger, CBN and WFC. On June 20, 2018, the Company entered into

a Stock Purchase Agreement with United Bancorporation and its wholly-owned subsidiary, United Bank, a Wisconsin chartered bank. On October 19, 2018, the Company completed its previously announced acquisition of United Bank. We intend to continue to evaluate potential acquisitions and expansion opportunities in the normal course of our business. Although the integration of CBN and WFC into our operations is successfully proceeding, we cannot assure you that we will be able to adequately or profitably manage the Acquisition of United Bank or any such future acquisitions. Acquiring other banks or financial service companies, such as United Bank, as well as other geographic and product expansion activities, involve various risks including:

- risks of unknown or contingent liabilities;
- unanticipated costs and delays;
- risks that acquired new businesses do not perform consistent with our growth and profitability
- expectations;

- risks of entering new markets or product areas where we have limited experience;
- risks that growth will strain our infrastructure, staff, internal controls and management, which may
- require additional personnel, time and expenditures;
- exposure to potential asset quality issues with acquired institutions;
- difficulties, expenses and delays of integrating the operations and personnel of acquired institutions, and
- start-up delays and costs of other expansion activities;
- potential disruptions to our business;
- possible loss of key employees and customers of acquired institutions;
- potential short-term decreases in profitability; and
- diversion of our management's time and attention from our existing operations and business.

Our failure to execute our acquisition strategy could adversely affect our business, results of operations, financial condition and future prospects.

We may fail to realize the anticipated cost savings and other financial benefits of the United Bank acquisition on the anticipated schedule, if at all. Our ability to realize success following consummation of the acquisition of United Bank will depend, in part, on our ability to successfully combine and integrate the businesses of the Company and United Bank. We may face significant challenges in integrating United Bank's operations into our operations in a timely and efficient manner and in retaining personnel from United Bank that we anticipate needing. Achieving the anticipated cost savings and financial benefits of the acquisition will depend, in part, on whether we can successfully integrate these businesses. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the acquisition. In addition, the integration of certain operations will require the dedication of significant management resources, which may temporarily distract management's attention from the day-to-day business of the combined company. Any inability to realize the full extent of, or any of, the anticipated cost savings and financial benefits of the acquisition, as well as any delays encountered in the integration process, could have an adverse effect on the business and results of operations of the combined company, which may affect the market price of our common stock.

Changes in federal or state tax laws could adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operations are impacted by tax policy implemented at the federal and state level. The Tax Act was enacted in December 2017. Among other things, the Tax Act reduces the corporate federal income tax rate for the Company from 34 percent to 24.5 percent for 2018, and 21 percent for 2019, which would result in changes in the valuation of deferred tax asset and liabilities, and includes a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. We revalued our net deferred tax assets to account for the future impact of the lower corporate tax rates. The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. In addition, these recent changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could reduce our profitability and materially adversely affect our business, financial condition and results of operations.

We cannot predict whether any other tax legislation will be enacted in the future or whether any such changes to existing federal or state tax law would have a material adverse effect on our business, financial condition and results of operations. We continue to evaluate the impact the Tax Act and other enacted tax reform may have on our business, financial conduction and results of operations.

We are subject to changes in accounting principles, policies or guidelines. Our financial performance is impacted by accounting principles, policies and guidelines. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical

because they require management to make subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses.

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

Our ability to pay dividends depends primarily on dividends from our banking subsidiary, the Bank, which is subject to regulatory and other limitations. We are a bank holding company and our operations are conducted primarily by our banking

subsidiary, the Bank. Since we receive substantially all of our revenue from dividends from the Bank, our ability to pay dividends on our common stock depends on our receipt of dividends from the Bank.
The Company is a legal entity separate and distinct from its banking subsidiary. As a bank holding company, the Company is subject to certain restrictions on its ability to pay dividends under applicable banking laws and regulations. Federal bank regulators are authorized to determine under certain circumstances relating to the financial condition of a bank holding company or a bank that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. In particular, federal bank regulators have stated that paying dividends that deplete a banking organization’s capital base to an inadequate level would be an unsafe and unsound banking practice and that banking organizations should generally pay dividends only out of current operating earnings. In addition, in the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.
The ability of the Bank to pay dividends to us is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. The Bank may not be able to generate adequate cash flow to pay us dividends in the future. The Company's ability to pay dividends is also subject to the terms of its Business Note Agreement dated August 1, 2018, which prohibits the Company from making dividend payments while an event of default has occurred and is continuing under the loan agreement or from allowing payment of a dividend which would create an event of default. The Company has pledged 100% of Bank stock as collateral for the loan and credit facilities. The inability to receive dividends from the Bank could have an adverse effect on our business and financial condition.
Furthermore, holders of our common stock are only entitled to receive the dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically paid cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.
Our shares of common stock are thinly traded and our stock price may be more volatile. Because our common stock is thinly traded, its market price may fluctuate significantly more than the stock market in general or the stock prices of similar companies, which are exchanged, listed or quoted on the NASDAQ Stock Market. We believe there are 10,516,359 shares of our common stock held by nonaffiliates as of December 10, 2018. Thus, our common stock will be less liquid than the stock of companies with broader public ownership, and as a result, the trading prices for our shares of common stock may be more volatile. Among other things, trading of a relatively small volume of our common stock may have a greater impact on the trading price of our stock than would be the case if our public float were larger.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES
The Company leases its main administrative offices located at 2174 EastRidge Center, Eau Claire, WI 54701. At September 30, 2018, the Bank had a total of 21 full-service branch offices located in the Wisconsin cities of Altoona, Barron, Chippewa Falls, Eau Claire, Ellsworth, Ladysmith, Rice Lake (2) and Spooner, the Minnesota cities of Albert Lea, Blue Earth, Fairmont, Faribault, Mankato, Minnesota Lake, Oakdale, Red Wing, St. James, St. Peter and Wells, and Rochester Hills, Michigan. Of these, the Bank owns 11 and leases the remaining 10 branch offices. On October 19, 2018, the Bank merged with United Bank, adding 6 branch offices located in central Wisconsin for a total of 27 full-service branch offices. Of these additional branch offices, the Bank owns all six branch offices. Management believes that our current facilities are adequate to meet our present and immediately foreseeable needs. For more information on our properties and equipment, see Note 6, Office Properties and Equipment of Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. For more information on our leases, see Note 11, Commitments and Contingencies of Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS
In the normal course of business, the Company and/or the Bank occasionally become involved in various legal proceedings. While the outcome of any such proceeding cannot be predicted with certainty, in our opinion, any liability from such proceedings would not have a material adverse effect on the business or financial condition of the Company.
ITEM 4. MINE SAFETY DISCLOSURES
None
PART II
ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES
Historically, trading in shares of our common stock has been limited. Citizens Community Bancorp, Inc. common stock is traded on the NASDAQ Global Market under the symbol “CZWI”.
We had approximately 521 stockholders of record at December 10, 2018. The number of stockholders does not separately reflect persons or entities that hold their stock in nominee or “street” name through various brokerage firms. We believe that the number of beneficial owners of our common stock on that date was substantially greater.
The holders of our common stock are entitled to receive such dividends when and as declared by our Board of Directors and approved by our regulators. In determining the payment of cash dividends, our Board of Directors considers our earnings, capital and debt servicing requirements, the financial ratio guidelines of our regulators, our financial condition and other relevant factors.
The Company's ability to pay dividends on its common stock is dependent on the dividend payments it receives from the Bank, since the Company receives substantially all of its revenue in the form of dividends from the Bank. Future dividends are not guaranteed and will depend on the Company's ability to pay them. For more information on dividends, see Note 10, Capital Matters of Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.
The table below shows the shares withheld from employees to satisfy tax withholding obligations during the three months ended September 30, 2018.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
August 1, 2018 - August 31, 2018	202	$ 14.00	—	—
September 1, 2018 - September 30, 2018	324	$ 14.14	—	—
Total	526	$ 14.08	—	—

(1) Represents shares of common stock withheld from employees to satisfy tax withholding obligations associated with the vesting of restricted stock awards.

ITEM 6. SELECTED FINANCIAL DATA

	Year ended September 30, (dollars in thousands, except per share data)				
	2018	2017	2016	2015	2014
Selected Results of Operations Data:					
Interest income	38,896	27,878	$25,084	$23,004	$24,033
Interest expense	8,593	5,610	5,007	4,438	4,275
Net interest income	30,303	22,268	20,077	18,566	19,758
Provision for loan losses	1,300	319	75	656	1,910
Net interest income after provision for loan losses	29,003	21,949	20,002	17,910	17,848
Fees and service charges	4,635	2,937	2,923	3,006	2,868
Net impairment losses recognized in earnings	—	—	—	—	(78)
Net gain (loss) on sale of available for sale securities	(17)	111	63	60	(168)
Other non-interest income	2,752	1,703	929	847	794
Non-interest income	7,370	4,751	3,915	3,913	3,416
Non-interest expense	29,764	22,878	20,058	17,403	17,224
Income before provision for income taxes	6,609	3,822	3,859	4,420	4,040
Income tax provision	2,326	1,323	1,286	1,614	1,530
Net income	$4,283	$2,499	$2,573	$2,806	$2,510
Per Share Data: (1)					
Net income per share (basic) (1)	$0.72	$0.47	$0.49	$0.54	$0.49
Net income per share (diluted) (1)	$0.58	$0.46	$0.49	$0.54	$0.48
Cash dividends per common share	$0.20	$0.16	$0.12	$0.08	$0.04
Book value per share at end of period	$12.45	$12.48	$12.27	$11.74	$11.23
Tangible book value per share at end of period	$11.05	$9.78	$11.22	$11.72	$11.20

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

	Year ended September 30, (dollars in thousands, except per share data)				
	2018	2017	2016	2015	2014
Selected Financial Condition Data:					
Total assets	975,409	940,664	695,865	580,148	569,815
Investment securities	123,101	101,336	86,792	87,933	70,974
Total loans, net of deferred costs (fees)	759,247	732,995	574,439	450,510	470,366
Total deposits	746,529	742,504	557,677	456,298	449,767
Short-term FHLB borrowings	63,000	90,000	45,461	33,600	20,000
Other FHLB borrowings	—	—	13,830	25,291	38,891
Other borrowings	24,619	30,319	11,000	—	—
Total shareholders’ equity	135,847	73,483	64,544	61,454	58,019
Weighted average basic common shares outstanding	5,943,891	5,361,843	5,241,458	5,208,708	5,163,373
Weighted average diluted common shares outstanding	7,335,247	5,378,360	5,257,304	5,239,942	5,196,706
Performance Ratios:					
Return on average assets	0.45 %	0.34 %	0.40 %	0.49 %	0.45 %
Return on average total shareholders’ equity	4.35 %	3.76 %	4.08 %	4.70 %	4.47 %
Net interest margin (2)	3.42 %	3.31 %	3.27 %	3.36 %	3.61 %
Net interest spread (2)					
Average during period	3.27 %	3.19 %	3.15 %	3.24 %	3.54 %
End of period	3.37 %	3.47 %	3.31 %	3.15 %	3.58 %
Net overhead ratio (3)	2.35 %	2.48 %	2.39 %	2.35 %	2.46 %
Average loan-to-average deposit ratio	99.52 %	100.87 %	101.08 %	101.63 %	101.57 %
Average interest bearing assets to average interest bearing liabilities	114.92 %	114.96 %	114.38 %	114.15 %	109.35 %
Efficiency ratio (4)	79.01 %	84.67 %	83.60 %	77.42 %	74.08 %
Asset Quality Ratios:					
Non-performing loans to total loans (5)	1.10 %	1.10 %	0.62 %	0.27 %	0.34 %
Allowance for loan losses to:					
Total loans (net of unearned income)	0.89 %	0.81 %	1.06 %	1.44 %	1.38 %
Non-performing loans	81.04 %	73.90 %	169.92 %	532.02 %	410.47 %
Net charge-offs to average loans	0.07 %	0.07 %	0.10 %	0.14 %	0.35 %
Non-performing assets to total assets	1.14 %	1.49 %	0.62 %	0.37 %	0.46 %
Capital Ratios:					
Shareholders’ equity to assets (6)	13.93 %	7.81 %	9.28 %	10.59 %	10.18 %
Average equity to average assets (6)	10.32 %	9.09 %	9.87 %	10.39 %	9.98 %
Tier 1 capital (leverage ratio) (7)	9.2 %	9.2 %	9.3 %	10.6 %	10.1 %
Total risk-based capital (7)	13.1 %	13.2 %	14.1 %	16.8 %	16.3 %

(1) Earnings per share are based on the weighted average number of shares outstanding for the period.

(2) Net interest margin represents net interest income as a percentage of average interest earning assets, and net interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.

(3)

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

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

(5) Non-performing loans are either 90+ days past due or nonaccrual. Non-performing assets consist of non-performing loans plus other real estate owned plus other collateral owned.
(6) Company ratios
(7) Bank regulatory ratios

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following discussion sets forth management’s discussion and analysis of our consolidated financial condition and results of operations that should be read in conjunction with our consolidated financial statements, related notes, the selected financial data and the statistical information presented elsewhere in this report for a more complete understanding of the following discussion and analysis. Unless otherwise noted, years refer to the Company’s fiscal years ended September 30, 2018 and 2017.

PERFORMANCE SUMMARY

The following is a brief summary of some of the significant factors that affected our operating results in 2018. See the remainder of this section for a more thorough discussion. Unless otherwise stated, all monetary amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations, other than share, per share and capital ratio amounts, are stated in thousands.

As management continues to execute its strategy to grow certain loan portfolio segments, and reduce concentrations in certain other loan portfolio segments, we view our loan portfolio as follows. The Community Banking loan portfolios reflect management’s strategy to grow its commercial banking business and consumer lending. The Legacy loan portfolios reflect management’s strategy to sell substantially all newly originated fixed rate one to four family residential real estate loans in the secondary market and the discontinuation of originated and purchased indirect paper loans.

We reported net income of $4,283 for the year ended September 30, 2018, compared to net income of $2,499 for the year ended September 30, 2017. Diluted earnings per share were $0.58 for 2018 compared to $0.46 for the year ended September 30, 2017. Return on average assets for the year ended September 30, 2018 was 0.45%, compared to 0.34% for the year ended September 30, 2017. The return on average equity was 4.35% for 2018 and 3.76% for 2017. An annual cash dividend in the amount of $0.20 per share and $0.16 per share was paid in the fiscal year ended September 30, 2018 and 2017, respectively.

On August 18, 2017, the Company completed its merger with 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.

On June 20, 2018, the Company entered into the Stock Purchase Agreement with United Bancorporation and its wholly-owned subsidiary, United Bank. On October 19, 2018, the Company completed the acquisition of United Bank. The Company acquired 100% of the common stock of United Bank for a purchase price of approximately $50.7 million, plus approximately $0.4 million in closing date purchase price, for a total cash consideration of approximately $51.1 million. The acquisition resulted in increases of approximately $268 million in total assets, $240 million in loans and $214 million in deposits, respectively. In connection with the acquisition, the Company merged United Bank with and into the Bank, with the Bank surviving the merger.

