2017 ANNUAL REPORT

CITIZENS COMMUNITY BANCORP, INC.

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CEO LETTER

To Our Shareholders,

I am pleased with the progress made during my first fiscal year with the company and see it as the foundation for improving future earnings and enhancing shareholder value. By building a stronger banking franchise from the inside out and through disciplined acquisitions like Wells Federal Bank, we are developing stronger, more engaged colleagues who are fostering deeper client relationships.

In the past year, meaningful progress was made in shedding the legacy credit union and mutual savings and loan underpinnings of the company. This was first evident in the business model change terminating indirect lending originations and running off 1-4 Family mortgages held in portfolio, which together decreased to 47% of the loan portfolio at September 30, 2017 from 62% one year earlier.

With our existing team of talented and proactive Commercial/Ag Bankers, the addition of new talent, and an acquisition late in the year, we saw a significant transformation of the balance sheet. The Commercial/Ag team posted organic growth of nearly 25% largely offsetting the decline in the indirect and 1-4 Family loan portfolios. Importantly, we gained lower cost deposits through the Wells transaction and improved the mix of deposits. With these positive developments happening so late in the fiscal year, the bank's earnings potential has yet to be realized with further upside expected from the recently passed tax reform legislation.

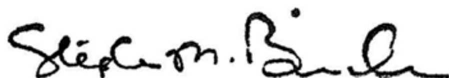
We upgraded our use of technology and redesigned workflows to increase efficiency in our loan and deposit activities, strengthened risk management practices and improved customer service. Online capabilities and Treasury Management services were also enhanced to reflect the growing customer adoption of technology channels, and to support our Commercial clients. As a result of these investments, we now have the ability to scale our business through organic growth and acquisition activity. Our efficiency and productivity ratios should improve as these moves take hold.

During the year, we also redefined our branch strategy by closing smaller branches which were no longer economical and we eliminated nearly all the in-store branches. In total, we closed six CCFBank locations during the fiscal year alone and will concentrate future efforts on strengthening market presence where we maintain branches.

Together with the Board of Directors, I am pleased with the Corporate Governance work that has been accomplished this year. The addition of two talented Directors and two new Directors on the proxy slate resulted from thoughtful discussion about succession and needed skills for Directors today. Further, the Board adopted an outside compensation consultant's recommendation for their compensation that aligns with the company's peer group.

I am excited about our prospects in the coming year and for the industry. The pronounced improvements to the company's business model and infrastructure during the past year leave the company well positioned to improve shareholder returns and to take advantage of market opportunities.

Sincerely,



Stephen M. Bianchi
President & CEO

Forward-Looking Statements

Certain matters discussed in this letter contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forwardlooking 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 similar 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. For a discussion identifying important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the Company's filings with the SEC including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in the Form 10-K portion of this Annual Report.

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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______to _____

Commission file number 001-33003

CITIZENS COMMUNITY BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland	**20-5120010**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

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 ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

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

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

The aggregate market value of the voting and non-voting, if applicable, stock held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was approximately $66,687,156. Shares of the registrant's common stock held or beneficially owned by any executive officer or director of the registrant have been excluded from this computation because such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: At December 13, 2017 there were 5,883,656 shares of the registrant's common stock, par value $0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2018 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III of this report.

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

CITIZENS COMMUNITY BANCORP, INC.

FORM 10-K

September 30, 2017

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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 similar 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 Bank;
- increases in FDIC insurance premiums or special assessments by the FDIC;
- disintermediation risk;
- our inability to obtain needed liquidity;
- our ability to raise capital needed to fund growth or meet regulatory requirements;
- the possibility that our internal controls and procedures could fail or be circumvented;
- our ability to attract and retain key personnel;
- our ability to keep pace with technological change;
- cybersecurity risks;
- risks posed by acquisitions and other expansion opportunities;
- changes in accounting principles, policies or guidelines and their impact on financial performance;
- restrictions on our ability to pay dividends; and
- the potential volatility of our stock price.

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

PART 1

ITEM 1. BUSINESS

General

Citizens Community Bancorp, Inc. (the "Company") is a Maryland corporation organized in 2004. The Company is a bank holding company and is subject to regulation by the Office of the Comptroller of the Currency (“OCC”) and by the Federal Reserve Bank. Our primary activities consist of holding the stock of our wholly-owned subsidiary bank, Citizens Community Federal N.A. (the "Bank"), and providing consumer, commercial and agricultural banking activities through the Bank. At September 30, 2017, we had approximately $941 million in total assets, $743 million in deposits, and $73 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 23 full-service branch locations as of September 30, 2017. 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.

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 nine branch locations along with expanded services through Wells Insurance Agency. For further disclosure and discussion, see Note 2 "Acquisitions" of Notes to Consolidated Financial Statements," which is included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K.

We intend to close two of the acquired WFC branches in December 2017. We intend to continue to review our branch network to deploy assets and capital in growth markets and exit markets where we believe we have limited growth opportunities. Through all of our branch locations in Wisconsin, Minnesota and Michigan, we provide a variety of commercial and consumer banking products and services to customers, including online and mobile banking options.

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.

Internet Website

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

Selected Consolidated Financial Information

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

Yields Earned and Rates Paid

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

Rate/Volume Analysis

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

Average Balance, Interest and Average Yields and Rates

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

Lending

We offer a variety of loan products including commercial loans, agricultural loans, residential mortgages, home equity lines-of-credit, commercial and industrial (C&I) loans and consumer loans. We make real estate, consumer, commercial and agricultural loans in accordance with the basic lending policies established by Bank management and approved by our Board of Directors. We focus our lending activities on individual consumers and small commercial borrowers within our market areas. Our lending has been historically concentrated primarily within Wisconsin, Minnesota and Michigan. Competitive and economic pressures exist in our lending markets, and recent and any future developments in (a) the general economy, (b) real

estate lending markets, and (c) the banking regulatory environment could have a material adverse effect on our business and operations. These factors may impact the credit quality of our existing loan portfolio, or adversely impact our ability to originate sufficient high quality loans in the future.

Our total gross outstanding loans, before net deferred loan costs and unamortized discounts on acquired loans, as of September 30, 2017, were $736,613, consisting of $247,634 in residential real estate loans, $273,900 in commercial agricultural real estate loans, $135,955 in consumer non-real estate loans, and $79,124 in commercial/agricultural non-real estate loans.

