2020 ANNUAL REPORT

CITIZENS COMMUNITY BANCORP, INC.

TABLE OF CONTENTS

A Message from Stephen Bianchi - Chairman, President & CEO

To our valued Shareholders,

I am proud to report that Citizens produced record results in 2020 by remaining nimble and committed to our original budget objectives. These results demonstrated our Team's preparedness for unforeseen adversity, an enduring commitment to our mission as a community bank and strong leadership and accountability at all levels of the organization.

Citizens exceeded the 2020 Focus Items outlined in my letter to you last year, which included double digit percentage growth in tangible book value, reducing elevated asset quality metrics related to acquired loans, improving non-interest income generation and controlling non-interest expenses to lower our efficiency ratio and integrating our diverse work culture following four bank and one branch acquisition since 2016 to create colleague and customer engagement. Here is a summary of our progress:

- Tangible book value increased 13% to $11.18/share from $9.89/share one year ago.
- Non-performing assets fell 47% and criticized assets dropped 31% from fiscal 2019, and net charge-offs were less than 10 bps for the fourth consecutive year.
- Mortgage banking revenue posted record results and expenses were well managed lowering our efficiency ratio to 64% in fiscal 2020 from 73% in fiscal 2019, and below the 66% target set for 2020.
- Our CCFBank "Making More Possible" vision has become our rallying cry and colleague engagement in the company is at an all-time high due to our colleague support initiatives during the pandemic.

The accelerating earnings capacity of the bank also supported reserve growth to 1.77% of originated loans (ex: PPP) compared to 1.25% in 2019, a healthier TCE ratio (ex: PPP) of 8.3% versus 7.5% year over year, a 10% increase in the dividend and a share repurchase program for up to 5% of the company's outstanding shares. Citizens also generated double digit Return on Average Common Tangible Equity in the last three quarters of the year and 11% for the full year.

Our community outreach was amplified in 2020 to support the needs in our communities caused by the pandemic. Direct giving and matching grants of $255,000 went directly to non-profit organizations that serve those in need of food and shelter throughout our communities in Wisconsin and Minnesota. We also supported clients with loan deferrals, overdraft assistance and other special accommodations as they arose. Our banking locations continue to operate lobbies by appointment only, but we comfortably serve clients through our auto banks, phone service center and mobile technology channels.

The Citizens Commercial and Agricultural banking team originated over 1,800 PPP loans totaling over $140 million during the year and expects to originate several hundred more second draw PPP loans for more than $50 million in 2021. Our ability to help existing and prospective businesses of all sizes created brand awareness and increased our market share, evidenced by 8% growth in new deposit account relationships from April through July of 2020.

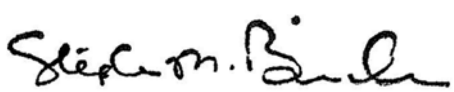
Entering 2021, we have taken steps to address the current state of the pandemic, monetary policy and fiscal policy for Citizens and the industry. Considerable attention will be placed on protecting our net interest margin and growing margin dollars, controlling expenses, generating prudent loan growth, maintaining asset quality and gains on sale at 2020 levels, and building colleague and customer loyalty to optimize performance. We expect to achieve or exceed our 2021 Focus Items to build stakeholder value which are as follows:

1. Increase tangible book value 8%-10%
2. Maintain NPA's, Criticized Assets and Net Charge-Offs at current levels or lower
3. Manage our efficiency ratio to 64%-66%
4. Execute sustainable business practices that address ESG factors

In closing, I want to express appreciation for the commitment the Citizens Team displayed this past year and am optimistic about our prospects for 2021. The changing economic and pandemic backdrop will be challenging but will also create new opportunities to build greater market share. We will continue to be nimble and adaptable during these uncertain times, always focusing on ***"Making More Possible"*** for our customers, colleagues, communities and shareholders.

Thank you for supporting and investing in Citizens!

Yours truly,



Stephen Bianchi
Chairman, 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 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. 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 December 31, 2020

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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $.01 par value per share	CZWI	NASDAQ Global Market

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 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of common stock held by non-affiliates of the registrant, computed by reference to the closing price as of June 30, 2020, was approximately $73.0 million.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: At March 8, 2021 there were 10,900,342 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 2021 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III of this report.

CITIZENS COMMUNITY BANCORP, INC.

FORM 10-K

December 31, 2020

TABLE OF CONTENTS

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

Forward-Looking Statements

Certain matters discussed in this Annual Report on 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," "estimates," "intend," "may," "preliminary," "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;
- adverse impacts to the Company or Bank arising from the COVID-19 pandemic;
- 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 maintain our reputation;
- our ability to realize the benefits of net deferred tax assets;
- our ability to maintain or increase our market share;
- acts of terrorism and political or military actions by the United States or other governments;
- legislative or regulatory changes or actions, or significant litigation, adversely affecting the Company or Bank;
- increases in FDIC insurance premiums or special assessments by the FDIC;
- disintermediation risk;
- our inability to obtain needed liquidity;
- our ability to successfully execute our acquisition growth strategy;
- risks posed by acquisitions and other expansion opportunities, including difficulties and delays in integrating the acquired business operations or fully realizing the cost savings and other benefits;
- 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;
- changes in federal or state tax laws;
- changes in accounting principles, policies or guidelines and their impact on financial performance;
- restrictions on our ability to pay dividends; and
- the potential volatility of our stock price.

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

In this Annual Report, the periods presented are the fiscal years ended December 31, 2020 (which we sometimes refer to in this Annual Report as "fiscal 2020") and December 31, 2019 (which we sometimes refer to in this Annual Report as "fiscal 2019").

PART 1
ITEM 1. BUSINESS

General

Citizens Community Bancorp, Inc. (the "Company") is a Maryland corporation organized in 2004. The Company is a bank holding company and is subject to regulation by the Office of the Comptroller of the Currency ("OCC") and by the Federal Reserve Bank. Our primary activities consist of holding the stock of our wholly-owned subsidiary bank, Citizens Community Federal N.A. (the "Bank"), and providing commercial, agricultural and consumer banking activities through the Bank. At December 31, 2020, we had approximately $1.65 billion in total assets, $1.30 billion in deposits, and $160.6 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 and Minnesota through 25 full-service branch locations. Its primary markets include the Chippewa Valley Region in Wisconsin, the Twin Cities and Mankato markets in Minnesota, and various rural communities around these areas. The Bank offers traditional community banking services to businesses, Agricultural operators and consumers, including one-to-four family residential mortgages.

Acquisitions

On August 18, 2017, the Company completed its merger with Wells Financial Corporation ("WFC"), pursuant to the merger agreement, dated March 17, 2017. At that time, the separate corporate existence of WFC ceased, and the Company survived the merger. In connection with the merger, the Company caused Wells Federal Bank to merge with and into the Bank, with the Bank surviving the merger. The merger expanded the Bank's market share in Mankato and southern Minnesota, along with expanded services through Wells Insurance Agency, Inc. ("WIA"). WIA provided insurance products to the Bank's customers and was sold on June 30, 2020.

On October 19, 2018, the Company completed its previously announced acquisition (the "Acquisition") of United Bank for a total cash consideration of approximately $51.1 million, subject to certain post-closing purchase price adjustments and future indemnity claims. In connection with the acquisition, the Company merged United Bank with and into the Bank, with the Bank surviving the merger.

On December 3, 2018, the Bank entered into a Purchase and Assumption Agreement with Lake Michigan Credit Union providing for the sale of the Bank's one branch located in Rochester Hills, MI. On May 17, 2019, the Company completed the sale of the Rochester Hills, MI branch for a deposit premium of 7 percent, or approximately $2.3 million, net of selling costs. The branch sale included approximately $34 million in deposits and $300,000 in fixed assets. The Bank retained all loans associated with the branch.

On January 21, 2019, the Company and F&M Merger Sub, Inc., a newly formed Minnesota corporation and wholly-owned subsidiary of the Company, entered into an Agreement and Plan of Merger (the "Merger Agreement") with F. & M. Bancorp. of Tomah, Inc., a Wisconsin corporation ("F&M"). On July 1, 2019, the Company closed on the acquisition of F&M and completed the related data systems conversion on July 14, 2019. F. & M. Investment Corp. of Tomah was a wholly owned subsidiary of the Bank that was formerly utilized by F&M to manage its municipal bond portfolio and has been dissolved. See Note 2, "Acquisitions" for additional information.

Internet Website

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

Selected Consolidated Financial Information

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

Yields Earned and Rates Paid

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

Rate/Volume Analysis

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

Average Balance, Interest and Average Yields and Rates

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

Lending Activities

We offer a variety of loan products including commercial real estate loans, commercial and industrial (C&I) loans, agricultural real estate loans, agricultural operating loans, residential mortgages, home equity lines-of-credit and consumer loans. We make real estate, consumer, commercial and agricultural loans in accordance with the basic lending policies established by Bank management and approved by our Board of Directors. We focus our lending activities on individual consumers and small commercial borrowers within our market areas. Our lending has been historically concentrated primarily within Wisconsin and Minnesota. 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 December 31, 2020, were $1.25 billion, consisting of $797.1 million in commercial agricultural real estate loans, $273.0 million in C&I/agricultural operating loans, $137.6 million in residential mortgage loans and $39.1 million in consumer installment loans. See Item 7; "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Balance Sheet Analysis" for further analysis of our loan portfolio.

Investment Activities

We maintain a portfolio of investments, consisting primarily of mortgage-backed securities, corporate asset-backed securities, U.S. Government sponsored agency securities, corporate debt securities and trust preferred securities. We attempt to balance our portfolio to manage interest rate risk, regulatory requirements, and liquidity needs while providing an appropriate rate of return commensurate with the risk of the investment. See Item 7; "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Balance Sheet Analysis *Investment Securities*" for further analysis of our investment portfolio.

Deposits and Other Sources of Funds

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

Deposits. We offer a broad range of deposit products through our branches, including demand deposits, various savings and money-market accounts and certificates of deposit. Deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. At December 31, 2020, our total deposits were $1.30 billion including interest bearing deposits of $1.06 billion and non-interest bearing deposits of $0.24 billion.

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

Competition

We compete with other financial institutions and businesses both in attracting and retaining deposits and making loans in all of our principal markets. We believe the primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, technology, convenient locations and office hours, and alternative delivery systems. One such delivery system is remote deposit capture for those commercial customers that are not conveniently located near one of our branches or mobile banking for retail customers. Competition for deposit products comes primarily from other banks, credit unions and non-bank competitors, including insurance companies, money market and mutual funds, and other investment alternatives. We believe the primary factors in competing for loans are interest rates, loan origination fees, and the quality and the range of lending services. Successful loan originations tend to depend not only on interest rate and terms of the loan but also on being responsive and flexible to the customer's needs. Competition for loans comes primarily from other banks, mortgage banking firms, credit unions, finance companies, leasing companies and other financial intermediaries. Some of our competitors are not subject to the same degree of regulation as that imposed on national banks or federally insured institutions, and these other institutions may be able to price loans and deposits more aggressively. We also face direct competition from other banks and their holding companies that have greater assets and resources than ours. However, we have been able to compete effectively with other financial institutions by building customer relationships with a focus on small-business solutions, including internet and mobile banking, electronic bill pay and remote deposit capture.

Regulation and Supervision

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

The following is a brief summary of material statutes and regulations that affect the Company and the Bank. The following summary is not a complete discussion or analysis and is qualified in its entirety by reference to the statutes and regulations summarized below. The laws and regulations applicable to the Company and the Bank are subject to change. The likelihood and timing of any changes, and the impact such changes may have on the Company and the Bank, are difficult to predict, although it is expected that the recent change in administrations at the federal level will lead to changes over the next several years. In addition, bank regulatory agencies may issue enforcement actions, policy statements, interpretive letters and similar written guidance applicable to the Company or the Bank. All of the forgoing may have a material adverse effect on our business, operations, and earnings.

Securities Regulation and Listing

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

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

Sarbanes-Oxley Act.

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

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

The Dodd-Frank Act

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

- permanently increased the FDIC's standard maximum deposit insurance amount to $250,000, changed the FDIC insurance assessment base to assets rather than deposits and increased the reserve ratio for the deposit insurance fund to ensure the future strength of the fund;

- repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

- created and centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (the "CFPB"). Smaller institutions are subject to rules promulgated by the CFPB and are also examined and supervised by their federal banking regulators for consumer compliance purposes;

- imposed limits for debit card interchange fees for issuers that have assets greater than $10 billion, which also could affect the amount of interchange fees collected by financial institutions with less than $10 billion in assets;

- restricted the preemption of state law by federal law and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption;

- imposed comprehensive regulation of the over-the-counter derivatives market subject to significant rulemaking processes, to include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;

- established new requirements related to mortgage lending, including prohibitions against payment of steering incentives and provisions relating to underwriting standards, disclosures, appraisals and escrows;

- prohibited banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (the Volcker Rule); and

- implemented corporate governance revisions that apply to all public companies, not just financial institutions.

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

2018 Regulatory Reform

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "EGRRCPA"), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes provide a framework that could result in meaningful regulatory relief for community banks such as the Bank. The EGRRCPA provides banks the option to elect whether or not to opt in to the new framework. After analysis, management of the Bank determined to not opt in.

Capital Adequacy

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

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

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

Bank Holding Company Regulation

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

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

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

The Company is required to file periodic reports with the FRB and provide any additional information the FRB may require. The FRB also has the authority to examine the Company and its subsidiaries, as well as any arrangements between the Company and its subsidiaries, with the cost of any such examinations to be borne by the Company. Banking subsidiaries of bank holding companies are also subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates.

Federal law restricts the amount of voting stock of a bank holding company or a bank that a person or group may acquire without the prior approval of banking regulators. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company, such as the Company, and the OCC before acquiring control of any national bank, such as the Bank. The Change in Bank Control Act ("CBCA") prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company. In addition, the CBCA prohibits any entity from acquiring 25% (the BHC Act has a lower limit for acquirers that are existing bank holding companies) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the Federal Reserve. On January 31, 2020, the Federal Reserve Board approved the issuance of a final rule (which became effective October 1, 2020) that clarified and codified the Federal Reserve's standards for determining whether one company has control over another. The final rule established four categories of tiered presumptions of non-control that are based on the percentage of voting shares held by the investor (less than 5%, 5-9.9%, 10-14.9% and 15-24.9%) and the presence of other indicia of control. As the percentage of ownership increases, fewer indicia of control are permitted without falling outside of the presumption of non-control. These indicia of control include nonvoting equity ownership, director representation, management interlocks, business relationship and restrictive contractual covenants. Under the final rule, investors can hold up to 24.9% of the voting securities and up to 33% of the total equity of a company without necessarily having a controlling influence.

Bank Regulation

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

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

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

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

Privacy Restrictions

The Gramm-Leach-Bliley Act of 1999 ("GLBA"), in addition to making changes to permissible non-banking activities in which banks are permitted to engage, also requires financial institutions in the U.S. to provide certain privacy disclosures to customers and consumers, to comply with certain restrictions on sharing and usage of personally identifiable information, and to implement and maintain commercially reasonable customer information safeguarding standards.

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

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

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

Deposit Insurance. The deposits of the Bank are insured by the Deposit Insurance Fund (DIF) of the FDIC up to the limits set forth under applicable law and are subject to the deposit insurance premium assessments of the DIF. Under the Dodd-Frank Act, the maximum per depositor FDIC insurance amount increased from $100,000 to $250,000. The FDIC applies a risk-based system for setting deposit insurance assessments, which was amended by the Dodd-Frank Act. Under this system, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rate based on certain specified financial ratios or, if applicable, its long-term debt ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. In addition to deposit insurance assessments, the FDIC is authorized to collect assessments from FDIC insured depository institutions to service the outstanding obligations of Financing Corporation (FICO).

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

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

As a member, the Bank is required to purchase and maintain stock in the FHLB of Chicago based on activity and membership requirements. As of December 31, 2020, the Bank had $7.3 million in FHLB stock, which was in compliance with this requirement. The Bank receives dividends on its FHLB stock.

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

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

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

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

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act of 2017 ("Tax Act"), enacted on December 22, 2017, reduces corporate Federal income tax rates for the Company from 34% to 24.5% for 2018, and 21% for 2019 and 2020. The Company anticipates that this tax rate change should reduce its federal income tax liability in future years, but the Company did recognize certain effects of the tax law changes related to the revaluation of the deferred tax assets to both the revaluation of timing differences and the unrealized loss on securities. See Item 7; "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Critical Accounting Estimates *Income Taxes*."

Effects of Government Monetary Policy

The earnings of the Company are affected by general and local economic conditions and by the policies of various governmental regulatory authorities. In particular, the FRB regulates money supply, credit conditions and interest rates in order to influence general economic conditions, primarily through open market operations in United States Government Securities, varying the discount rate on member bank borrowings, setting reserve requirements against member and nonmember bank deposits, regulating interest rates payable by member banks on time and savings deposits and expanding or contracting the money supply. FRB monetary policies have had a significant effect on the operating results of commercial banks and their holding companies, including the Bank and the Company, in the past and are expected to continue to do so in the future.

Human Capital

We are focused on the success, health and long-term growth and development of our employees and our objective is to attract and reward individuals with the talent and skills to help support our business objectives. Our employees are integral to the success of our business, particularly because most are customer-facing on behalf of our Company. Our ability to develop and retain our customers depends on the integrity, capabilities and knowledge of our employees.

Therefore, in order to compete effectively and continue to provide best in class service to our customers, we must attract, retain and motivate our employees. We believe our human capital efforts, which include employee training, employee health and benefits packages, and engaging employees in volunteer activities in the communities that we serve, all contribute to our success in attracting, retaining and motivating strong employee talent.

At March 8, 2021, we had 234 full-time employees and 251 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.

RISKS RELATED TO ECONOMIC CONDITIONS

Our business may be adversely affected by conditions in the financial markets and economic conditions generally. We operate primarily in the Wisconsin and Minnesota markets. As a result, our financial condition, results of operations and cash flows are significantly impacted by changes in the economic conditions in those areas. In addition, our business is susceptible to broader economic trends within the United States economy. Economic conditions have a significant impact on the demand for our products and services, as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. A significant decline in general economic conditions caused by inflation, recession, tariffs, unemployment, changes in securities markets, changes in housing market prices, geopolitical uncertainties, natural disasters, pandemics and election outcomes or other factors could impact economic conditions and, in turn, could have a material adverse effect on our financial condition and results of operations.

In particular, the COVID-19 pandemic, restrictions intended to prevent and mitigate its spread, challenges related to vaccination rollout and new variants of the virus has and is expected to continue to (and the future outbreak of other highly infectious or contagious diseases likely would) significantly and negatively impact financial markets and economic conditions in our markets, the United States and globally. As a result, consumer confidence and consumer credit factors have been, and may be further, negatively impacted. Consequently, our business, financial condition and results of operations have been and could be further significantly and adversely affected. See also "***The COVID-19 pandemic is expected to continue to cause adverse economic conditions and could have an adverse impact on our financial condition and our results of operations and other aspects of our business.***"

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 and Minnesota, and our net income declined as a result. Decreases in real estate values adversely affected the value of property used as collateral for loans as well as investments in our portfolio. Continued slow growth in the economy since 2009 resulted in increased competition and lower rates, which has negatively impacted our net income and profits.

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

The COVID-19 pandemic is expected to continue to cause adverse economic conditions and could have an adverse impact on our financial condition and our results of operations and other aspects of our business.

We are closely monitoring developments related to the COVID-19 pandemic to assess its impact on our business. While still evolving, the COVID-19 pandemic has caused significant economic and financial turmoil both in the U.S. and around the world, and has fueled concerns that it may lead to a global recession. These conditions are expected to continue and worsen in the near term. At this time, it is not possible to estimate how long it will take to halt the spread of the virus or the long term effects that the COVID-19 pandemic could have on our business. The extent to which the COVID-19 pandemic impacts our business, results of operations, financial condition, liquidity or prospects will depend on future developments which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and the actions taken to contain or address its impact.

While we have implemented risk management and contingency plans and taken preventive measures and other precautions, no predictions of specific scenarios can be made with respect to the COVID-19 pandemic and such measures may not adequately predict the impact on our business from such events. Currently, many of our employees have been working remotely for an extended period of time. An extended period of remote work arrangements could strain our business continuity plans, introduce operational risk, including but not limited to cybersecurity risks, and impair our ability to manage our business.

Increased economic uncertainty and increased unemployment resulting from the economic impacts of the spread of COVID-19 may also adversely impact the ability of borrowers to repay outstanding loans, or could substantially weaken the value of collateral securing those loans. In addition, any resulting 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 participate as an approved lender pursuant to the Paycheck Protection Program, which was established under the congressionally-approved Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration (the "SBA"). The Paycheck Protection Program gives small businesses and self-employed individuals guaranteed loans and loan forgiveness to stay in business during the COVID-19 pandemic, subject to certain requirements. As an SBA-approved lender, we secured more than $139 million in authorized funding for our customers under the Paycheck Protection Program. As a result of factors including the fact that the Paycheck Protection Program is a new program that was created urgently in response to the COVID-19 outbreak, lenders and customers have experienced, and may experience further, challenges in the administration and debt forgiveness process.