We closed the United Bank acquisition on October 19, 2018, which will enhance the composition of core community banking loans and increase our market presence in Eau Claire and the Chippewa Valley markets. We expect to report assets in excess of $1.2 billion next quarter and rank second in market presence in Eau Claire County as measured by deposits. The combination of two independent financial institutions will be better positioned to provide enhanced product lines and services along with knowledge and resources to or customers, which we expect to be beneficial to our shareholders over time.

On June 20, 2018, the Company entered into a Securities Purchase Agreement with the Purchasers, pursuant to which the Company sold an aggregate of 500,000 shares of the Company’s Series A Preferred Stock, in the Private Placement at $130.00 per share, for aggregate gross proceeds of $65 million.

Each share of Series A Preferred Stock was mandatorily converted into ten shares of common stock following receipt of stockholder approval of the issuance of the 5,000,000 shares of common stock on September 28, 2018.

Key factors behind the earnings results were:

- For the fiscal year ended September 30, 2018, pre-tax income, as adjusted for merger related costs and branch closure costs, would have increased $489. The aforementioned costs, along with $338 of additional income tax provision, primarily due to the Tax Cuts and Jobs Act of 2017, resulted in a net increase of $0.10 per diluted share after-tax.
- Net interest income for the year ended September 30, 2018, grew 32% to $29,003 from $21,949 in fiscal 2017, largely due to the full-year impact of the WFC acquisition, and to a lesser extent, organic growth.
- For the year ended September 30, 2018, the net interest margin increased 11 bps to 3.42% from 3.31% for the comparable 2017 period. The full-year impact of the WFC acquisition helped the Company minimize the impact of short-term interest rate increases by the Federal Reserve.
- Loan loss provision increased to $1,300 for the year ended September 30, 2018, compared to $319 for the comparable 2017 period. Provision increased due to organic growth of portfolio loans and the impact of the remix of the loan portfolio to commercial lending, which has a higher required loan loss provision than provision levels associated with one to four residential and indirect loan portfolios.
- For the year ended September 30, 2018, total non-interest income grew 55% to $7,370 from $4,751 for the comparable 2017 period. Growth in non-interest income is due largely to business lines enhanced or acquired as a result of the WFC acquisition. In addition, mortgage gain on sale increased due to the Company's increased volume of saleable residential loans.
- Non-interest expense increased 30% to $29,764 for the year ended September 30, 2018, from $22,878 for the comparable prior 2017 period, primarily due to (1) the full-year impact of the WFC acquisition, (2) the impact of losses on OREO valuation reductions, primarily due to the sales of the Company's two closed branches, and largest OREO parcel totaling $504, (3) a branch closing and (4) increased professional service costs associated with the United Bank acquisition, legal costs of $198 for litigation settled in June 2018, and Sarbanes-Oxley 404 compliance costs.
- Fiscal 2018 operations reflect a remix of loan composition. At September 30, 2017, commercial, multi-family, construction and agricultural loans for both operating purposes and secured by real estate totaled 60.0% of the total loan portfolio versus 48.2% one year earlier.
- Net loans were $752,499 at September 30, 2018, compared to $727,053 at September 30, 2017. The increase in loans is due to growth in the Company’s commercial lending portfolios, which more than offset the planned reductions in the Company’s residential and indirect loan portfolios.
- The allowance for loan and lease losses was 0.89% of total loans at September 30, 2018, compared to 0.81% one year earlier. The modest increase is due to overall loan growth and loan volume changes between our Legacy to Community Banking loan portfolios.
- Nonperforming assets ("NPA") decreased to $11,095, or 1.14% of total assets at September 30, 2018, compared to $14,058, or 1.49% of total assets at September 30, 2017. The reduction in NPA is largely due to reductions in OREO due to sales. In fiscal 2018, the Bank sold one closed branch and the largest other real estate owned ("OREO") property balance, which were carried at $1,501 at September 30, 2017. In addition, during fiscal 2018, the Bank sold one other closed branch that was added to OREO during fiscal 2018. The Bank recorded writedowns on these two closed branch properties of $449 during fiscal 2018. Additionally, the Bank reduced the contract for deed portfolio by $1,635 to $1,811 at September 30, 2018, due to loan repayments and refinancings, including balances of $1,038 which the Bank refinanced and moved to the loan portfolio, due to meeting the criteria for sale accounting.
- Total deposits were $746,529 at September 30, 2018, compared to $742,504 at September 30, 2017.
- FHLB advances decreased from $90,000 at September 30, 2017 to $63,000 at September 30, 2018, as certain funding needs were met by proceeds from the June 2018 preferred stock offering. Other borrowings decreased by $5,700 during the year ended September 30, 2018, due to reductions in the Company's senior debt.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with Accounting Standards Generally Accepted in the United States of America ("GAAP") as applied in the United States. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amount of assets, liabilities, revenue, expenses and the related disclosures. We base our

assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Some of these estimates are more critical than others. Below is a discussion of our critical accounting estimates

Allowance for Loan Losses.

We maintain an allowance for loan losses to absorb probable and inherent losses in our loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable incurred losses in our loan portfolio. In evaluating the level of the allowance for loan loss, we consider the types of loans and the amount of loans in our loan portfolio, historical loss

experience, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, prevailing economic conditions and other relevant factors determined by management. We follow all applicable regulatory guidance, including the "Interagency Policy Statement on the Allowance for Loan and Lease Losses," issued by the Federal Financial Institutions Examination Council (FFIEC). We believe that the Bank's Allowance for Loan Losses Policy conforms to all applicable regulatory requirements. However, based on periodic examinations by regulators, the amount of the allowance for loan losses recorded during a particular period may be adjusted.

Our determination of the allowance for loan losses is based on (1) specific allowances for specifically identified and evaluated impaired loans and their corresponding estimated loss based on likelihood of default, payment history, and net realizable value of underlying collateral. Specific allocations for collateral dependent loans are based on fair value of the underlying collateral relative to the unpaid principal balance of individually impaired loans. For loans that are not collateral dependent, the specific allocation is based on the present value of expected future cash flows discounted at the loan's original effective interest rate through the repayment period; and (2) a general allowance on loans not specifically identified in (1) above, based on historical loss ratios, which are adjusted for qualitative and general economic factors. We continue to refine our allowance for loan losses methodology, with an increased emphasis on historical performance adjusted for applicable economic and qualitative factors.

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

Goodwill.

We account 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, 2018 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, 2018.

Fair Value Measurements and Valuation Methodologies.

We apply various valuation methodologies to assets and liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as most investment securities. However, for those items for which an observable liquid market does not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans, deposits, borrowings, goodwill, core deposit intangible assets, other assets and liabilities obtained or assumed in business combinations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Company's results of operations, financial condition or disclosures of fair value information.

In addition to valuation, the Company must assess whether there are any declines in value below the carrying value of assets that should be considered other than temporary or otherwise require an adjustment in carrying value and recognition of a loss in the consolidated statement of income. Examples include but are not limited to; loans,

investment securities, goodwill, core deposit intangible assets and deferred tax assets, among others. Specific assumptions, estimates and judgments utilized by management are discussed in detail herein in management's discussion and analysis of financial condition and results of operations and in notes 1, 2, 3, 4, 5, 6, 7, 13 and 14 of Condensed Notes to Consolidated Financial Statements.

Income Taxes.

Amounts provided for income tax expenses are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities, which arise principally from temporary differences between the amounts reported in the financial statements and the tax basis of certain assets and liabilities, are included in the amounts provided for income taxes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and if necessary, tax planning strategies in making this assessment.

The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and application of specific provisions of federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the deferred tax assets and liabilities are adequate and properly recorded in the accompanying consolidated financial statements. As of September 30, 2018, management does not believe a valuation allowance related to the realizability of its deferred tax assets is necessary.

The Tax Cuts and Jobs Act of 2017 ("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 fourth quarter of fiscal 2018, based on updated information obtained in connection with the filing of our tax return and analysis of our net deferred tax asset both from the return and 2018 tax provisions, we finalized the tax analysis and recorded an additional $63 of expense, or a net increase in our tax provision for the year of $338 related to the Tax Act.

STATEMENT OF OPERATIONS ANALYSIS

2018 compared to 2017

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

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

Net interest income on a tax-equivalent basis was $30,514 for 2018, compared to $22,563 for 2017. Interest income on tax exempt securities is computed on a tax equivalent basis. The net interest margin for 2018 was 3.42% compared to 3.31% for 2017. The 11 basis point increase in net interest margin was mainly attributable to a 29 basis point increase in loan yields with only a 1 basis point decrease in deposits costs. Loan yields increased primarily due to lending portfolio shifts from our legacy to community banking portfolios. The slight change in deposit costs is due to customers shifting from money market and other interest-bearing deposit accounts to certificate accounts in the current rising interest rate environment offset by increases resulting from the full-year impact of the acquired, lower rate, WFC deposit portfolio.

Also contributing to the net interest margin increase is a 7 basis point increase on investment securities yields, primarily due to purchases at yields above average portfolio rates, offset by a 117 basis point increase in borrowing costs, largely due to higher short-term interest rates. Borrowing costs increased due to higher average outstanding borrowings balances during fiscal 2018, despite lower borrowings balances at September 30, 2018. Borrowings balances were lower at September 30, 2018 due to reduced reliance on FHLB borrowings for loan funding needs, and

payoff of over $5 million of corporate borrowings in the fourth quarter of fiscal 2018.

As shown in the rate/volume analysis table below, positive volume changes resulted in a $7,556 increase in net interest income in 2018. Average loan volume increases were due to commercial real estate and non-real estate loan growth in the current fiscal year over the prior fiscal year, arising from the full-year impact of the WFC acquisition and management's strategy to continue to grow its Community Banking portfolio and allow runoff of its Legacy loan portfolio. The increase and changes in the composition of interest earning assets resulted in a $11,018 increase in interest income for 2018, and a $2,983

increase in interest expense due partially to acquisition of WFC assets and liabilities and the increase in borrowings to facilitate the acquisition. Rate changes on interest earning assets caused an increase in interest income by $2,113 and increased interest expense by $1,634, for a net impact of a $479 increase in net interest income between 2018 and 2017.
Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table shows interest income from average interest earning assets, expressed in dollars and yields, and interest expense on average interest bearing liabilities, expressed in dollars and rates. Also presented is the weighted average yield on interest earning assets on a tax-equivalent basis, rates paid on interest bearing liabilities and the resultant spread at September 30 for each of the last two fiscal years. Non-accruing loans have been included in the table as loans carrying a zero yield.
Average interest earning assets were $892,472 in 2018 compared to $682,545 in 2017. Average loans outstanding increased to $735,602 in 2018 from $568,670 in 2017. Interest income on loans increased $9,713, of which $7,958 related to the increase in average outstanding balances, offset by an increase in interest income due to higher yields on such loans in the amount of $1,755.
Average interest bearing liabilities increased $182,859 in 2018 from their 2017 levels. The increase in average interest-bearing liabilities was primarily due to the full-year effect of both the deposits acquired in the WFC acquisition and, to a lesser extent, holding company borrowings used to facilitate the purchase. Average interest bearing deposits increased $154,850, or 30.3% to $665,782 in 2018. Interest expense on interest bearing deposits increased $822 during 2018 from the volume and mix changes and increased $422 from the impact of the rate environment, resulting in an aggregate increase of $1,244 in interest expense on interest bearing deposits.

	Year ended September 30, 2018			Year ended September 30, 2017		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest earning assets:						
Cash and cash equivalents	$24,747	$308	1.24 %	$19,368	$139	0.72 %
Loans	735,602	35,539	4.83 %	568,670	25,826	4.54 %
Interest-bearing deposits	7,871	149	1.89 %	1,922	29	1.51 %
Investment securities (1)	116,517	2,508	2.33 %	87,449	1,679	2.26 %
Non-marketable equity securities, at cost	7,735	392	5.07 %	5,136	205	3.99 %
Total interest earning assets (1)	$892,472	$38,896	4.38 %	$682,545	$27,878	4.13 %
Average interest-bearing liabilities:						
Savings accounts	$94,854	$162	0.17 %	$53,530	$67	0.13 %
Demand deposits	149,282	475	0.32 %	65,283	273	0.42 %
Money market	118,229	738	0.62 %	126,487	555	0.44 %
CD’s	269,749	3,807	1.41 %	236,590	3,104	1.31 %
IRA’s	33,668	361	1.07 %	29,042	300	1.03 %
Total deposits	$665,782	$5,543	0.83 %	$510,932	$4,299	0.84 %
FHLB Advances and other borrowings	110,790	3,050	2.75 %	82,781	1,311	1.58 %
Total interest-bearing liabilities	$776,572	$8,593	1.11 %	$593,713	$5,610	0.94 %
Net interest income		$30,303			$22,268	
Interest rate spread			3.27 %			3.19 %
Net interest margin (1)			3.42 %			3.31 %
Average interest earning assets to average interest-bearing liabilities			1.15 %			1.15 %

(1) Fully taxable equivalent (FTE). The average yield on tax exempt securities is computed on a tax equivalent basis using a tax rate of 24.5% and 34% for the twelve months ended September 30, 2018 and September 30, 2017,

respectively. The FTE adjustment to net interest income included in the rate calculations totaled $211 and $295 for the years ended September 30, 2018 and 2017, respectively.

Rate/Volume Analysis. The following table presents the dollar amount of changes in interest income and interest expense for the components of interest earning assets and interest bearing liabilities that are presented in the preceding table. For each category of interest earning assets and interest bearing liabilities, information is provided on changes attributable to: (1) changes in volume, which are changes in the average outstanding balances multiplied by the prior period rate (i.e. holding the initial rate constant); and (2) changes in rate, which are changes in average interest rates multiplied by the prior period volume (i.e. holding the initial balance constant).

	Year ended September 30, 2018 v. 2017 Increase (decrease) due to		
	Volume (1)	Rate (1)	Total Increase / (Decrease)
Interest income:			
Cash and cash equivalents	$45	$124	$ 169
Loans	7,958	1,755	9,713
Interest-bearing deposits	107	13	120
Investment securities	676	153	829
Non-marketable equity securities, at cost	119	68	187
Total interest earning assets	$8,905	$2,113	$ 11,018
Interest expense:			
Savings accounts	$64	$31	$ 95
Demand deposits	293	(91)	202
Money market accounts	(39)	222	183
CD’s	455	248	703
IRA’s	49	12	61
Total deposits	822	422	1,244
FHLB Advances and other borrowings	527	1,212	1,739
Total interest bearing liabilities	1,349	1,634	2,983
Net interest income	$7,556	$479	$ 8,035

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

Provision for Loan Losses. We determine our provision for loan losses (“provision”, or “PLL”) based on our desire to provide an adequate allowance for loan losses (“ALL”) to reflect probable and inherent credit losses in our loan portfolio.

Net loan charge-offs for the years ended September 30, 2018 and 2017 were $494 and $445, respectively. Net charge-offs to average loans were 0.07% for both of the periods ended September 30, 2018 and September 30, 2017, respectively.