Investments

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

Deposits

We offer a broad range of deposit products through our branches, including demand deposits, various savings and money-market accounts and certificates of deposit. Deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. At September 30, 2017, our total deposits were $742,504 including interest bearing deposits of $667,186 and non-interest bearing deposits of $75,318.

Competition

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

Regulation and Supervision

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

Capital Adequacy

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

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

Core Capital (Tier 1). Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual

preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, qualifying trust preferred securities, less goodwill, most intangible assets and certain other assets; and

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

New Capital Rules

In July 2013, the federal banking regulators issued new regulations relating to capital, referred to as the “Basel III Rules.” The Basel III Rules apply to both depository institutions and their holding companies. Although parts of the Basel III Rules apply only to large, complex financial institutions, substantial portions of the Basel III Rules apply to the Bank and the Company. The Basel III Rules include requirements contemplated by the Dodd-Frank Act as well as certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010.

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

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

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

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

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

Employees

At December 13, 2017, we had 186 full-time employees and 224 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. From December 2007 to June 2009, the United States economy experienced the worst economic downturn since the Great Depression, resulting in a general reduction of business activity and growth across industries and regions as well as significant increases in unemployment. Many businesses experienced serious financial difficulties due to the lack of consumer spending and liquidity in the credit markets. The financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes. General declines in home prices and the resulting impact on sub-prime mortgages, and eventually, all mortgage and real estate classes as well as equity markets resulted in continued widespread shortages of liquidity across the financial services industry. Moreover, the country and our geographic region experienced high rates of unemployment which negatively impacted the creditworthiness of our borrowers and customer base.

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

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

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

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

We are subject to lending risk. There are inherent risks associated with our lending activities. These risks include the impact of changes in interest rates and changes in the economic conditions in the markets we serve, as well as those across the United States. An increase in interest rates or weakening economic conditions (such as high levels of unemployment) could adversely impact the ability of borrowers to repay outstanding loans, or could substantially weaken the value of collateral

securing those loans. Downward pressure on real estate values could increase the potential for problem loans and thus have a direct impact on our consolidated results of operations.

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, 2020. 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, 2017, $95,883 of our securities, were classified as available for sale and $5,453 were classified as held to maturity. The estimated fair value of our available for sale securities portfolio may increase or decrease depending on market conditions. Our available for sale securities portfolio is comprised primarily of fixed-rate securities. We increase or decrease stockholders’ equity by the amount of the change in unrealized gain or loss (the difference between the estimated fair value and amortized cost) of our available for sale securities portfolio, net of the related tax benefit or provision, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in our reported stockholders’ equity, as well as our book value per common share

and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold, the decrease may be recovered over the life of the securities.

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

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

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

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

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

We 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, include 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 new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 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 Banks'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. See Item 1, "Business ? Regulation and Supervision ? *New Capital Rules*."

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 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.

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, Community Bank of Northern Wisconsin ("CBN") and WFC. We intend to continue to evaluate potential acquisitions and expansion opportunities in the normal course of 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 and profitably manage any such future acquisitions. Acquiring other banks or financial service companies, 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 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 Second Amended and Restated Loan Agreement dated May 30, 2017, which prohibits the Company from making dividend payments while an event of default has occurred and is continuing under the loan agreement or from allowing payment of a dividend which would create an event of default. The Company has pledged 100% of Bank stock as collateral for the loan and credit facilities. 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 5,452,432 shares of our common stock held by nonaffiliates as of December 13, 2017. 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

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2017 (in thousands)
ADMINISTRATIVE OFFICES:			
2174 EastRidge Center (1), (2)	Lease	December 31, 2027	
Eau Claire, WI 54701			
BRANCH OFFICES			
Lake Hallie Branch (3)	Lease	October 31, 2026	
2727 Commercial Boulevard			
Chippewa Falls, WI 54729			
Fairfax Branch	Owned	N/A	$ 710
219 Fairfax Street			
Altoona, WI 54720			
Rice Lake South Branch (4)	Lease	October 14, 2023	
2850 Decker Drive			
Rice Lake, WI 54868			
Barron Branch (5)	Lease	January 31, 2021	
436 E LaSalle Ave			
Barron, WI 54821			
Rice Lake North	Owned	N/A	$ 1,363
1204 W Knapp Street			
Rice Lake, 54868			
Brill Branch (6)	Lease	October 31, 2018	
2789 22nd Street			
Rice Lake, WI 54868			
St. Peter Branch (7)	Lease	April 30, 2018	
1608 S Minnesota Ave			
St. Peter, MN 56082			
Owatonna Branch	Lease	December 31, 2017	
496 North Street			
Owatonna, MN 55060			
Wells Branch	Owned	N/A	$ 842
53 1st Street SW			
Wells, MN 56097			
Blue Earth Branch	Owned	N/A	$ 269
303 South Main Street			
Blue Earth, MN 56013			

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2017 (in thousands)	
Mankato Branch No. 2	Owned	N/A	$	1,516
1601 Adams Street				
Mankato, MN 56002				
Fairmont Branch	Owned	N/A	$	728
1015 Highway 15 South				
Fairmont, MN 56031				
St. James Branch	Owned	N/A	$	464
501 1st Ave South				
St. James, MN 56081				
Albert Lea Branch	Owned	N/A	$	668
2630 Bridge Ave				
Albert Lea, MN 56007				
Minnesota Lake Branch	Owned	N/A	$	349
104 Main Street N				
Minnesota Lake, MN 56068				
Ladysmith Branch (8)	Leased	April 30, 2018		
810 Miner Ave W				
Ladysmith, WI 54848				
Spooner Branch	Owned	N/A	$	615
322 North River Street				
Spooner, WI 54801				
Westside Branch	Owned	N/A	$	221
2125 Cameron Street				
Eau Claire, WI 54703				
Rochester Hills Branch	Owned	N/A	$	240
310 W Tienken Road				
Rochester Hills, MI 48306				
Faribault Branch (9)	Lease	January 31, 2019		
150 Western Avenue				
Faribault, MN 55021				
Mankato Branch No. 1 (10)	Lease	October 31, 2025		
180 St. Andrews Drive				
Mankato, MN 56001				
Oakdale Branch (11)	Lease	September 30, 2020		
7035 10th Street North				
Oakdale, MN 55128				
Red Wing Branch (12)	Lease	March 3, 2018		
295 Tyler Road S				
Red Wing, MN 55066				

(1) Leased Eastridge Center location has a predetermined rent rate increase each year and a right to renew for two additional periods of three years, each at negotiated conditions.