While governmental and non-governmental organizations are engaging in efforts to combat the spread and severity of the COVID-19 pandemic and related public health issues, these measures may not be effective. We also cannot predict how legal and regulatory responses to concerns about the COVID-19 pandemic and related public health issues will impact our business. Such events or conditions could result in regulation or restrictions affecting the conduct of our business in the future.

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.

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

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. As a result of the economic impacts of the COVID-19 pandemic, interest rates in the United States have been reduced, and may be even further reduced. 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. In particular, reduced interest rates negatively impact our results of operations. See also "***The COVID-19 pandemic is expected to continue to cause adverse economic conditions and could have an adverse impact on our financial condition and our results of operations and other aspects of our business.***"

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), including weakening economic conditions as a result of the COVID-19 pandemic, has and could further adversely impact the ability of borrowers to repay outstanding loans, or could substantially weaken the value of collateral securing those loans. As of December 31, 2020, the Bank had $61.0 million of loan modifications remaining due to pandemic-related borrower requests. See "Allowance for Loan Losses" for discussion of COVID-19 qualitative factors, and related provision for loan losses. 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. See also "***The COVID-19 pandemic pandemic is expected to continue to cause adverse economic conditions and could have an adverse impact on our financial condition and our results of operations and other aspects of our business.***"

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 operating 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.

Changes in the fair value or ratings downgrades of our securities may reduce our stockholders' equity, net earnings, or regulatory capital ratios. At December 31, 2020, $144.2 million of our securities, were classified as available for sale and $43.6 million were classified as held to maturity. The estimated fair value of our available for sale securities portfolio may increase or decrease depending on market conditions. Our available for sale securities portfolio is comprised of fixed-rate, and to a lesser extent, floating rate securities. We increase or decrease stockholders' equity by the amount of the change in unrealized gain or loss (the difference between the estimated fair value and amortized cost) of our available for sale securities portfolio, net of the related tax benefit or provision, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in our reported stockholders' equity, as well as our book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold, the decrease may be recovered over the life of the securities.

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

We have, in the past, recorded other than temporary impairment ("OTTI") charges, principally arising from investments in non-agency mortgage-backed securities. We do not currently hold any 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.

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.

Our growth strategy includes selectively acquiring businesses through acquisitions of other banks, and our ability to consummate these acquisitions on economically advantageous terms acceptable to us in the future is unknown. Our growth strategy includes acquisitions of other banks that serve customers or markets we find desirable, including our recent acquisitions of Community Bank of Northern Wisconsin (“CBN”), WFC, United Bank and F&M. The market for acquisitions remains highly competitive, and we may be unable to find satisfactory acquisition candidates in the future that fit our acquisition and growth strategy. This competition could increase prices for potential acquisitions that we believe are attractive. Any such acquisitions could be funded through cash from operations, the issuance of equity and/or the incurrence of additional indebtedness, which amount may be material, or a combination thereof. Any acquisition could be dilutive to our earnings and stockholders' equity per share of our common stock. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests. Among other things, our regulators consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill and intangibles when considering acquisition and expansion proposals. To the extent that we are unable to find suitable acquisition candidates, an important component of our growth strategy may be lost.

Acquisition and expansion activities may disrupt our business, dilute existing stockholders and adversely affect our operating results. We acquired F&M in July 2019, United Bank in October 2018, WFC in August 2017 and CBN in May 2016. We intend to continue to evaluate potential acquisitions and expansion opportunities in the normal course of our business. Although the integration of F&M, United Bank, WFC and CBN have been successfully completed, we cannot assure you that we will be able to adequately or profitably manage the ongoing integration of 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.

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 2022, 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.

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 the Bank. 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 Subordinated Note Purchase Agreement dated August 27, 2020 and Business Note Agreement dated August 1, 2018, each of which prohibits the Company from declaring or paying dividends while an event of default has occurred and is continuing under each respective agreement. The Company has pledged 100% of Bank stock as collateral for the loan and credit facilities provided for by the Business Note Agreement. The inability to receive dividends from the Bank could have an adverse effect on our business and financial condition.

Furthermore, holders of our common stock are only entitled to receive the dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically paid cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

Our shares of common stock are thinly traded and our stock price may be more volatile. Because our common stock is thinly traded, its market price may fluctuate significantly more than the stock market in general or the stock prices of similar companies, which are exchanged, listed or quoted on the NASDAQ Stock Market. We believe there are 10,356,276 shares of our common stock held by nonaffiliates as of March 8, 2021. 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.

REGULATORY AND COMPLIANCE RISKS

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 referred to as Current Expected Credit Loss, or CECL, which 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. The FASB extended the effective date of CECL from January 2021 to January 2023 for smaller reporting companies such as the Company. Once effective, 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.

We operate in a highly regulated environment, and are subject to changes, which could increase our cost structure or have other negative impacts on our operations. The banking industry is extensively regulated at the federal and state levels. Insured depository institutions and their holding companies are subject to comprehensive regulation and supervision by financial regulatory authorities covering all aspects of their organization, management and operations. We are also subject to regulation by the SEC. Our compliance with these regulations, including compliance with regulatory commitments, is costly. Regulation includes, among other things, capital and reserve requirements, permissible investments and lines of business, mergers and acquisitions, restrictions on transactions with insiders and affiliates, anti-money laundering regulations, dividend limitations, community reinvestment requirements, limitations on products and services offered, loan limits, geographical limits, and consumer credit regulations. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the Deposit Insurance Fund, our depositors and the public, rather than our stockholders. Failure to comply with applicable laws, regulations or policies could result in sanction by regulatory agencies, civil monetary penalties, and/or damage to our reputation, which could have a material adverse effect on our business, consolidated financial condition and results of operations. In addition, any change in government regulation could have a material adverse effect on our business.

Federal law restricts the amount of voting stock of a bank holding company or a bank, that a person or group may acquire, without the prior approval of banking regulators. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company, such as the Company, and the OCC before acquiring control of any national bank, such as the Bank. Under the BHCA and Federal Reserve guidance thereunder, a person or group will be presumed to control a bank holding company if they acquire a certain percentage of the bank holding company or if one or more other control factors are present. On January 31, 2020, the Federal Reserve Board approved the issuance of a final rule (which became effective October 1, 2020) that clarified and codified the Federal Reserve's standards for determining whether one company has control over another. The final rule established four categories of tiered presumptions of noncontrol that are based on the percentage of voting shares held by the investor (less than 5%, 5-9.9%, 10-14.9% and 15-24.9%) and the presence of other indicia of control. As the percentage of ownership increases, fewer indicia of control are permitted without falling outside of the presumption of noncontrol. These indicia of control include nonvoting equity ownership, director representation, management interlocks, business relationship and restrictive contractual covenants. Under the final rule, investors can hold up to 24.9% of the voting securities and up to 33% of the total equity of a company without necessarily having a controlling influence. The overall effect of the BHCA is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of the Company may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other non-bank companies. Investors should be aware of these requirements when acquiring shares of our stock.

We have become subject to more stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or limit our ability to pay dividends or repurchase shares.

The Basel III Rules, which became effective for us on January 1, 2015, included new minimum risk-based capital and leverage ratios and refined 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 established a “capital conservation buffer” of 2.5%. The 2.5% capital conservation buffer was phased in incrementally over time, and became effective for us on January 1, 2019, resulting in the following minimum capital plus capital conservation buffer 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%. An institution is subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the buffer amount. The application of more stringent capital requirements could, among other things, result in lower returns on equity, and result in regulatory actions if we are unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of the Basel III Rules could result in our having to lengthen the term of our funding sources, change our business models or increase our holdings of liquid assets. Specifically, the Bank’s ability to pay dividends will be limited if it does not have the capital conservation buffer required by the new capital rules, which may further limit the Company’s ability to pay dividends to stockholders.

We are subject to increases in FDIC insurance premiums and special assessments by the FDIC, which will adversely affect our earnings. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. For example, during 2008 and 2009, higher levels of bank failures dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. The Dodd-Frank Wall Street Reform and Consumer Protection Act, 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.

Our reporting obligations as a public company are costly. Reporting requirements of a public company change depending on the reporting classification in which the Company falls as of the end of its second quarter of each fiscal year. The Company is currently a “smaller reporting company” which allows us to provide certain simplified and scaled disclosures in our filings. We will remain a smaller reporting company for so long as the market value of the Company’s common stock held by non-affiliates as of the end of its most recently completed second fiscal quarter is less than $250 million, or as of the same period the Company’s annual revenues are less than $100 million and its public float is less than $700 million. Historically, we have been categorized as a smaller reporting company and an “accelerated filer” and, thus, subject to the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that an independent registered public accounting firm provide an attestation report on the effectiveness of internal control over financial reporting. On March 12, 2020, the SEC adopted amendments to the accelerated filer definitions in Rule 12b-2 under the Securities Exchange Act of 1934. Under the new definitions, a smaller reporting company with less than $100 million in revenue that previously met the definition of an accelerated filer, like the Company, will now be considered a “non-accelerated” filer and will not be required to obtain an attestation of their internal control over financial reporting as required under Section 404(b) of the Sarbanes-Oxley Act and will not be required to comply with the shorter SEC filing deadlines that apply to accelerated filers. As such, the Company is not subject to Section 404(b) of the Sarbanes-Oxley Act. However, if the Company’s revenues increase above $100 million, we would again become subject to the provisions of Section 404(b) of the Sarbanes-Oxley Act, making the public reporting process more costly.

Changes in federal or state tax laws could adversely affect our business, financial condition and results of operations. Our business, financial condition and results of operations are impacted by tax policy implemented at the federal and state level. The Tax Act was enacted in December 2017. Among other things, the Tax Act reduces the corporate federal income tax rate for the Company from 34 percent to 24.5 percent for 2018, and 21 percent for 2019 and 2020, which would result in changes in the valuation of deferred tax asset and liabilities, and includes a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. We revalued our net deferred tax assets to account for the future impact of the lower corporate tax rates. The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. In addition, these recent changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could reduce our profitability and materially adversely affect our business, financial condition and results of operations.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases its main administrative offices located at 2174 EastRidge Center, Eau Claire, WI 54701. At December 31, 2020, the Bank had a total of 25 full-service branch offices located in the Wisconsin cities of Altoona, Barron, Eau Claire, Ellsworth, Ettrick, Ladysmith, Lake Hallie, Mondovi, Osseo, Rice Lake (2), Spooner, Strum and Tomah (2); and the Minnesota cities of Albert Lea, Blue Earth, Fairmont, Faribault, Mankato, Oakdale, Red Wing, St. James, St. Peter and Wells. Of these, the Bank owns 20 and leases the remaining 5 branch offices. Management believes that our current facilities are adequate to meet our present and immediately foreseeable needs. For more information on our properties and equipment, see Note 6, Office Properties and Equipment of Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. For more information on our leases, see Note 8, Leases of Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None

PART II

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

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

We had approximately 626 stockholders of record at March 8, 2021. 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.

Dividends

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. During the continuance of an event of default under its Subordinated Note Purchase Agreement entered into with certain accredited purchasers in August 2020, the Company would be restricted from declaring or paying any dividends on its capital stock. In determining the payment of cash dividends, our Board of Directors considers our earnings, capital and debt servicing requirements, the financial ratio guidelines of our regulators, our financial condition and other relevant factors.

The Company's ability to pay dividends on its common stock is dependent on the dividend payments it receives from the Bank, since the Company receives substantially all of its revenue in the form of dividends from the Bank. Future dividends are not guaranteed and will depend on the Company's ability to pay them. For more information on dividends, see Note 11, Capital Matters of Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Purchases of Equity Securities by the Issuer

On November 30, 2020, the Board of Directors approved a stock repurchase program. Under this program the Company may repurchase up to approximately 5% of the outstanding shares of its common stock as of November 30, 2020, or 557,728 shares, from time to time. The table below shows information about our repurchases of our common stock during the period beginning on November 30, 2020 (the date on which the plan was adopted) and ending on December 31, 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
November 30, 2020 - November 30, 2020	—	$ —	—	557,728
December 1, 2020 - December 31, 2020	97,765	$ 10.00	97,765	459,963
Total	97,765	$ 10.00	97,765	

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth selected historical financial and other data of the Company for the years and at the dates indicated. The information at December 31, 2020 and December 31, 2019, and for the twelve months ended December 31, 2020 and December 31, 2019 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of the Company that appear in this Annual Report on Form 10-K. The information at December 31, 2018, September 30, 2018 and September 30, 2017 and for the three month transition period ended December 31, 2018, and for the twelve months ended September 30, 2018 and 2017 is derived in part from audited financial statements that do not appear in this Annual Report on Form 10-K. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with Item 7., "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8., "Financial Statements and Supplementary Data" included in this Form 10-K. See discussion of the Company's acquisitions in Item 1., "Business", in Item 7., "Management's Discussion and Analysis of Financial Condition and Results of Operations", and in Note 2. "Acquisition" in the consolidated financial statements.

	Year ended December 31,	Year ended December 31,	Three month transition period ended December 31,
	2020	2019	2018
Selected Results of Operations Data:			
Interest income	$ 64,527	$ 60,423	$ 13,047
Interest expense	14,272	16,910	3,007
Net interest income	50,255	43,513	10,040
Provision for loan losses	7,750	3,525	950
Net interest income after provision for loan losses	42,505	39,988	9,090
Gain on sale of loans, loan servicing income and fees and service charges	14,066	8,649	1,790
Other non-interest income	4,382	6,326	736
Non-interest income	18,448	14,975	2,526
Non-interest expense	43,673	42,686	9,794
Income before provision for income taxes	17,280	12,277	1,822
Income tax provision	4,555	2,814	561
Net income	$ 12,725	$ 9,463	$ 1,261
Per Share Data: (1)			
Net income per share (basic) (1)	$ 1.14	$ 0.85	$ 0.12
Net income per share (diluted) (1)	$ 1.14	$ 0.85	$ 0.12
Cash dividends per common share	$ 0.21	$ 0.20	$ —
Book value per share at end of period	$ 14.52	$ 13.36	$ 12.62
Tangible book value per share at end of period	$ 11.18	$ 9.89	$ 9.03

FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

	As of, or for the		
	Year ended December 31,	Year ended December 31,	Three month transition period ended December 31,
	2020	2019	2018
Selected Financial Condition Data:			
Total assets	$ 1,649,095	$ 1,531,249	$ 1,287,924
Investment securities	$ 187,784	$ 182,970	$ 151,575
Loans receivable	$ 1,237,581	$ 1,177,380	$ 992,556
Total deposits	$ 1,295,256	$ 1,195,702	$ 1,007,512
FHLB short-term borrowings and borrowings maturing within twelve months, net of unamortized discount	$ 7,968	$ 73,471	$ 98,813
Other FHLB borrowings	$ 115,530	$ 57,500	$ 11,000
Other borrowings	$ 58,328	$ 43,560	$ 24,647
Total shareholders’ equity	$ 160,564	$ 150,553	$ 138,187
Weighted average basic common shares outstanding	11,161,551	11,114,328	10,942,920
Weighted average diluted common shares outstanding	11,161,811	11,121,289	10,967,386
Performance Ratios:			
Return on average assets	0.80 %	0.68 %	0.42 %
Return on average total shareholders’ equity	8.29 %	6.59 %	3.65 %
Net interest margin (2)	3.40 %	3.37 %	3.56 %
Net interest spread (2)			
Average during period	3.20 %	3.13 %	3.32 %
End of period	3.18 %	3.46 %	3.68 %
Net overhead ratio (3)	1.58 %	1.98 %	2.44 %
Average loan-to-average deposit ratio	98.97 %	98.55 %	94.99 %
Average interest bearing assets to average interest bearing liabilities	120.13 %	118.35 %	122.68 %
Efficiency ratio (4)	63.57 %	72.98 %	77.94 %
Asset Quality Ratios:			
Non-performing loans to total loans (5)	0.92 %	1.71 %	0.82 %
Allowance for loan losses to:			
Total loans (net of unearned income)	1.38 %	0.88 %	0.77 %
Non-performing loans (5)	150.38 %	51.19 %	93.99 %
Net charge-offs to average loans	0.08 %	0.08 %	0.04 %
Non-performing assets to total assets (5)	0.70 %	1.41 %	0.83 %
Capital Ratios:			
Shareholders’ equity to assets (6)	9.74 %	9.83 %	10.73 %
Average equity to average assets (6)	9.63 %	10.26 %	11.52 %
Tier 1 capital (leverage ratio) (7)	9.9 %	10.4 %	9.7 %
Total risk-based capital (7)	14.7 %	13.1 %	12.7 %

FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

	Years ended September 30, (dollars in thousands, except per share data)	
	2018	2017
Selected Results of Operations Data:		
Interest income	$ 38,896	$ 27,878
Interest expense	8,593	5,610
Net interest income	30,303	22,268
Provision for loan losses	1,300	319
Net interest income after provision for loan losses	29,003	21,949
Gain on sale of loans, loan servicing income and fees and service charges	4,635	2,937
Net (loss) gain on sale of available for sale securities	(17)	111
Other non-interest income	2,752	1,703
Non-interest income	7,370	4,751
Non-interest expense	29,764	22,878
Income before provision for income taxes	6,609	3,822
Income tax provision	2,326	1,323
Net income	$ 4,283	$ 2,499
Per Share Data: (1)		
Net income per share (basic) (1)	$ 0.72	$ 0.47
Net income per share (diluted) (1)	$ 0.58	$ 0.46
Cash dividends per common share	$ 0.20	$ 0.16
Book value per share at end of period	$ 12.45	$ 12.48
Tangible book value per share at end of period	$ 11.05	$ 9.78

FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

	As of, and for the Years ended September 30, (dollars in thousands, except per share data)	
	2018	2017
Selected Financial Condition Data:		
Total assets	$ 975,409	$ 940,664
Investment securities	$ 123,101	$ 101,336
Loans receivable	$ 759,247	$ 732,995
Total deposits	$ 746,529	$ 742,504
FHLB short-term borrowings and borrowings maturing within twelve months, net of unamortized discount	$ 63,000	$ 90,000
Other FHLB borrowings	$ —	$ —
Other borrowings	$ 24,619	$ 30,319
Total shareholders’ equity	$ 135,847	$ 73,483
Weighted average basic common shares outstanding	5,943,891	5,361,843
Weighted average diluted common shares outstanding	7,335,247	5,378,360
Performance Ratios:		
Return on average assets	0.45 %	0.34 %
Return on average total shareholders’ equity	4.35 %	3.76 %
Net interest margin (2)	3.42 %	3.31 %
Net interest spread (2)		
Average during period	3.27 %	3.19 %
End of period	3.37 %	3.47 %
Net overhead ratio (3)	2.35 %	2.48 %
Average loan-to-average deposit ratio	99.52 %	100.87 %
Average interest bearing assets to average interest bearing liabilities	114.92 %	114.96 %
Efficiency ratio (4)	79.01 %	84.67 %
Asset Quality Ratios:		
Non-performing loans to total loans (5)	1.10 %	1.10 %
Allowance for loan losses to:		
Total loans (net of unearned income)	0.89 %	0.81 %
Non-performing loans (5)	81.04 %	73.90 %
Net charge-offs to average loans	0.07 %	0.07 %
Non-performing assets to total assets (5)	1.14 %	1.49 %
Capital Ratios:		
Shareholders’ equity to assets (6)	13.93 %	7.81 %
Average equity to average assets (6)	10.32 %	9.09 %
Tier 1 capital (leverage ratio) (7)	9.2 %	9.2 %
Total risk-based capital (7)	13.1 %	13.2 %

(1) Earnings per share are based on the weighted average number of shares outstanding for the period.
(2) Net interest margin represents net interest income as a percentage of average interest earning assets, and net interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
(3) Net overhead ratio represents the difference between non-interest expense and non-interest income, divided by average assets.
(4) Efficiency ratio represents non-interest expense, divided by the sum of net interest income and non-interest income.
(5) Non-performing loans are either 90+ days past due or nonaccrual. Non-performing assets consist of non-performing loans plus other real estate owned plus other collateral owned.
(6) Company ratios
(7) Bank regulatory ratios

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

GENERAL

The following discussion sets forth management's discussion and analysis of our results of operations for the year ended December 31, 2020 and December 31, 2019, and our financial position as of December 31, 2020 and December 31, 2019, respectively. The MD&A should be read in conjunction with our consolidated financial statements, related notes, the selected financial data and the statistical information presented elsewhere in this Annual Report on Form 10-K for a more complete understanding of the following discussion and analysis. Unless otherwise noted, years refer to the Company's fiscal years ended December 31, 2020 and December 31, 2019.

PERFORMANCE SUMMARY

The following is a brief summary of some of the significant factors that affected our operating results for the twelve months ended December 31, 2020 and 2019. In 2020, net interest income was favorably impacted by the following: (1) higher accretion of discounts associated with paydown of purchased credit impaired loans, (2) income realized from the origination of the Small Business Administration Paycheck Protection Program ("SBA PPP") loans, (3) lower deposit costs due to the lower 2020 interest rate environment, (4) an additional six months of net interest income on the F&M acquisition, partially offset by (5) lower interest income on loans, securities and cash and cash equivalents due to the lower interest rate environment and (6) a partial year of interest expense on the Company's issuance of subordinated debt in August 2020. The Company recorded higher provision for loan losses in 2020 largely due to organic loan growth along with qualitative factor increases to reflect uncertainty in current general economic conditions. In 2020's lower interest rate environment, the Company realized higher mortgage loans originated for sale, which increased gain on sale and income recorded in loan servicing income from the capitalization of mortgage servicing rights, partially offset by higher mortgage servicing rights impairment and an increase in variable compensation tied to mortgage loan production. On July 1, 2019, we closed on the F&M acquisition. As a result, fiscal 2019 was positively impacted by six months of F&M income, which was more than offset by merger charges. Total related merger and acquisition charges were $3.9 million in fiscal 2019. Fiscal 2019 operating results were positively impacted by the net gain on sale of the Michigan branch totaling $2.3 million. Fiscal 2019 also included $0.4 million of professional fees related to the change in our fiscal year end.