We recorded provisions for loan losses of $1,300 and $319 for the years ended September 30, 2018 and 2017, respectively, reflecting organic loan growth and the impact of slightly higher charge-offs. Also contributing to higher provision for loan losses was the impact of the remix of the loan portfolio to commercial lending and runoff of one to four residential and indirect loans, which will increase the allowance due to higher provision levels on commercial lending utilized by the Bank. Management believes that the provision taken for the year ended September 30, 2018 is adequate in view of the present condition of the Bank's loan portfolio and the sufficiency of collateral supporting non-performing loans. We are continually monitoring non-performing loan relationships and will make provisions, as necessary, if the facts and circumstances change. In addition, a decline in the quality of our loan portfolio as a result of general economic conditions, factors affecting particular borrowers or our market areas, or other factors could all affect the adequacy of our ALL. If there are significant charge-offs against the ALL, or we otherwise determine that

the ALL is inadequate, we will need to record an additional PLL in the future. See Note 1, “Nature of Business and Summary of Significant Accounting Policies - Allowance for Loan Losses” of "Notes to Consolidated Financial Statements and Supplementary Data" to this Form 10-K, for further analysis of the provision for loan losses.

Non-Interest Income. The following table reflects the various components of non-interest income for the years ended September 30, 2018 and 2017, respectively.

	Years Ended September 30,		Change from Prior Year
	2018	2017	2018 over 2017
Noninterest Income:			
Service charges on deposit accounts	$1,792	$1,433	25.05%
Interchange income	1,284	789	62.74%
Loan servicing income	1,379	380	262.89%
Gain on sale of mortgage loans	943	686	37.46%
Loan fees and service charges	521	438	18.95%
Insurance commission income	720	122	490.16%
Settlement proceeds	—	283	N/M
Gains (losses) on available for sale securities	(17)	111	(115.32)%
Other	748	509	46.95%
Total non-interest income	$7,370	$4,751	55.13%

N/M means not meaningful

Increases in service charges on deposit accounts, interchange income, loan fees and service charges and insurance commission income are all primarily attributable to the full-year impact of business lines enhanced or acquired as a result of the WFC acquisition. The increases in loan servicing income and gain on sale of mortgage loans are due to the Company's growth in mortgage banking activities, including the sale and servicing of residential mortgage loans.

Non-Interest Expense. The following table reflects the various components of non-interest expense for the years ended September 30, 2018 and 2017, respectively.

	Years ended September 30,		% Change From Prior Year
	2018	2017	2018 over 2017
Noninterest Expense:			
Compensation and related benefits	$14,979	$10,862	37.90%
Occupancy	2,975	2,780	7.01%
Office	1,715	1,204	42.44%
Data processing	2,928	2,052	42.69%
Amortization of intangible assets	644	219	194.06%
Amortization of mortgage servicing rights	335	39	N/M
Advertising, marketing and public relations	745	545	36.70%
FDIC premium assessment	472	300	57.33%
Professional services	2,323	2,078	11.79%
Losses on repossessed assets, net	535	32	N/M
Other	2,113	2,767	(23.64)%
Total noninterest expense	$29,764	$22,878	30.10%
Noninterest expense (annualized) / Average assets	3.12 %	3.13 %	

N/M means not meaningful

Compensation and benefits increased due to the full year impact of staffing increases associated with the WFC acquisition and other staffing increases to support business growth, including the hiring of four new commercial lenders in the second quarter of fiscal 2018.

Occupancy costs, consisting primarily of office rental and depreciation expenses, increased largely due to the full-year impact of the WFC branches, partially offset by lower lease costs of $431.

Data processing expenses increased in 2018 due to increased costs associated with a larger customer base.

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The amortization of core deposit expenses increased in 2018 due to the full year impact of the core deposit intangible and customer acquisition cost related to the WFC acquisition.
Advertising, marketing and public relations expenses increased $200 during the twelve months ended September 30, 2018, primarily due to rebranding efforts of the Bank, and increased advertising of the Bank’s deposit products.
Professional services expense increased in the current year, primarily due to increased use of outside professionals in connection with acquisition related activities. Also included in 2018 professional services expense are; legal costs of $198 resulting from resolved litigation, approximately $121 on Sarbanes-Oxley 404 compliance and $55 from engaging a compensation consultant to assist with executive and director compensation programs.
The increase in losses on repossessed assets is primarily due to write downs on two closed branch offices in the third quarter of fiscal 2018 totaling $449. At September 30, 2018, there are no properties in foreclosed and repossessed assets in excess of $500.
Other expenses decreased $519 in the current twelve-month period. In fiscal 2017, other expenses included approximately $1,060 more in merger, contract termination, and branch closure costs than in 2018. Increases in fiscal 2018 are due, primarily to (1) loan collection and processing expenses of approximately $340, (2) employee recruitment costs of approximately $130 and (2) insurance costs of approximately $90.
Income Taxes. Income tax provision was $2,326 for the year ended September 30, 2018, compared to $1,323 for the year ended September 30, 2017. Our effective tax rate increased from 34.6% at September 30, 2017 to 35.2% at September 30, 2018. The higher effective tax rate for the year ended September 30, 2018 was the result of revaluation of net deferred tax assets in the first and fourth quarters of fiscal 2018, and the tax impact of non-deductible acquisition costs. The Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017, reduces the corporate Federal income tax rate for the Company from 34% to 24.5% in the current year, and to 21% thereafter. Applying the new accounting guidance for the Tax Act, resulted in additional income tax provision of $338 for the year ended September 30, 2018.
See Note 1, “Nature of Business and Summary of Significant Accounting Policies” and Note 14, “Income Taxes” in the accompanying Notes to Consolidated Financial Statements for a further discussion of income tax accounting, and the impact of the Tax Cuts and Jobs Act of 2017. Income tax expense recorded in the accompanying Consolidated Statements of Operations involves interpretation and application of certain accounting pronouncements and federal and state tax codes and is, therefore, considered a critical accounting policy. We undergo examination by various taxing authorities. Such taxing authorities may require that changes in the amount of tax expense or the amount of the valuation allowance be recognized when their interpretations differ from those of management, based on their judgments about information available to them at the time of their examinations.

BALANCE SHEET ANALYSIS

Total assets were $975,409 at September 30, 2018, compared to $940,664 at September 30, 2017. The increase is attributable primarily to organic loan growth, and an increase in investment securities purchases, funded by operations. Cash and cash equivalents decreased from $41,677 to $34,494, due to management increasing the yield on the Company's liquidity portfolio by moving to higher yielding investments.
Gross loans increased $26,080, or 3.5%, from $736,613 at September 30, 2017 to $762,693 at September 30, 2018. At September 30, 2018, total gross Community Banking portfolio loans, consisting of commercial, agricultural and consumer loans was $488,396 or 64.3% of total gross loans, compared to $391,763 or 53.5% of total gross loans at September 30, 2017. Legacy portfolio loans, consisting of indirect paper and one-to-four family loans totaled $274,297 or 36.1% of total gross loans at September 30, 2018, compared to $344,850 or 47.0% at September 30, 2017. Gross commercial and agricultural real estate secured loans totaled $353,020, or 46.5% of total gross loans at September 30, 2018, compared to $273,900, or 37.4%, respectively at September 30, 2017, representing a 28.9% increase over the prior year’s balance. The Community Banking portfolio increased $96,633, or 24.7% while the Legacy loan portfolio planned runoff was $70,553, or a 20.5% reduction in Legacy portfolio loan balances during the current year.
Loans. Total loans outstanding, net of deferred loan fees and costs, increased to $759,247 at September 30, 2018, a 3.6% increase from their balance of $732,995 at September 30, 2017.

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The following table reflects the composition, or mix, of our loan portfolio at September 30, for the last three completed fiscal years:

	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
Community Banking Loan Portfolios:						
Commercial/Agricultural real estate:						
Commercial real estate	$216,703	28.6 %	$159,962	21.8 %	$88,940	15.5 %
Agricultural real estate	70,517	9.3 %	68,002	9.3 %	28,198	4.9 %
Multi-family real estate	48,061	6.3 %	26,228	3.6 %	19,135	3.3 %
Construction and land development	17,739	2.3 %	19,708	2.7 %	16,580	2.9 %
Commercial/Agricultural non-real estate:						
Commercial non-real estate	76,254	10.0 %	55,251	7.5 %	31,001	5.4 %
Agricultural non-real estate	26,549	3.5 %	23,873	3.3 %	14,647	2.6 %
Residential real estate:						
Purchased HELOC loans	13,729	1.8 %	18,071	2.5 %	—	— %
Consumer non-real estate:						
Other consumer	18,844	2.5 %	20,668	2.8 %	19,715	3.4 %
Total Community Banking Loan Portfolios	488,396	64.3 %	391,763	53.5 %	218,216	38.0 %
Legacy Loan Portfolios:						
Residential real estate:						
One to four family	196,052	25.8 %	229,563	31.3 %	187,738	32.7 %
Consumer non-real estate:						
Originated indirect paper	60,991	8.0 %	85,732	11.7 %	119,073	20.7 %
Purchased indirect paper	17,254	2.3 %	29,555	4.0 %	49,221	8.6 %
Total Legacy Loan Portfolios	274,297	36.1 %	344,850	47.0 %	356,032	62.0 %
Gross loans	762,693		736,613		574,248	
Unearned net deferred fees and costs and loans in process	557	0.1 %	1,471	0.2 %	1,915	0.3 %
Unamortized discount on acquired loans	(4,003)	(0.5)%	(5,089)	(0.7)%	(1,724)	(0.3)%
Total loans (net of unearned income and deferred expense)	759,247	100.0 %	732,995	100.0 %	574,439	100.0 %
Allowance for loan losses	(6,748)		(5,942)		(6,068)	
Total loans receivable, net	$752,499		$727,053		$568,371	

In September 2017, the Bank purchased, on a non-recourse basis, a 90% participation in $23,977 of loans secured by second liens on certain residential real estate properties. The seller retained servicing of the purchased loans, and is paid a 40bp servicing fee, based on the outstanding balance of the purchased loans. The balance of the Bank's share of the purchased loans decreased to $13,729 at September 30, 2018.

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

	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
Fixed rate loans:						
Real estate loans:						
Residential real estate	$165,328	21.8 %	$208,949	28.5 %	$173,051	30.2 %
Commercial/Agricultural real estate	169,692	22.4 %	160,249	21.9 %	92,030	16.0 %
Total fixed rate real estate loans	335,020	44.2 %	369,198	50.4 %	265,081	46.2 %
Non-real estate loans:						
Consumer non-real estate	96,843	12.8 %	135,955	18.5 %	188,009	32.7 %
Commercial/Agricultural non-real estate	73,406	9.7 %	53,165	7.3 %	25,839	4.5 %
Total fixed rate non-real estate loans	170,249	22.4 %	189,120	25.8 %	213,848	37.2 %
Total fixed rate loans	505,269	66.5 %	558,318	76.2 %	478,929	83.4 %
Adjustable rate loans:						
Real estate:						
Residential real estate	44,453	5.9 %	38,685	5.3 %	14,687	2.6 %
Commercial/Agricultural real estate	183,328	24.1 %	113,651	15.5 %	60,823	10.6 %
Total adjustable rate real estate loans	227,781	30.0 %	152,336	20.8 %	75,510	13.2 %
Non-real estate loans:						
Consumer non-real estate	246	0.0 %	—	0.0 %	—	0.0 %
Commercial/Agricultural non-real estate	29,397	3.9 %	25,959	3.5 %	19,809	3.4 %
Total adjustable rate non-real estate loans	29,643	3.9 %	25,959	3.5 %	19,809	3.4 %
Total adjustable rate loans	257,424	33.9 %	178,295	24.3 %	95,319	16.6 %
Gross loans	762,693		736,613		574,248	
Unearned net deferred fees and costs and loans in process	557	0.1 %	1,471	0.2 %	1,915	0.3 %
Unamortized discount on acquired loans	(4,003)	(0.5)%	(5,089)	(0.7)%	(1,724)	(0.3)%
Total loans (net of unearned income)	759,247	100.0 %	732,995	100.0 %	574,439	100.0 %
Allowance for loan losses	(6,748)		(5,942)		(6,068)	
Total loans receivable, net	$752,499		$727,053		$568,371	

The Bank offers loans with fixed and adjustable interest rates. The Bank's Legacy portfolio consists largely of fixed-rate loans, and this portfolio is being runoff. In addition, the Company has continued to grow the adjustable rate loan portfolio. As such, Fixed rate loans declined to 66.5% of gross loans in 2018, compared to 76.2% at September 30, 2018.

Our loan portfolio is diversified by types of borrowers and industry groups within the market areas that we serve. Significant loan concentrations are considered to exist for a financial entity when the amounts of loans to multiple borrowers engaged in similar activities cause them to be similarly impacted by economic or other conditions. At September 30, 2018, we identified two concentrations of loans; commercial real estate loans comprise 28.6% of our total loan portfolio, and one to four family residential real estate loans comprise 25.8% of our total loan portfolio.

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

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

	Real estate				Non-real estate					
	Residential real estate		Commercial/Agricultural real estate		Consumer non-real estate		Commercial/Agricultural non-real estate		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due in one year or less	$14,520	5.19 %	$ 35,777	4.64 %	$2,525	7.84 %	$ 50,237	5.33 %	$103,059	5.13 %
Due after one year through five years	67,806	5.10 %	105,814	4.56 %	39,644	5.15 %	35,848	5.07 %	249,112	4.87 %
Due after five years	127,455	4.86 %	211,429	4.68 %	54,920	5.35 %	16,718	4.64 %	410,522	4.82 %
	$209,781	4.96 %	$ 353,020	4.64 %	$97,089	5.33 %	$ 102,803	5.13 %	$762,693	4.88 %

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

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

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

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

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

	Residential Real Estate	Commercial/Agriculture Real Estate	Consumer Non-real Estate	Commercial/Agricultural Non-real Estate	Unallocated	Total
Year Ended September 30, 2018:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2017	$ 1,458	$ 2,523	$ 936	$ 897	$ 128	$ 5,942
Charge-offs	(96)	(1)	(309)	(52)	—	(458)
Recoveries	45	—	117	12	—	174
Provision	—	755	85	230	—	1,070
Allowance allocation adjustment	(372)	(1)	(165)	(47)	154	(431)
Total Allowance on originated loans	$ 1,035	$ 3,276	$ 664	$ 1,040	$ 282	$ 6,297
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans	—	—	—	—	—	—
Beginning balance, October 1, 2017	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	(106)	(73)	(70)	—	—	(249)
Recoveries	34	—	5	—	—	39
Provision	70	120	25	15	—	230
Allowance allocation adjustment	171	121	125	14	—	431
Total allowance on other acquired loans	$ 169	$ 168	$ 85	$ 29	$ —	$ 451
Total allowance on acquired loans	$ 169	$ 168	$ 85	$ 29	$ —	$ 451
Ending balance, September 30, 2018	$ 1,204	$ 3,444	$ 749	$ 1,069	$ 282	$ 6,748

	Residential Real Estate	Commercial/Agriculture Real Estate	Consumer Non-real Estate	Commercial/Agricultural Non-real Estate	Unallocated	Total
Year Ended September 30, 2017:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2016	$ 2,039	$ 1,883	$ 1,466	$ 652	$ 28	$ 6,068
Charge-offs	(233)		(389)	(9)	—	(631)
Recoveries	14	—	171	1	—	186
Provision	81	130	59	41	8	319
Allowance allocation adjustment	(443)	510	(371)	212	92	—
Total Allowance on originated loans	$ 1,458	$ 2,523	$ 936	$ 897	$ 128	$ 5,942
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans	—	—	—	—	—	—
Total Allowance on acquired loans	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance, September 30, 2017	$ 1,458	$ 2,523	$ 936	$ 897	$ 128	$ 5,942

The specific credit allocation for the ALL is based on a regular analysis of all originated loans that are considered impaired. In compliance with ASC 310-10, the fair value of the loan is determined based on either the present value of expected cash flows discounted at the loan's effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less the expected cost of sale for such collateral. At September 30, 2018, the Company has identified impaired loans of $22,379, consisting of $8,418 TDR loans, $9,007 contractual balance of purchased credit impaired loans and $4,954 of substandard non-TDR loans. The $22,379 total of impaired loans includes $5,704 of performing TDR loans.