(2) The Company signed a new 10-year lease, effective on or around April 1, 2018, for additional space in the Eastridge Center. Rent increases 1.5% per year. The lease includes two additional five-year extensions at the lessee's option.

(3) Leased Lake Hallie traditional location opened on September 22, 2016 with a predetermined rent increase each year and a lessee option to extend the lease by up to two five-year periods, each at predetermined rent rates.

(4) Leased Rice Lake South traditional location has a lessee option to extend the lease by up to two five-year periods, each at predetermined rent rates.

(5) Leased Barron location has a lessee option to extend the lease by one, five-year period at a predetermined rent rate.

(6) Leased Brill location has a lessee option to extend the lease by up to one, two-year period, at a negotiated amount.

(7) St. Peter lease is on a month-by-month basis.

(8) Leased Ladysmith location is on a fixed monthly amount until expiration.

(9) On October 18, 2013, the Bank exercised its first lessee option to extend lease up to one five-year period, each at predetermined rent rates. There is also a lessee option to extend the lease by up to one, five-year period, each at predetermined rent rates.

(10) Leased Mankato traditional location has a predetermined rent increase each year and a lessee option to extend the lease by up to two five-year periods, each at predetermined rent rates.

(11) Leased Oakdale branch location has a predetermined rent rate increase each year.

(12) Red Wing lease was extended three additional months. A new lease was signed on November 1, 2017 to relocate the Red Wing branch.

ITEM 3. LEGAL PROCEEDINGS

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

On March 22, 2017, Paul Parshall, a Wells stockholder, filed a putative Class Action Complaint in the District Court of Faribault County, Minnesota ("Court") captioned Paul Parshall v. Wells Financial Corp., et al. and docketed at 22-CV-17-179. The Complaint was subsequently amended on June 15, 2017. Named as Defendants were Wells, each of the current members of the Wells Board ("Individual Defendants") and CCBI. The Amended Complaint asserts, *inter alia*, that the Individual Defendants breached their fiduciary duties. The Amended Complaint further asserts that Wells and CCBI aided and abetted the purported breaches of fiduciary duty. On September 27, 2017, the Court approved a Stipulation of Dismissal and entered its Order of Dismissal dismissing, with prejudice, the Litigation and all claims, demands or causes of action that were asserted, could have been asserted, or are held by the Plaintiff and without prejudice as to any absent members of the putative class. The Court retained jurisdiction to hear and rule upon an Application for Fees and Expenses that may be filed by Plaintiff's counsel. Such Application, if any, must be filed by February 28, 2018.

ITEM 4. MINE SAFETY DISCLOSURES

None

PART II

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

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

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

	High	Low	Cash dividends per share
Fiscal 2017			
First Quarter (three months ended December 31, 2016)	$ 12.55	$ 10.80	$ —
Second Quarter (three months ended March 31, 2017)	$ 14.05	$ 12.05	$0.16
Third Quarter (three months ended June 30, 2017)	$ 14.34	$ 12.73	$ —
Fourth Quarter (three months ended September 30, 2017)	$ 14.43	$ 13.03	$ —
Fiscal 2016			
First Quarter (three months ended December 31, 2015)	$ 9.49	$ 8.81	$ —
Second Quarter (three months ended March 31, 2016)	$ 9.73	$ 8.84	$0.12
Third Quarter (three months ended June 30, 2016)	$ 11.60	$ 8.80	$ —
Fourth Quarter (three months ended September 30, 2016)	$ 11.32	$ 9.26	$ —

The closing price per share of Citizens Community Bancorp, Inc. common stock on September 29, 2017 (the last trading day of our fiscal year end) was $13.95.

We had approximately 440 stockholders of record at December 13, 2017. The number of stockholders does not separately reflect persons or entities that hold their stock in nominee or "street" name through various brokerage firms. We believe that the number of beneficial owners of our common stock on that date was substantially greater.

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

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

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

The Company's ability to pay dividends is also subject to the terms of its Second Amended and Restated Loan Agreement dated May 30, 2017, which prohibits the Company from making dividend payments while an event of default has occurred and is continuing under the loan agreement or from allowing payment of a dividend which would create an event of default.

The following table reflects the annual cash dividend paid in the fiscal years ended September 30, 2017 and 2016 respectively.

	2017	2016
Cash dividends per share	$ 0.16	$ 0.12
Stockholder record date	03/09/2017	03/11/2016
Dividend payment date	03/23/2017	03/25/2016

ITEM 6. SELECTED FINANCIAL DATA

	Year ended September 30, (dollars in thousands, except per share data)				
	2017	2016	2015	2014	2013
Selected Results of Operations Data:					
Interest income	27,878	25,084	$ 23,004	$ 24,033	$ 24,575
Interest expense	5,610	5,007	4,438	4,275	5,312
Net interest income	22,268	20,077	18,566	19,758	19,263
Provision for loan losses	319	75	656	1,910	3,143
Net interest income after provision for loan losses	21,949	20,002	17,910	17,848	16,120
Fees and service charges	2,973	2,923	3,006	2,868	2,584
Net impairment losses recognized in earnings	—	—	—	(78)	(797)
Net gain (loss) on sale of available for sale securities	111	63	60	(168)	552
Other non-interest income	1,667	929	847	794	712
Non-interest income	4,751	3,915	3,913	3,416	3,051
Non-interest expense	22,878	20,058	17,403	17,224	17,489
Income before provision for income taxes	3,822	3,859	4,420	4,040	1,682
Income tax provision	1,323	1,286	1,614	1,530	635
Net income	$ 2,499	$ 2,573	$ 2,806	$ 2,510	$ 1,047
Per Share Data: (1)					
Net income per share (basic) **(1)**	$ 0.47	$ 0.49	$ 0.54	$ 0.49	$ 0.20
Net income per share (diluted) **(1)**	$ 0.46	$ 0.49	$ 0.54	$ 0.48	$ 0.20
Cash dividends per common share	$ 0.16	$ 0.12	$ 0.08	$ 0.04	$ —
Book value per share at end of period	$ 12.48	$ 12.27	$ 11.74	$ 11.23	$ 10.51
Tangible book value per share at end of period	$ 9.78	$ 11.22	$ 11.72	$ 11.20	$ 10.47

CITIZENS COMMUNITY BANCORP, INC.

FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

	Year ended September 30, (dollars in thousands, except per share data)				
	2017	2016	2015	2014	2013
Selected Financial Condition Data:					
Total assets	$ 940,664	$ 695,865	$ 580,148	$ 569,815	$ 554,521
Investment securities	101,336	86,792	87,933	70,974	79,695
Total loans, net of deferred costs (fees)	732,995	574,439	450,510	470,366	440,863
Total deposits	742,504	557,677	456,298	449,767	447,398
Short-term FHLB borrowings	90,000	45,461	33,600	20,000	7,500
Other FHLB borrowings	—	13,830	25,291	38,891	42,500
Other borrowings **(2)**	30,319	11,000	—	—	—
Total shareholders' equity	73,483	64,544	61,454	58,019	54,185
Weighted average common shares outstanding	5,361,843	5,241,458	5,208,708	5,163,373	5,151,413
Performance Ratios:					
Return on average assets	0.34%	0.40%	0.49%	0.45%	0.19%
Return on average total shareholders' equity	3.76%	4.08%	4.70%	4.47%	1.92%
Net interest margin **(3)**	3.31%	3.27%	3.36%	3.61%	3.62%
Net interest spread **(3)**					
Average during period	3.19%	3.15%	3.24%	3.54%	3.51%
End of period	3.47%	3.31%	3.15%	3.58%	3.69%
Net overhead ratio **(4)**	2.48%	2.39%	2.35%	2.46%	2.66%
Average loan-to-average deposit ratio	100.87%	101.08%	101.63%	101.57%	99.91%
Average interest bearing assets to average interest bearing liabilities	114.96%	114.38%	114.15%	109.35%	109.92%
Efficiency ratio **(5)**	84.67%	83.60%	77.42%	74.08%	75.67%
Asset Quality Ratios:					
Non-performing loans to total loans **(6)**	1.10%	0.62%	0.27%	0.34%	0.59%
Allowance for loan losses to:					
Total loans (net of unearned income)	0.81%	1.06%	1.44%	1.38%	1.40%
Non-performing loans	73.90%	169.92%	532.02%	410.47%	236.96%
Net charge-offs to average loans	0.07%	0.10%	0.14%	0.35%	0.62%
Non-performing assets to total assets	1.49%	0.62%	0.37%	0.46%	0.66%
Capital Ratios:					
Shareholders' equity to assets **(7)**	7.81%	9.28%	10.59%	10.18%	9.77%
Average equity to average assets **(7)**	9.09%	9.87%	10.39%	9.98%	10.08%
Tier 1 capital (leverage ratio) **(8)**	9.2%	9.3%	10.6%	10.1%	9.9%
Total risk-based capital **(8)**	13.2%	14.1%	16.8%	16.3%	16.3%

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

(2) Consists of senior term notes of ($10,694) to finance the acquisition of CBN and ($5,000) to finance the acquisition of WFC, which mature on May 15, 2021 and August 15, 2022, respectively; and subordinated notes of ($15,000) to finance the acquisition of WFC, which mature on August 10, 2027; less WFC debt origination costs totaling $375.

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

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

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

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

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

GENERAL

The following discussion sets forth management's discussion and analysis of our consolidated financial condition and results of operations that should be read in conjunction with our consolidated financial statements, related notes, the selected financial data and the statistical information presented elsewhere in this report for a more complete understanding of the following discussion and analysis. Unless otherwise noted, years refer to the Company's fiscal years ended September 30, 2017 and 2016.

PERFORMANCE SUMMARY

The following is a brief summary of some of the significant factors that affected our operating results in 2017. See the remainder of this section for a more thorough discussion. Unless otherwise stated, all monetary amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations, other than share, per share and capital ratio amounts, are stated in thousands.

We reported net income of $2,499 for the year ended September 30, 2017, compared to net income of $2,573 for the year ended September 30, 2016. Diluted earnings per share were $0.46 for 2017 compared to $0.49 for the year ended September 30, 2016. Return on average assets for the year ended September 30, 2017 was 0.34%, compared to 0.40% for the year ended September 30, 2016. The return on average equity was 3.76% for 2017 and 4.08% for 2016. An annual cash dividend in the amount of $0.16 per share and $0.12 per share was paid in the fiscal year ended September 30, 2017 and 2016, respectively.

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. The merger added $264,287 in assets, $187,079 in loans, $217,905 in deposits, $5,781 in goodwill and $4,178 in core deposit intangible. Acquisition costs consisting of accounting, legal and other professional fees were approximately $1,860 through September 30, 2017, and were included in non-interest expense. Debt origination costs of $380 were deferred, and are being amortized to interest expense on other borrowed funds over the life of the notes.

Key factors behind the earnings results were:

- For fiscal 2017, certain onetime items including merger related costs, branch closure costs, debt prepayment fees, net of settlement income had a cumulative impact on pretax earnings of $2,632, or $0.33 per diluted share after-tax, compared to $1,540 pretax, or $0.18 per diluted share after tax for fiscal 2016.
- Net interest income for fiscal 2017 grew 10.91% to $22,268 from $20,077 for fiscal 2016.
- For fiscal 2017, the net interest margin increased 4 bps to 3.31% from 3.27% for fiscal 2016.
- Loan loss provision increased to $319 for fiscal 2017, compared to $75 for fiscal 2016. Provision increased due to organic growth of portfolio loans in the fourth quarter of 2017.
- For fiscal 2017, total non-interest income grew 21% to $4,751 from $3,915 for the comparable period in 2016. Growth in non-interest income resulted primarily from settlement proceeds and fee income generated due to the WFC acquisition.
- Fiscal 2017 operations reflect a remix of loan and deposit composition. At September 30, 2017, commercial, multi-family, construction and agricultural loans for both operating purpose and real estate secured totaled 47.9% of the total loan portfolio versus 34.6% one year earlier. Non-maturity deposits are 60.8% of total deposits versus 50.9% one year earlier.
- Net loans were $727,053 at September 30, 2017, compared to $568,371 at September 30, 2016. The increase in loans is primarily due to loans acquired in the WFC acquisition as well as organic commercial and agricultural loan growth.