When comparing, year over year results, changes in net interest income, provision for loan losses, non-interest income and non-interest expense are primarily due to the items discussed above. 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.

On July 1, 2019, the Company completed its previously announced acquisition (the "Acquisition") of F. & M. Bancorp. of Tomah Inc. ("F&M"), which enhanced the composition of commercial and agricultural loans and increased our market presence in Wisconsin. In connection with the acquisition, the Company merged F&M with and into the Bank, with the Bank surviving the merger. See Note 2, "Acquisition" for additional information.

We reported net income of $12.73 million for the twelve months ended December 31, 2020, compared to net income of $9.46 million for the twelve months ended December 31, 2019. Diluted earnings per share were $1.14 for the twelve months ended December 31, 2020 compared to $0.85 for the twelve months ended December 31, 2019. Return on average assets for the twelve months ended December 31, 2020 was 0.80%, compared to 0.68% for the twelve months ended December 31, 2019. The return on average equity was 8.29% for the twelve months ended December 31, 2020 and 6.59% for the comparable period in 2019.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"). In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amount of assets, liabilities, revenue, expenses and 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 and Other Intangible Assets.

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, but reviews goodwill 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 December 31, 2020 which is related to its banking activities. The impairment testing process is conducted by assigning net assets and goodwill to the Company's reporting unit. An initial qualitative evaluation is made to assess the likelihood of impairment and determine whether further quantitative testing to calculate the fair value is necessary. When the qualitative evaluation indicates that impairment is more likely than not, quantitative testing is required whereby the fair value of the Company's reporting unit is calculated and compared to the recorded book value, "step one." If the calculated fair value of the Company's reporting unit exceeds its carrying value, goodwill is not considered impaired and "step two" is not considered necessary. If the carrying value of the company's reporting unit exceeds its calculated fair value, the impairment test continues ("step two") by comparing the carrying value of the Company's reporting unit's goodwill to the implied fair value of goodwill. An impairment charge is recognized if the carrying value of goodwill exceeds the implied fair value of goodwill.

In March 2020, the Company determined that a quarterly review of goodwill impairment should be performed, and this review was performed in each quarter of 2020. These quarterly reviews determined that goodwill was not impaired at any 2020 quarter-end, or as of December 31, 2020.

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, 14 and 15 of Notes to Consolidated Financial Statements.

Income Taxes.

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

The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and application of specific provisions of Federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of Federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the deferred tax assets and liabilities are adequate and properly recorded in the accompanying consolidated financial statements. As of December 31, 2020, management does not believe a valuation allowance related to the realizability of its deferred tax assets is necessary.

Business Combinations.

Business combinations are accounted for by applying the acquisition method of accounting. As of acquisition date, the identifiable assets acquired and liabilities assumed are measured at fair value and recognized separately from goodwill. Results of operations of the acquired entities are included in the consolidated statement of operations from the date of acquisition. The calculation of intangible assets, including core deposit intangibles, and the fair value of loans are based on significant judgments. Core deposit intangibles are calculated using a discounted cash flow model, based on various factors including, among others, discount rate, attrition rate, interest rate and cost of alternative funds.

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

STATEMENT OF OPERATIONS ANALYSIS

Twelve months ended December 31, 2020 vs. Twelve months ended December 31, 2019

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

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

Net interest income was \$50.3 million for 2020 compared to \$43.5 million for 2019. The increase in average balances is largely the reason for the increase in net interest income, due to both a full year of F&M balances and SBA PPP loan origination growth, with originated loan growth muted by acquired loan shrinkage. The net interest margin for 2020 was 3.40% compared to 3.37% for 2019. This increase in the net interest margin percentage was due to the following factors: (1) increase in accretion of discounts associated with paydown of purchased credit impaired loans; (2)income realized from the origination of the SBA PPP loans; (3) lower deposit costs due to the lower 2020 interest rate environment; (4) an additional six months of net interest income on the F&M acquisition. These increases were partially offset by: (1) lower interest income on loans, securities and cash and equivalents due to the lower interest rate environment and (2) a partial year of interest expense on the Company’s issuance of subordinated debt in August 2020. Accretion on purchased credit impaired loans recognized due to loan payoffs or significant reductions in loan balances was \$2.7 million in 2020, which was an increase of \$2.3 million from accretion recognized in 2019 or \$0.4 million. In 2020, the SBA PPP program was initiated, and the Bank recognized \$2.1 million of accretion of the net origination fees and contractual interest income of \$0.973 million. Remaining deferred SBA PPP fees were approximately \$3 million at December 31, 2020. Interest expense on liabilities decreased \$2.6 million in 2020 due to the lower interest rate environment and actions taken by the Bank to reduce interest rates paid. The Bank has approximately \$207 million of certificates of deposit maturing in 2021, at a blended interest cost of approximately 1.38%. These favorable items were offset by the negative impacts of a lower interest rate environment resulting in lower yields on loans, investments and cash and cash equivalents.

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following table shows interest income from average interest earning assets, expressed in dollars and yields, and interest expense on average interest bearing liabilities, expressed in dollars and rates. Also presented is the weighted average yield on interest earning assets on a tax-equivalent basis, rates paid on interest bearing liabilities and the resultant spread at December 31, 2020 and December 31, 2019. Non-accruing loans average balances are included in the table with the loans carrying a zero yield.

	Twelve months ended December 31, 2020			Twelve months ended December 31, 2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest earning assets:						
Cash and cash equivalents	$ 52,016	$ 162	0.31 %	$ 29,948	$ 672	2.24 %
Loans	1,234,732	59,763	4.84 %	1,074,952	54,647	5.08 %
Interest-bearing deposits	3,914	96	2.45 %	5,841	137	2.35 %
Investment securities (1)	174,396	3,789	2.17 %	171,747	4,332	2.60 %
Other investments	15,081	717	4.75 %	12,442	635	5.10 %
Total interest earning assets (1)	$1,480,139	$ 64,527	4.36 %	$1,294,930	$ 60,423	4.68 %
Average interest bearing liabilities:						
Savings accounts	$ 174,184	$ 435	0.25 %	$ 155,848	$ 651	0.42 %
Demand deposits	268,311	1,065	0.40 %	204,296	1,677	0.82 %
Money market	244,632	1,446	0.59 %	182,103	1,988	1.09 %
CD’s	316,264	6,325	2.00 %	352,924	7,114	2.02 %
IRA’s	42,039	729	1.73 %	42,134	744	1.77 %
Total deposits	$1,045,430	$ 10,000	0.96 %	$ 937,305	$ 12,174	1.30 %
FHLB Advances and other borrowings	186,724	4,272	2.29 %	156,885	4,736	3.02 %
Total interest bearing liabilities	$1,232,154	$ 14,272	1.16 %	$1,094,190	$ 16,910	1.55 %
Net interest income		$ 50,255			$ 43,513	
Interest rate spread			3.20 %			3.13 %
Net interest margin (1)			3.40 %			3.37 %
Average interest earning assets to average interest bearing liabilities			1.20 %			1.18 %

(1) Fully taxable equivalent (FTE). The average yield on tax exempt securities is computed on a tax equivalent basis using a tax rate of 21% for the twelve months ended December 31, 2020 and 2019. The FTE adjustment to net interest income included in the rate calculations totaled $1 thousand and $120 thousand for the twelve month periods ended December 31, 2020 and 2019, respectively.

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

	Twelve months ended December 31, 2020 v. 2019 Increase (decrease) due to		
	Volume (1)	Rate (1)	Total Increase / (Decrease)
Interest income:			
Cash and cash equivalents	$ 354	$ (864)	$ (510)
Loans	7,839	(2,723)	5,116
Interest-bearing deposits	(47)	6	(41)
Investment securities	68	(611)	(543)
Other investments	128	(46)	82
Total interest earning assets	$ 8,342	$ (4,238)	$ 4,104
Interest expense:			
Savings accounts	$ 70	$ (286)	$ (216)
Demand deposits	440	(1,052)	(612)
Money market accounts	571	(1,113)	(542)
CD's	(734)	(55)	(789)
IRA's	(2)	(13)	(15)
Total deposits	345	(2,519)	(2,174)
FHLB Advances and other borrowings	814	(1,278)	(464)
Total interest bearing liabilities	1,159	(3,797)	(2,638)
Net interest income	$ 7,183	$ (441)	$ 6,742

(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") to provide an adequate allowance for loan losses ("ALL") to reflect probable and inherent credit losses in our loan portfolio.

We recorded provisions for loan losses of $7.8 million for 2020 compared to $3.5 million for 2019. In 2020, the provision allocated for originated loan growth was approximately $1.2 million compared to approximately $2.0 million for 2019. In 2020, approximately $1.2 million of provision was related to charge-offs and changes in specific reserves compared to $1.4 million in 2019. The remaining increase in provision related to qualitative factor increases to reflect uncertainty in current general economic conditions and a modest increase in unallocated ALL. There was no provision on approximately $5.5 million lines of credit drawn in late December and subsequently repaid on January 4, 2021.

Management believes that the provision taken for the year ended December 31, 2020 and 2019, respectively 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 2020 and 2019, respectively.

	Twelve months ended December 31, 2020	Twelve months ended December 31, 2019	Change from prior year 2020 over 2019
Non-interest Income:			
Service charges on deposit accounts	$ 1,832	$ 2,368	(22.64)%
Interchange income	2,029	1,735	16.95%
Loan servicing income	4,158	2,674	55.50%
Gain on sale of loans	6,693	2,462	171.85%
Loan fees and service charges	1,383	1,145	20.79%
Insurance commission income	475	734	(35.29)%
Net gains on investment securities	110	271	(59.41)%
Net gain on sale of branch	—	2,295	N/M
Net gain on sale of acquired business lines	432	—	N/M
Settlement proceeds	131	—	N/M
Other	1,205	1,291	(6.66)%
Total non-interest income	$ 18,448	$ 14,975	23.19%

N/M means not meaningful

The higher level of non-interest income primarily relates to the full-year impact of F&M on 2020 non-interest income since F&M's, July 1, 2019 acquisition, unless noted below.

Service charges on deposit accounts decreased $536 thousand due to the impact of higher average balances in retail checking accounts.

Loan servicing income increased largely due to increased capitalized mortgage servicing rights due to higher mortgage loan origination sold volumes.

The increase in gain on sale of loans in 2020 is due to higher mortgage loan origination and sale volumes.

Net gains on investment securities reflects the 2020 sale of higher premium mortgage-backed securities and the 2019 municipal bond sale discussed in more detail in the balance sheet analysis section.

The Company sold the Rochester Hills, Michigan branch in the second quarter of 2019 for a $2.3 million gain, recorded in the gain on sale of branch line item above. In addition to the merger activity increases in other non-interest income, we recorded the receipt of a one-time payment of approximately $0.2 million on a loan charged-off prior to the Company's acquisition.

The net gain on sale of acquired business lines reflects the sale of Wells Insurance Agency in June 2020 at a net gain of $252 thousand and the Bank's acquired wealth management business partner exercising their contractual call, which originated prior to the acquisition, resulting in the sale of the Bank's right to receive income from the wealth management business.

The Company recognized $131 thousand of non-interest income related to a cash receipt related to a private mortgage-backed security claim. The cash received represents a supplement to the proceeds received in fiscal 2015 from the private mortgage-backed security, previously owned by the Bank and sold in 2011.

Non-Interest Expense. The following table reflects the various components of non-interest expense for 2020 and 2019.

	Twelve months ended December 31, 2020	2019	% Change From prior year 2020 over 2019
Non-interest Expense:			
Compensation and related benefits	$ 22,321	$ 20,325	9.82%
Occupancy	3,915	3,697	5.90%
Office	2,152	2,188	(1.65)%
Data processing	4,375	3,938	11.10%
Amortization of intangible assets	1,622	1,496	8.42%
Mortgage servicing rights expense	3,050	1,108	175.27%
Advertising, marketing and public relations	967	1,214	(20.35)%
FDIC premium assessment	584	258	126.36%
Professional services	1,829	2,457	(25.56)%
Gains on repossessed assets, net	(259)	(125)	107.20%
Other	3,117	6,130	(49.15)%
Total non-interest expense	$ 43,673	$ 42,686	2.31%
Non-interest expense (annualized) / Average assets	2.74 %	3.05 %	

The higher level of non-interest expense primarily relates to the full-year impact of F&M on 2020 non-interest expense since F&M's, July 1, 2019 acquisition, unless noted below.

Compensation expense increased in 2020 primarily due to the impact of the F&M acquisition and higher variable mortgage production compensation related to higher mortgage loan origination activity, partially offset by lower compensation from the reduction in Bank personnel throughout 2020.

Data processing increases were due to higher loan balances and larger deposit balances.

Mortgage servicing rights expense increased in 2020 from impairment charges of $1.755 million in 2020 compared to $259 thousand in 2019. This increase is due to the impact of higher actual and forecasted prepayment rates. The remaining increase is due to higher amortization based on the current interest rate environment and a modestly larger servicing book.

Advertising, marketing and public relations decreased in 2020 reflecting the Company's 2019 branding campaign for recently merged bank operations. Overall decreases were partially offset by higher contributions made to the communities in the Bank's branch footprint to support community needs, due to increased economic pressures faced in 2020.

The FDIC premium assessment increased in 2020, as 2019 reflected the FDIC application of the Small Bank Assessment Credits.

Professional fees decreased in 2020 largely due to a reduction in merger expenses of $0.5 million.

Other non-interest expense decreased in 2020 due to lower merger and branch closure costs in 2020 of $165 thousand, a decrease of $3.1 million from 2019.

Income Taxes. Income tax provision was $4.6 million in 2020 compared to $2.8 million for 2019. Tax expense in 2019 was favorably impacted by a Department of Treasury ruling in the fourth quarter of 2019 related to the continued non-taxable nature of certain acquired bank owned life insurance. This resulted in a $0.3 million reduction in tax expense related to certain United Bank acquired bank owned life insurance contracts due to the elimination of previously established deferred tax liability on these contracts. The tax rate rose approximately 1% due to the impact of the 2019 sale of municipal securities.

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

BALANCE SHEET ANALYSIS

Total assets increased $117.8 million to $1.65 billion at December 31, 2020 from $1.53 billion at December 31, 2019. This growth was primarily due to strong deposit growth, which funded the net loan portfolio growth from SBA PPP loans and increase in the Bank's liquidity position.

Cash and Cash Equivalents. Cash and cash equivalents increased from $55.8 million at December 31, 2019 to $119.4 million at December 31, 2020. This increase was due to strong deposit growth, which exceeded loan and security growth.

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

Securities AFS (recorded at fair value), which represent the majority of our investment portfolio, decreased to $144.2 million at December 31, 2020 compared with $180.1 million at December 31, 2019. This decrease was primarily due to the increased principal repayment and runoff in mortgage-backed certificates, along with a $10.7 million sale of higher premium MBS.

Additionally, during 2019, we sold the vast majority of our obligations of state and local government agency (municipal) portfolio. The proceeds from the sale, along with the growth in available for sale securities balances, were largely reinvested in mortgage-backed securities, corporate debt securities and investments in trust preferred securities, resulting in their respective increases. The trust preferred securities reprice based on LIBOR plus a spread, and current issuers of these securities are bank holding companies with assets of $50 billion or more.

In 2020, the Bank purchased additional trust preferred securities with similar characteristics as those purchased in 2019.

In 2020, the Bank purchased $45 million of HTM securities, consisting largely of U.S agency mortgage-backed securities which offset the decrease in the AFS portfolio and resulted in a modest growth of the net balance of the AFS and HTM portfolios.

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

Available for sale securities	Amortized Cost	Fair Value
December 31, 2020		
U.S. government agency obligations	$ 33,048	$ 33,365
Obligations of states and political subdivisions	140	140
Mortgage-backed securities	39,454	40,991
Corporate debt securities	17,199	17,462
Corporate asset-backed securities	36,039	35,827
Trust preferred securities	16,297	16,448
Total available for sale securities	$ 142,177	$ 144,233
December 31, 2019		
U.S. government agency obligations	$ 52,020	$ 51,805
Obligations of states and political subdivisions	281	281
Mortgage-backed securities	70,806	71,331
Corporate debt securities	18,776	18,725
Corporate asset-backed securities	27,718	26,854
Trust preferred securities	11,167	11,123
Total available for sale securities	$ 180,768	$ 180,119

Held to maturity securities	Amortized Cost	Fair Value
December 31, 2020		
Obligations of states and political subdivisions	$ 600	$ 602
Mortgage-backed securities	42,951	43,182
Total held to maturity securities	$ 43,551	$ 43,784
December 31, 2019		
Obligations of states and political subdivisions	$ 300	$ 302
Mortgage-backed securities	2,551	2,655
Total held to maturity securities	$ 2,851	$ 2,957

The amortized cost and fair values of our investment securities by maturity, as of December 31, 2020 were as follows:

Available for sale securities	Amortized Cost	Estimated Fair Value
Due in one year or less	$ —	$ —
Due after one year through five years	3,833	4,095
Due after five years through ten years	44,405	44,880
Due after ten years	54,485	54,267
Total securities with contractual maturities	102,723	103,242
Mortgage-backed securities	39,454	40,991
Total available for sale securities	$ 142,177	$ 144,233

Held to maturity securities	Amortized Cost	Estimated Fair Value
Due in one year or less	$ —	$ —
Due after one year through five years	200	200
Due after five years through ten years	400	402
Total securities with contractual maturities	600	602
Mortgage-backed securities	42,951	43,182
Total held to maturity securities	$ 43,551	$ 43,784

The amortized cost and fair values of our investment securities by maturity, as of December 31, 2019 were as follows:

Available for sale securities	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 141	$ 141
Due after one year through five years	5,900	5,959
Due after five years through ten years	43,269	43,180
Due after ten years	60,652	59,508
Total securities with contractual maturities	109,962	108,788
Mortgage-backed securities	70,806	71,331
Total available for sale securities	$ 180,768	$ 180,119

Held to maturity securities	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 300	$ 302
Total securities with contractual maturities	300	302
Mortgage-backed securities	2,551	2,655
Total held to maturity securities	$ 2,851	$ 2,957

The following tables show the fair value and gross unrealized losses of securities with unrealized losses, as of the dates indicated below, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position:

Available for sale securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
U.S. government agency obligations	$ 7,654	$ 17	$ 6,834	$ 53	$ 14,488	$ 70
Corporate debt securities	3,447	27	1,418	82	4,865	109
Corporate asset-backed securities	—	—	24,310	316	24,310	316
Trust preferred securities	5,612	38	—	—	5,612	38
Total available for sale securities	$ 16,713	$ 82	$ 32,562	$ 451	$ 49,275	$ 533
December 31, 2019						
U.S. government agency obligations	$ 14,593	$ 156	$ 10,540	$ 191	$ 25,133	$ 347
Mortgage-backed securities	22,537	62	5,883	48	28,420	110
Corporate debt securities	7,001	15	1,398	102	8,399	117
Corporate asset-backed securities	8,683	285	18,171	579	26,854	864
Trust preferred securities	7,420	79	—	—	7,420	79
Total available for sale securities	$ 60,234	$ 597	$ 35,992	$ 920	$ 96,226	$ 1,517

Held to maturity securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
Mortgage-backed securities	16,538	34	—	—	16,538	34
Total held to maturity securities	$ 16,538	$ 34	$ —	$ —	$ 16,538	$ 34
December 31, 2019						
Mortgage-backed securities	—	—	—	—	—	—
Total held to maturity securities	$ —	$ —		$ —	$ —	$ —

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

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

Available for sale securities	December 31, 2020 Amortized Cost	December 31, 2020 Fair Value	December 31, 2019 Amortized Cost	December 31, 2019 Fair Value
U.S. government agency	$ 72,502	$ 74,356	$ 122,826	$ 123,136
AAA	11,142	11,088	4,383	4,245
AA	25,037	24,879	23,475	22,749
A	8,713	8,925	18,776	18,725
BBB	24,783	24,985	11,167	11,123
Below investment grade	—	—	—	—
Non-rated	—	—	141	141
Total available for sale securities	$ 142,177	$ 144,233	$ 180,768	$ 180,119

Held to maturity securities	December 31, 2020 Amortized Cost	December 31, 2020 Fair Value	December 31, 2019 Amortized Cost	December 31, 2019 Fair Value
U.S. government agency	$ 42,951	$ 43,182	$ 2,551	$ 2,655
AAA	—	—	—	—
AA	—	—	125	126
A	600	602	—	—
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	—	—	175	176
Total	$ 43,551	$ 43,784	$ 2,851	$ 2,957

At December 31, 2020, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $0.6 million and mortgage-backed securities with a carrying value of $3.0 million as collateral against specific municipal deposits. At December 31, 2020, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $1.2 million as collateral against a borrowing line of credit with the Federal Reserve Bank of Minneapolis. However, at December 31, 2020, there were no borrowings outstanding on this Federal Reserve Bank line of credit. At December 31, 2020, the Bank also has mortgage-backed securities with a carrying value of $0.5 million pledged as collateral to the Federal Home Loan Bank of Des Moines.