At September 30, 2018, the allowance for loan losses was $6,748, or 0.89% of our total loan portfolio, compared to an allowance for loan losses of $5,942, or 0.81% of the total loan portfolio at September 30, 2017. This level was based on our analysis of the loan portfolio risk at each of September 30, 2018 and September 30, 2017, as discussed above. The modest increase in ALL as a percentage of total loans was primarily due to the impact of the remix of loans from residential one to four family real estate loans to commercial and agricultural loans. The Bank has $197,470 in acquired loans which were recorded at fair market value and has an allowance for loan loss associated with these loans in the amount of $451. At September 30, 2018, the ALL was 0.91% of our total loan portfolio, excluding the third party purchased consumer loans referenced elsewhere

herein, compared to 0.84% of the total loan portfolio excluding these third party purchased consumer loans at September 30, 2017. A separate restricted reserve account exists for these third party purchased consumer loans. The funds in the reserve account are to be released to compensate the Bank for any nonperforming purchased loans that are not purchased back by the seller of such loans or substituted with performing loans and are ultimately charged off by the Bank.

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

All of the nine factors identified in the FFIEC's Interagency Policy Statement on the Allowance for Loan and Lease Losses are taken into account in determining the ALL. The impact of the factors in general categories are subject to change; thus the allocations are management’s estimate of the loan loss categories in which the probable and inherent loss has occurred as of the date of our assessment. Of the nine factors, we believe the following have the greatest impact on our customers’ ability to repay loans and our ability to recover potential losses through collateral sales: (1) lending policies and procedures; (2) economic and business conditions; and (3) the value of the underlying collateral. As loan balances and estimated losses in a particular loan type decrease or increase and as the factors and resulting allocations are monitored by management, changes in the risk profile of the various parts of the loan portfolio may be reflected in the allocated allowance. The general component of our ALL covers non-impaired loans and is based on historical loss experience adjusted for these and other qualitative factors. In addition, management continues to refine the ALL estimation process as new information becomes available. These refinements could also cause increases or decreases in the ALL. The unallocated portion of the ALL is intended to account for imprecision in the estimation process or relevant current information that may not have been considered in the process.

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

	September 30, 2018	2017	2016	2015	2014
Nonperforming assets:					
Nonaccrual loans	$7,210	$7,452	$3,191	$748	$1,184
Accruing loans past due 90 days or more	1,117	589	380	473	401
Total nonperforming loans (“NPLs”)	8,327	8,041	3,571	1,221	1,585
Other real estate owned	2,749	5,962	725	838	1,025
Other collateral owned	19	55	52	64	25
Total nonperforming assets (“NPAs”)	$11,095	$14,058	$4,348	$2,123	$2,635
Troubled Debt Restructurings (“TDRs”)	$8,418	$5,851	$3,733	$4,010	$5,581
Nonaccrual TDRs	$2,687	$621	$515	$332	$249
Average outstanding loan balance	$735,602	$653,717	$512,475	$460,438	$455,615
Loans, end of period	759,247	732,995	574,439	450,510	470,366
Total assets, end of period	975,409	940,664	695,865	580,148	569,815
ALL, at beginning of period	5,942	6,068	6,496	6,506	6,180
Loans charged off:					
Residential real estate	(202)	(233)	(140)	(405)	(1,238)
Commercial/Agricultural real estate	(74)	—	—	—	—
Consumer non-real estate	(379)	(389)	(460)	(601)	(689)
Commercial/Agricultural non-real estate	(52)	(9)	(118)	—	—
Total loans charged off	(707)	(631)	(718)	(1,006)	(1,927)
Recoveries of loans previously charged off:					
Residential real estate	80	14	11	69	94
Commercial/Agricultural real estate	—	—	—	—	—
Consumer non-real estate	121	171	204	271	249
Commercial/Agricultural non-real estate	12	1	—	—	—
Total recoveries of loans previously charged off:	213	186	215	340	343
Net loans charged off (“NCOs”)	(494)	(445)	(503)	(666)	(1,584)
Additions to ALL via provision for loan losses charged to operations	1,300	319	75	656	1,910
ALL, at end of period	$6,748	$5,942	$6,068	$6,496	$6,506
Ratios:					
ALL to NCOs (annualized)	1,365.99 %	1,335.28 %	1,206.36 %	975.38 %	410.73 %
NCOs (annualized) to average loans	0.07 %	0.07 %	0.10 %	0.14 %	0.35 %
ALL to total loans	0.89 %	0.81 %	1.06 %	1.44 %	1.38 %
NPLs to total loans	1.10 %	1.10 %	0.62 %	0.27 %	0.34 %
NPAs to total assets	1.14 %	1.49 %	0.62 %	0.37 %	0.46 %
Total Assets:	$975,409	$940,664	$695,865	$580,148	$569,815

(1) Total loans at September 30, 2018 included $17,254 in purchased indirect paper consumer loans purchased from a third party. See Note 4, "Loans, Allowance for Loan Losses and Impaired Loans" of "Notes to Consolidated Financial Statements", which is included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K, regarding the separate restricted reserve account available for these purchased consumer loans.

Loans 90 days or more past due increased during the year ended September 30, 2018 compared to the comparable prior year period, largely related to increases in residential loans delinquent more than 90 days. Nonaccrual loans decreased slightly from $7,452 at September 30, 2017 to $7,210 at September 30, 2018 , primarily due to repayments, paid off loans and transfers

to OREO, modestly offsetting new nonaccrual loans. While agricultural loans make up approximately 12% of the Bank's loan portfolio, nonaccrual loans secured by agricultural collateral account for $3,490 of the Bank's nonaccrual loans. We believe our credit and underwriting policies continue to support more effective lending decisions by the Bank, which increases the likelihood of maintaining loan quality going forward.

For fiscal 2018, net loan charge-offs increased from $445 to $494, largely due to a modest increase in commercial real estate and non real estate commercial loans.

Certain external factors may result in higher future losses but are not readily determinable at this time, including, but not limited to: unemployment rates, increased taxes and continuing increased regulatory expectations with respect to ALL levels, including CECL, a new accounting standared for computation of the allowance for loan losses, which will become effective for the bank in 2020. As a result, our analysis may show a need to increase our ALL as a percentage of total loans and nonperforming loans for the near future. Loans charged-off are subject to periodic review and specific efforts are taken to achieve maximum recovery of principal, accrued interest and related expenses on the loans charged off.

Nonperforming Loans, Potential Problem Loans and Foreclosed Properties. We employ early identification of non-accrual and problem loans in order to minimize the risk of loss. Non-performing loans are defined as either 90 days or more past due or non-accrual. The accrual of interest income is discontinued according to the following schedules:

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

When interest accruals are discontinued, interest credited to income is reversed. If collection is in doubt, cash receipts on non-accrual loans are used to reduce principal rather than recorded as interest income. Restructuring a loan typically involves the granting of some concession to the borrower involving a loan modification, such as modifying the payment schedule or making interest rate changes. Restructured loans may involve loans that have had a charge-off taken against the loan to reduce the carrying amount of the loan to fair market value as determined pursuant to ASC 310-10. Restructured loans that comply with the restructured terms are considered performing loans.

At September 30, 2018, non-performing loans increased by $286 to $8,327 from $8,041 at September 30, 2017. Non-performing nonaccrual loan balances at September 30, 2018, totaled $7,210. Non-performing loans 90 days or more past due and still accruing increased by $528 to $1,117 at September 30, 2018, from $589 at September 30, 2017, primarily due to residential loan increases. Refer to the “Risk Management and the Allowance for Loan Losses” section below for more information related to non-performing loans.

Non-performing assets include non-performing loans, other real estate owned and other collateral owned. Our non-performing assets were $11,095 at September 30, 2018, or 1.14% of total assets. This represented a decrease from $14,058, or 1.49% of total assets, at September 30, 2017. The decrease since September 30, 2017 was primarily due to reductions in OREO due to sales. In fiscal 2018, the Bank sold one closed branch and the largest balance OREO property, which were carried at $1,501 at September 30, 2017. In addition, during fiscal 2018, the Bank sold one other closed branch that was added to OREO during fiscal 2018. The Bank recorded writedowns on these two closed branch properties of $449 during fiscal 2018.

Other real estate owned and other collateral owned is comprised of foreclosed collateral assets held by the Bank until sold. OREO decreased by $3,213 during the year ended September 30, 2018 from its September 30, 2017 balance. At September 30, 2018, OREO includes (1) $1,811of contract for deed loans acquired from WFC, with the deed held by the Bank, (2) properties acquired from prior acquisitions totaling $885 and (3) one $53 property originated by the Bank. We continue to aggressively liquidate our OREO and other collateral owned as part of our overall credit risk strategy.

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

Securities available for sale (recorded at fair value), which represent the majority of our investment portfolio, were $118,482 at September 30, 2018, compared with $95,883 at September 30, 2017. Securities held to maturity (recorded at amortized cost) were $4,619 at September 30, 2018, compared with $5,453 at September 30, 2017.

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

Available for sale securities	Amortized Cost	Fair Value
September 30, 2018		
U.S. government agency obligations	$ 35,880	$ 34,603
Obligations of states and political subdivisions	35,348	34,554
Mortgage backed securities	42,796	41,371
Agency securities	104	182
Corporate debt securities	6,593	6,276
Corporate asset based securities	1,494	1,496
Totals	$ 122,215	$ 118,482
September 30, 2017		
U.S. government agency obligations	$ 18,454	$ 18,041
Obligations of states and political subdivisions	35,656	35,795
Mortgage backed securities	36,661	36,474
Agency securities	147	230
Corporate debt securities	5,410	5,343
Totals	$ 96,328	$ 95,883

Held to maturity securities	Amortized Cost	Fair Value
September 30, 2018		
Obligations of states and political subdivisions	$ 1,307	$ 1,302
Mortgage-backed securities	3,312	3,307
Total held to maturity securities	$ 4,619	$ 4,609
September 30, 2017		
Obligations of states and political subdivisions	$ 1,311	$ 1,328
Mortgage-backed securities	4,142	4,277
Total held to maturity securities	$ 5,453	$ 5,605

The amortized cost and fair values of our investment securities by maturity, as of September 30, 2018 were as follows:

Available for sale securities	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,657	$ 1,651
Due after one year through five years	20,045	19,739
Due after five years through ten years	39,069	37,578
Due after ten years	18,544	17,960
Total securities with contractual maturities	79,315	76,928
Mortgage backed securities	42,796	41,372
Securities without contractual maturities	104	182
Total available for sale securities	$ 122,215	$ 118,482

Held to maturity securities	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 1,307	$ 1,302
Mortgage backed securities	3,312	3,307
Total held to maturity securities	$ 4,619	$ 4,609

The following tables show the fair value and gross unrealized losses of securities with unrealized losses at September 30, 2018 and 2017, respectively, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position:

Available for sale securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2018						
U.S. government agency obligations	$22,283	$ 311	$11,771	$ 969	$34,054	$ 1,280
Obligations of states and political subdivisions	25,019	393	8,647	403	33,666	796
Mortgage-backed securities	18,323	418	20,968	1,033	39,291	1,451
Agency securities	1,247	3	5,029	314	6,276	317
Total available for sale securities	$66,872	$ 1,125	$46,415	$ 2,719	$113,287	$ 3,844
September 30, 2017						
U.S. government agency obligations	$8,296	$ 186	$6,932	$ 262	$15,228	$ 448
Obligations of states and political subdivisions	8,170	62	3,701	70	11,871	132
Mortgage-backed securities	14,167	96	9,753	215	23,920	311
Corporate debt securities	5,343	67	—	—	5,343	67
Total available for sale securities	$35,976	$ 411	$20,386	$ 547	$56,362	$ 958

Held to maturity securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2018						
Obligations of states and political subdivisions	$1,302	$ 5	$—	$ —	$1,302	$ 5
Mortgage-backed securities	2,383	28	286	13	2,669	41
Total held to maturity securities	$3,685	$ 33	$286	$ 13	$3,971	$ 46
September 30, 2017						
Obligations of states and political subdivisions	$—	$ —	$—	$ —	$—	$ —
Mortgage-backed securities	406	1	—	—	406	1
Total held to maturity securities	$406	$ 1	$—	$ —	$406	$ 1

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

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

Available for sale securities	September 30, 2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency	$78,676	$75,974	$55,115	$54,515
AAA	3,635	3,603	725	730
AA	25,280	24,720	26,405	26,474
A	13,017	12,615	7,776	7,876
BBB	—	—	3,618	3,579
Below investment grade	—	—	—	—
Non-rated	1,607	1,570	2,689	2,709
Total available for sale securities	$122,215	$118,482	$96,328	$95,883

Held to maturity securities	September 30, 2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. government agency	$3,312	$3,307	$4,142	$4,277
AAA	—	—	—	—
AA	—	—	—	—
A	957	954	961	969
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	350	348	350	359
Total	$4,619	$4,609	$5,453	$5,605

As of September 30, 2018, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $5,416 and mortgage-backed securities with a carrying value of $21,672 as collateral against specific municipal deposits. At September 30, 2018, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $2,065 as collateral against a borrowing line of credit with the Federal Reserve Bank. However, as of September 30, 2018, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of September 30, 2018, the Bank also has mortgage backed securities with a carrying value of $988 pledged as collateral to the Federal Home Loan Bank of Des Moines.

Intangible Assets. We have other intangibles of $4,805, comprised of core deposit intangible assets arising from various acquisitions from 2002 through 2017 and the premium on the Wells Insurance Agency customer relationships. The balance of intangible assets were $4,805 and $5,449 at September 30, 2018 and 2017, respectively. Amortization expense, related to these intangible assets, was $644 and $219 for the years ended September 30, 2018 and 2017, respectively. Accumulated amortization on intangible assets was $3,390 and $2,746 at September 30, 2018 and 2017, respectively.