- Total deposits were $742,504 at September 30, 2017, compared to $557,677 at September 30, 2016. The deposit growth is due to the WFC acquisition, partially offset by deposit runoff in closed branches.
- The allowance for loan and lease losses was 0.81% of total loans at September 30, 2017, compared to 1.06% one year earlier. The lower ratio for Q4 2017 was a result of the larger balance of loans due to the WFC acquisition, which were recorded at fair value in August 2017.
- Nonperforming assets were $14,058, or 1.49% of total assets at September 30, 2017, compared to $4,348, or 0.62% of total assets at September 30, 2016. Included in nonperforming assets are approximately, $5,574 of acquired foreclosed properties, including $3,094 that have loan contracts on which the borrowers are paying according to their contractual terms, but the deed remains in the name of the Bank
- We continued to reduce our instore branches, closing four of our remaining six instore locations in 2017. Additionally, two traditional branches were closed in 2017.

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, 2017 which is related to its banking activities. The Company has performed the required goodwill impairment test and has determined that goodwill was not impaired as of September 30, 2017.

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

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 taxes, which arise principally from temporary differences between the amounts reported in the financial statements and the tax basis of certain assets and liabilities, are included in the amounts provided for income taxes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and if necessary, tax planning strategies in making this assessment.

The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and application of specific provisions of federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the deferred tax assets and liabilities are adequate and properly recorded in the accompanying consolidated financial statements. As of September 30, 2017, management does not believe a valuation allowance related to the realizability of its deferred tax assets is necessary.

STATEMENT OF OPERATIONS ANALYSIS

2017 compared to 2016

Net Interest Income. Net interest income represents the difference between the dollar amount of interest earned on interest bearing assets and the dollar amount of interest paid on interest bearing liabilities. The interest income and expense of

financial institutions are significantly affected by general economic conditions, competition, policies of regulatory authorities and other factors.

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

Tax equivalent net interest income was $22,563 for 2017, compared to $20,344 for 2016. Interest income on tax exempt securities is computed on a tax equivalent basis. The net interest margin for 2017 was 3.31% compared to 3.27% for 2016. The 4 basis point increase in net interest margin was mainly attributable to a 4 basis point decrease in deposit costs, a 5 basis point increase in the yield on earning assets, offset partially by a 35 basis point increase in borrowing costs. The decrease in deposit costs in part reflect the reduction of the level of higher-cost certificates of deposit accounts and the increase in lower-cost core deposits including savings accounts, demand accounts and money market accounts. The increased yield on earning assets includes a 43 basis point increase in the yield on investment securities offset slightly by a 10 basis point decrease in the yield on loans.

The cost of deposits decreased slightly in 2017 to 0.84% from 0.88% in 2016. The slight decrease reflects a smaller average balance of certificates of deposit and the impact of disciplined deposit pricing, which partially offset the impact of higher interest rates.

As shown in the rate/volume analysis table below, positive volume changes resulted in a $2,512 increase in net interest income in 2017. 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 WFC acquisition and management's strategy to continue to diversify its credit portfolio. The increase and changes in the composition of interest earning assets resulted in a $2,822 increase in interest income for 2017, and a $603 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 a decrease in interest income by $29 and increased interest expense by $264, for a net impact of a $293 decrease in net interest income between 2017 and 2016.

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

Average interest earning assets were $682,545 in 2017 compared to $621,571 in 2016. Average loans outstanding increased to $568,670 in 2017 from $504,972 in 2016. Interest income on loans increased $2,419, of which $2,903 related to the increase in average outstanding balances, offset by a reduction in interest income due to lower yields on such loans in the amount of $484.

Average interest bearing liabilities increased $50,285 in 2017 from their 2016 levels. The increase in average interest bearing liabilities was primarily due to deposits acquired in the WFC acquisition and borrowings used to facilitate the purchase. Average interest bearing deposits increased $33,361, or 9.61% to $510,932 in 2017. Interest expense on interest bearing deposits increased $106 during 2017 from the volume and mix changes and increased $7 from the impact of the rate environment, resulting in an aggregate increase of $99 in interest expense on interest bearing deposits.

	Year ended September 30, 2017			Year ended September 30, 2016		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest earning assets:						
Cash and cash equivalents	$ 19,368	$ 139	0.72%	$ 18,873	$ 70	0.37%
Loans receivable	568,670	25,826	4.54%	504,972	23,407	4.64%
Interest bearing deposits	1,922	29	1.51%	2,378	47	1.98%
Investment securities (1)	87,449	1,974	2.26%	90,565	1,655	1.83%
Non-marketable equity securities, at cost	5,136	205	3.99%	4,783	172	3.60%
Total interest earning assets	$682,545	$ 28,173	4.13%	$621,571	$ 25,351	4.08%
Average interest bearing liabilities:						
Savings accounts	$ 53,530	$ 67	0.13%	$ 33,538	$ 43	0.13%
Demand deposits	65,283	273	0.42%	36,878	240	0.65%
Money market accounts	126,487	555	0.44%	141,938	585	0.41%
CD's	236,590	3,104	1.31%	239,363	3,037	1.27%
IRA's	29,042	300	1.03%	25,854	295	1.14%
Total deposits	$510,932	$ 4,299	0.84%	$477,571	$ 4,200	0.88%
FHLB advances and other borrowings	82,781	1,311	1.58%	65,857	807	1.23%
Total interest bearing liabilities	$593,713	$ 5,610	0.94%	$543,428	$ 5,007	0.92%
Net interest income		$ 22,563			$ 20,344	
Interest rate spread			3.19%			3.16%
Net interest margin			3.31%			3.27%
Average interest earning assets to average interest bearing liabilities			1.15%			1.14%

(1) For the 12 months ended September 30, 2017 and 2016, the average balance of the tax exempt investment securities, included in investment securities, were $31,883 and $29,232 respectively. The interest income on tax exempt securities is computed on a tax-equivalent basis using a tax rate of 34% for all periods presented.