During the year ended December 31, 2020, the Bank sold approximately $10.8 million of fixed rate mortgage-backed certificates with a net realized gain of $156 thousand, which is included in net gains on investment securities in the Consolidated Statements of Operations. During the twelve months ended December 31, 2019, the Bank sold $35.4 million of mortgage-backed securities and obligations of state and political subdivisions with a net realized gain of $142 thousand.

Loans. Total loans outstanding, net of deferred loan fees and costs, increased to $1.24 billion at December 31, 2020 from $1.18 billion at December 31, 2019.

Gross loans were increased by the net origination of $123.7 million of SBA PPP loans. Reductions in the acquired loan portfolio, including purchase credit impaired loans reductions of $20.3 million, exceeded growth in the Bank's originated loan portfolio. The reductions in the purchase credit impaired loans also resulted in lower non-performing and substandard loans. In 2020, approximately $5.5 million of the loan growth was due to draws on lines of credit on December 31, 2020, with the proceeds deposited into the customer's money market account at the Bank, and withdrawn to repay the lines on January 4, 2021. The same customers executed similar transactions at the end of 2019, with the dollar amount being approximately $12.7 million.

The following table reflects the composition, or mix, of our loan portfolio at December 31, 2020 and December 31, 2019:

	December 31, 2020		December 31, 2019	
	Amount	Percent	Amount	Percent
Real Estate Loans:				
Commercial/agricultural real estate:				
Commercial real estate	$ 507,675	40.9 %	$ 514,459	43.6 %
Agricultural real estate	68,795	5.6 %	85,363	7.3 %
Multi-family real estate	122,152	9.9 %	87,008	7.4 %
Construction and land development	98,517	8.0 %	86,410	7.3 %
Residential mortgage:				
Residential mortgage	131,386	10.6 %	176,332	15.0 %
Purchased HELOC loans	6,260	0.5 %	8,407	0.7 %
Total real estate loans	934,785	75.5 %	957,979	81.3 %
C&I/Agricultural operating and Consumer installment loans:				
C&I/Agricultural operating:				
Commercial and industrial ("C&I)	116,553	9.4 %	133,734	11.4 %
Agricultural operating	32,785	2.6 %	37,780	3.2 %
Consumer Installment:				
Originated indirect paper	25,851	2.1 %	39,585	3.4 %
Other Consumer	13,213	1.1 %	18,186	1.5 %
Total C&I/Agricultural operating and Consumer installment loans	188,402	15.2 %	229,285	19.5 %
Gross loans before SBA PPP loans	1,123,187	90.7 %	1,187,264	100.8 %
SBA PPP Loans	123,702	10.0 %	—	— %
Gross loans	1,246,889	100.7 %	1,187,264	100.8 %
Unearned net deferred fees and costs and loans in process	(4,245)	(0.3)%	(393)	— %
Unamortized discount on acquired loans	(5,063)	(0.4)%	(9,491)	(0.8)%
Total loans (net of unearned income and deferred expense)	1,237,581	100.0 %	1,177,380	100.0 %
Allowance for Loan losses	(17,043)		(10,320)	
Total loans receivable, net	$1,220,538		$1,167,060	

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. As illustrated above, at December 31, 2020, the largest loan concentration we identified was commercial real estate loans which comprised 41% of our total loan portfolio. Approximately 76% of our total gross loans are secured by real estate.

The following table sets forth, as of December 31, 2020 and December 31, 2019 respectively the fixed and adjustable-rate loans in our loan portfolio:

	December 31, 2020		December 31, 2019	
	Amount	Percent	Amount	Percent
Fixed rate loans:				
Real estate loans:				
Commercial/Agricultural real estate	$ 347,617	28.1 %	$ 397,793	33.8 %
Residential mortgage	90,105	7.3 %	124,993	10.6 %
Total fixed rate real estate loans	437,722	35.4 %	522,786	44.4 %
Non-real estate loans:				
C&I/Agricultural Operating	237,062	19.2 %	135,264	11.5 %
Consumer installment	38,998	3.2 %	57,644	4.9 %
Total fixed rate non-real estate loans	276,060	22.3 %	192,908	16.4 %
Total fixed rate loans	713,782	57.7 %	715,694	60.8 %
Adjustable-rate loans:				
Real estate loans:				
Commercial/Agricultural real estate	449,523	36.3 %	375,446	31.9 %
Residential mortgage	47,540	3.8 %	59,747	5.1 %
Total adjustable-rate real estate loans	497,063	40.2 %	435,193	37.0 %
Non-real estate loans:				
C&I/Agricultural operating	35,978	2.9 %	36,251	3.1 %
Consumer installment	66	— %	126	— %
Total adjustable-rate non-real estate loans	36,044	2.9 %	36,377	3.1 %
Total adjustable-rate loans	533,107	43.1 %	471,570	40.1 %
Gross loans	1,246,889		1,187,264	
Unearned net deferred fees and costs and loans in process	(4,245)	(0.3)%	(393)	— %
Unamortized discount on acquired loans	(5,063)	(0.5)%	(9,491)	(0.9)%
Total loans (net of unearned income)	1,237,581	100.0 %	1,177,380	100.0 %
Allowance for loan losses	(17,043)		(10,320)	
Total loans receivable, net	$ 1,220,538		$ 1,167,060	

Loan amounts, their contractual maturities and weighted average interest rates at December 31, 2020 are shown below. SBA PPP loans of $123.7 million at an interest rate of 1% are included in the one year to five-year amounts in the C&I/agricultural operating segment.

	Real estate				Non-real estate					
	Commercial/ Agricultural real estate		Residential mortgage		C&I/Agricultural operating		Consumer installment		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 (1)	$ 90,573	4.31 %	$ 13,216	4.40 %	$ 65,008	3.82 %	$ 1,083	8.54 %	$ 169,880	4.16 %
Due after one year through five years	209,017	4.41 %	23,152	4.91 %	168,185	1.93 %	14,520	5.79 %	$ 414,874	3.48 %
Due after five years	497,549	4.28 %	101,278	4.71 %	39,847	4.31 %	23,461	5.34 %	$ 662,135	4.39 %
	$797,139	4.32 %	$ 137,646	4.71 %	$ 273,040	2.73 %	$ 39,064	5.60 %	$1,246,889	4.05 %

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

Loan amounts, their contractual maturities and interest rates at December 31, 2019 are as follows:

	Real estate				Non-real estate					
	Commercial/ Agricultural real estate		Residential mortgage		C&I/Agricultural operating		Consumer installment		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 (1)	$104,682	4.85 %	$ 16,601	4.66 %	$ 68,139	4.96 %	$ 1,828	8.95 %	$ 191,250	4.91 %
Due after one year through five years	266,395	4.68 %	42,909	5.16 %	64,315	4.59 %	19,280	5.80 %	$ 392,899	4.77 %
Due after five years	402,162	4.84 %	125,229	4.94 %	39,061	4.30 %	36,663	5.35 %	$ 603,115	4.84 %
	$773,239	4.79 %	$ 184,739	4.97 %	$ 171,515	4.67 %	$ 57,771	5.61 %	$ 1,187,264	4.78 %

(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 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.

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

	Commercial/ Agricultural Real Estate	C&I/ Agricultural Operating	Residential Mortgage	Consumer Installment	Unallocated	Total
Year ended December 31, 2020:						
Allowance for Loan Losses:						
Beginning balance, January 1, 2020	$ 6,205	$ 1,643	$ 879	$ 467	$ 357	$ 9,551
Charge-offs	—	(932)	(5)	(145)	—	(1,082)
Recoveries	75	8	7	69	—	159
Provision	3,991	1,393	160	98	549	6,191
Total Allowance on originated loans	$ 10,271	$ 2,112	$ 1,041	$ 489	$ 906	$ 14,819
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans:						
Beginning balance, January 1, 2020	$ 526	$ 27	$ 163	$ 53	$ —	$ 769
Charge-offs	—	(159)	(74)	(3)	—	(236)
Recoveries	77	33	15	7	—	132
Provision	1,081	240	231	7	—	1,559
Total allowance on other acquired loans	$ 1,684	$ 141	$ 335	$ 64	$ —	$ 2,224
Total allowance on acquired loans	$ 1,684	$ 141	$ 335	$ 64	$ —	$ 2,224
Ending balance, December 31, 2020	$ 11,955	$ 2,253	$ 1,376	$ 553	$ 906	$ 17,043

	Commercial/ Agricultural Real Estate	C&I/ Agricultural operating	Residential Mortgage	Consumer Installment	Unallocated	Total
Year ended December 31, 2019:						
Allowance for Loan Losses:						
Beginning balance, January 1, 2019	$ 4,019	$ 1,258	$ 1,048	$ 641	$ 153	$ 7,119
Charge-offs	(355)	—	(120)	(257)	—	(732)
Recoveries	—	—	—	84	—	84
Provision	2,541	385	(49)	(1)	204	3,080
Total Allowance on originated loans	$ 6,205	$ 1,643	$ 879	$ 467	$ 357	$ 9,551
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans:						
Beginning balance, January 1, 2019	$ 183	$ 32	$ 205	$ 65	$ —	$ 485
Charge-offs	(26)	—	(120)	(33)	—	(179)
Recoveries	3	—	5	10	—	18
Provision	366	(5)	73	11	—	445
Total Allowance on other acquired loans	$ 526	$ 27	$ 163	$ 53	$ —	$ 769
Total Allowance on acquired loans	$ 526	$ 27	$ 163	$ 53	$ —	$ 769
Ending balance, December 31, 2019	$ 6,731	$ 1,670	$ 1,042	$ 520	$ 357	$ 10,320

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 December 31, 2020, the Company had identified impaired loans of $43.4 million, consisting of $18.5 million of TDR loans, the carrying amount of purchased credit impaired loans of $16.9 million and $8.0 million of substandard non-TDR loans. The $43.4 million total of impaired loans includes $11.7 million of performing TDR loans. At December 31, 2019, the Company had identified impaired loans of $63.2 million, consisting of $12.6 million TDR loans, the carrying amount of purchased credit impaired loans of $32 million and $18.6 million of substandard non-TDR loans. The $63.2 million total of impaired loans includes $5.4 million of performing TDR loans.

At December 31, 2020, the allowance for loan losses was $ 17.0 million or 1.38% of total loans compared to $10.3 million or 0.88% of our total loan portfolio at December 31, 2019. This level was based on our analysis of the loan portfolio risk at each of December 31, 2020 and December 31, 2019, as discussed above. The increase in the allowance for loan losses was primarily due to the impact the change in Q-Factor related to qualitative factor increases to reflect uncertainty in current general economic conditions. To a lesser extent, the provision for growth in the originated loan portfolio contributed to the increase in the amount of allowance for loan losses. The percentage of allowance for loan losses was also helped by a decrease in gross acquired loans. The percentage of gross acquired loans to gross loans, excluding SBA PPP loans, decreased to 25% at December 31, 2020 compared to 36% at December 31, 2019. At December 31, 2020, the Bank had $286.2 million in gross acquired loans, which were recorded at fair market value at acquisition. The Bank had $424.7 million in gross acquired loans at December 31, 2019, which were recorded at fair market value at acquisition.

Allowance for Loan Losses to Loans, net of SBA PPP Loans

	December 31, 2020	September 30, 2020	June 30, 2020	December 31, 2019
Loans, end of period	$ 1,237,581	$ 1,230,139	$ 1,281,175	$ 1,177,380
SBA PPP loans, net of deferred fees	(120,711)	(135,177)	(132,800)	—
Loans, net of SBA PPP loans and deferred fees	$ 1,116,870	$ 1,094,962	$ 1,148,375	$ 1,177,380
Allowance for loan losses	$ 17,043	$ 14,836	$ 13,373	$ 10,320
ALL to loans net of SBA PPP loans and deferred fees	1.53 %	1.35 %	1.16 %	0.88 %
ALL to loans, end of period	1.38 %	1.21 %	1.04 %	0.88 %

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.

Loans 30-89 days or more past due increased $6.7 million at December 31, 2020 compared to December 31, 2019, largely related to increases in commercial real estate and construction and land development loans 30-59 days delinquent. Nonaccrual loans decreased from $19.1 million to $10.7 million at December 31, 2020, primarily due to significant decreases in nonaccrual acquired loans, specifically in acquired commercial/agricultural real estate loans. While agricultural loans make up approximately 8% of the Bank's loan portfolio, nonaccrual loans secured by agricultural collateral account for 65% or $7.0 million of the Bank's nonaccrual loans, largely due to loans acquired in bank acquisitions. We believe our credit and underwriting policies continue to support more effective lending decisions by the Bank, which increases the likelihood of maintaining loan quality going forward. Refer to the "Risk Management and the Allowance for Loan Losses" section below for more information related to non-performing loans.

For the year ended December 31, 2020, loan charge-offs were $1.318 million compared to $0.911 million for the year ended December 31, 2019, largely due to an increase in commercial and industrial loans.

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

COVID-19 Loan Modifications. In response to COVID-19, our banking regulator issued an Interagency Statement encouraging financial institutions to work prudently with borrowers who are or may be unable to meet their contractual obligations due to COVID-19. Additionally, Section 4013 of the CARES Act provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act is terminated. Section 541 of the Consolidated Appropriations Act, 2021 extends this relief to the earlier of January 1, 2022 or 60 days after the national emergency termination date. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act. In accordance with this guidance, the Bank instituted a plan to offer modifications to impacted borrowers. The Bank continues to work with borrowers as the pandemic persists and is requiring additional support in exchange for additional modifications beyond the original term. As of December 31, 2020, the Bank's COVID-19 related modifications under Section 4013 of the CARES Act, totaled $61 million, or 5% of gross loans versus $126.7 million, or 10% of gross loans at September 30, 2020, and $197.3 million, or 15% of gross loans at June 30, 2020. At December 31, 2020, hotel industry sector loans represented $51.6 million of the approved deferrals. The Bank has approximately $2.4 million of total payment deferrals expiring in the first quarter of 2021.

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

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

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

The following table identifies the various components of non-performing assets and other balance sheet information as of the dates indicated below and changes in the ALL for the periods then ended:

	December 31, 2020 and twelve months ended	December 31, 2019 and twelve months ended
Nonperforming assets:		
Nonaccrual loans		
Commercial real estate	$ 827	$ 5,705
Agricultural real estate	5,084	7,568
Commercial and industrial ("C&I")	357	1,850
Agricultural operating	1,872	1,702
Residential mortgage	2,451	2,063
Consumer installment	156	168
Total nonaccrual loans	$ 10,747	$ 19,056
Accruing loans past due 90 days or more	586	1,104
Total nonperforming loans ("NPLs")	11,333	20,160
Other real estate owned	156	1,429
Other collateral owned	41	31
Total nonperforming assets ("NPAs")	$ 11,530	$ 21,620
Troubled Debt Restructurings ("TDRs")	$ 18,477	$ 12,594
Nonaccrual TDRs	$ 6,735	$ 7,198
Average outstanding loan balance	$ 1,234,732	$ 1,074,952
Loans, end of period	$ 1,237,581	$ 1,177,380
Total assets, end of period	$ 1,649,095	$ 1,531,249
ALL, at beginning of period	$ 10,320	$ 7,604
Loans charged off:		
Commercial/Agricultural real estate	—	(381)
C&I/Agricultural operating	(1,091)	—
Residential mortgage	(78)	(239)
Consumer installment	(149)	(291)
Total loans charged off	(1,318)	(911)
Recoveries of loans previously charged off:		
Commercial/Agricultural real estate	150	3
C&I/Agricultural operating	44	1
Residential mortgage	20	5
Consumer installment	77	93
Total recoveries of loans previously charged off:	291	102
Net loans charged off ("NCOs")	(1,027)	(809)
Additions to ALL via provision for loan losses charged to operations	7,750	3,525
ALL, at end of period	$ 17,043	$ 10,320
Ratios:		
ALL to NCOs (annualized)	1,659.49 %	1,275.65 %
NCOs (annualized) to average loans	0.08 %	0.08 %
ALL to total loans	1.38 %	0.88 %
NPLs to total loans	0.92 %	1.71 %
NPAs to total assets	0.70 %	1.41 %

The following table shows the detail of non-performing assets by originated and acquired portfolios.

Nonperforming Originated and Acquired Assets

	December 31, 2020 and Three Months Ended		September 30, 2020 and Three Months Ended		June 30, 2020 and Three Months Ended		December 31, 2019 and Three Months Ended	
Nonperforming assets:								
Originated nonperforming assets:								
Nonaccrual loans	$	3,649	$	3,255	$	3,951	$	4,285
Accruing loans past due 90 days or more		415		698		1,455		946
Total originated nonperforming loans (“NPL”)		4,064		3,953		5,406		5,231
Other real estate owned (“OREO”)		63		352		270		441
Other collateral owned		41		56		42		28
Total originated nonperforming assets (“NPAs”)	$	4,168	$	4,361	$	5,718	$	5,700
Acquired nonperforming assets:								
Nonaccrual loans	$	7,098	$	9,899	$	10,836	$	14,771
Accruing loans past due 90 days or more		171		252		425		158
Total acquired nonperforming loans (“NPL”)		7,269		10,151		11,261		14,929
Other real estate owned (“OREO”)		93		404		422		988
Other collateral owned		—		—		—		3
Total acquired nonperforming assets (“NPAs”)	$	7,362	$	10,555	$	11,683	$	15,920
Total nonperforming assets (“NPAs”)	$	11,530	$	14,916	$	17,401	$	21,620
Loans, end of period	$	1,237,581	$	1,230,139	$	1,281,175	$	1,177,380
Total assets, end of period	$	1,649,095	$	1,622,593	$	1,607,514	$	1,531,249
Ratios:								
Originated NPLs to total loans		0.33 %		0.32 %		0.42 %		0.44 %
Acquired NPLs to total loans		0.59 %		0.83 %		0.88 %		1.27 %
Originated NPAs to total assets		0.25 %		0.27 %		0.36 %		0.37 %
Acquired NPAs to total assets		0.45 %		0.65 %		0.73 %		1.04 %

Non-performing assets include non-performing loans, other real estate owned and other collateral owned. Our non-performing assets were $11.5 million, or 0.70% of total assets, at December 31, 2020 compared to $21.6 million, or 1.41% of total assets, at December 31, 2019. The decrease was largely due to reductions in acquired nonperforming loans.

Nonaccrual Loans Roll forward

	Quarter Ended									
	December 31, 2020		September 30, 2020		June 30, 2020		March 31, 2020		December 31, 2019	
Balance, beginning of period	$	13,154	$	14,787	$	16,090	$	19,056	$	19,022
Additions		912		716		1,907		1,811		2,641
Acquired nonaccrual loans		—		—		—		—		—
Charge offs		(2)		(141)		(175)		(452)		(198)
Transfers to OREO		—		(172)		—		(1,100)		(425)
Return to accrual status		—		(165)		(1,702)		(120)		(14)
Payments received		(3,317)		(1,744)		(1,292)		(2,887)		(1,957)
Other, net		—		(127)		(41)		(218)		(13)
Balance, end of period	$	10,747	$	13,154	$	14,787	$	16,090	$	19,056

The table below shows the quarterly totals of accruing troubled debt restructurings since December 31, 2019. The increase in troubled debt restructuring in 2020 was largely due to one commercial real estate and one C&I loan to one borrower that have collateral positions such that no impaired reserves were required on these loans.

Troubled Debt Restructurings in Accrual Status

	December 31, 2020		September 30, 2020		June 30, 2020		December 31, 2019	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings: Accrual Status								
Commercial/Agricultural real estate	16	$ 4,695	19	$ 5,480	19	$ 1,885	14	$ 1,730
C&I/Agricultural Operating	4	3,836	5	3,868	5	1,199	2	366
Residential mortgage	43	3,162	42	3,178	39	2,981	40	3,233
Consumer installment	8	49	7	53	8	62	7	67
Total loans	71	$ 11,742	73	$ 12,579	71	$ 6,127	63	$ 5,396

The table below shows the quarter-end totals of special mention, substandard and the total of these, known as criticized loans. The decrease in criticized loans in 2020 was largely due to decreases in acquired nonperforming and other substandard loans.

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Special mention loan balances	$ 6,672	$ 7,777	$ 19,958	$ 19,387	$ 10,856
Substandard loan balances	28,541	32,922	35,911	38,393	39,892
Criticized loans, end of period	$ 35,213	$ 40,699	$ 55,869	$ 57,780	$ 50,748

Acquired loans represent much of the reduction in non-performing loans and classified loans. The table below shows the changes in the Bank's non-accretable difference on purchased credit impaired loans. The Bank has transferred the non-accretable difference on purchased credit impaired loans to accretable discount as collateral coverage improved sufficiently, due to a combination of principal paydowns and/or improving collateral positions. This transferred non-accretable difference to accretable discount is accreted over the remaining maturity of the loan or until payoff, whichever is shorter.