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. The fair market value of the Company’s MSR asset increased from $1,951at September 30, 2017 to $2,669 at September 30, 2018, primarily due to increased volume of originations, sales and retained servicing on residential mortgage loans.

Deposits. Deposits are our largest source of funds. Average total deposits for 2018 were $665,782, an increase of 30.3% from the level of average total deposits for 2017. Total deposits increased slightly to $746,529 at September 30, 2018, from $742,504 at September 30, 2017, due in part to new customer relationships associated with the increase in commercial lending. partially offset by deposit runoff in the markets where branch closures took place. As such, Noninterest-bearing deposits increased to $87,495 at September 30, 2018, compared to $75,318 at September 30, 2017. Deposits from closed branches, in markets that the Bank no longer competes in, decreased by $17,263 during fiscal 2018 and total $35,195 as of September 30, 2018. We anticipate CD and money market deposits from our closed branches to decrease, although the dollar runoff is expected to decrease as the amount of deposits decrease. Non-maturity deposits increased to $433,414, or 58.1% of total deposits compared to $451,735 at September 30, 2017, or 60.8% of total deposits.

Brokered deposits were $50,369 and $42,840 at September 30, 2018 and September 30, 2017. We utilized brokered deposits to replace deposit runoff from closed branches, based on lower funding costs than other deposit growth opportunities. Brokered deposits represented 6.7% of total deposits. Brokered deposit levels are within all regulatory directives thereon.

Federal Home Loan Bank (FHLB) advances and other borrowings. Outstanding FHLB advances were $63,000 and $90,000 at September 30, 2018 and September 30, 2017, respectively, as we continue to utilize these advances, as necessary, to supplement core deposits to meet our funding and liquidity needs, and as we evaluate all options to lower the Bank's cost of funds. 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. The Bank’s current unused borrowing capacity, supported by loan collateral as of September 30, 2018, is approximately $226,223.

In March 2017, the Bank prepaid $9,830 in FHLB borrowings with an average rate of 2.10% and average remaining maturity of 13.17 months. The prepayment fee totaled $104 and is included in other non-interest expense for fiscal 2017, on the Consolidated Statement of Operations. Long-term fixed rate advances from the FHLB had contractual interest rates ranging from 0.99% to 1.29%, with a weighted-average contractual interest rate of 1.23% at September 30, 2017. All advances from the FHLB mature in October 2018. Each Federal Home Loan Bank advance is payable at the maturity date, with a prepayment penalty for fixed rate advances.

On August 1, 2018, the Company entered into a Business Credit Agreement evidencing a $7,500 revolving loan and Business Note in an initial principal amount of $10,000. The Revolving Loan matures on August 1, 2019 and the Note matures on August 1, 2030. The Revolving Loan and the Note each bear interest at a variable rate based on the U.S. Prime Rate as published in the Wall Street Journal, and are payable in accordance with the terms of the Loan Agreement and the Note, respectively. The proceeds from the Business Note were used to refinance existing senior notes, pay transaction fees and expenses and for general corporate purposes. The contractual interest rate for this Business Note ranged from 4.25% to 4.50% during the year ended September 30, 2018. The proceeds from the Revolving Loan will be used for general corporate purposes. At September 30, 2018, there were no borrowings outstanding on this revolving loan.

On May 16, 2016, the Company entered into a Loan Agreement evidencing an $11,000 term loan maturing on May 15, 2021. The proceeds from the Loan were used by the Company for the sole purpose of financing the acquisition, by merger, of Community Bank of Northern Wisconsin. On May 30, 2017, the Company terminated the undrawn $3,000 of a revolving line of credit and 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, maturing on August 15, 2022 with a ten year amortization. The variable rate senior notes provided for a floating interest rate that reset quarterly at rates 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 year ended September 30, 2018, and from 3.44% to 4.01% during the year ended September 30, 2017. On August 1, 2018, the Company repaid these outstanding senior note obligations and terminated the existing Loan Agreements and all security and other loan documents entered into in connection therewith.

On August 10, 2017, the Company entered into subordinated note agreements totaling $15,000, maturing on August 10, 2027. The proceeds of the loans 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 will 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.

Stockholders’ Equity. Total stockholders’ equity was $135,847 at September 30, 2018, versus $73,483 at September 30, 2017. The increase resulted primarily from the September 2018 conversion to common stock of the Company's Series A mandatorily convertible preferred stock issued in June and net income of $4,283 for the year ended September 30, 2018. As discussed in Note 1, “Nature of Business and Summary of Significant Accounting Policies”, in June 2018,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 at $130.00 per share, for aggregate gross proceeds of $65 million. On September 28, 2018, each share of Series A Preferred Stock was mandatorily converted into 10 shares of common stock following receipt of stockholder approval of the issuance of the 5,000,000 shares of common stock. The resulting impact on stockholders’ equity was an increase of 5,000,0000 common shares outstanding at September 30, 2018. In the next quarter, shares used to compute basic and fully diluted shares will include the full quarter impact of these outstanding common shares.
The Company's capital ratios will decline in the next quarter reflecting the impact of the closing of the United Bank acquisition. For more information regarding the United Bank acquisition, see Note 19, "Subsequent Events". All capital ratios are expected to exceed regulatory guidelines for a well-capitalized financial institution.
Liquidity and Asset / Liability Management. Liquidity management refers to our ability to ensure cash is available in a timely manner to meet loan demand and depositors’ needs, and meet other financial obligations as they become due without undue cost, risk or disruption to normal operating activities. We manage and monitor our short-term and long-term liquidity positions and needs through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. A key metric we monitor is our liquidity ratio, calculated as cash and investments with maturities less than one-year divided by deposits with maturities less than or equal to one-year. At September 30, 2018, our liquidity ratio was 10.58 percent.
Our primary sources of funds are: deposits; amortization, prepayments and maturities of outstanding loans; other short-term investments; and funds provided from operations. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, and to fund loan commitments. While scheduled payments from the amortization of loans and maturing short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Although $179,078 of our $313,115 (57.2%) CD portfolio will mature within the next 12 months, we have historically retained a majority of our maturing CD’s. However, due to strategic pricing decisions regarding rate matching and branch closures, our retention rate may decrease in the future. Through new deposit product offerings to our branch and commercial customers, we are currently attempting to strengthen customer relationships to attract additional non-rate sensitive deposits. In our present interest rate environment, and based on maturing yields, this should also improve our cost of funds.
We maintain access to additional sources of funds including FHLB borrowings and lines of credit with the Federal Reserve Bank, and our correspondent banks. We utilize FHLB borrowings to leverage our capital base, to provide funds for our lending and investment activities, and to manage our interest rate risk. Our borrowing arrangement with the FHLB calls for pledging certain qualified real estate, commercial and industrial loans, and borrowing up to 75% of the value of those loans, not to exceed 35% of the Bank’s total assets. Currently, we have approximately $226,223 available to borrow under this arrangement, supported by loan collateral as of September 30, 2018. We also maintain lines of credit of $1,620 with the Federal Reserve Bank and $18,500 of uncommitted federal funds purchased lines with correspondent banks as part of our contingency funding plan. In addition, the Company maintains a $7,500 revolving line of credit, which is available as needed for general liquidity purposes. See Note 9, "Federal Home Loan Bank and Other Borrowings" of "Notes to Consolidated Financial Statements" which are included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K, for further detail.
In reviewing our adequacy of liquidity, we review and evaluate historical financial information, including information regarding general economic conditions, current ratios, management goals and the resources available to meet our anticipated liquidity needs. Management believes that our liquidity is adequate and, to management’s knowledge, there are no known events or uncertainties that will result or are likely to reasonably result in a material increase or decrease in our liquidity.
Off-Balance Sheet Arrangements. In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments, issued to meet customer financial needs. Such financial instruments are recorded in the financial statements when they become payable. These instruments include unused commitments for lines of credit, overdraft protection lines of credit and home equity lines of credit, as well as commitments to extend credit. As of September 30, 2018, the Company had approximately $123,090 in unused commitments, compared to approximately

$79,794 in unused commitments as of September 30, 2017. See Note 11, "Financial Instruments with Off-Balance Sheet Risk" of "Notes to Consolidated Financial Statements" which are included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K, for further detail.

Capital Resources. As of September 30, 2018, our Tier 1 and Risk-based capital levels exceeded levels necessary to be considered “Well Capitalized” under Prompt Corrective Action provisions for both the Bank and at the Company level. Below are the amounts and ratios for our capital levels as of the dates noted below for the Bank.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2018						
Total capital (to risk weighted assets)	$95,799,000	13.1 %	$58,614,000	>= 8.0 %	$73,268,000	>= 10.0 %
Tier 1 capital (to risk weighted assets)	89,051,000	12.2 %	43,961,000	>= 6.0 %	58,614,000	>= 8.0 %
Common equity tier 1 capital (to risk weighted assets)	89,051,000	12.2 %	32,971,000	>= 4.5 %	47,624,000	>= 6.5 %
Tier 1 leverage ratio (to adjusted total assets)	89,051,000	9.2 %	38,765,000	>= 4.0 %	48,456,000	>= 5.0 %
As of September 30, 2017						
Total capital (to risk weighted assets)	$88,511,000	13.2 %	$53,504,000	>= 8.0 %	$66,880,000	>= 10.0 %
Tier 1 capital (to risk weighted assets)	82,569,000	12.4 %	40,128,000	>= 6.0 %	53,504,000	>= 8.0 %
Common equity tier 1 capital (to risk weighted assets)	82,569,000	12.4 %	30,096,000	>= 4.5 %	43,472,000	>= 6.5 %
Tier 1 leverage ratio (to adjusted total assets)	82,569,000	9.2 %	35,776,000	>= 4.0 %	44,720,000	>= 5.0 %

At September 30, 2018, the Bank was categorized as "Well Capitalized" under Prompt Corrective Action Provisions, as determined by the OCC, our primary regulator.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2018						
Total capital (to risk weighted assets)	$145,052,000	19.8 %	$58,614,000	>= 8.0 %	$73,268,000	>= 10.0 %
Tier 1 capital (to risk weighted assets)	123,304,000	16.8 %	43,961,000	>= 6.0 %	58,614,000	>= 8.0 %
Common equity tier 1 capital (to risk weighted assets)	123,304,000	16.8 %	32,971,000	>= 4.5 %	47,624,000	>= 6.5 %
Tier 1 leverage ratio (to adjusted total assets)	123,304,000	12.7 %	38,765,000	>= 4.0 %	48,456,000	>= 5.0 %
As of September 30, 2017						
Total capital (to risk weighted assets)	$79,889,000	12.0 %	$53,504,000	>= 8.0 %	$66,880,000	>= 10.0 %
Tier 1 capital (to risk weighted assets)	58,947,000	8.8 %	40,128,000	>= 6.0 %	53,504,000	>= 8.0 %
Common equity tier 1 capital (to risk weighted assets)	58,947,000	8.8 %	30,096,000	>= 4.5 %	43,472,000	>= 6.5 %
Tier 1 leverage ratio (to adjusted total assets)	58,947,000	6.6 %	35,776,000	>= 4.0 %	44,720,000	>= 5.0 %

At September 30, 2018, the Company was categorized as "Well Capitalized" under Prompt Corrective Action Provisions.

Selected Quarterly Financial Data
The following is selected financial data summarizing the results of operations for each quarter in the years ended September 30, 2018 and 2017.

Year ended September 30, 2018:

	December 31,	March 31,	June 30,	September 30,
Interest income	$ 9,412	$ 9,352	$ 9,770	$ 10,362
Interest expense	1,885	1,996	2,290	2,422
Net interest income	7,527	7,356	7,480	7,940
Provision for loan losses	100	100	650	450
Net interest income after provision for loan losses	7,427	7,256	6,830	7,490
Non-interest income	1,939	1,675	1,767	1,989
Non-interest expense	7,143	7,103	7,874	7,644
Income before income tax expense	2,223	1,828	723	1,835
Provision (benefit) for income tax	883	487	220	736
Net income	$ 1,340	$ 1,341	$ 503	$ 1,099
Basic earnings per share	$ 0.23	$ 0.23	$ 0.09	$ 0.18
Diluted earnings per share	$ 0.23	$ 0.23	$ 0.08	$ 0.10
Dividends paid	—	$ 0.20	—	—

Year ended September 30, 2017:

	December 31,	March 31,	June 30,	September 30,
Interest income	$ 6,948	$ 6,539	$ 6,621	$ 7,770
Interest expense	1,391	1,315	1,306	1,598
Net interest income	5,557	5,224	5,315	6,172
Provision for loan losses	—	—	—	319
Net interest income after provision for loan losses	5,557	5,224	5,315	5,853
Non-interest income	1,243	1,126	991	1,391
Non-interest expense	5,393	4,957	4,619	7,909
Income before income tax expense	1,407	1,393	1,687	(665)
Provision for income tax	467	459	604	(207)
Net income	$ 940	$ 934	$ 1,083	$ (458)
Basic earnings per share	$ 0.18	$ 0.18	$ 0.21	$ (0.08)
Diluted earnings per share	$ 0.18	$ 0.17	$ 0.20	$ (0.08)
Dividends paid	—	$ 0.16	—	—

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

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

The following table sets forth, at September 30, 2018 and September 30, 2017, an analysis of our interest rate risk as measured by the estimated changes in Economic Value of Equity (EVE) resulting from an immediate and permanent shift in the yield curve (up 300 basis points and down 200 basis points). As of September 30, 2018 and September 30, 2017, due to the current level of interest rates, EVE estimates for decreases in interest rates greater than 200 and 100 basis points, respectively, are not meaningful.

	Percent Change in Economic Value of Equity (EVE)	
Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	At September 30, 2018	At September 30, 2017
+300 bp	(9)%	(18)%
+200 bp	(6)%	(10)%
+100 bp	(3)%	(3)%
-100 bp	1%	(5)%
-200 bp	(1)%	N/M

N/M means not meaningful

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

Our overall interest rate sensitivity is demonstrated by net interest income shock analysis which measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of change in our net interest income over the next 12 months in the event of an immediate and parallel shift in the yield curve (up 300 basis points and down 200 basis points). The table below presents our projected change in net interest income for the various rate shock levels at September 30, 2018 and September 30, 2017.

	Percent Change in Net Interest Income Over One Year Horizon	
Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	At September 30, 2018	At September 30, 2017
+300 bp	(8)%	(10)%
+200 bp	(5)%	(6)%
+100 bp	(3)%	(2)%
-100 bp	2%	(1)%
-200 bp	0.4%	N/M

N/M means not meaningful

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

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

The assumptions used to measure and assess interest rate risk include interest rates, loan prepayment rates, deposit decay (runoff) rates, and the market values of certain assets under differing interest rate scenarios. At September 30, 2018, the Company is utilizing a different third party's model to evaluate these scenarios. Actual values may differ from those projections set forth above should market conditions vary from the assumptions used in preparing the analysis. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

Our management is responsible for establishing and maintaining an effective system of internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. The Company's system of internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that pertain to identifying accrued expenses and the maintenance of records in accordance with GAAP. There are inherent limitations in the effectiveness of any system of internal controls over financial reporting, including the possibility of human error and circumvention or overriding controls. Accordingly, even an effective system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of the Audit Committee and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based upon that evaluation, management believes that as of September 30, 2018, the Company maintained effective internal control over financial reporting based on those criteria.