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

	Year ended September 30, 2017 v. 2016 Increase (decrease) due to		
	Volume (1)	Rate (1)	Total Increase / (Decrease)
Interest income:			
Cash and cash equivalents	$ 2	$ 67	$ 69
Loans receivable	2,903	(484)	2,419
Interest bearing deposits	(8)	(10)	(18)
Investment securities	(59)	378	319
Non-marketable equity securities, at cost	13	20	33
Total interest earning assets	$ 2,851	$ (29)	$ 2,822
Interest expense:			
Savings accounts	$ 25	$ (1)	$ 24
Demand deposits	148	(115)	33
Money market accounts	(66)	36	(30)
CD's	(36)	103	67
IRA's	35	(30)	5
Total deposits	106	(7)	99
FHLB Advances and other borrowings	233	271	504
Total interest bearing liabilities	339	264	603
Net interest income (loss)	$ 2,512	$ (293)	$ 2,219

(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, 2017 and 2016 were $445 and $503, respectively. Net charge-offs to average loans were 0.07% for 2017 compared to 0.10% for 2016. For 2017, non-performing loans increased by $4,470 to $8,041 from $3,571 at September 30, 2016, primarily due to (1) CBN acquired credit impaired nonaccrual loans to two borrowers and (2) $1,449 of acquired WFC credit impaired non-accrual loans. Refer to the "Risk Management and the Allowance for Loan Losses" section below for more information related to non-performing loans.

We recorded provisions for loan losses of $319 and $75 for the years ended September 30, 2017 and 2016, respectively. Management believes that the provision taken for the year ended September 30, 2017 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, 2017 and 2016, respectively.

	Twelve months ended September 30,		Change:
	2017	2016	2017 over 2016
Noninterest Income:			
Net gains on available for sale securities	$ 111	$ 63	76.19 %
Service charges on deposit accounts	1,433	1,627	(11.92)%
Loan fees and service charges	1,540	1,296	18.83 %
Settlement proceeds	283	—	NA
Other	1,384	929	48.98 %
Total non-interest income	$ 4,751	$ 3,915	21.35 %

Service charges on deposit accounts decreased $194 during 2017 mainly due to a decrease in electronic banking fee and NSF fee income. Loan fees and service charges increased $244 during 2017 mainly due to the impact of the WFC acquisition and increased servicing fees. In March 2017, the Bank received litigation settlement proceeds from a JP Morgan Residential Mortgage Backed Security (RMBS) claim in the amount of $283. This RMBS was previously owned by the Bank and sold in 2011. Other non-interest income increased primarily due to higher balances of BOLI, which increased income, along with additional interchange income and insurance commissions, primarily due to the WFC acquisition.

Non-Interest Expense. The following table reflects the various components of non-interest expense for the years ended September 30, 2017 and 2016, respectively.

	Years ended September 30,		Change:
	2017	2016	2017 over 2016
Noninterest Expense:			
Compensation and benefits	$ 10,862	$ 9,866	10.10 %
Occupancy	2,780	2,826	(1.63)%
Office	1,340	1,225	9.39 %
Data processing	2,052	1,802	13.87 %
Amortization of core deposit	219	111	97.30 %
Amortization of mortgage servicing rights	39	—	n/a
Advertising, marketing and public relations	545	701	(22.25)%
FDIC premium assessment	300	394	(23.86)%
Professional services	2,078	1,368	51.90 %
Other	2,663	1,765	50.88 %
Total noninterest expense	$ 22,878	$ 20,058	14.06 %
Noninterest expense (annualized) / Average assets	3.13%	3.14%	

Compensation and benefits increased due to the addition of personnel related to the WFC acquisition and severance costs associated with acquisitions and branch closures. Occupancy costs, consisting primarily of office rental and depreciation expenses, decreased during the current twelve month period over the same period in the prior year due in part to branch closures partially offset by the WFC branch facilities for about one-half of one quarter. Data processing expenses increased in 2017 due to increased costs associated with servicing a larger customer base. The amortization of core deposit expenses increased in 2017 due to the establishment of a core deposit intangible and its related amortization for the WFC acquisition and a full year of CBN core deposit intangible amortization. Advertising, marketing and public relations expenses decreased during

2017 over 2016 as rebranding expenses for CBN one year earlier were completed. Professional services expense increased in the current year due to increased use of outside professionals in connection with the acquisition, relative to the prior year. Other expenses increased in the current twelve month period due to higher insurance costs and contract termination fees as a result of the WFC merger.

Income Taxes. Income tax provision was $1,323 for the year ended September 30, 2017, compared to $1,286 for the year ended September 30, 2016. Our effective tax rate increased from 33.33% at September 30, 2016 to 34.6% at September 30, 2017 , as a result of non-deductible acquisition costs incurred in 2017.

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. Income tax expense recorded in the accompanying Consolidated Statements of Operations involves interpretation and application of certain accounting pronouncements and federal and state tax codes and is, therefore, considered a critical accounting policy. We undergo examination by various taxing authorities. Such taxing authorities may require that changes in the amount of tax expense or the amount of the valuation allowance be recognized when their interpretations differ from those of management, based on their judgments about information available to them at the time of their examinations.

BALANCE SHEET ANALYSIS

Loans. Total loans outstanding, net of deferred loan fees and costs, increased to $732,995 at September 30, 2017, a 27.60% increase from their balance of $574,439 at September 30, 2016. The following table reflects the composition, or mix, of our loan portfolio at September 30, for the last five completed fiscal years:

	2017		2016		2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real estate loans:										
Residential real estate	$ 247,634	33.8 %	$ 187,738	32.7 %	$ 181,205	40.2%	$ 223,025	47.4%	$ 252,958	57.4%
Commercial/Agricultural real estate	273,900	37.4 %	152,853	26.7 %	63,265	14.1%	39,061	8.3%	12,531	2.8%
Total real estate loans	521,534	71.2 %	340,591	59.4 %	244,472	54.3%	262,086	55.7%	265,489	60.2%
Non-real estate loans:										
Consumer non-real estate	135,955	18.5 %	188,009	32.7 %	193,600	43.0%	199,157	42.3%	173,185	39.3%
Commercial/Agricultural non-real estate	79,124	10.8 %	45,648	7.9 %	10,010	2.1%	6,076	1.3%	154	—%
Total non-real estate loans	215,079	29.3 %	233,657	40.6 %	203,608	45.1%	205,233	43.6%	173,339	39.3%
Gross loans	736,613		574,248		448,080		467,319		438,828	
Unearned net deferred fees and costs and loans in process	1,471	0.2 %	1,915	0.3 %	2,430	0.6%	3,047	0.7%	2,035	0.5%
Unamortized discount on acquired loans	(5,089)	(0.7)%	(1,724)	(0.3)%	—	—%	—	—%	—	—%
Total loans (net of unearned income and deferred expense)	732,995	100.0 %	574,439	100.0 %	450,510	100.0%	470,366	100.0%	440,863	100.0%
Allowance for loan losses	(5,942)		(6,068)		(6,496)		(6,506)		(6,180)	
Total loans receivable, net	$ 727,053		$ 568,371		$ 444,014		$ 463,860		$ 434,683	

At September 30, 2017, real estate loans increased $180,943 or 53.1% from their balance at September 30, 2016 with the largest portion of the increase represented by commercial/agricultural real estate loans which increased $121,047. Residential real estate loans increased $59,896 to $247,634 at September 30, 2017. A substantial portion of the increase in real estate loans was related to the acquisition of WFC. Non-real estate loans decreased $18,578, or 8.0% from September 30, 2016 to September 30, 2017. Consumer non-real estate loans totaled $135,955 at September 30, 2017, or a decrease of $52,054 from the prior year end. The decrease in consumer non-real estate loans relates to the Company's decision to cease originating loan volume through its indirect dealer network in fiscal 2017 and the elimination of purchased indirect loan originations. Commercial non-real estate loans increased $33,476 to $79,124 from $45,648 one year earlier. The change in composition of the loan portfolio over the past year reflects the impact of the WFC acquisition and the reduction of the indirect consumer loan portfolio.

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 was $18,071 at September 30, 2017.

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

	2017		2016		2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Fixed rate loans:										
Real estate loans:										
Residential real estate	$ 208,949	28.5 %	$ 173,051	30.2 %	$ 177,708	39.5%	$ 219,977	46.8%	$ 250,718	56.9%
Commercial/Agricultural real estate	160,249	21.9 %	92,030	16.0 %	47,837	10.6%	39,061	8.3%	12,531	2.8%
Total fixed rate real estate loans	369,198	50.4 %	265,081	46.2 %	225,545	50.1%	259,038	55.1%	263,249	59.7%
Non-real estate loans:										
Consumer non-real estate	135,955	18.5 %	188,009	32.7 %	193,598	43.0%	199,157	42.3%	173,185	39.3%
Commercial/Agricultural non-real estate	53,165	7.3 %	25,839	4.5 %	5,031	1.1%	6,076	1.3%	154	—%
Total fixed rate non-real estate loans	189,120	25.8 %	213,848	37.2 %	198,629	44.1%	205,233	43.6%	173,339	39.3%
Total fixed rate loans	558,318	76.2 %	478,929	83.4 %	424,174	94.2%	464,271	98.7%	436,588	99.0%
Adjustable rate loans:										
Real estate:										
Residential real estate	38,685	5.3 %	14,687	2.6 %	3,498	0.8%	3,048	0.7%	2,240	0.5%
Commercial/Agricultural real estate	113,651	15.5 %	60,823	10.6 %	15,429	3.4%	—	0.0%	—	0.0%
Total adjustable rate real estate loans	152,336	20.8 %	75,510	13.2 %	18,927	4.2%	3,048	0.7%	2,240	0.5%
Non-real estate loans:										
Consumer non-real estate	—	0.0 %	—	0.0 %	—	0.0%	—	0.0%	—	0.0%
Commercial/Agricultural non-real estate	25,959	3.5 %	19,809	3.4 %	4,979	1.1%	—	0.0%	—	0.0%
Total adjustable rate non-real estate loans	25,959	3.5 %	19,809	3.4 %	4,979	1.1%	—	0.0%	—	0.0%
Total adjustable rate loans	178,295	24.3 %	95,319	16.6 %	23,906	5.3%	3,048	0.7%	2,240	0.5%
Gross loans	736,613		574,248		448,080		467,319		438,828	
Unearned net deferred fees and costs and loans in process	1,471	0.2 %	1,915	0.3 %	2,430	0.5%	3,047	0.6%	2,035	0.5%
Unamortized discount on acquired loans	(5,089)	(0.7)%	(1,724)	(0.3)%	—		—		—	
Total loans (net of unearned income)	732,995	100.0 %	574,439	100.0 %	450,510	100.0%	470,366	100.0%	440,863	100.0%
Allowance for loan losses	(5,942)		(6,068)		(6,496)		(6,506)		(6,180)	
Total loans receivable, net	$ 727,053		$ 568,371		$ 444,014		$ 463,860		$ 434,683	

The Bank offers loans with fixed and adjustable interest rates. At September 30, 2017, fixed rate loans were $558,318 while adjustable rate loans were $178,295. Fixed rate loans declined to 76.2% of gross loans in 2017 compared to 83.4% in 2016. Residential real estate loans represent the largest balance of fixed rate loans at $208,949 at September 30, 2017 followed by commercial/agricultural real estate loans at $160,249 and consumer non-real estate loans at $135,955. Residential real estate loans consist mainly of fixed-rate conventional home mortgage loans.

Adjustable rate loans increased $82,976 from $95,319 to $178,295 at September 30, 2017 with the increase due largely to originated commercial/agricultural real estate loans. The largest component of the adjustable rate loan portfolio was represented by commercial/agricultural real estate loans at $113,651 at September 30, 2017.

Our loan portfolio is diversified by types of borrowers and industry groups within the market areas that we serve. Significant loan concentrations are considered to exist for a financial entity when the amounts of loans to multiple borrowers engaged in similar activities cause them to be similarly impacted by economic or other conditions. We have identified one to four family real estate loans within our loan portfolio, that represent concentrations in our portfolio. At September 30, 2017, one to four family real estate loans totaled $247,634 or 33.8% of total loans, compared to $187,738 or 32.7% at September 30, 2016.