Non-accretable difference:

	Quarter Ended				
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Non-accretable difference, beginning of period	$ 1,661	$ 3,355	$ 4,327	$ 6,290	$ 6,737
Additions to non-accretable difference for acquired purchased credit impaired loans	—	—	—	—	(170)
Non-accretable difference realized as interest from payoffs of purchased credit impaired loans	(324)	(130)	(196)	(1,043)	(271)
Transfers from non-accretable difference to accretable discount.	(50)	(1,294)	(741)	(669)	—
Non-accretable difference used to reduce loan principal balance	(200)	(270)	(35)	—	—
Non-accretable difference transferred to OREO due to loan foreclosure	—	—	—	(251)	(6)
Non-accretable difference, end of period	$ 1,087	$ 1,661	$ 3,355	$ 4,327	$ 6,290

Mortgage Servicing Rights. The Company continues to sell loans to investors in the secondary market and generally retains the rights to service mortgage loans sold to others. MSR assets are initially measured at fair value by a third party; assessed at least quarterly for impairment; carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value. MSR assets are amortized in proportion to and over the period of estimated net servicing income, with the amortization recorded in non-interest expense in the consolidated statement of operations. The valuation of MSRs and related amortization thereon are based on numerous factors, assumptions and judgments, such as those for: changes in the mix of loans, interest rates, prepayment speeds, and default rates. Changes in these factors, assumptions and judgments may have a material effect on the valuation and amortization of MSRs. Although management believes that the assumptions used to evaluate the MSRs for impairment are reasonable, future adjustment may be necessary if future economic conditions differ substantially from the economic assumptions used to determine the value of MSRs.

The fair market value of the Company's MSR asset decreased to $3.3 million at December 31, 2020 from $4.3 million at December 31, 2019. This decrease was primarily due to $1.8 million of impairment recorded in 2020 on the MSR impairment for a total impairment of $2.0 million at December 31, 2020, increased amortization, and was partially offset by additions from originations. The unpaid balances of one- to four-family residential real estate loans serviced for others as of December 31, 2020 and December 31, 2019 were $553.7 million and $524.7 million, respectively. The fair market value of the Company's MSR asset as a percentage of its servicing portfolio at December 31, 2020 and December 31, 2019 was 0.59% and 0.82%, respectively.

Intangible Assets. We have intangible assets of $5.5 million at December 31, 2020 compared to $7.6 million at December 31, 2019. The intangible assets are comprised of core deposit intangible assets arising from various acquisitions from 2016 through 2019 and, until its sale in June 2020, the premium on the Wells Insurance Agency customer relationships. In 2020, Wells Insurance Agency was sold, and the related intangible related to customer relationships of $0.5 million was eliminated and reflected in the net gain on sale of the agency. Amortization of these intangibles was $1.6 million in 2020.

Deposits. Deposits are our largest source of funds. Total deposits increased to $1.30 billion at December 31, 2020 from $1.20 billion at December 31, 2019. The increase in deposits, largely attributable to the growth in non-maturity deposits, allowed the Company to reduce reliance on higher cost brokered and institutional deposits. The brokered and institutional deposits decreased to $2.8 million at December 31, 2020 from $54.4 million at December 31, 2019. In addition, retail certificates of deposits decreased by $35.6 million as the Company chose not to match higher rates offered by local retail certificate of deposit competitors. Non-maturity deposit growth included the impact of December 31, 2020 draws on lines of credit of $5.5 million deposited in the customers money market accounts, which were withdrawn on January 4, 2021 and repaid the draw on lines of credit. This is compared to $12.7 million of December 31, 2019 draws on lines of credit, taken on December 31, 2019, with the proceeds deposited into the customer's money market accounts and subsequently repaid on January 2, 2020.

The following is a summary of deposits by type at December 31, 2020 and December 31, 2019, respectively:

	December 31, 2020	December 31, 2019
Non interest bearing demand deposits	$ 238,348	$ 168,157
Interest bearing demand deposits	301,764	223,102
Savings accounts	196,348	156,599
Money market accounts	245,549	246,430
Certificate accounts	313,247	401,414
Total deposits	$ 1,295,256	$ 1,195,702
Brokered deposits included above:	$ 2,516	$ 50,377

Federal Home Loan Bank (FHLB) advances and other borrowings. A summary of Federal Home Loan Bank (FHLB) advances and other borrowings at December 31, 2020 and December 31, 2019 is as follows:

		December 31,					
		2020			2019		
	Stated Maturity	Amount	Range of Stated Rates		Amount	Range of Stated Rates	
Federal Home Loan Bank advances (1), (2), (3), (4), (5)	2020	$ —	— %	— %	$ 69,000	1.67 %	2.05 %
	2021	8,000	0.00 %	2.16 %	4,000	1.85 %	2.16 %
	2022	15,000	2.34 %	2.45 %	15,000	2.34 %	2.45 %
	2023	20,000	1.43 %	1.44 %	—	— %	— %
	2024	20,530	0.00 %	1.45 %	530	0.00 %	0.00 %
	2025	5,000	1.45 %	1.45 %	—	— %	— %
	2029	42,500	1.00 %	1.13 %	42,500	1.00 %	1.13 %
	2030	12,500	0.52 %	0.86 %	—	— %	— %
Subtotal		$ 123,530			$ 131,030		
Unamortized discount on acquired notes		(32)			(59)		
Federal Home Loan Bank advances, net		$ 123,498			$ 130,971		
Other borrowings:							
Senior notes (6)	2031	$ 28,856	3.25 %	3.50 %	$ 28,856	4.00 %	4.75 %
Subordinated notes (7)	2027	$ 15,000	6.75 %	6.75 %	$ 15,000	6.75 %	6.75 %
	2030	15,000	6.00 %	6.00 %			
		$ 30,000					
Unamortized debt issuance costs		(528)			(296)		
Total other borrowings		$ 58,328			$ 43,560		
Totals		$ 181,826			$ 174,531		

(1) The FHLB advances bear fixed rates, require interest-only monthly payments, and are collateralized by a blanket lien on pre-qualifying first mortgages, home equity lines, multi-family loans and certain other loans which had a pledged balance of $723,862 and $792,909 at December 31, 2020 and 2019, respectively. At December 31, 2020, the Bank's available and unused portion under the FHLB borrowing arrangement was approximately $118,391 compared to $203,935 as of December 31, 2019. This decrease was largely due to a change in the classification of the Bank based on asset size, which resulted in several asset classes no longer qualifying for collateral.

(2) Maximum month-end borrowed amounts outstanding under this borrowing agreement were $162,530 and $151,530, during the twelve months ended December 31, 2020 and December 31, 2019, respectively.

(3) The weighted-average interest rates on FHLB borrowings, with maturities less than twelve months, outstanding as of December 31, 2020 and December 31, 2019 were 0.50% and 1.74%, respectively.

(4) Five of the FHLB notes with remaining balances totaling $8,530, were acquired as a result of the F&M acquisition. These notes mature on various dates through 2024 with a weighted average rate of 2.05% and weighted average maturity of 13 months.

(5) FHLB term notes totaling $55,000, with various maturity dates in 2029 and 2030, can be called or replaced by the FHLB on a quarterly basis, beginning approximately three months after the initial advance.

(6) Senior notes, entered into by the Company in June 2019 consist of the following:

(a) A term note which was subsequently refinanced in October 2020, requiring quarterly interest-only payments through June 2022, and quarterly principal and interest payments thereafter. The only change terms were a reduction in the floor rate. Interest is variable, based on US Prime rate with a floor rate of 3.25%.

(b) A $5,000 line of credit, maturing in August 2021, that remains undrawn upon.

(7) Subordinated notes resulted from the following:

(a) The Company's private sale in August 2017, which bears a fixed interest rate of 6.75% for five years. In August 2022, they convert to a three-month LIBOR plus 4.90% rate, and the interest rate will reset quarterly thereafter. Interest-only payments are due quarterly.

(b) The Company's Subordinated Note Purchase Agreement entered into with certain purchasers in August 2020, which bears a fixed interest rate of 6.00% for five years. In September 2025, the fixed interest rate will be reset quarterly to equal the three-month term Secured Overnight Financing Rate plus 591 basis points. Interest-only payments are due semi-annually each year during the fixed interest period and quarterly during the floating interest period.

Federal Home Loan Bank (FHLB) advances and other borrowings

We utilize advances and other borrowings, as necessary, to supplement core deposits to meet our funding and liquidity needs and we evaluate all options for funding securities.

FHLB advances decreased to $123.5 million at December 31, 2020 from $131.0 million at December 31, 2019. During 2020, the Bank replaced short-term advances with new longer-term advances. The Bank entered into $45 million of advances with maturities between 2023 and 2025 with average interest rates of 1.44%. Additionally, in 2020 we entered into $12.5 million of advances with a ten-year maturity, callable quarterly by the FHLB with interest rates ranging from 0.52% to 0.86%. This increased the advances callable quarterly by the FHLB to $55 million with maturities in 2029 and 2030.

At December 31, 2020, the Bank had $123.7 million of borrowing capacity under the Federal Reserve SBA PPP Liquidity Facility, which the Federal Reserve established in 2020.

Stockholders' Equity. Total stockholders' equity was $160.6 million at December 31, 2020 compared to $150.6 million at December 31, 2019. In December 2020, the Company's Board of Directors authorized a 5% stock buyback program or approximately 557,000 share buyback authorization. The Company previously had a stock buyback program in existence at January 1, 2020 which was suspended in March 2020 and terminated in July of 2020. The Company's net income of $12.7 million was partially offset by the payment in February 2020 of a shareholder annual dividend of $0.21 per share and the 2020 repurchase of approximately 253,400 shares at a weighted average price of $11.13 per share.

Under the December 2020 stock buyback program, the Company purchased approximately 98,000 shares in December 2020, and is authorized to repurchase up to approximately 459,000 additional shares.

Liquidity and Asset / Liability Management. Liquidity management refers to our ability to ensure cash is available in a timely manner to meet loan demand, depositors' needs, and meet other financial obligations as they become due without undue cost, risk or disruption to normal operating activities. We manage and monitor our short-term and long-term liquidity positions and needs through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. A key metric we monitor is our liquidity ratio, calculated as cash and investments with maturities less than one-year divided by deposits with maturities less than or equal to one-year. At December 31, 2020, our liquidity ratio increased to 16.53 percent from 11.16 percent at December 31, 2019.

Our primary sources of funds are: deposits; amortization, prepayments and maturities of outstanding loans; other short-term investments; and funds provided from operations. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, and to fund loan commitments. While scheduled payments from the amortization of loans and maturing short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Although $206.7 million of our $313.2 million (66%) CD portfolio will mature within the next 12 months, we have historically retained a majority of our maturing CD's. However, due to strategic pricing decisions regarding rate matching and branch closures, our retention rate decreased in 2020 and may remain at this lower level in 2021 based on management's current pricing strategy, which reflects the Bank's current strong liquidity position. Through new deposit product offerings to our branch and commercial customers, we are currently attempting to strengthen customer relationships to attract additional non-rate sensitive deposits. Based on interest rates on scheduled maturities and lower current market interest rates, this should also improve our cost of funds.

We maintain access to additional sources of funds including FHLB borrowings and lines of credit with the Federal Reserve Bank, and our correspondent banks. We utilize FHLB borrowings to leverage our capital base, to provide funds for our lending and investment activities, and to manage our interest rate risk. Our borrowing arrangement with the FHLB calls for pledging certain qualified real estate, commercial and industrial loans, and borrowing up to 75% of the value of those loans, not to exceed 35% of the Bank's total assets. Currently, we have approximately $118.4 million available to borrow under this arrangement, supported by loan collateral as of December 31, 2020. At December 31, 2020, the Bank had $123.7 million of borrowing capacity under the Federal Reserve SAB PPP Liquidity Facility. We also maintain lines of credit of $1.2 million with the Federal Reserve Bank and $15.0 million of uncommitted federal funds purchased lines with correspondent banks as part of our contingency funding plan. In addition, the Company maintains a $5.0 million revolving line of credit which is available as needed for general liquidity purposes. While the Bank does not have formal brokered certificate lines of credit with counter parties at December 31, 2020, we believe that the Bank could access this market, which provides an additional potential source of liquidity. See Note 10, "Federal Home Loan Bank and Other Borrowings" of "Notes to Consolidated Financial Statements" which are included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K, for further detail.

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

Off-Balance Sheet Arrangements. In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments, issued to meet customer financial needs. Such financial instruments are recorded in the financial statements when they become payable. These instruments include unused commitments for lines of credit, overdraft protection lines of credit and home equity lines of credit, as well as commitments to extend credit. As of December 31, 2020, the Company had approximately $247.3 million in unused commitments, compared to approximately $243.6 million in unused commitments as of December 31, 2019. See Note 12, "Commitments and Contingencies"; "Financial Instruments with Off-Balance Sheet Risk" of "Notes to Consolidated Financial Statements" which are included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K, for further detail.

Capital Resources. As of the dates indicated below, our Tier 1 and Risk-based capital levels exceeded levels necessary to be considered "Well Capitalized" under Prompt Corrective Action provisions for the Bank.

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

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of December 31, 2020								
Total capital (to risk weighted assets)	$ 171,702	14.7 %	$ 93,381	>=	8.0 %	$ 116,726	>=	10.0 %
Tier 1 capital (to risk weighted assets)	157,081	13.5 %	70,035	>=	6.0 %	93,381	>=	8.0 %
Common equity tier 1 capital (to risk weighted assets)	157,081	13.5 %	52,527	>=	4.5 %	75,872	>=	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	157,081	9.9 %	63,718	>=	4.0 %	79,647	>=	5.0 %
As of December 31, 2019								
Total capital (to risk weighted assets)	$ 160,302	13.1 %	$ 98,174	>=	8.0 %	$ 122,718	>=	10.0 %
Tier 1 capital (to risk weighted assets)	149,982	12.2 %	73,631	>=	6.0 %	98,174	>=	8.0 %
Common equity tier 1 capital (to risk weighted assets)	149,982	12.2 %	55,223	>=	4.5 %	79,767	>=	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	149,982	10.4 %	57,834	>=	4.0 %	72,293	>=	5.0 %

At December 31, 2020, the Bank was categorized as "Well Capitalized" under Prompt Corrective Action Provisions, as determined by the OCC, our primary regulator.

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

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of December 31, 2020								
Total capital (to risk weighted assets)	$ 166,703	14.3 %	$ 93,381	> =	8.0 %	N/A		N/A
Tier 1 capital (to risk weighted assets)	122,082	10.5 %	70,035	> =	6.0 %	N/A		N/A
Common equity tier 1 capital (to risk weighted assets)	122,082	10.5 %	52,527	> =	4.5 %	N/A		N/A
Tier 1 leverage ratio (to adjusted total assets)	122,082	7.7 %	63,718	> =	4.0 %	N/A		N/A
As of December 31, 2019								
Total capital (to risk weighted assets)	$ 137,259	11.2 %	$ 98,174	> =	8.0 %	$ 122,718	> =	10.0 %
Tier 1 capital (to risk weighted assets)	111,939	9.1 %	73,631	> =	6.0 %	98,174	> =	8.0 %
Common equity tier 1 capital (to risk weighted assets)	111,939	9.1 %	55,223	> =	4.5 %	79,767	> =	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	111,939	7.7 %	57,834	> =	4.0 %	72,293	> =	5.0 %

Selected Quarterly Financial Data

The following is selected financial data summarizing the results of operations for each quarter as of the periods indicated below:

Year ended December 31, 2020:

	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Interest income	$ 16,908	$ 15,886	$ 15,218	$ 16,515
Interest expense	4,237	3,583	3,309	3,143
Net interest income	12,671	12,303	11,909	13,372
Provision for loan losses	2,000	1,750	1,500	2,500
Net interest income after provision for loan losses	10,671	10,553	10,409	10,872
Non-interest income	3,603	5,013	5,062	4,770
Non-interest expense	10,731	11,392	10,724	10,826
Income before income tax expense	3,543	4,174	4,747	4,816
Provision (benefit) for income tax	937	1,105	1,267	1,246
Net income	$ 2,606	$ 3,069	$ 3,480	$ 3,570
Basic earnings per share	$ 0.23	$ 0.28	$ 0.31	$ 0.32
Diluted earnings per share	$ 0.23	$ 0.28	$ 0.31	$ 0.32
Dividends paid	$ 0.21	$ —	$ —	$ —

Year ended December 31, 2019:

	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Interest income	$ 13,718	$ 14,336	$ 16,223	$ 16,146
Interest expense	3,656	4,253	4,630	4,371
Net interest income	10,062	10,083	11,593	11,775
Provision for loan losses	1,225	325	575	1,400
Net interest income after provision for loan losses	8,837	9,758	11,018	10,375
Non-interest income	2,332	5,238	3,621	3,784
Non-interest expense	9,894	9,389	12,975	10,428
Income before income tax expense	1,275	5,607	1,664	3,731
Provision (benefit) for income tax	322	1,500	430	562
Net income	$ 953	$ 4,107	$ 1,234	$ 3,169
Basic earnings per share	$ 0.09	$ 0.37	$ 0.11	$ 0.28
Diluted earnings per share	$ 0.09	$ 0.37	$ 0.11	$ 0.28
Dividends paid	$ 0.20	$ —	$ —	$ —

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

- originating shorter-term secured commercial, agriculture and consumer loan maturities, which could include balloon mortgage loans;
- originating variable rate commercial and agriculture loans and adjustable-rate commercial and agriculture loans;
- the sale of a vast majority of longer-term fixed-rate residential loans in the secondary market with retained servicing;
- managing our funding needs by utilizing core deposits, brokered certificates of deposits and borrowings as appropriate, with borrowing used to extend terms and lock in fixed interest rates;
- reducing non-interest expense and managing our efficiency ratio by implementing technologies to enhance customer service and increase employee productivity; and
- realigning supervision and control of our branch network by modifying their configuration, staffing, locations and reporting structure to focus resources on our most productive markets.

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

The following table sets forth, at December 31, 2020 and December 31, 2019, an analysis of our interest rate risk as measured by the estimated changes in Economic Value of Equity (EVE) resulting from an immediate and permanent shift in the yield curve (up 300 basis points and down 100 basis points). As of December 31, 2020, and December 31, 2019, due to the current level of interest rates, EVE estimates for decreases in interest rates greater than 100 basis points are not meaningful. The increase in changes in economic value of equity as a percentage of equity is due to the growth in non-maturity deposits, and the net reduction in longer-term fixed rate loans.

	Percent Change in Economic Value of Equity (EVE)	
Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	At December 31, 2020	At December 31, 2019
+300 bp	15%	1%
+200 bp	11%	2%
+100 bp	7%	1%
-100 bp	—%	(2)%

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

Our overall interest rate sensitivity is demonstrated by net interest income shock analysis which measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of change in our net interest income over the next 12 months in the event of an immediate and parallel shift in the yield curve (up 300 basis points and down 100 basis points). The table below presents our projected change in net interest income for the various rate shock levels at December 31, 2020 and December 31, 2019. The growth in percent change in net interest income in the various rate shock environments is due to the growth in assumed variable-rate Federal Reserve overnight balances and variable-rate loan assets.

	Percent Change in Net Interest Income Over One Year Horizon	
Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	At December 31, 2020	At December 31, 2019
+300 bp	3%	(5)%
+200 bp	3%	(4)%
+100 bp	2%	(2)%
-100 bp	(1)%	1%

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

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

The assumptions used to measure and assess interest rate risk include interest rates, loan prepayment rates, deposit decay (runoff) rates, and the market values of certain assets under differing interest rate scenarios. Actual values may differ from those projections set forth above should market conditions vary from the assumptions used in preparing the analysis. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

EideBailly

CPAs & BUSINESS ADVISORS

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Citizens Community Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2020, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 8, 2021 expressed an unmodified opinion.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses
As discussed in Notes 1 and 4 to the Company's consolidated financial statements, the Company has a gross loan portfolio of $1.2 billion and related allowance for loan losses of $17.0 million as of December 31, 2020. The Company's allowance for loan losses is a material and complex estimate requiring significant management's judgment in the evaluation of the credit quality and the estimation of inherent losses within the loan portfolio. The allowance for loan losses includes a general reserve which is determined based on the results of a quantitative and a qualitative analysis of all loans not measured for impairment at the reporting date.

The Company's general reserves cover non-impaired loans and is based on historical loss rates and qualitative loss factors for each portfolio. In calculating the allowance for loan losses, the Company considers relevant credit quality indicators for each loan segment, and estimates losses for each loan type based upon their nature and risk profile. This process requires significant management judgment in the review of the loan portfolio and assignment of risk ratings based upon the characteristics of loans. In addition, estimation of losses inherent within the portfolio requires significant management judgment, particularly where the Company has not incurred sufficient historical losses and has utilized industry data in forming its estimate.

Auditing these complex judgments and assumptions involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the evaluation of the general reserve qualitative adjustments. Testing the design and operating effectiveness of controls relating to management's timely identification of problem loans, appropriate application of loan rating policy, consistency of application of accounting policies and appropriateness of assumptions used in the allowance for loan losses calculation.

- Evaluating the reasonableness of assumptions and reasonableness, accuracy, and completeness of data used by management in forming the loss factors by performing retrospective review of historic loan loss experience and analyzing historical data used in developing the assumptions.