Baker Tilly Virchow Krause, LLP, the independent registered public accounting firm who also has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, which is included on pages 50 - 51 of Item 8.

CITIZENS COMMUNITY BANCORP, INC.
December 10, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Citizens Community Bancorp, Inc. and Subsidiary (the "Company") as of September 30, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of September 30, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that

transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Baker Tilly Virchow Krause, LLP

We have served as the Company's auditor since 2010.

Minneapolis, Minnesota
December 10, 2018

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
September 30, 2018 and September 30, 2017
(in thousands, except share data)

	September 30, 2018	September 30, 2017
Assets		
Cash and cash equivalents	$ 34,494	$ 41,677
Other interest-bearing deposits	7,180	8,148
Securities available for sale "AFS"	118,482	95,883
Securities held to maturity "HTM"	4,619	5,453
Non-marketable equity securities, at cost	7,218	7,292
Loans receivable	759,247	732,995
Allowance for loan losses	(6,748)	(5,942)
Loans receivable, net	752,499	727,053
Loans held for sale	1,917	2,334
Mortgage servicing rights	1,840	1,886
Office properties and equipment, net	10,034	9,645
Accrued interest receivable	3,600	3,291
Intangible assets	4,805	5,449
Goodwill	10,444	10,444
Foreclosed and repossessed assets, net	2,768	6,017
Bank owned life insurance ("BOLI")	11,661	11,343
Other assets	3,848	4,749
TOTAL ASSETS	$ 975,409	$ 940,664
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 746,529	$ 742,504
Federal Home Loan Bank advances	63,000	90,000
Other borrowings	24,619	30,319
Other liabilities	5,414	4,358
Total liabilities	839,562	867,181
Stockholders' equity:		
Common stock— $0.01 par value, authorized 30,000,000; 10,913,853 and 5,888,816 shares issued and outstanding, respectively	109	59
Additional paid-in capital	125,063	63,383
Retained earnings	14,003	10,764
Unearned deferred compensation	(622)	(456)
Accumulated other comprehensive loss	(2,706)	(267)
Total stockholders' equity	135,847	73,483
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 975,409	$ 940,664

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations
(in thousands, except per share data)

	Years ended September 30,	
	2018	2017
Interest and dividend income:		
Interest and fees on loans	$35,539	$25,826
Interest on investments	3,357	2,052
Total interest and dividend income	38,896	27,878
Interest expense:		
Interest on deposits	5,543	4,299
Interest on FHLB borrowed funds	1,310	717
Interest on other borrowed funds	1,740	594
Total interest expense	8,593	5,610
Net interest income before provision for loan losses	30,303	22,268
Provision for loan losses	1,300	319
Net interest income after provision for loan losses	29,003	21,949
Non-interest income:		
Service charges on deposit accounts	1,792	1,433
Interchange income	1,284	789
Loan servicing income	1,379	380
Gain on sale of mortgage loans	943	686
Loan fees and service charges	521	438
Insurance commission income	720	122
Settlement proceeds	—	283
(Losses) gains on available for sale securities	(17)	111
Other	748	509
Total non-interest income	7,370	4,751
Non-interest expense:		
Compensation and related benefits benefits	14,979	10,862
Occupancy	2,975	2,780
Office	1,715	1,204
Data processing	2,928	2,052
Amortization of intangible assets	644	219
Amortization of mortgage servicing rights	335	39
Advertising, marketing and public relations	745	545
FDIC premium assessment	472	300
Professional services	2,323	2,078
Losses on repossessed assets, net	535	32
Other	2,113	2,767
Total non-interest expense	29,764	22,878
Income before provision for income tax	6,609	3,822
Provision for income taxes	2,326	1,323
Net income attributable to common stockholders	$4,283	$2,499
Per share information:		
Basic earnings	$0.72	$0.47
Diluted earnings	$0.58	$0.46
Cash dividends paid	$0.20	$0.16

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Comprehensive Income
Years ended September 30, 2018 and 2017
(in thousands, except per share data)

	2018	2017
Net income attributable to common stockholders	$4,283	$2,499
Other comprehensive (loss) income, net of tax:		
Securities available for sale		
Net unrealized losses arising during period	(2,290)	(948)
Reclassification adjustment for (losses) gains included in net income	(12)	67
Other comprehensive loss	(2,302)	(881)
Comprehensive income	$1,981	$1,618

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Changes in Stockholders’ Equity
Years Ended September 30, 2018 and 2017
(in thousands, except Shares)

	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, September 30, 2016	5,260,098	$ 53	$ —	$ 54,963	$ 9,107	$ (193)	$ 614	$ 64,544
Net income	—	—	—	—	2,499	—	—	2,499
Other comprehensive income, net of tax	—	—	—	—	—	—	(881)	(881)
Surrender of restricted shares of common stock	(1,741)	—	—	(22)	—	—	—	(22)
Common stock awarded under the equity incentive plan	25,569	—	—	346	—	(346)	—	—
Common stock options exercised	14,100	—	—	114	—	—	—	114
Common stock repurchased	(1,428)	—	—	(16)	—	—	—	(16)
Shares issued to WFC shareholders	592,218	6	—	7,967	—	—	—	7,973
Stock option expense	—	—	—	31	—	—	—	31
Amortization of restricted stock	—	—	—	—	—	83	—	83
Cash dividends ($0.16 per share)	—	—	—	—	(842)	—	—	(842)
Balance, September 30, 2017	5,888,816	$ 59	$ —	$ 63,383	$ 10,764	$ (456)	$ (267)	$ 73,483
Net income	—	—	—	—	4,283	—	—	4,283
Preferred stock issued (net of $3,735 of issuance costs)	—	—	61,265	—	—	—	—	61,265
Preferred stock converted to common stock	5,000,000	50	(61,265)	61,215	—	—	—	—
Reclassification of certain deferred tax effects (1)	—	—	—	—	137	—	(137)	—
Other comprehensive loss, net of tax	—	—	—	—	—	—	(2,302)	(2,302)
Forfeiture of unvested shares	(11,847)	—	—	(124)	—	124	—	—
Surrender of restricted shares of common stock	(2,335)	—	—	(33)	—	—	—	(33)
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	—	—	—	12	—	—	—	12
	—	—	—	—	—	271	—	271

Amortization of restricted stock								
Cash dividends ($0.20 per share)	—	—	—		(1,181)	—	—	(1,181)
Balance, September 30, 2018	10,913,853	$ 109	$ —	$ 125,063	$ 14,003	$ (622)	$ (2,706)	$ 135,847

(1) Amounts reclassified to retained earnings due to early adoption of ASU 2018-02. For further information, refer to Note 1, "Nature of Business and Summary of Significant Accounting Policies".

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017
(in thousands, except per share data)

	2018	2017
Cash flows from operating activities:		
Net income attributable to common stockholders	$4,283	$2,499
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premium/discount on securities	1,052	795
Provision for depreciation	1,054	864
Provision for loan losses	1,300	319
Net realized loss (gain) on sale of securities	17	(111)
Increase in MSR assets resulting from transfers of financial assets	(289)	(200)
Amortization of MSR assets	335	36
Amortization of intangible assets	644	219
Amortization of restricted stock	271	83
Net stock based compensation expense	12	31
(Gain) loss on sale of office properties and equipment	(3)	181
(Benefit) provision for deferred income taxes	(194)	1,950
Increase in cash surrender value of life insurance	(318)	(318)
Net loss from disposals of foreclosed and repossessed assets	535	32
Gain on sale of loans held for sale, net	(943)	(196)
Net change in loans held for sale	1,360	(1,486)
Decrease in accrued interest receivable and other assets	683	117
Increase (decrease) in other liabilities	1,056	(2,902)
Total adjustments	6,572	(586)
Net cash provided by operating activities	10,855	1,913
Cash flows from investing activities:		
Purchase of investment securities	(36,933)	(34,868)
Purchase of bank owned life insurance	—	(3,500)
Net decrease in interest-bearing deposits	968	968
Proceeds from sale of securities available for sale	26	38,051
Principal payments on investment securities	10,785	9,597
Proceeds from sale of non-marketable equity securities	11,245	323
Purchase of non-marketable equity securities	(11,171)	(707)
Proceeds from sale of foreclosed and repossessed assets	5,347	1,111
Net (increase) decrease in loans	(26,849)	22,374
Net capital expenditures	(2,955)	(609)
Net cash disbursed in business combinations	—	(18,968)
Proceeds from disposal of office properties and equipment	74	21
Net cash (used in) provided by investing activities	(49,463)	13,793
Cash flows from financing activities:		
Net (decrease) increase in Federal Home Loan Bank advances	(27,000)	30,709
Proceeds from other borrowings, net of debt issuance costs	9,911	—
Proceeds from other borrowings to fund business combination, net of origination costs	—	19,625
Principal payment reduction to other borrowings	(15,611)	(306)
Net increase (decrease) in deposits	4,025	(33,078)
Proceeds from private placement stock offering, net of issuance costs	61,265	—
Capitalized equity issuance costs	—	(259)

Repurchase shares of common stock	(1)	(16)
Surrender of restricted shares of common stock	(33)	(22)

Exercise of common stock options	50	114
Cash dividends paid	(1,181)	(842)
Net cash provided by financing activities	31,425	15,925
Net (decrease) increase in cash and cash equivalents	(7,183)	31,631
Cash and cash equivalents at beginning of period	41,677	10,046
Cash and cash equivalents at end of period	$34,494	$41,677
Supplemental cash flow information:		
Cash paid during the period for:		
Interest on deposits	$5,530	$4,199
Interest on borrowings	$2,943	$1,099
Income taxes	$1,160	$1,618
Supplemental noncash disclosure:		
Transfers from loans receivable to foreclosed and repossessed assets	$1,189	$791
Fair value of assets acquired, net of cash and cash equivalents	$—	$256,865
Fair value of liabilities assumed, net of cash and cash equivalents	$—	$221,812

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share data)
NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The consolidated financial statements of Citizens Community Federal N.A. (the “Bank”) included herein have been included by its parent company, Citizens Community Bancorp, Inc. (the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). As used in this annual report, the terms “we”, “us”, “our”, and “Citizens Community Bancorp, Inc.” mean the Company and its wholly owned subsidiary, the Bank, unless the context indicates other meaning.
The Bank is a national banking association (a "National Bank") and operates under the title of Citizens Community Federal National Association ("Citizens Community Federal N.A."). The Company is a bank holding company, supervised by the Federal Reserve Bank of Minneapolis (the "FRB"), and operates under the title of Citizens Community Bancorp, Inc. The U.S. Office of the Comptroller of the Currency (the "OCC"), is the primary federal regulator for the Bank.
The consolidated income of the Company is principally derived from the income of the Bank, the Company’s wholly owned subsidiary, serving customers in Wisconsin, Minnesota and Michigan through 21 branch locations. Its primary markets include the Chippewa Valley Region in Wisconsin, Mankato and the Twin Cities in 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, as well as expanded services through Wells Insurance Agency, Inc..
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”). On October 19, 2018, the Company completed its previously announced acquisition (the “Acquisition”) of United Bank. See Note 19, Subsequent Events for additional information.
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.
On September 28, 2018, each share of Series A Preferred Stock was mandatorily converted into 10 shares of common stock following receipt of stockholder approval, resulting in the issuance of the 5,000,000 shares of common stock.
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.. For further disclosure and discussion, see Note 2, "Acquisitions".
The Bank is subject to competition from other financial institutions and non-financial institutions providing financial products. Additionally, the Bank is subject to the regulations of certain regulatory agencies and undergoes periodic examination by those regulatory agencies.
In preparing these consolidated financial statements, we evaluated the events and transactions occurring subsequent to the balance sheet date of September 30, 2018 through the date on which the consolidated financial statements were available to be issued for items that should potentially be recognized or disclosed in these consolidated financial statements. For further disclosure and discussion, see Note 19, "Subsequent Events".
Unless otherwise stated, all monetary amounts in these Notes to Consolidated Financial Statements, other than share, per share and capital ratio amounts, are stated in thousands.

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Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Citizens Community Federal N.A. All significant inter-company accounts and transactions have been eliminated.
Use of Estimates—Preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, fair value of financial instruments, the allowance for loan losses, mortgage servicing rights, foreclosed and repossessed assets, valuation of acquired intangible assets, useful lives for depreciation and amortization, indefinite-lived intangible assets. valuation of goodwill and long-lived assets, stock based compensation, deferred tax assets, uncertain income tax positions and contingencies. Management does not anticipate any material changes to estimates made herein in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: those items described under the caption "Risk Factors" in Item 1A of the accompanying annual report on Form 10-K for the year ended September 30, 2018 and external market factors such as market interest rates and employment rates, changes to operating policies and procedures, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period.
Cash and Cash Equivalents—For purposes of reporting cash flows in the consolidated financial statements, cash and cash equivalents include cash, due from banks, and interest bearing deposits with original maturities of three months or less.
Investment Securities; Held to Maturity and Available for Sale – Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of the date of each balance sheet. Securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Investment securities not classified as held to maturity are classified as available for sale. Available for sale securities are stated at fair value, with unrealized holding gains and losses being reported in other comprehensive income (loss), net of tax. Unrealized losses deemed other-than-temporary due to credit issues are reported in the Company's net income in the period in which the losses arise. Interest income includes amortization of purchase premium or accretion of purchase discount. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.
The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. As part of such monitoring, the credit quality of individual securities and their issuer is assessed. Significant inputs used to measure the amount of other-than-temporary impairment related to credit loss include, but are not limited to; the Company's intent and ability to sell the debt security prior to recovery, that it is more likely than not that the Company will not sell the security prior to recovery, default and delinquency rates of the underlying collateral, remaining credit support, and historical loss severities. Adjustments to market value of available for sale securities that are considered temporary are recorded in other comprehensive income or loss as separate components of stockholders' equity, net of tax. If the unrealized loss of a security is identified as other-than-temporary based on information available, such as the decline in the creditworthiness of the issuer, external market ratings, or the anticipated or realized elimination of associated dividends, such impairments are further analyzed to determine if credit loss exists. If there is a credit loss, it will be recorded in the Company's consolidated statement of operations. Non-credit components of the unrealized losses on available for sale securities will continue to be recognized in other comprehensive income (loss), net of tax.
Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, and net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance of these loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments. Late charge fees are recognized into income when collected.