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

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

	Real estate				Non-real estate					
	Residential real estate		Commercial/ Agricultural real estate		Consumer non-real estate		Commercial/ Agricultural non-real estate		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due in one year or less	$ 12,503	4.54%	$ 35,728	4.50%	$ 4,205	11.34%	$ 26,892	5.60%	$ 79,328	5.24%
Due after one year through five years	90,281	4.99%	106,701	5.17%	58,187	5.21%	37,165	5.77%	292,334	5.20%
Due after five years	144,850	4.70%	131,471	4.80%	73,563	5.36%	15,067	4.42%	364,951	4.86%
	$ 247,634	4.80%	$ 273,900	4.90%	$ 135,955	5.48%	$ 79,124	5.46%	$ 736,613	5.03%

(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, 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
Segment reclassifications	(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

	Residential Real Estate	Commercial/ Agriculture Real Estate	Consumer Non-real Estate	Commercial/ Agricultural Non-real Estate	Unallocated	Total
Year Ended September 30, 2016:						
Allowance for Loan Losses:						
Beginning balance, October 1, 2015	$ 2,364	$ 989	$ 1,620	$ 1,271	$ 252	$ 6,496
Charge-offs	(140)		(460)	(118)	—	(718)
Recoveries	11	—	204	—	—	215
Provision	30	10	35	—	—	75
Segment reclassifications	(226)	884	67	(501)	(224)	—
Total Allowance on originated loans	$ 2,039	$ 1,883	$ 1,466	$ 652	$ 28	$ 6,068
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans	—	—	—	—	—	—
Total Allowance on acquired loans	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance, September 30, 2016	$ 2,039	$ 1,883	$ 1,466	$ 652	$ 28	$ 6,068

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, 2017, the Company has identified impaired loans of $24,359. consisting of $5,851 TDR loans, $12,035 purchased credit impaired loans and $6,473 of substandard non-TDR loans, which includes $2,387 of non-PCI acquired loans. The $24,359 total of impaired loans includes $5,230 of performing TDR loans.

	Quarters ended				
	9/30/2017	6/30/2017	3/31/17	12/31/2016	9/30/2016
Specific credit allocation	$ 301	$ 241	$ 465	$ 477	$ 628
General and unallocated allowance	5,641	5,515	5,370	5,440	5,440
Allowance for loan losses	$ 5,942	$ 5,756	$ 5,835	$ 5,917	$ 6,068

At September 30, 2017, the allowance for loan losses was $5,942, or 0.81% of our total loan portfolio, compared to an allowance for loan losses of $6,068, or 1.06% of the total loan portfolio at September 30, 2016. This level was based on our analysis of the loan portfolio risk at each of September 30, 2017 and September 30, 2016, as discussed above. The decrease in ALL as a percentage of total loans was impacted by the WFC acquisition. The Bank has $264,020 in acquired loans which were recorded at fair market value and as a result, has no allowance for loan loss associated with these loans. At September 30, 2017, the ALL was 0.84% of our total loan portfolio, excluding the third party purchased consumer loans referenced elsewhere herein, compared to 1.16% of the total loan portfolio excluding these third party purchased consumer loans at September 30, 2016. 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,				
	2017	2016	2015	2014	2013
Nonperforming assets:					
Nonaccrual loans	$ 7,452	$ 3,191	$ 748	$ 1,184	$ 2,125
Accruing loans past due 90 days or more	589	380	473	401	483
Total nonperforming loans (“NPLs”)	8,041	3,571	1,221	1,585	2,608
Other real estate owned	5,962	725	838	1,025	873
Other collateral owned	55	52	64	25	155
Total nonperforming assets (“NPAs”)	$ 14,058	$ 4,348	$ 2,123	$ 2,635	$ 3,636
Troubled Debt Restructurings (“TDRs”)	$ 5,851	$ 3,733	$ 4,010	$ 5,581	$ 8,618
Nonaccrual TDRs	$ 621	$ 515	$ 332	$ 249	$ 1,108
Average outstanding loan balance	$ 653,717	$ 512,475	$ 460,438	$ 455,615	$ 434,326
Loans, end of period (1)	732,995	574,439	450,510	470,366	440,863
Total assets, end of period	940,664	695,865	580,148	569,815	554,521
ALL, at beginning of period	6,068	6,496	6,506	6,180	5,745
Loans charged off:					
Residential real estate	(233)	(140)	(405)	(1,238)	(1,525)
Commercial/Agricultural real estate	(389)	—	—	—	—
Consumer non-real estate	(9)	(460)	(601)	(689)	(1,494)
Commercial/Agricultural non-real estate	—	(118)	—	—	—
Total loans charged off	(631)	(718)	(1,006)	(1,927)	(3,019)
Recoveries of loans previously charged off:					
Residential real estate	14	11	69	94	36
Commercial/Agricultural real estate	—	—	—	—	—
Consumer non-real estate	171	204	271	249	275
Commercial/Agricultural non-real estate	1	—	—	—	—
Total recoveries of loans previously charged off:	186	215	340	343	311
Net loans charged off (“NCOs”)	(445)	(503)	(666)	(1,584)	(2,708)
Additions to ALL via provision for loan losses charged to operations	319	75	656	1,910	3,143
ALL, at end of period	$ 5,942	$ 6,068	$ 6,496	$ 6,506	$ 6,180
Ratios:					
ALL to NCOs (annualized)	1,335.28%	1,206.36%	975.38%	410.73%	228.21%
NCOs (annualized) to average loans	0.07%	0.10%	0.14%	0.35%	0.62%
ALL to total loans	0.81%	1.06%	1.44%	1.38%	1.40%
NPLs to total loans	1.10%	0.62%	0.27%	0.34%	0.59%
NPAs to total assets	1.49%	0.62%	0.37%	0.46%	0.66%
Total Assets:	$ 940,664	$ 695,865	$ 580,148	$ 569,815	$ 554,521

(1) Total loans at September 30, 2017 included $29,555 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, 2017 compared to the comparable prior year period, largely related to loans acquired in the WFC acquisition. Nonaccrual loans increased from $3,191 in 2016 to $7,452 in 2017, primarily due to (1) CBN acquired nonaccrual loans to two borrowers, and (2) $1,449 of acquired WFC non-