- Evaluating the appropriateness of inputs and factors that the Company used in forming the qualitative loss factors and assessing whether such inputs and factors were relevant, reliable, and reasonable for the purpose used.

- Testing the mathematical accuracy and computation of the allowance for loan losses.

- Evaluated the period to period consistency with which qualitative loss factors are determined and applied. Evaluate the qualitative adjustments year over year for directional consistency and testing the reasonableness, including the qualitative adjustments attributed to the estimated impact of the COVID-19 pandemic on the Company's loan portfolio.

Goodwill Impairment Evaluation
As described in Notes 1 and 7 to the consolidated financial statements, the Company's consolidated goodwill balance was $31,498,000 at December 31, 2020, which is allocated to the Company's single reporting unit. Goodwill is tested for impairment at the reporting unit level at least annually, or more frequently whenever events or circumstances occur that indicate that it is more-likely-than-not that an impairment loss has occurred. Management performed a quantitative assessment of goodwill for the Company's single reporting unit utilizing estimates of selected market information (market approach). The calculation of the goodwill impairment involves significant estimates and subjective assumptions which require a high degree of management judgment. This judgment includes the identification of relevant market and transactions with comparable entities.

We identified the goodwill impairment assessment of the Company as a critical audit matter. The principal considerations for this determination was the degree of auditor judgment in performing procedures to evaluate the appropriateness of the methodology used by management, including consideration of the significant assumptions and inputs, which includes relevant market and transactions with comparable entities.

The primary procedures we performed to address this critical audit matter included:

- Testing the operating effectiveness of controls over management's goodwill impairment test including controls addressing:
  - Management's review of the reasonableness and accuracy of the Company's market and transactions with comparable entities.
  - Management's review of the accuracy of estimates used to determine implied fair value.

- Substantively testing management's estimate, including evaluating their judgements and assumptions, for estimating fair value of the Company which included:
  - Evaluation of key financial data for accuracy, including corroborating the reasonableness and accuracy of the market and transactions with comparable entities.
  - Utilization of firm employed valuation specialist to evaluate appropriateness of valuation methodologies and overall reasonableness of implied fair value.

/s/ Eide Bailly, LLP

We have served as the Company's auditor since 2020.

Denver, Colorado
March 8, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Citizens Community Bancorp, Inc. and Subsidiary (the "Company") as of December 31, 2019, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flow for the year then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Baker Tilly US, LLP

We have served as the Company's auditor from 2010 to 2019.

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Minneapolis, Minnesota
March 10, 2020

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
(in thousands, except share data)

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 119,440	$ 55,840
Other interest bearing deposits	3,752	4,744
Securities available for sale "AFS"	144,233	180,119
Securities held to maturity "HTM"	43,551	2,851
Equity securities with readily determinable fair value	200	246
Other investments	14,948	15,005
Loans receivable	1,237,581	1,177,380
Allowance for loan losses	(17,043)	(10,320)
Loans receivable, net	1,220,538	1,167,060
Loans held for sale	3,075	5,893
Mortgage servicing rights, net	3,252	4,282
Office properties and equipment, net	21,165	21,106
Accrued interest receivable	5,652	4,738
Intangible assets	5,494	7,587
Goodwill	31,498	31,498
Foreclosed and repossessed assets, net	197	1,460
Bank owned life insurance ("BOLI")	23,684	23,063
Other assets	8,416	5,757
TOTAL ASSETS	$ 1,649,095	$ 1,531,249
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 1,295,256	$ 1,195,702
Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") advances	123,498	130,971
Other borrowings	58,328	43,560
Other liabilities	11,449	10,463
Total liabilities	1,488,531	1,380,696
Stockholders' Equity:		
Common stock— $0.01 par value, authorized 30,000,000; 11,056,349 and 11,266,954 shares issued and outstanding, respectively	111	113
Additional paid-in capital	126,704	128,856
Retained earnings	32,809	22,517
Unearned deferred compensation	(550)	(462)
Accumulated other comprehensive income (loss)	1,490	(471)
Total stockholders' equity	160,564	150,553
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,649,095	$ 1,531,249

See accompanying notes to audited consolidated financial statements.

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

	For the year ended December 31, 2020	For the year ended December 31, 2019
Interest and dividend income:		
Interest and fees on loans	$ 59,763	$ 54,647
Interest on investments	4,764	5,776
Total interest and dividend income	64,527	60,423
Interest expense:		
Interest on deposits	10,000	12,174
Interest on FHLB and FRB borrowed funds	1,814	2,721
Interest on other borrowed funds	2,458	2,015
Total interest expense	14,272	16,910
Net interest income before provision for loan losses	50,255	43,513
Provision for loan losses	7,750	3,525
Net interest income after provision for loan losses	42,505	39,988
Non-interest income:		
Service charges on deposit accounts	1,832	2,368
Interchange income	2,029	1,735
Loan servicing income	4,158	2,674
Gain on sale of loans	6,693	2,462
Loan fees and service charges	1,383	1,145
Insurance commission income	475	734
Net gains on investment securities	110	271
Net gain on sale of branch	—	2,295
Net gain on sale of acquired business lines	432	—
Settlement proceeds	131	—
Other	1,205	1,291
Total non-interest income	18,448	14,975
Non-interest expense:		
Compensation and related benefits	22,321	20,325
Occupancy	3,915	3,697
Office	2,152	2,188
Data processing	4,375	3,938
Amortization of intangible assets	1,622	1,496
Mortgage servicing rights expense	3,050	1,108
Advertising, marketing and public relations	967	1,214
FDIC premium assessment	584	258
Professional services	1,829	2,457
Gain on repossessed assets, net	(259)	(125)
Other	3,117	6,130
Total non-interest expense	43,673	42,686
Income before provision for income tax	17,280	12,277
Provision for income taxes	4,555	2,814
Net income attributable to common stockholders	$ 12,725	$ 9,463
Per share information:		
Basic earnings	$ 1.14	$ 0.85
Diluted earnings	$ 1.14	$ 0.85
Cash dividends paid	$ 0.21	$ 0.20

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Comprehensive Income
(in thousands)

	For the year ended December 31, 2020	For the year ended December 31, 2019
Net income attributable to common stockholders	$ 12,725	$ 9,463
Other comprehensive income, net of tax:		
Securities available for sale		
Net unrealized gains arising during period	2,074	1,219
Reclassification adjustment for net gains included in net income, net of tax	(113)	196
Other comprehensive income	1,961	1,415
Comprehensive income	$ 14,686	$ 10,878

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Changes in Stockholders' Equity
(in thousands, except Shares)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2018	10,953,512	$ 109	$ 125,512	$ 15,264	$ (857)	$ (1,841)	$ 138,187
Net income	—	—	—	9,463	—	—	9,463
Other comprehensive income, net of tax	—	—	—	—	—	1,415	1,415
Forfeiture of unvested shares	(12,167)	—	(199)	—	199	—	—
Surrender of restricted shares of common stock	(4,667)	—	(53)	—	—	—	(53)
Restricted common stock awarded under the equity incentive plan	12,847	—	274	—	(274)	—	—
Common stock issued to F&M shareholders	288,999	3	3,102	—	—	—	3,105
Common stock options exercised	28,430	1	202	—	—	—	203
Stock option expense	—	—	18	—	—	—	18
Amortization of restricted stock	—	—	—	—	470	—	470
Adoption of ASU 2016-01; Equity securities (1)	—	—	—	45	—	(45)	—
Adoption of ASU 2016-02; Leases	—	—	—	(57)	—	—	(57)
Cash dividends ($0.20 per share)	—	—	—	(2,198)	—	—	(2,198)
Balance, December 31, 2019	11,266,954	$ 113	$ 128,856	$ 22,517	$ (462)	$ (471)	$ 150,553
Net income	—	—	—	12,725	—	—	12,725
Other comprehensive income, net of tax	—	—	—	—	—	1,961	1,961
Unrealized performance-based restricted common stock awards	—	—	(92)	—	92	—	—
Surrender of restricted shares of common stock	(2,641)	—	(27)	—	—	—	(27)
Restricted Common stock awarded under the equity incentive plan	45,507	—	710	—	(710)	—	—
Common stock fractional share adjustment on acquisitions	(40)	—	—	—	—	—	—
Common stock repurchased	(253,431)	(2)	(2,757)	(61)	—	—	(2,820)
Stock option expense	—	—	14	—	—	—	14
Amortization of restricted stock	—	—	—	—	530	—	530
Cash dividends ($0.21 per share)	—	—	—	(2,372)	—	—	(2,372)
Balance, December 31, 2020	11,056,349	$ 111	$ 126,704	$ 32,809	$ (550)	$ 1,490	$ 160,564

(1) Amount reclassified to retained earnings due to January 1, 2019 adoption of ASU 2016-02. For further information, refer to Note 1, "Nature of Business and Summary of Significant Accounting Policies; Recent Pronouncements - Adopted"

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows
(in thousands)

	For the year ended December 31, 2020	For the year ended December 31, 2019
Cash flows from operating activities:		
Net income attributable to common stockholders	$ 12,725	$ 9,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium amortization, net of discount accretion on investment securities	142	899
Depreciation expense	1,954	1,564
Provision for loan losses	7,750	3,525
Net realized loss (gain) on equity securities	46	—
Net realized gain on debt securities	(156)	—
Net realized loss on sale of securities	—	(271)
Increase in mortgage servicing rights resulting from transfers of financial assets	(2,020)	(904)
Mortgage servicing rights expense	3,050	1,108
Amortization of intangible assets	1,622	1,496
Amortization of restricted stock	530	470
Net stock based compensation expense	14	18
Loss (gain) on sale of office properties and equipment	178	(32)
Deferred income taxes	(2,237)	(752)
Increase in cash surrender value of life insurance	(621)	(552)
Net gain from disposals of foreclosed and repossessed assets	(259)	(125)
Gain on sale of loans held for sale, net	(6,693)	(2,462)
Net change in loans held for sale	9,511	(1,504)
(Increase) decrease in accrued interest receivable and other assets	(2,080)	4,497
Increase (decrease) in other liabilities	581	(3,602)
Net gain on sale of insurance agency	(252)	—
Total adjustments	11,060	3,373
Net cash provided by operating activities	23,785	12,836
Cash flows from investing activities:		
Net decrease in other interest bearing deposits	992	3,708
Purchase of available for sale securities	(28,218)	(53,915)
Purchase of held to maturity securities	(44,441)	—
Proceeds from principal payments and sale of available for sale securities	66,872	58,618
Proceeds from principal payments and maturities of held to maturity securities	3,692	1,999
Net purchases (sales) of other investments	57	(1,299)
Proceeds from sale of foreclosed and repossessed assets	2,780	3,038
Net increase in loans	(62,486)	(60,874)
Net capital expenditures	(2,573)	(6,771)
Net cash disbursed in business combination	—	(8,137)
Proceeds from disposal of office properties and equipment	382	300
Net proceeds from sale of insurance agency	1,128	—
Net cash used in investing activities	(61,815)	(63,333)
Cash flows from financing activities:		
Net (decrease) increase in short-term Federal Home Loan Bank advances	(40,973)	1,036
Long-term Federal Home Loan Bank advances	66,500	—
Long-term Federal Home Loan Bank maturities	(33,000)	—
Amortization of debt issuance costs	91	—
Proceeds from other borrowings, net of origination costs	14,677	—
Proceeds from other borrowings to fund business combination, net of debt issuance costs	—	29,913
Principal payment reduction to other borrowings	—	(11,000)
Net increase in deposits	99,554	39,553
Common stock issued in F&M acquisition less capitalized equity costs	—	3,105
Repurchase shares of common stock	(2,820)	—
Surrender of restricted shares of common stock	(27)	(53)

Common stock options exercised	—	203
Cash dividends paid	(2,372)	(2,198)
Net cash provided by financing activities	101,630	60,559
Net increase in cash and cash equivalents	63,600	10,062
Cash and cash equivalents at beginning of period	55,840	45,778
Cash and cash equivalents at end of period	$ 119,440	$ 55,840
Supplemental cash flow information:		
Cash paid during the period for:		
Interest on deposits	$ 9,980	$ 12,665
Interest on borrowings	$ 3,950	$ 5,128
Income taxes	$ 7,870	$ 3,847
Supplemental noncash disclosure:		
Transfers from loans receivable to foreclosed and repossessed assets	$ 1,057	$ 1,803
Fair value of assets acquired, net of cash and cash equivalents	$ —	$ 177,494
Fair value of liabilities assumed, net of cash and cash equivalents	$ —	$ 169,724

See accompanying notes to audited consolidated financial statements.

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

The consolidated financial statements of Citizens Community Federal N.A. (the "Bank") included herein have been included by its parent company, Citizens Community Bancorp, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). As used in this annual report, the terms "we", "us", "our", and "Citizens Community Bancorp, Inc." mean the Company and its wholly owned subsidiary, the Bank, unless the context indicates other meaning.

The Bank is a national banking association (a "National Bank") and operates under the title of Citizens Community Federal National Association ("Citizens Community Federal N.A." or "Bank"). The Company is a bank holding company, supervised by the Federal Reserve Bank of Minneapolis (the "FRB"), and operates under the title of Citizens Community Bancorp, Inc. Wells Insurance Agency ("WIA") was a wholly owned subsidiary of the Bank, providing insurance products to the Bank's customers and was sold on June 30, 2020. F&M Investment Corp. of Tomah was a wholly owned subsidiary of the Bank that was formerly utilized by F&M to manage its municipal bond portfolio, and was dissolved in February 2020. The U.S. Office of the Comptroller of the Currency (the "OCC"), is the primary federal regulator for the Bank.

The consolidated income of the Company is principally derived from the income of the Bank, the Company's wholly owned subsidiary, serving customers primarily in Wisconsin and Minnesota through 25 branch locations. Its primary markets include the Chippewa Valley Region in Wisconsin, Mankato and Twin Cities markets in Minnesota, and various rural communities around these areas. The Bank offers traditional community banking services to businesses, agricultural operators and consumers, including one-to-four family residential mortgages.

On May 17, 2019, the Company completed the sale of the Rochester Hills, MI branch for a deposit premium of 7 percent, or approximately $2.3 million gain, net of selling costs. The branch sale included approximately $34 million in deposits and $300 in fixed assets. The Bank retained all loans associated with the branch.

On July 1, 2019 the Company completed its previously announced acquisition of F. & M. Bancorp. of Tomah, Inc. ("F&M") pursuant to the merger agreement. In connection with the acquisition, the Company merged Farmers & Merchants Bank with and into the Bank, with the Bank surviving the merger See Note 2, "Acquisitions" for additional information.

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

In preparing these consolidated financial statements, we evaluated the events and transactions occurring subsequent to the balance sheet date of December 31, 2020 through the date on which the consolidated financial statements were available to be issued on March 8, 2021, for items that should potentially be recognized or disclosed in these consolidated financial statements.

Unless otherwise stated, all monetary amounts in these Notes to Consolidated Financial Statements, other than share, per share, capital and capital ratio amounts, are stated in thousands.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Citizens Community Federal N.A. All significant inter-company accounts and transactions have been eliminated.

***Use of Estimates*—**Preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, fair value of financial instruments, the allowance for loan losses, mortgage servicing rights, foreclosed and repossessed assets, valuation of intangible assets arising from acquisitions, useful lives for depreciation and amortization, valuation of goodwill and long-lived assets, stock based compensation, deferred tax assets, uncertain income tax positions and contingencies. Management does not anticipate any material changes to estimates made herein in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: those items described under the caption "Risk Factors" in Item 1A of the accompanying transition report on Form 10-K for the year ended December 31, 2020 and external market factors such as market interest rates and employment rates, changes to operating policies and procedures, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period.

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

Interest Bearing Deposits—Other interest bearing deposits are certificate of deposit investments made by the Bank with other financial institutions that are carried at cost. The weighted average months to maturity of the interest bearing deposits is 9.67 months. Balances over $250 in those institutions are not insured by the FDIC and therefore pose a potential risk in the event the institution were to fail. As of December 31, 2020 and December 31, 2019, there were no certificate of deposit accounts with a balance greater than $250.

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

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

Equity securities with readily determinable fair value - The Company is required to maintain an investment in Federal Agricultural Mortgage Corporation ("Farmer Mac") equity securities. Farmer Mac equity securities are carried at their fair market value, which is readily determinable. Changes in fair value are recognized as net gains (losses) on investment securities in the consolidated Statement of Operations.

Other investments - As a member of the Federal Reserve Bank ("FRB") System and the Federal Home Loan Bank ("FHLB") System, the Bank is required to maintain an investment in the capital stock of these entities. These securities are "restricted" in that they can only be sold back to the respective institutions or another member institution at par. Therefore, they are less liquid than other exchange traded equity securities. As no ready market exists for these stocks, and they have no quoted market value, these investments are carried at cost and periodically evaluated for impairment based on the ultimate recovery of par value. Cash dividends are reported as other non-interest income in the consolidated statement of operations.

Also included are non-marketable equity securities of our correspondent bank, Bankers Bank, without readily determinable fair value. This stock is carried at cost plus or minus changes resulting from observable price changes in orderly transactions for this stock, less other-than-temporary impairment charges, if any.

Management's evaluation for impairment of these other investments, includes consideration of the financial condition and other available relevant information of the issuer. Based on management's quarterly evaluation, no impairment has been recorded on these securities. Other investments totaling $14,948 at December 31, 2020 consisted of $8,103 of FHLB stock, $5,170 of Federal Reserve Bank stock and $1,675 of Bankers' Bank stock. Other investments totaling $15,005 at December 31, 2019 consisted of $8,196 of FHLB stock, $5,162 of Federal Reserve Bank stock, and $1,647 of Bankers' Bank stock.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, accretable discounts on loans purchased, and non-accretable differences on purchased credit impaired (PCI) loans. Interest income is accrued on the unpaid principal balance of these loans. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method with no prepayment assumptions. Late charge fees are recognized into income when collected.

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

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

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

Residential mortgage loans and open ended consumer installment loans are charged off to estimated net realizable value less estimated selling costs at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 180 days or more. Closed end consumer loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 120 days or more. Commercial/ agricultural real estate and commercial and industrial/agricultural operating loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 90 days or more.

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

A loan is impaired when full payment under the loan terms is not expected. Impaired loans consist of all TDRs, as well as individual loans not considered a TDR, that are either (1) rated substandard or worse, (2) on nonaccrual status or (3) PCI loans which are impaired at the time of acquisition. Substandard loans, as defined by the OCC, our primary banking regulator, are loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. All TDRs are individually evaluated for impairment. See Note 4, "Loans, Allowance for Loan Losses and Impaired Loans" for more information on what we consider to be a TDR. For TDR's or substandard loans deemed to be impaired, a specific ALL allocation may be established so that the loan is reported, net, at the lower of (a) its outstanding principal balance; (b) the present value of the loan's estimated future cash flows using the loan's existing rate; or (c) at the fair value of any loan collateral, less estimated disposal costs, if repayment is expected solely from the underlying collateral of the loan. For TDRs less than 90+ days past due, and certain substandard loans that are less than 90+ days delinquent, the likelihood of the loan migrating to over 90 days past due is also taken into account when determining the specific ALL allocation for these particular loans. Large groups of smaller balance homogeneous loans, such as non-TDR commercial, consumer and residential real estate loans, are collectively evaluated for ALL purposes, and accordingly, are not separately identified for ALL disclosures.

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

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

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

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

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

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

For all acquired loans, the outstanding loan balances less any related accretable yield and/or non-accretable difference is referred to as the loans' carrying amount.

Loans Held for Sale — Loans held for sale are those loans the Company has the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or fair value. Gains and losses on sales of loans are recognized at settlement dates, and are determined by the difference between the sales proceeds and the carrying value of the loans after allocating costs to servicing rights retained. Gains and/or losses on sale of loans are recognized as non-interest income on the consolidated statement of operations. Interest rate lock commitments on mortgage loans to be funded and sold are valued at fair value, and are included in other assets or liabilities, if material.

Transfers of financial assets—Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the entity, (2) the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets, and (3) the entity does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Mortgage Servicing Rights— Mortgage servicing rights ("MSR") assets result as the Company sells loans to investors in the secondary market and retains the rights to service mortgage loans sold to others. MSR assets are initially measured at fair value; assessed for impairment; carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value. MSR assets are amortized in proportion to and over the period of estimated net servicing income, with the amortization recorded in non-interest expense in the consolidated statement of operations.

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

Servicing fee income, which is reported on the consolidated statements of operations in non-interest income as Loan servicing fee income, is recorded for fees earned for servicing loans. The fee are based on a contractual percentage of outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

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

Goodwill and other intangible assets—The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, “Intangibles - Goodwill and Other.” The Company records the excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumed, as goodwill. The Company amortizes acquired intangible assets, primarily Core Deposit Intangibles (CDI) with definite useful economic lives over their useful economic lives ranging from 48 to 111 months 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. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. 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 December 31, 2020 which is related to its banking activities. The impairment testing process is conducted by assigning net assets and goodwill to the Company’s reporting unit. An initial qualitative evaluation is made to assess the likelihood of impairment and determine whether further quantitative testing to calculate the fair value is necessary. When the qualitative evaluation indicates that impairment is more likely than not, quantitative testing is required whereby the fair value of the Company’s reporting unit is calculated and compared to the recorded book value, “step one.” If the calculated fair value of the Company’s reporting unit exceeds its carrying value, goodwill is not considered impaired and “step two” is not considered necessary. If the carrying value of the company’s reporting unit exceeds its calculated fair value, the impairment test continues (“step two”) by comparing the carrying value of the Company’s reporting unit’s goodwill to the implied fair value of goodwill. An impairment charge is recognized if the carrying value of goodwill exceeds the implied fair value of goodwill. The Company has performed the required goodwill impairment test and has determined that goodwill was not impaired as of December 31, 2020. See Note 7 for additional information on goodwill and other intangible assets.