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

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

Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for a loan placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. Loans are returned to accrual status when payments are made that bring the loan account current with the contractual term of the loan and a six month payment history has been established. Interest on impaired loans considered troubled debt restructurings (“TDRs”) or substandard, less than 90 days delinquent, is recognized as income as it accrues based on the revised terms of the loan over an established period of continued payment. Substandard loans, as defined by the OCC, our primary banking regulator, are loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.
Residential real estate loans and open ended consumer non-real estate loans are charged off to estimated net realizable value less estimated selling costs at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 180 days or more. Closed ended consumer non-real estate loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 120 days or more. Commercial/agricultural real estate and non-real estate loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 90 days or more.
Allowance for Loan Losses – The allowance for loan losses (“ALL”) is a valuation allowance for probable and inherent credit losses in our loan portfolio. Loan losses are charged against the ALL when management believes that the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the ALL. Management estimates the required ALL balance taking into account the following factors: past loan loss experience; the nature, volume and composition of our loan portfolio; known and inherent risks in our portfolio; information about specific borrowers’ ability to repay; estimated collateral values; current economic conditions; and other relevant factors determined by management. The ALL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for certain qualitative factors. The entire ALL balance is available for any loan that, in management’s judgment, should be charged off.
A loan is impaired when full payment under the loan terms is not expected. Impaired loans consist of all TDRs, as well as individual loans not considered a TDR, that are either (1) rated substandard or worse, (2) on nonaccrual status or (3) PCI loans. All TDRs are individually evaluated for impairment. See Note 4, “Loans, Allowance for Loan Losses and Impaired Loans” for more information on what we consider to be a TDR. For TDR's or substandard loans deemed to be impaired, a specific ALL allocation may be established so that the loan is reported, net, at the lower of (a) its outstanding principal balance; (b) the present value of the loan's estimated future cash flows using the loan’s existing rate; or (c) at the fair value of any loan collateral, less estimated disposal costs, if repayment is expected solely from the underlying collateral of the loan. For TDRs less than 90+ days past due, and certain substandard loans that are less than 90+ days delinquent, the likelihood of the loan migrating to over 90 days past due is also taken into account when determining the specific ALL allocation for these particular loans. Large groups of smaller balance homogeneous loans, such as non-TDR commercial, consumer and residential real estate loans, are collectively evaluated for ALL purposes, and accordingly, are not separately identified for ALL disclosures.

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 Held for Sale — Loans held for sale are those loans the Company has the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or fair value. Gains and losses on sales of loans are recognized at settlement dates, and are determined by the difference between the sales proceeds and the carrying value of the loans after allocating costs to servicing rights retained. All sales are made without recourse. Interest rate lock commitments on mortgage loans to be funded and sold are valued at fair value, and are included in other assets or liabilities, if material.

Mortgage Servicing Rights— Mortgage servicing rights ("MSR") assets result as the Company sells loans to investors in the secondary market and 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.

Non-marketable Equity Securities — Non-marketable equity securities are comprised of Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank (FRB) stock, and are carried at cost.

The Bank is a member of the FHLB system. Members are required to own a certain amount of FHLB stock based on the Bank's level of borrowings from the FHLB and other factors, and may invest in additional amounts of FHLB stock. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) the impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Cash dividends are reported as income.

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

The following table presents the membership and activity stock quarterly cash dividend annualized rates paid during fiscal 2018:

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Quarterly Dividend Payment Date	Annualized Dividend Rate	
	Membership Stock	Activity Stock
November 2017	1.25%	3.30%
February 2018	1.50%	3.50%
May 2018	1.60%	4.00%
August 2018	1.70%	4.25%

Based on management's quarterly evaluation, no impairment has been recorded on these securities.
As a National Banking Association, the Bank must be a member of the Federal Reserve system. Each member bank is required to subscribe to Federal Reserve Stock in an amount equal to 6 percent of its capital and surplus. Although the par value of the stock is $100 per share, banks (including the Bank) pay only $50 per share at the time of purchase, with the understanding that the other half of the subscription amount is subject to call at any time. Dividends are paid at the statutory rate of 6 percent per annum, or $1.50 per share semi-annually on the last business day of June and December.
Foreclosed and Repossessed Assets, net – Assets acquired through foreclosure or repossession are initially recorded at fair value, less estimated costs to sell, which establishes a new cost basis. If the fair value declines subsequent to foreclosure or repossession, a valuation allowance is recorded through expense. Costs incurred after acquisition are expensed and are included in non-interest expense, other in the Consolidated Statements of Operations.
Transfers of financial assets—Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the entity, (2) the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets, and (3) the entity does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

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, 2018 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, 2018.
Office Properties and Equipment—Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Maintenance and repair costs are charged to expense as incurred. Gains or losses on disposition of office properties and equipment are reflected in income. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 10 years. Leasehold improvements are depreciated using the straight-line (or accelerated) method with useful lives based on the lesser of (a) the estimated life of the lease, or (b) the estimated useful life of the leasehold improvement.

Interest Bearing Deposits—Other interest bearing deposits are certificate of deposit investments made by the Bank with other financial institutions that are carried at cost. The weighted average months to maturity of the interest bearing deposits is 23.30 months. Balances over $250 in those institutions are not insured by the FDIC and therefore pose a potential risk in the event the institution were to fail. As of September 30, 2018 and September 30, 2017, there was one certificate of deposit with a balance of $251.

Debt and equity issuance costs—Debt issuance costs, which consist primarily of fees paid to note lenders, are deferred and included in other borrowings in the consolidated balance sheet. Debt issuance costs are amortized over the contractual term of the corresponding debt, as a component of interest expense on other borrowed funds in the consolidated statement of operations. Specific costs associated with the issuance of shares of the Company's common or preferred stock are netted against

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proceeds and recorded in stockholders' equity, as additional paid in capital, on the consolidated balance sheet, in the period of the share issuance.

Advertising, Marketing and Public Relations Expense—The Company expenses all advertising, marketing and public relations costs as they are incurred. Total costs for the years ended September 30, 2018 and 2017 were $745 and $545, respectively.

Income Taxes – The Company accounts for income taxes in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes.” Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. See Note 14, "Income Taxes" for details on the Company’s income taxes.

The Tax Cuts and Jobs Act of 2017 ("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 fourth quarter of fiscal 2018, based on updated information obtained in connection with the filing of our tax return and analysis of our net deferred tax asset both from the return and 2018 tax provisions, we finalized the tax analysis and recorded an additional $63 of expense, or a net increase in our tax provision for the year of $338 related to the Tax Act.

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

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

Earnings Per Share – Basic earnings per common share is net income or loss divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable during the period, consisting of stock options outstanding under the Company’s stock incentive plans that have an exercise price that is less than the Company's stock price on the reporting date.

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

Off-Balance-Sheet Financial Instruments—In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commitments under lines of credit arrangements, issued to meet customer financial needs. Such financial instruments are recorded in the financial statements when they become payable. See Note 11, "Commitments and Contingencies" in Notes to Consolidated Financial Statements.

Derivatives--Rate-lock Commitments and Forward Sale Agreements —The Company enters into commitments to originate loans, whereby the interest rate on the loan is determined prior to funding (rate-lock commitment). Rate-lock commitments on mortgage loans held for sale are derivative instruments. Derivative instruments are carried on the consolidated balance sheets at fair value, and changes in the fair value thereof are recognized in the consolidated statements of income. The Company originates single-family residential loans for sale, pursuant to programs primarily with the Federal Home Loan Mortgage Corporation (FHLMC) and other similar third parties. In connection with these programs, at the time the Company initially issues a loan commitment, it does not lock in a specific interest rate. At the time the interest rate is locked in by the borrower, the Company concurrently enters into a forward loan sale agreement with the prospective loan purchaser, at a specific price, in order to manage the interest rate risk inherent to the rate-lock commitment. The forward sale agreement also meets the definition of a derivative instrument. Any change in the fair value of the loan commitment after the borrower locks in the interest rate is substantially offset by the corresponding change in the fair value of the forward loan sale agreement related to such loan. The period from the time the borrower locks in the interest rate, to the time the Company funds the loan and sells the loan to a third party, is generally, approximately 60 days. The fair value of each instrument will rise and fall in response to changes in market interest rates, subsequent to the dates the interest rate locks and forward sale agreements are entered into. In the event that interest rates rise after the Company enters into an interest rate lock, the fair value of the loan commitment will decline. However, the fair value of the forward loan sale agreement related to such loan commitment should increase by substantially the same amount, effectively eliminating the Company's interest rate and price risks. At September 30, 2018, the Company had $5,166 of loan commitments outstanding related to loans being originated for sale, all of which were subject to interest rate lock commitments and corresponding forward loan sale agreements, as described above. The net fair values of outstanding interest rate-lock commitments and forward sale agreements were considered immaterial to the Company's consolidated financial statements as of September 30, 2018.

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

Operating Segments—While our executive officers monitor the revenue streams of the various banking products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company’s banking operations are considered by management to be aggregated in one reportable operating segment.

Bank Owned Life Insurance (BOLI)—The Bank invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a select group of employees. The Bank is the owner and beneficiary of the policies. Income from the increase in cash surrender value of the policies as well as the receipt of death benefits is included in non-interest income on the consolidated statement of income.

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

Recent Accounting Pronouncements—The Financial Accounting Standards Board (FASB) issues Accounting Standards Updates (ASUs) to the FASB Accounting Standards Codification (ASC). This section provides a summary description of recent ASUs that have significant implications (elected or required) within the consolidated financial statements, or that management expects may have a significant impact on financial statements issued in the near future. The effective dates below reflect the Company’s recently disclosed intent to change its fiscal year end, beginning December 31, 2018. See Note 19. Subsequent Events for a discussion thereon.

Recent Accounting Pronouncements—Adopted

ASU 2018-02; Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income—Issued in February 2018, the ASU permits, but does not require, entities to reclassify tax effects stranded in accumulated other

comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 to retained earnings. Companies that elect to reclassify these amounts must reclassify stranded tax effects for all items accounted for in accumulated other comprehensive income. The Company elected early adoption and adopted this standard update, effective January 1, 2018. The Company’s stranded tax effects were related to valuation of the net deferred tax asset attributable to items of accumulated other comprehensive income (loss), which are unrealized gains (losses) on available-for-sale securities. Adoption resulted in a reclassification between two categories of stockholders’ equity at March 31, 2018, with an increase of $137 in retained earnings and a decrease in accumulated other comprehensive loss for the same amount (no net change in stockholders’ equity).

Recently Issued, But Not Yet Effective Accounting Pronouncements

ASU 2014-09; Revenue from Contracts with Customers (Topic 606)—Under the ASU, as modified by subsequent ASUs, revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration the entity expects to receive in exchange for those services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company applied the five-step method outlined in the ASU to all revenue streams scoped-in by the ASU and elected the modified retrospective implementation method. Substantially all of the Company's interest income and certain noninterest income were not impacted by the adoption of this ASU because the revenue from those contracts with customers is covered by other guidance in U.S. GAAP. The Company's largest sources of noninterest revenue which are subject to the guidance include fees and service charges on loan and deposit accounts and interchange revenue from debit card transactions. ASU 2014-08, as amended, will become effective for the Company's annual and interim periods beginning in the first quarter 2019. Adoption of ASU 2014-09 is not expected to have a material impact on the Company's consolidated financial statements as the change in the timing and pattern of the Company's revenue recognition related to scoped-in noninterest income recognized under the newly issued ASU is expected to be consistent with the current applicable accounting guidance. The Company expects that upon adoption of this ASU any additional disclosures related to non-interest income will be added to the consolidated financial statements.

ASU 2016-01; Recognition and Measurement of Financial Assets and Liabilities—The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 will be effective for the Company in the first quarter of 2019. Adoption of ASU 2016-01 is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2016-02; Leases (Topic 842)—The ASU changes current GAAP by requiring that lease assets and liabilities arising from operating leases be recognized on the balance sheet. In July 2018, the FASB issued ASU 2018-10 and ASU 2018-11, Codification Improvements to Topic 842, Leases, amending various aspects of Topic 842. Topic 842 would not significantly change the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee from current U.S. GAAP. For leases with a term of 12 months or less, a lessee would be permitted to make an accounting policy election, by class of underlying asset, not to recognize lease assets and liabilities. Topic 842 will become effective for the Company for annual and interim periods beginning in the first quarter 2019. Adoption of Topic 842 is not expected to have a material impact on the Company's consolidated financial statements. However, the resulting increase in both total assets and total liabilities will impact the Bank and Company's regulatory capital and related ratios. The Company leases certain branch locations and its corporate offices under operating leases that will result in the recognition of lease assets and lease liabilities on the consolidated balance sheet under Topic 842. Ten of the Company's locations are leased.

ASU 2016-13; Financial Instruments-Credit Losses (Topic 326)—The ASU changes accounting for credit losses on loans receivable and debt securities from an incurred loss methodology to an expected credit loss methodology. Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Accordingly, ASU 2016-13 requires the use of forward-looking information to form credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, though the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 will be effective for the Company beginning in the first quarter 2020. Earlier adoption is permitted; however, the Company does not currently plan to adopt the ASU early. Management is assessing alternative loss estimation methodologies and the Company's data and system needs in order to evaluate the impact that adoption of this standard will have on the Company's financial condition and results of operations. The Company will record the effect of implementing this ASU through a cumulative-effect adjustment through retained earnings as of the beginning of the reporting period in which the ASU is effective.

ASU 2017-04; Intangibles - Goodwill and Other (Topic 350)—The ASU simplifies the accounting for goodwill impairment. This guidance, among other things, removes step two of the goodwill impairment test thus eliminating the need to determine the fair value of individual assets and liabilities of the reporting unit. Upon adoption of this ASU, goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This may result in either greater or less impairment being recognized than under current guidance. This Update will become effective for the Company's annual goodwill impairment tests beginning in the first quarter 2020. The Company does not expect adoption of this ASU to have a material impact on its consolidated financial statements.

ASU 2018-13, Fair Value Measurement (Topic 820)—The ASU modifies disclosure requirements on fair value measurements. This ASU removes requirements to disclose, (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and (2) the policy for timing of transfers between levels and the valuation processes for

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Level 3 fair value measurements. ASU 2018-13 clarifies that, disclosure regarding measurement uncertainty, is intended to communicate information about the uncertainty in measurement, as of the reporting date. ASU 2018-13 adds certain disclosure requirements, including (1) disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this ASU are effective for the Company beginning in the first quarter 2020. The amendments on (1) changes in unrealized gains and losses, (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and (3) the narrative description of measurement uncertainty, should be applied prospectively. All other amendments should be applied retrospectively for all periods presented. The Company does not expect adoption of this ASU to have a material impact on its consolidated financial position or results of operations.
ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)—The ASU was issued to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement), by providing guidance for determining when the arrangement includes a software license. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract, with similar costs to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments. This guidance will become effective for the Company beginning in the first quarter 2020, with early adoption permitted. The Company does not expect adoption of this ASU to have a material impact on its consolidated financial statements.

NOTE 2 – ACQUISITION

Wells Financial Corporation (WFC)

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.

Under the terms of the merger agreement, each issued and outstanding share of WFC common stock, $0.10 par value, was converted into the right to receive (i) $41.31 in cash, (ii) 0.7598982 shares of the Company's common stock, and (iii) cash in lieu of fractional shares. The aggregate merger consideration paid to WFC shareholders consisted of approximately $32,210 in cash and 592,218 shares of the Company's common stock. To partially fund the cash portion of the merger consideration, the Company incurred $5,000 of senior term debt, and $15,000 of subordinated debt, as discussed in Note 9; Federal Home Loan Bank and Other Borrowings. The merger added $256,473 in assets, $187,079 in loans, $217,905 in deposits, $5,781 in goodwill and $4,178 in core deposit intangible. None of the goodwill is deductible for tax purposes, as the acquisition is accounted for as a tax-free exchange for tax purposes.

In connection with the WFC acquisition, we incurred expenses related to (1) accounting, legal and other professional services, (2) systems conversions, and (3) other costs of integrating and conforming acquired operations with and into the Company. These merger-related expenses, that were expensed as incurred, amounted to $1,860 for the year ended September 30, 2017, and were included in non-interest expense on the consolidated statement of operations. Debt origination costs of $380 were deferred and netted against the other borrowings on the consolidated balance sheet, and are being amortized to interest expense on other borrowed funds over the life of the notes, as discussed in Note 9. We also incurred issuance costs related to issuance of common shares of $259 which were netted against the offering proceeds and charged to additional paid in capital.

The acquisition of the net assets of WFC constitutes a business combination as defined by FASB ASC Topic 805, "Business Combinations." Accordingly, the assets acquired and liabilities assumed are presented at their fair values at

acquisition date. Fair values were determined based on the requirements of FASB ASC Topic 820, Fair Value Measurements. In many cases, the determination of these fair values required management to make estimates regarding discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change for a period up to 12 months after the acquisition date.

The following pro forma financial information for the periods presented reflects our estimated consolidated pro forma results of operations as if the WFC acquisition occurred on October 1, 2016, not considering potential cost savings and other business synergies we expect to receive as a result of the acquisition:

	Citizens Community Bancorp, Inc.	Wells Financial Corporation	Pro Forma Adjustments	Pro Forma Combined
Year ended September 30, 2017				
Revenue (net interest income and non-interest income)	$ 27,019	$ 11,758	$ (680)	$ 38,097
Net income attributable to common stockholders	$ 2,499	$ 508	$ 2,454	$ 5,461
Earnings per share--basic	$ 0.47	—	—	$ 0.92
Earnings per share-diluted	$ 0.46	—	—	$ 0.91

The pro forma adjustments reflect (1) additional depreciation and amortization expense related to, and associated tax effects of, the purchase accounting adjustments made to record various items at fair value, (2) additional interest expense on acquisition related debt and (3) elimination of acquisition related costs incurred.

The following table summarizes the amounts recorded on the consolidated balance sheet as of the acquisition date in conjunction with the acquisition discussed above:

	Wells Financial Corporation
Fair value of consideration paid	$ 40,442
Fair value of identifiable assets acquired:	
Cash and cash equivalents	4,742
Other interest bearing deposits	16,871
Securities	31,758
Loans	187,079
Property and equipment	5,011
Core deposit and other intangible assets	4,796
Other assets	6,216
Total identifiable assets acquired	$ 256,473
Fair value of liabilities assumed:	
Deposits	$ 217,905
Borrowings	3,320
Other liabilities	587
Total liabilities assumed	221,812
Fair value of net identifiable assets acquired	34,661
Goodwill recognized	$ 5,781

NOTE 3 – 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 September 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
September 30, 2018				
U.S. government agency obligations	$ 35,880	$ 3	$ 1,280	$ 34,603
Obligations of states and political subdivisions	35,348	2	796	34,554
Mortgage-backed securities	42,796	26	1,451	41,371
Agency securities	104	78	—	182
Corporate debt securities	6,593	—	317	6,276
Corporate asset based securities	1,494	2	—	1,496
Total available for sale securities	$ 122,215	$ 111	$ 3,844	$ 118,482
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
September 30, 2018				
Obligations of states and political subdivisions	$ 1,307	$ —	$ 5	$ 1,302
Mortgage-backed securities	3,312	36	41	3,307
Total held to maturity securities	$ 4,619	$ 36	$ 46	$ 4,609
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

At September 30, 2018, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $2,065 as collateral to secure a line of credit with the Federal Reserve Bank. However, as of September 30, 2018, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of September 30, 2018, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $5,416 and mortgage-backed securities with a carrying value of $21,672 as collateral against specific municipal deposits. As of September 30, 2018, the Bank also has mortgage backed securities with a carrying value of $988 pledged as collateral to the Federal Home Loan Bank of Des Moines.

The estimated fair value of available for sale securities at September 30, 2018, 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	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,657	$ 1,651
Due after one year through five years	20,045	19,739
Due after five years through ten years	39,069	37,578
Due after ten years	18,544	17,960
Total securities with contractual maturities	79,315	76,928
Mortgage backed securities	42,796	41,372
Securities without contractual maturities	104	182
Total available for sale securities	$ 122,215	$ 118,482

Held to maturity securities	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 1,307	$ 1,302
Mortgage backed securities	3,312	3,307
Total held to maturity securities	$ 4,619	$ 4,609

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

	Less than 12 Months		12 Months or More		Total	
Available for sale securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2018						
U.S. government agency obligations	$22,283	$ 311	$11,771	$ 969	$34,054	$ 1,280
Obligations of states and political subdivisions	25,019	393	8,647	403	33,666	796
Mortgage-backed securities	18,323	418	20,968	1,033	39,291	1,451
Agency securities	1,247	3	5,029	314	6,276	317
Total	$66,872	$ 1,125	$46,415	$ 2,719	$113,287	$ 3,844
2017						
U.S. government agency obligations	$8,296	$ 186	$6,932	$ 262	$15,228	$ 448
Obligations of states and political subdivisions	8,170	62	3,701	70	11,871	132
Mortgage-backed securities	14,167	96	9,753	215	23,920	311
Corporate debt securities	5,343	67	—	—	5,343	67
Total	$35,976	$ 411	$20,386	$ 547	$56,362	$ 958

Held to maturity securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2018						
Obligations of states and political subdivisions	$1,302	$ 5	$—	$ —	$1,302	$ 5
Mortgage-backed securities	2,383	28	286	13	2,669	41
Total	$3,685	$ 33	$286	$ 13	$3,971	$ 46
2017						
Obligations of states and political subdivisions	$—	$ —	$—	$ —	$—	$ —
Mortgage-backed securities	406	1	—	—	406	1
Total	$406	$ 1	$—	$ —	$406	$ 1

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

NOTE 4 – LOANS, ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

Loans by classes within portfolio segments as of September 30, 2018 and 2017, respectively, were as follows:

	September 30, 2018	September 30, 2017
Originated Loans:		
Residential real estate:		
One to four family	$ 122,797	$ 132,380
Purchased HELOC loans	13,729	18,071
Commercial/Agricultural real estate:		
Commercial real estate	168,319	97,155
Agricultural real estate	27,017	10,628
Multi-family real estate	44,767	24,486
Construction and land development	14,648	12,399
Consumer non-real estate:		
Originated indirect paper	60,991	85,732
Purchased indirect paper	17,254	29,555
Other Consumer	15,991	14,496
Commercial/Agricultural non-real estate:		
Commercial non-real estate	62,196	35,198
Agricultural non-real estate	17,514	12,493
Total originated loans	$ 565,223	$ 472,593
Acquired Loans:		
Residential real estate:		
One to four family	$ 73,255	$ 97,183
Commercial/Agricultural real estate:		
Commercial real estate	48,384	62,807
Agricultural real estate	43,500	57,374
Multi-family real estate	3,294	1,742
Construction and land development	3,091	7,309
Consumer non-real estate:		
Other Consumer	2,853	6,172
Commercial/Agricultural non-real estate:		
Commercial non-real estate	14,058	20,053
Agricultural non-real estate	9,035	11,380
Total acquired loans	$ 197,470	$ 264,020
Total Loans:		
Residential real estate:		
One to four family	$ 196,052	$ 229,563
Purchased HELOC loans	13,729	18,071
Commercial/Agricultural real estate:		
Commercial real estate	216,703	159,962
Agricultural real estate	70,517	68,002
Multi-family real estate	48,061	26,228
Construction and land development	17,739	19,708
Consumer non-real estate:		
Originated indirect paper	60,991	85,732
Purchased indirect paper	17,254	29,555
Other Consumer	18,844	20,668

Commercial/Agricultural non-real estate:		
Commercial non-real estate	76,254	55,251
Agricultural non-real estate	26,549	23,873
Gross loans	$ 762,693	$ 736,613
Less:		
Unearned net deferred fees and costs and loans in process	557	1,471
Unamortized discount on acquired loans	(4,003)	(5,089)
Allowance for loan losses	(6,748)	(5,942)
Loans receivable, net	$ 752,499	$ 727,053

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.

Below is a breakdown of loans by risk rating as of September 30, 2018:

	1 to 5	6	7	8	9	TOTAL
Originated Loans:						
Residential real estate:						
One to four family	$120,029	$—	$2,768	$—	$—	$122,797
Purchased HELOC loans	13,729	—	—	—	—	13,729
Commercial/Agricultural real estate:						
Commercial real estate	167,808	511	—	—	—	168,319
Agricultural real estate	26,334	170	513	—	—	27,017
Multi-family real estate	44,645	—	122	—	—	44,767
Construction and land development	14,648	—	—	—	—	14,648
Consumer non-real estate:						
Originated indirect paper	60,843	—	148	—	—	60,991
Purchased indirect paper	17,254	—	—	—	—	17,254
Other Consumer	15,877	—	114	—	—	15,991
Commercial/Agricultural non-real estate:						
Commercial non-real estate	62,188	8	—	—	—	62,196
Agricultural non-real estate	16,321	630	563	—	—	17,514
Total originated loans	$559,676	$1,319	$4,228	$—	$—	$565,223
Acquired Loans:						
Residential real estate:						
One to four family	$71,419	$—	$1,836	$—	$—	$73,255
Commercial/Agricultural real estate:						
Commercial real estate	45,394	469	2,521	—	—	48,384
Agricultural real estate	40,096	281	3,123	—	—	43,500
Multi-family real estate	3,118	—	176	—	—	3,294
Construction and land development	2,674	—	417	—	—	3,091
Consumer non-real estate:						
Other Consumer	2,830	—	23	—	—	2,853
Commercial/Agricultural non-real estate:						
Commercial non-real estate	12,707	61	1,290	—	—	14,058
Agricultural non-real estate	8,700	—	335	—	—	9,035
Total acquired loans	$186,938	$811	$9,721	$—	$—	$197,470
Total Loans:						
Residential real estate:						
One to four family	$191,448	$—	$4,604	$—	$—	$196,052
Purchased HELOC loans	13,729	—	—	—	—	13,729
Commercial/Agricultural real estate:						
Commercial real estate	213,202	980	2,521	—	—	216,703
Agricultural real estate	66,430	451	3,636	—	—	70,517
Multi-family real estate	47,763	—	298	—	—	48,061
Construction and land development	17,322	—	417	—	—	17,739
Consumer non-real estate:						
Originated indirect paper	60,843	—	148	—	—	60,991
Purchased indirect paper	17,254	—	—	—	—	17,254
Other Consumer	18,707	—	137	—	—	18,844
Commercial/Agricultural non-real estate:						
Commercial non-real estate	74,895	69	1,290	—	—	76,254
Agricultural non-real estate	25,021	630	898	—	—	26,549

Gross loans	$746,614	$2,130	$13,949	$—	$—	$762,693
Less:						
Unearned net deferred fees and costs and loans in process						557
Unamortized discount on acquired loans						(4,003)
Allowance for loan losses						(6,748)
Loans receivable, net						$752,499

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Below is a breakdown of loans by 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

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.

Certain directors and executive officers of the Company and the Bank are defined as related parties. These related parties, including their immediate families and companies in which they are principal owners, were loan customers of the Bank during 2018 and 2017. A summary of the changes in those loans during the last two fiscal years is as follows:

	September 30,	
	2018	2017
Balance—beginning of year	$596	$221
New loan originations	—	2
Repayments	(257)	(13)
Previously originated loans for new director	—	386
Previously originated loans for previous director	(105)	—
Balance—end of year	$234	$596
Available and unused lines of credit	$17	$18

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
Year Ended September 30, 2018:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2017	$1,458	$ 2,523	$936	$ 897	$ 128	$5,942
Charge-offs	(96)	(1)	(309)	(52)	—	(458)
Recoveries	45	—	117	12	—	174
Provision	—	755	85	230	—	1,070
Allowance allocation adjustment	(372)	(1)	(165)	(47)	154	(431)
Total Allowance on originated loans	$1,035	$ 3,276	$664	$ 1,040	$ 282	$6,297
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans	—	—	—	—	—	—
Beginning balance, October 1, 2017	$—	$ —	$—	$ —	$ —	$—
Charge-offs	(106)	(73)	(70)	—	—	(249)
Recoveries	34	—	5	—	—	39
Provision	70	120	25	15	—	230
Allowance allocation adjustment	171	121	125	14	—	431
Total allowance on other acquired loans	$169	$ 168	$85	$ 29	$ —	$451
Total allowance on acquired loans	$169	$ 168	$85	$ 29	$ —	$451
Ending Balance, September 30, 2018	$1,204	$ 3,444	$749	$ 1,069	$ 282	$6,748
Allowance for Loan Losses at September 30, 2018:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$97	$ 23	$39	$ 43	$ —	$202
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$1,107	$ 3,421	$710	$ 1,026	$ 282	$6,546
Loans Receivable as of September 30, 2018:						
Ending balance of originated loans	$136,526	$ 254,751	$94,236	$ 79,710	$ —	$565,223
Ending contractual balance of purchased credit-impaired loans	450	7,173	645	739	—	9,007
Ending balance of other acquired loans	72,805	91,096	2,208	22,354	—	188,463
Ending balance of loans	$209,781	$ 353,020	$97,089	$ 102,803	$ —	$762,693
Ending balance: individually evaluated for impairment	$8,198	$ 10,894	$393	$ 2,894	$ —	$22,379
Ending balance: collectively evaluated for impairment	$201,583	$ 342,126	$96,696	$ 99,909	$ —	$740,314

	Residential Real Estate	Commercial/Agriculture Real Estate	Consumer Non-real Estate	Commercial/Agricultural Non-real Estate	Unallocated	Total
Year Ended September 30, 2017:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2016	$ 2,039	$ 1,883	$ 1,466	$ 652	$ 28	$ 6,068
Charge-offs	(233)	—	(389)	(9)	—	(631)
Recoveries	14	—	171	1	—	186
Provision	81	130	59	41	8	319
Allowance allocation adjustment	(443)	510	(371)	212	92	—
Total Allowance on originated loans	$ 1,458	$ 2,523	$ 936	$ 897	$ 128	$ 5,942
Purchased credit impaired loans	$ —	$ —	$ —	$ —	$ —	$ —
Other acquired loans	$ —	$ —	$ —	$ —	$ —	$ —
Total Allowance on acquired loans	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance, September 30, 2017	$ 1,458	$ 2,523	$ 936	$ 897	$ 128	$ 5,942
Allowance for Loan Losses at September 30, 2017:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$ 214	$ —	$ 64	$ 23		