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

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

Leases - We determine if an arrangement is a lease at inception. All of our existing leases have been determined to be operating leases under ASC 842. Right-of-use (“ROU”) assets are included in other assets in our consolidated balance sheets. Operating lease liabilities are included in other liabilities in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date, based on the present value of lease payments over the lease term. As none of our existing leases provide an implicit rate, we use our incremental borrowing rate, based on information available at commencement date, in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease, when it is reasonably certain that we will exercise that option. Lease expense is recognized based on the total contractually required lease payments, over the term of the lease, on a straight-line basis.

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

Advertising, Marketing and Public Relations Expense**—**The Company expenses all advertising, marketing and public relations costs as they are incurred.

Income Taxes **–** The Company accounts for income taxes in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification ("ASC") Topic 740, "Income Taxes." Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. See Note 15, "Income Taxes" for details on the Company's income taxes.

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

Revenue Recognition - The Company recognizes revenue in the consolidated statements of operations as it is earned and when collectability is reasonably assured. The primary source of revenue is interest income from interest earning assets, which is recognized on the accrual basis of accounting using the effective interest method. The recognition of revenues from interest earning assets is based upon formulas from underlying loan agreements, securities contracts or other similar contracts. Non-interest income is recognized on the accrual basis of accounting as services are provided or as transactions occur. Non-interest income includes fees from deposit accounts, ATM and debit card fees, mortgage banking activities, and other miscellaneous services and transactions. Commission revenue from WIA was recognized as of the effective date of the insurance policy or the date the customer was billed, whichever was later. The Company also received contingent commissions from insurance companies which were based on the overall profitability of their relationship based primarily on the loss experience of the insurance placed by the Company. Contingent commissions from insurance companies were recognized when determinable. Commission revenue is included in other non-interest income in the consolidated statement of operations and has been discontinued due to the sale of WIA on June 30, 2020.

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

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

Off-Balance-Sheet Financial Instruments**—**In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commitments under lines of credit arrangements, issued to meet customer financial needs. Such financial instruments are recorded in the financial statements when they become payable. See Note 12, "Commitments and Contingencies" in Notes to Consolidated Financial Statements.

Derivatives--Rate-lock Commitments and Forward Sale Agreements **—**The Company enters into commitments to originate loans, whereby the interest rate on the loan is determined prior to funding (rate-lock commitment). Rate-lock commitments on mortgage loans held for sale are derivative instruments. If material, derivative instruments are carried on the consolidated balance sheets at fair value, and changes in the fair value thereof are recognized in the consolidated statements of operations. The Company originates single-family residential loans for sale, pursuant to programs primarily with the Federal Home Loan Mortgage Corporation (FHLMC) and other similar third parties. In connection with these programs, at the time the Company initially issues a loan commitment, it does not lock in a specific interest rate. At the time the interest rate is locked in by the borrower, the Company concurrently enters into a forward loan sale agreement with the prospective loan purchaser, at a specific price, in order to manage the interest rate risk inherent to the rate-lock commitment. The forward sale agreement also meets the definition of a derivative instrument. Any change in the fair value of the loan commitment after the borrower locks in the interest rate is substantially offset by the corresponding change in the fair value of the forward loan sale agreement related to such loan. The period from the time the borrower locks in the interest rate, to the time the Company funds the loan and sells the loan to a third party varies, and could be up to 90 days. The fair value of each instrument will rise and fall in response to changes in market interest rates, subsequent to the dates the interest rate locks and forward sale agreements are entered into. In the event that interest rates rise after the Company enters into an interest rate lock, the fair value of the loan commitment will decline. However, the fair value of the forward loan sale agreement related to such loan commitment should increase by substantially the same amount, effectively eliminating the Company's interest rate and price risks.

At December 31, 2020, the Company had $23,650 of loan commitments outstanding related to loans being originated for sale, all of which were subject to interest rate lock commitments and corresponding forward loan sale agreements, as described above. The net fair values of outstanding interest rate-lock commitments and forward sale agreements were considered immaterial to the Company's consolidated financial statements as of December 31, 2020.

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

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

Recognition of a prior period error-In April 2019 the Company determined that certain state franchise returns had not ever been filed. The franchise liability calculation is primarily based on the Company's stockholders' equity. The initial franchise return should have been filed in 2006 as part of the Company's initial public offering. Additionally, with the Company's 2018 capital raise, an additional franchise liability should have been recorded in fiscal 2018. The Company should have recorded a $140 pre-tax charge related to the 2006 initial public offering in the fiscal year ended September 30, 2006 and a $160 pre-tax charge related to the 2018 capital raise in the fiscal year ended September 30, 2018. The correction of these prior period errors to record both the 2006 and 2018 franchise liability totaling $300, was recorded during the three months ended March 31, 2019. The impact on results of operations for the three months ended March 31, 2019 and year ended December 31, 2019 were as follows: pre-tax income was understated by $300, tax expense was overstated by $81 and net income was understated by $219 or $0.02 per share. For the fiscal year ended September 30, 2018, pre-tax income was overstated by $160, tax expense was understated by $44 and net income was overstated by $116 or $0.02 per share. Management of the Company evaluated these prior period errors under the accounting guidance FASB ASC 250, *Accounting Changes and Error Corrections* and concluded that the effect of these prior period errors was not material to the Company's consolidated financial statements for the year ended December 31, 2019.

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

Recent Accounting Pronouncements—The Financial Accounting Standards Board (FASB) issues Accounting Standards Updates (ASUs) to the FASB Accounting Standards Codification (ASC). This section provides a summary description of recent ASUs that have significant implications (elected or required) within the consolidated financial statements, or that management expects may have a significant impact on financial statements issued in the near future.

Recent Accounting Pronouncements—Adopted

ASU 2014-09; Revenue from Contracts with Customers (Topic 606)—Under the ASU, as modified by subsequent ASUs, revenue is recognized when a customer obtains control of promised services in an amount that reflects the consideration the entity expects to receive in exchange for those services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company applied the five-step method outlined in the ASU to all revenue streams scoped-in by the ASU and elected the modified retrospective implementation method. Substantially all of the Company's interest income and certain non-interest income were not impacted by the adoption of this ASU because the revenue from those contracts with customers is covered by other guidance in U.S. GAAP. The Company's largest sources of non-interest revenue which are subject to the guidance include fees and service charges on loan and deposit accounts and interchange revenue from debit card transactions. ASU 2014-09, as amended, became effective for the Company's annual and interim periods beginning in the first quarter 2019. Adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements as the change in the timing and pattern of the Company's revenue recognition related to scoped-in non-interest income recognized under the newly issued ASU is consistent with the current applicable accounting guidance. The Company has made all required additional disclosures related to non-interest income in the consolidated financial statements, primarily in Revenue Recognition policy included herein in Note 1.

ASU 2016-01; Recognition and Measurement of Financial Assets and Liabilities—The guidance requires certain equity investments to be measured at fair value, with changes in fair value recognized in net income. The Company's adoption of ASU 2016-01 as of January 1, 2019, constitutes a change in accounting principle. The Company recorded a cumulative effect adjustment to retained earnings of $45 as of January 1, 2019, as a result of implementing this new accounting standard.

ASU 2016-02; Leases (Topic 842)—The ASU changed current GAAP by requiring that lease assets and liabilities arising from operating leases be recognized on the balance sheet. In July 2018, the FASB issued ASU 2018-10 and ASU 2018-11, Codification Improvements to Topic 842, Leases, amending various aspects of Topic 842. Topic 842 does not significantly change the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee from current U.S. GAAP. For leases with a term of 12 months or less, a lessee would be permitted to make an accounting policy election, by class of underlying asset, not to recognize lease assets and liabilities. Topic 842 became effective for the Company for annual and interim periods beginning in the first quarter 2019.

At adoption, the Company leased (1) 9 branch locations, (2) its corporate offices (3) 1 production office and (4) office equipment under operating leases that resulted in the recognition of right-of-use assets and corresponding lease liabilities of approximately $5,000, respectively, applicable under Topic 842. The right-of-use assets are included in other assets and the corresponding lease liabilities are included in other liabilities on the consolidated balance sheet. Adoption of Topic 842 did not have a material impact on the Company's consolidated statement of operations. Management adopted the guidance on January 1, 2019, and elected certain practical expedients offered by the FASB, including foregoing the restatement of comparative periods upon adoption. Management also excluded short-term leases from the recognition of right-of-use asset and lease liabilities. Additionally, the Company elected the transition relief allowed by FASB in foregoing reassessment of the following: whether any existing contracts were or contained leases, the classification of existing leases, and the determination of initial direct costs for existing leases. As of December 31, 2020, the Company leases (1) 5 branch locations, (2) its corporate offices and (3) 1 production office under operating leases. See Note 8 for additional detail.

ASU 2017-04; Intangibles - Goodwill and Other (Topic 350)—The ASU simplifies the accounting for goodwill impairment. This guidance, among other things, removes step two of the goodwill impairment test thus eliminating the need to determine the fair value of individual assets and liabilities of the reporting unit. Upon adoption of this ASU, goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This may result in either greater or less impairment being recognized than under current guidance. The Company adopted this Update for the Company's annual goodwill impairment tests beginning in the year ended December 31, 2019. Adoption of this ASU had no material impact on its consolidated financial statements.

ASU 2018-13, Fair Value Measurement (Topic 820)—The ASU modifies disclosure requirements on fair value measurements. This ASU removes requirements to disclose, (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and (2) the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. ASU 2018-13 clarifies that, disclosure regarding measurement uncertainty, is intended to communicate information about the uncertainty in measurement, as of the reporting date. ASU 2018-13 adds certain disclosure requirements, including (1) disclosure of changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements, and (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company adopted this ASU, in the first quarter of 2020. The amendments on (1) changes in unrealized gains and losses, (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and (3) the narrative description of measurement uncertainty, are being applied prospectively. All other amendments have been applied retrospectively for all periods presented. Adoption of this ASU had no material impact on its consolidated financial position or results of operations.

ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)—The ASU was issued to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement), by providing guidance for determining when the arrangement includes a software license. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract, with similar costs to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments. This guidance became effective for the Company beginning in the first quarter of 2020. Adoption of this ASU had no material impact on its consolidated financial statements.

ASU 2020-04, Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting--The ASU provides optional and temporary relief, in the form of optional expedients and exceptions, for applying GAAP to modifications of contacts, hedging relationships and other transactions affected by reference rate (e.g. LIBOR) reforms. ASU 2020-04 is effective for the Company immediately and through December 31, 2022. The Company utilizes LIBOR, among other indexes, as a reference rate for underwriting variable rate loans. Reference rate reform has not had, nor does the Company expect it to have, a material effect on the Company's consolidated balance sheet, operations or cash flows.

Recently Issued, But Not Yet Effective Accounting Pronouncements

ASU 2016-13; Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments--The ASU changes accounting for credit losses on loans receivable and debt securities from an incurred loss methodology to an expected credit loss methodology. Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Accordingly, ASU 2016-13 requires the use of forward-looking information to form credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, though the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. In November, 2019, the FASB issued ASU-2019-10, which delayed the effective date for ASU 2016-13 for smaller reporting companies, resulting in ASU 2016-13 becoming effective in the first quarter of 2023 for the Company. Earlier adoption is permitted; however, the Company does not currently plan to adopt the ASU early. Management is assessing alternative loss estimation methodologies and the Company's data and system needs in order to evaluate the impact that adoption of this standard will have on the Company's financial condition and results of operations. The Company anticipates recording the effect of implementing this ASU through a cumulative-effect adjustment through retained earnings as of the beginning of the reporting period in which the ASU is effective, which will be January 1, 2023.

NOTE 2 – ACQUISITION

F. & M. Bancorp. of Tomah, Inc.

On July 1, 2019 the Company completed its previously announced acquisition of F. & M. Bancorp. of Tomah, Inc. ("F&M") pursuant to the merger agreement. In connection with the acquisition, the Company merged Farmers & Merchants Bank with and into the Bank, with the Bank surviving the merger.

Under the terms of the merger agreement, each issued and outstanding share of F&M common stock, $0.25 par value, other than F&M common stock held by dissenting shareholders, or shares of F&M common stock held by F&M as treasury stock or owned by the Company, was converted into the right to receive, without interest (i) $94.92 in cash, (ii) 1.3350 shares of Citizens common stock, and (iii) cash in lieu of fractional shares. The value of the aggregate consideration paid to F&M shareholders was approximately $23.9 million, consisting of $20.8 million cash, and shares of the Company's common stock valued at approximately $3.1 million.

The merger added $193.6 million in assets, gross loans of $130.3 million, $148.6 million in deposits, $0.024 million of goodwill and $1.6 million of a core deposit intangible. The goodwill is not deductible for tax purposes, as the acquisition is accounted for as a tax-free exchange for tax purposes.

In connection with the F&M acquisition, we incurred expenses related to (1) accounting, legal and other professional services, (2) contract termination costs, and (3) other costs of integrating and conforming acquired operations with and into the Company. These merger-related expenses, that were expensed as incurred, amounted to $3,121 for the year ended December 31, 2019, and were included in other non-interest expense on the consolidated statement of operations.

The acquisition of the net assets of F&M constitutes a business combination as defined by FASB ASC Topic 805, "*Business Combinations*." Accordingly, the assets acquired and liabilities assumed are presented at their fair values at acquisition date. Fair values were determined based on the requirements of FASB ASC Topic 820, "*Fair Value Measurements*." In many cases, the determination of these fair values required management to make estimates regarding discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change for a period up to 12 months after the acquisition date. Management engaged third-party valuation specialists to assist in determining such values. The results of the fair value evaluation generated goodwill and intangible assets as noted above.

The following pro forma financial information for the periods presented reflects our estimated consolidated pro forma results of operations as if the F&M acquisition occurred on January 1, 2019, not considering potential cost savings and other business synergies we expect to receive as a result of the acquisition:

	Citizens Community Bancorp, Inc.	F&M	Pro Forma Adjustments	Pro Forma Combined
Year ended December 31, 2019				
Revenue (net interest income and non-interest income)	$ 51,826	$ 6,743	$ (612)	$ 57,957
Net income attributable to common stockholders	$ 8,614	$ 1,895	$ (579)	$ 9,930
Earnings per share--basic	$ 0.76	$ 0.17	$ (0.05)	$ 0.88
Earnings per share-diluted	$ 0.74	$ 0.14	$ (0.05)	$ 0.83

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

The revenue and earnings of F&M from the acquisition date of July 1, 2019 to December 31, 2019 were approximately $3,100 and $850, respectively.

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

		F&M
Fair value of consideration paid	$	23,894
Fair value of identifiable assets acquired:		
Cash and cash equivalents		15,757
Fed funds sold		—
Interest bearing deposits		992
Securities available for sale “AFS”		37,069
Non-marketable equity securities, at cost		2,413
Loans held for sale		—
Loans receivable, net		126,732
Mortgage servicing assets		—
Premises and equipment, net		2,654
Core deposit intangible assets		1,582
Cash value of life insurance		4,719
Other assets		1,676
Total identifiable assets acquired	$	193,594
Fair value of liabilities assumed:		
Deposits	$	148,637
Other borrowings		20,122
Other liabilities		965
Total liabilities assumed		169,724
Fair value of net identifiable assets acquired		23,870
Goodwill recognized	$	24

On October 25, 2019, the Department of the Treasury released regulations which clarified the tax status of acquired life insurance policies, resulting in policies acquired from United Bank and F&M retaining their tax-free status. As a result, the Company reduced its related deferred tax liabilities by $342 (F&M), and $300 (United Bank) and F&M’s initial goodwill was reduced by $342 on the December 31, 2019 consolidated balance sheet. $300 was recorded as a discrete tax credit reduction on the Company’s statement of operations for the twelve-months ended December 31, 2019.

NOTE 3 – INVESTMENT SECURITIES

The amortized cost, estimated fair value and related unrealized gains and losses on securities available for sale and held to maturity as of December 31, 2020 and December 31, 2019, respectively, were as follows:

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2020				
U.S. government agency obligations	$ 33,048	$ 387	$ 70	$ 33,365
Obligations of states and political subdivisions	140	—	—	140
Mortgage-backed securities	39,454	1,537	—	40,991
Corporate debt securities	17,199	372	109	17,462
Corporate asset-backed securities	36,039	104	316	35,827
Trust preferred securities	16,297	189	38	16,448
Total available for sale securities	$ 142,177	$ 2,589	$ 533	$ 144,233
December 31, 2019				
U.S. government agency obligations	$ 52,020	$ 132	$ 347	$ 51,805
Obligations of states and political subdivisions	281	—	—	281
Mortgage-backed securities	70,806	635	110	71,331
Corporate debt securities	18,776	66	117	18,725
Corporate asset-backed securities	27,718	—	864	26,854
Trust preferred securities	11,167	35	79	11,123
Total available for sale securities	$ 180,768	$ 868	$ 1,517	$ 180,119

Held to maturity securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2020				
Obligations of states and political subdivisions	$ 600	$ 2	$ —	$ 602
Mortgage-backed securities	42,951	265	34	43,182
Total held to maturity securities	$ 43,551	$ 267	$ 34	$ 43,784
December 31, 2019				
Obligations of states and political subdivisions	$ 300	$ 2	$ —	$ 302
Mortgage-backed securities	2,551	104	—	2,655
Total held to maturity securities	$ 2,851	$ 106	$ —	$ 2,957

At December 31, 2020, the Bank has pledged certain of its mortgage-backed securities with a carrying value of $1,209 as collateral to secure a line of credit with the Federal Reserve Bank. As of December 31, 2020, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2020, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $576 and mortgage-backed securities with a carrying value of $3,028 as collateral against specific municipal deposits. As of December 31, 2020, the Bank also has mortgage-backed securities with a carrying value of $468 pledged as collateral to the Federal Home Loan Bank of Des Moines.

For the twelve months ended December 31, 2020, gross sales of available for sale securities were $12,091, gross gains on sale of available for sale securities were $157, and gross losses on sale of available for sale securities were $1.

The estimated fair value of available for sale securities at December 31, 2020, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities on mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Expected maturities may differ from contractual maturities on certain agency and securities due to the call feature.

Available for sale securities	December 31, 2020 Amortized Cost	December 31, 2020 Estimated Fair Value	December 31, 2019 Amortized Cost	December 31, 2019 Estimated Fair Value
Due in one year or less	$ —	$ —	$ 141	$ 141
Due after one year through five years	3,833	4,095	5,900	5,959
Due after five years through ten years	44,405	44,880	43,269	43,180
Due after ten years	54,485	54,267	60,652	59,508
Total securities with contractual maturities	102,723	103,242	109,962	108,788
Mortgage-backed securities	39,454	40,991	70,806	71,331
Total available for sale securities	$ 142,177	$ 144,233	$ 180,768	$ 180,119

Held to maturity securities	December 31, 2020 Amortized Cost	December 31, 2020 Estimated Fair Value	December 31, 2019 Amortized Cost	December 31, 2019 Estimated Fair Value
Due in one year or less	$ —	$ —	$ 300	$ 302
Due after one year through five years	200	200	—	—
Due after five years through ten years	400	402	—	—
Total securities with contractual maturities	600	602	300	302
Mortgage-backed securities	42,951	43,182	2,551	2,655
Total held to maturity securities	$ 43,551	$ 43,784	$ 2,851	$ 2,957

Securities with unrealized losses at December 31, 2020 and December 31, 2019, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

Available for sale securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
December 31, 2020						
U.S. government agency obligations	$ 7,654	$ 17	$ 6,834	$ 53	$ 14,488	$ 70
Corporate debt securities	3,447	27	1,418	82	4,865	109
Corporate asset-backed securities	—	—	24,310	316	24,310	316
Trust preferred securities	5,612	38	—	—	5,612	38
Total	$ 16,713	$ 82	$ 32,562	$ 451	$ 49,275	$ 533
December 31, 2019						
U.S. government agency obligations	$ 14,593	$ 156	$ 10,540	$ 191	$ 25,133	$ 347
Mortgage-backed securities	22,537	62	5,883	48	28,420	110
Corporate debt securities	7,001	15	1,398	102	8,399	117
Corporate asset-backed securities	8,683	285	18,171	579	26,854	864
Trust preferred securities	7,420	79	—	—	7,420	79
Total	$ 60,234	$ 597	$ 35,992	$ 920	$ 96,226	$ 1,517

Held to maturity securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2020						
Mortgage-backed securities	$ 16,538	$ 34	$ —	$ —	$ 16,538	$ 34
Total	$ 16,538	$ 34	$ —	$ —	$ 16,538	$ 34
December 31, 2019						
Mortgage-backed securities	$ —	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ —	$ —	$ —	$ —

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. As part of such monitoring, the credit quality of individual securities and their issuer is assessed. Significant inputs used to measure the amount of other-than-temporary impairment related to credit loss include, but are not limited to; the Company's intent and ability to sell the debt security prior to recovery, that it is more likely than not that the Company will not sell the security prior to recovery, default and delinquency rates of the underlying collateral, remaining credit support, and historical loss severities. Adjustments to market value of available for sale securities that are considered temporary are recorded as separate components of shareholders' equity, net of tax. If the unrealized loss of a security is identified as other-than-temporary based on information available, such as the decline in the creditworthiness of the issuer, external market ratings, or the anticipated or realized elimination of associated dividends, such impairments are further analyzed to determine if credit loss exists. If there is a credit loss, it will be recorded in the Company's consolidated statement of operations. Non-credit components of the unrealized losses on available for sale securities will continue to be recognized in other comprehensive income (loss), net of tax. Unrealized losses reflected in the preceding tables have not been included in results of operations because the unrealized loss was not deemed other-than-temporary. Management has determined that more likely than not, the Company neither intends to sell, nor will it be required to sell each debt security before its anticipated recovery, and therefore recovery of cost will occur.

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

Portfolio Segments:

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

Commercial and industrial ("C&I") loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. Agricultural operating loans are generally comprised of term loans to fund the purchase of equipment, livestock and seasonal operating lines. Operating lines are typically written for one year and secured by the crop and other farm assets or other business assets, as considered necessary. Agricultural loans carry significant credit risks as they may involve larger balances concentrated with single borrowers or groups of related borrowers. In addition, repayment of such loans depends on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. Farming operations may be affected by adverse weather conditions such as drought, hail or floods that can severely limit crop yields. SBA PPP loan balances are 100% guaranteed under the Small Business Association's Paycheck Protection Program and may be forgiven in full, depending on use of funds and eligibility. These SBA-backed loans helped businesses keep their workforce employed during the COVID-19 crisis. Eligible borrowers, who qualify for full loan forgiveness during the eight to twenty four week period following loan disbursement, can apply for forgiveness, once all proceeds for which the borrower requested forgiveness has been used. Borrowers can apply for forgiveness any time up to the maturity date of the loan.

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

Consumer installment loans are comprised of originated indirect paper loans secured primarily by boats and recreational vehicles and other consumer loans secured primarily by automobiles and other personal assets. The Bank ceased new originations of indirect paper loans in early fiscal 2017. Consumer loan underwriting terms often depend on the collateral type, debt to income ratio and the borrower's creditworthiness as evidenced by their credit score. In the event of a consumer installment loan default, collateral value alone may not provide an adequate source of repayment of the outstanding loan balance. This shortage is a result of the greater likelihood of damage, loss and depreciation for consumer based collateral.

Loans by classes within portfolio segments were as follows:

	December 31, 2020	December 31, 2019
Originated Loans:		
Commercial/Agricultural real estate:		
Commercial real estate	$ 351,113	$ 302,546
Agricultural real estate	31,741	34,026
Multi-family real estate	112,731	71,877
Construction and land development	91,241	71,467
C&I/Agricultural operating:		
Commercial and industrial	95,290	89,730
Agricultural operating	24,457	20,717
Residential mortgage:		
Residential mortgage	86,283	108,619
Purchased HELOC loans	6,260	8,407
Consumer installment:		
Originated indirect paper	25,851	39,585
Other Consumer	12,056	15,546
Originated loans before SBA PPP loans	$ 837,023	$ 762,520
SBA PPP loans	123,702	—
Total originated loans	$ 960,725	$ 762,520
Acquired Loans:		
Commercial/Agricultural real estate:		
Commercial real estate	$ 156,562	$ 211,913
Agricultural real estate	37,054	51,337
Multi-family real estate	9,421	15,131
Construction and land development	7,276	14,943
C&I/Agricultural operating:		
Commercial and industrial	21,263	44,004
Agricultural operating	8,328	17,063
Residential mortgage:		
Residential mortgage	45,103	67,713
Consumer installment:		
Other Consumer	1,157	2,640
Total acquired loans	$ 286,164	$ 424,744
Total Loans:		
Commercial/Agricultural real estate:		
Commercial real estate	$ 507,675	$ 514,459
Agricultural real estate	68,795	85,363
Multi-family real estate	122,152	87,008
Construction and land development	98,517	86,410
C&I/Agricultural operating:		
Commercial and industrial	116,553	133,734
Agricultural operating	32,785	37,780
Residential mortgage:		
Residential mortgage	131,386	176,332
Purchased HELOC loans	6,260	8,407
Consumer installment:		
Originated indirect paper	25,851	39,585
Other Consumer	13,213	18,186
Total loans before SBA PPP loans	$ 1,123,187	$ 1,187,264
SBA PPP loans	123,702	—
Gross loans	$ 1,246,889	$ 1,187,264
Less:		
Unearned net deferred fees and costs and loans in process	(4,245)	(393)
Unamortized discount on acquired loans	(5,063)	(9,491)
Allowance for loan losses	(17,043)	(10,320)
Loans receivable, net	$ 1,220,538	$ 1,167,060

Credit Quality/Risk Ratings:

Management utilizes a numeric risk rating system to identify and quantify the Bank’s risk of loss within its loan portfolio. Ratings are initially assigned prior to funding the loan, and may be changed at any time as circumstances warrant.

Ratings range from the highest to lowest quality based on factors that include measurements of ability to pay, collateral type and value, borrower stability and management experience. The Bank’s loan portfolio ratings are presented below in accordance with the risk rating framework that has been commonly adopted by the federal banking agencies. The definitions of the various risk rating categories are as follows:

1 through 4 - Pass. A “Pass” loan means that the condition of the borrower and the performance of the loan is satisfactory or better.

5 - Watch. A “Watch” loan has clearly identifiable developing weaknesses that deserve additional attention from management. Weaknesses that are not corrected or mitigated, may jeopardize the ability of the borrower to repay the loan in the future.

6 - Special Mention. A “Special Mention” loan has one or more potential weakness that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution’s credit position in the future.

7 - Substandard. A “Substandard” loan is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Assets classified as substandard must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

8 - Doubtful. A “Doubtful” loan has all the weaknesses inherent in a Substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

9 - Loss. Loans classified as “Loss” are considered uncollectible, and their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, and a partial recovery may occur in the future.

Below is a breakdown of loans by risk rating as of December 31, 2020:

	1 to 5	6	7	8	9	TOTAL
Originated Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 349,482	$ 543	$ 1,088	$ —	$ —	$ 351,113
Agricultural real estate	30,041	446	1,254	—	—	31,741
Multi-family real estate	112,423	308	—	—	—	112,731
Construction and land development	87,763	—	3,478	—	—	91,241
C&I/Agricultural operating:						
Commercial and industrial	91,474	20	3,796	—	—	95,290
SBA PPP loans	123,702	—	—	—	—	123,702
Agricultural operating	22,462	934	1,061	—	—	24,457
Residential mortgage:						
Residential mortgage	82,097	7	4,179	—	—	86,283
Purchased HELOC loans	5,959	—	301	—	—	6,260
Consumer installment:			—			
Originated indirect paper	25,616	—	235	—	—	25,851
Other Consumer	11,986	—	70	—	—	12,056
Total originated loans	$ 943,005	$ 2,258	$ 15,462	$ —	$ —	$ 960,725
Acquired Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 148,303	$ 4,274	$ 3,985	$ —	$ —	$ 156,562
Agricultural real estate	31,147	—	5,907	—	—	37,054
Multi-family real estate	9,273	—	148	—	—	9,421
Construction and land development	7,237	—	39	—	—	7,276
C&I/Agricultural operating:						
Commercial and industrial	20,918	9	336	—	—	21,263
Agricultural operating	7,838	—	490	—	—	8,328
Residential mortgage:						
Residential mortgage	42,805	131	2,167	—	—	45,103
Consumer installment:						
Other Consumer	1,150	—	7	—	—	1,157
Total acquired loans	$ 268,671	$ 4,414	$ 13,079	$ —	$ —	$ 286,164
Total Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 497,785	$ 4,817	$ 5,073	$ —	$ —	$ 507,675
Agricultural real estate	61,188	446	7,161	—	—	68,795
Multi-family real estate	121,696	308	148	—	—	122,152
Construction and land development	95,000	—	3,517	—	—	98,517
C&I/Agricultural operating:						
Commercial and industrial	112,392	29	4,132	—	—	116,553
SBA PPP loans	123,702	—	—	—	—	123,702
Agricultural operating	30,300	934	1,551	—	—	32,785
Residential mortgage:						
Residential mortgage	124,902	138	6,346	—	—	131,386
Purchased HELOC loans	5,959	—	301	—	—	6,260
Consumer installment:						
Originated indirect paper	25,616	—	235	—	—	25,851
Other Consumer	13,136	—	77	—	—	13,213
Gross loans	$ 1,211,676	$ 6,672	$ 28,541	$ —	$ —	$ 1,246,889
Less:						
Unearned net deferred fees and costs and loans in process						(4,245)
Unamortized discount on acquired loans						(5,063)
Allowance for loan losses						(17,043)
Loans receivable, net						$ 1,220,538

Below is a breakdown of loans by risk rating as of December 31, 2019:

	1 to 5	6	7	8	9	TOTAL
Originated Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 301,381	$ 266	$ 899	$ —	$ —	$ 302,546
Agricultural real estate	31,129	829	2,068	—	—	34,026
Multi-family real estate	71,877	—	—	—	—	71,877
Construction and land development	67,989	—	3,478	—	—	71,467
C&I/Agricultural operating:						
Commercial and industrial	85,248	1,023	3,459	—	—	89,730
Agricultural operating	19,545	402	770	—	—	20,717
Residential mortgage:						
Residential mortgage	104,428	—	4,191	—	—	108,619
Purchased HELOC loans	8,407	—	—	—	—	8,407
Consumer installment:			—			
Originated indirect paper	39,339	—	246	—	—	39,585
Other Consumer	15,425	—	121	—	—	15,546
Total originated loans	$ 744,768	$ 2,520	$ 15,232	$ —	$ —	$ 762,520
Acquired Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 196,692	$ 6,084	$ 9,137	$ —	$ —	$ 211,913
Agricultural real estate	42,381	534	8,422	—	—	51,337
Multi-family real estate	13,533	—	1,598	—	—	15,131
Construction and land development	14,181	—	762	—	—	14,943
C&I/Agricultural operating:						
Commercial and industrial	41,587	932	1,485	—	—	44,004
Agricultural operating	15,621	350	1,092	—	—	17,063
Residential mortgage:						
Residential mortgage	65,125	436	2,152	—	—	67,713
Consumer installment:						
Other Consumer	2,628	—	12	—	—	2,640
Total acquired loans	$ 391,748	$ 8,336	$ 24,660	$ —	$ —	$ 424,744
Total Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 498,073	$ 6,350	$ 10,036	$ —	$ —	$ 514,459
Agricultural real estate	73,510	1,363	10,490	—	—	85,363
Multi-family real estate	85,410	—	1,598	—	—	87,008
Construction and land development	82,170	—	4,240	—	—	86,410
C&I/Agricultural operating:						
Commercial and industrial	126,835	1,955	4,944	—	—	133,734
Agricultural operating	35,166	752	1,862	—	—	37,780
Residential mortgage:						
Residential mortgage	169,553	436	6,343	—	—	176,332
Purchased HELOC loans	8,407	—	—	—	—	8,407
Consumer installment:						
Originated indirect paper	39,339	—	246	—	—	39,585
Other Consumer	18,053	—	133	—	—	18,186
Gross loans	$ 1,136,516	$ 10,856	$ 39,892	$ —	$ —	$ 1,187,264
Less:						
Unearned net deferred fees and costs and loans in process						(393)
Unamortized discount on acquired loans						(9,491)
Allowance for loan losses						(10,320)
Loans receivable, net						$ 1,167,060

Certain directors and executive officers of the Company are defined as related parties. These related parties, including their immediate families and companies in which they are principal owners, were loan customers of the Bank during the twelve months ended December 31, 2020, and the twelve months ended December 31, 2019. A summary of the changes in those loans is as follows:

	Twelve months ended December 31, 2020	Twelve months ended December 31, 2019
Balance—beginning of period	$ 20,367	$ 11,104
New loan originations	7,230	10,243
Repayments	(1,114)	(980)
Balance—end of period	$ 26,483	$ 20,367
Available and unused lines of credit	$ 187	$ 7,017

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

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

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

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

	Commercial/ Agricultural Real Estate	C&I/ Agricultural operating	Residential Mortgage	Consumer Installment	Unallocated	Total
Twelve months ended December 31, 2020:						
Allowance for Loan Losses:						
Beginning balance, January 1, 2020	$ 6,205	$ 1,643	$ 879	$ 467	$ 357	$ 9,551
Charge-offs	—	(932)	(5)	(145)	—	(1,082)
Recoveries	75	8	7	69	—	159
Provision	3,991	1,393	160	98	549	6,191
Total Allowance on originated loans	$ 10,271	$ 2,112	$ 1,041	$ 489	$ 906	$ 14,819
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans:						
Beginning balance, January 1, 2020	$ 526	$ 27	$ 163	$ 53	$ —	$ 769
Charge-offs	—	(159)	(74)	(3)	—	(236)
Recoveries	77	33	15	7	—	132
Provision	1,081	240	231	7	—	1,559
Total allowance on other acquired loans	$ 1,684	$ 141	$ 335	$ 64	$ —	$ 2,224
Total allowance on acquired loans	$ 1,684	$ 141	$ 335	$ 64	$ —	$ 2,224
Ending Balance, December 31, 2020	$ 11,955	$ 2,253	$ 1,376	$ 553	$ 906	$ 17,043
Allowance for Loan Losses at December 31, 2020:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$ 698	$ 190	$ 226	$ 1	$ —	$ 1,115
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$ 11,257	$ 2,063	$ 1,150	$ 552	$ 906	$ 15,928
Loans Receivable as of December 31, 2020:						
Ending balance of originated loans	$ 586,826	$ 243,449	$ 92,543	$ 37,907	$ —	$ 960,725
Ending balance of purchased credit-impaired loans	15,100	1,534	1,312	—	—	17,946
Ending balance of other acquired loans	195,213	28,057	43,791	1,157	—	268,218
Ending balance of loans	$ 797,139	$ 273,040	$ 137,646	$ 39,064	$ —	$ 1,246,889
Ending balance: individually evaluated for impairment	$ 26,303	$ 7,115	$ 9,621	$ 358	$ —	$ 43,397
Ending balance: collectively evaluated for impairment	$ 770,836	$ 265,925	$ 128,025	$ 38,706	$ —	$ 1,203,492

	Commercial/ Agricultural Real Estate	C&I/ Agricultural operating	Residential Mortgage	Consumer Installment	Unallocated	Total
Twelve months ended December 31, 2019:						
Allowance for Loan Losses:						
Beginning balance, January 1, 2019	$ 4,019	$ 1,258	$ 1,048	$ 641	$ 153	$ 7,119
Charge-offs	(355)	—	(120)	(257)	—	(732)
Recoveries	—	—	—	84	—	84
Provision	2,541	385	(49)	(1)	204	3,080
Total Allowance on originated loans	$ 6,205	$ 1,643	$ 879	$ 467	$ 357	$ 9,551
Purchased credit impaired loans	—	—	—	—	—	—
Other acquired loans:						
Beginning balance, January 1, 2019	$ 183	$ 32	$ 205	$ 65	$ —	$ 485
Charge-offs	(26)	—	(120)	(33)	—	(179)
Recoveries	3	—	5	10	—	18
Provision	366	(5)	73	11	—	445
Total Allowance on other acquired loans	$ 526	$ 27	$ 163	$ 53	$ —	$ 769
Total Allowance on acquired loans	$ 526	$ 27	$ 163	$ 53	$ —	$ 769
Ending balance, December 31, 2019	$ 6,731	$ 1,670	$ 1,042	$ 520	$ 357	$ 10,320
Allowance for Loan Losses at December 31, 2019:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$ 495	$ 312	$ 136	$ 13	$ —	$ 956
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$ 6,236	$ 1,358	$ 906	$ 507	$ 357	$ 9,364
Loans Receivable as of December 31, 2019:						
Ending balance of originated loans	$ 479,916	$ 110,447	$ 117,026	$ 55,131	$ —	$ 762,520
Ending balance of purchased credit-impaired loans	31,408	4,666	2,194	—	—	38,268
Ending balance of other acquired loans	261,916	56,401	65,519	2,640	—	386,476
Ending balance of loans	$ 773,240	$ 171,514	$ 184,739	$ 57,771	$ —	$ 1,187,264
Ending balance: individually evaluated for impairment	$ 42,658	$ 9,966	$ 10,126	$ 446	$ —	$ 63,196
Ending balance: collectively evaluated for impairment	$ 730,582	$ 161,548	$ 174,613	$ 57,325	$ —	$ 1,124,068

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

	Commercial/ Agricultural Real Estate Loans		C&I/Agricultural operating		Residential Mortgage		Consumer Installment		Totals	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Performing loans										
Performing TDR loans	$ 4,695	$ 1,730	$ 3,836	$ 366	$ 3,142	$ 3,206	$ 49	$ 68	$ 11,722	$ 5,370
Performing loans other	786,533	758,237	266,975	167,596	131,470	178,415	38,856	57,486	1,223,834	1,161,734
Total performing loans	791,228	759,967	270,811	167,962	134,612	181,621	38,905	57,554	1,235,556	1,167,104
Nonperforming loans (1)										
Nonperforming TDR loans	4,691	4,868	1,287	1,973	777	383	—	—	6,755	7,224
Nonperforming loans other	1,220	8,405	942	1,579	2,257	2,735	159	217	4,578	12,936
Total nonperforming loans	5,911	13,273	2,229	3,552	3,034	3,118	159	217	11,333	20,160
Total loans	$ 797,139	$ 773,240	$ 273,040	$ 171,514	$ 137,646	$ 184,739	$ 39,064	$ 57,771	$ 1,246,889	$ 1,187,264

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

An aging analysis of the Company's commercial/agriculture real estate and non-real estate, consumer real estate and non-real estate and purchased third party loans as of December 31, 2020 and 2019, respectively, was as follows:

	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Greater Than 89 Days Past Due and Accruing	Total Past Due Accruing	Nonaccrual Loans	Current	Total Loans
December 31, 2020							
Commercial/Agricultural real estate:							
Commercial real estate	$ 9,568	$ 467	$ —	$ 10,035	$ 679	$ 496,961	$ 507,675
Agricultural real estate	411	48	—	459	5,084	63,252	68,795
Multi-family real estate	308	—	—	308	148	121,696	122,152
Construction and land development	3,898	—	—	3,898	—	94,619	98,517
C&I/Agricultural operating:							
Commercial and industrial	436	491	—	927	357	115,269	116,553
SBA PPP loans	—	—	—	—	—	123,702	123,702
Agricultural operating	1,499	200	—	1,699	1,872	29,214	32,785
Residential mortgage:							
Residential mortgage	2,238	372	516	3,126	2,217	126,043	131,386
Purchased HELOC loans	338	94	67	499	234	5,527	6,260
Consumer installment:							
Originated indirect paper	90	37	—	127	133	25,591	25,851
Other Consumer	100	14	3	117	23	13,073	13,213
Total	$ 18,886	$ 1,723	$ 586	$ 21,195	$ 10,747	$ 1,214,947	$ 1,246,889
December 31, 2019							
Commercial/Agricultural real estate:							
Commercial real estate	$ 2,804	$ 847	$ —	$ 3,651	$ 4,214	$ 506,594	$ 514,459
Agricultural real estate	509	—	—	509	7,568	77,286	85,363
Multi-family real estate	—	—	—	—	1,449	85,559	87,008
Construction and land development	436	—	—	436	42	85,932	86,410
C&I/Agricultural operating:							
Commercial and industrial	1,024	—	—	1,024	1,850	130,860	133,734
Agricultural operating	73	49	—	122	1,702	35,956	37,780
Residential mortgage:							
Residential mortgage	4,929	1,597	649	7,175	2,063	167,094	176,332
Purchased HELOC loans	293	378	407	1,078	—	7,329	8,407
Consumer installment:							
Originated indirect paper	168	52	20	240	137	39,208	39,585
Other Consumer	204	43	28	275	31	17,880	18,186
Total	$ 10,440	$ 2,966	$ 1,104	$ 14,510	$ 19,056	$ 1,153,698	$ 1,187,264

At December 31, 2020, the Company has identified impaired loans of $43,397, consisting of $18,477 TDR loans, the carrying amount of purchased credit impaired loans of $16,859 and $8,061 of substandard non-TDR loans. The $43,397 total of impaired loans includes $11,722 of performing TDR loans. At December 31, 2019, the Company had identified impaired loans of $63,196, consisting of $12,594 TDR loans, the carrying amount of purchased credit impaired loans of $31,978 and $18,624 of substandard non-TDR loans. The $63,196 total of impaired loans includes $5,370 of performing TDR loans. Loans evaluated for impairment include all TDRs, all purchased credit impaired loans and all other loans with a risk rating of substandard or worse. Performing TDRs consist of loans that have been modified and are performing in accordance with the modified terms for a sufficient length of time, generally six months, or loans that were modified on a proactive basis.

A summary of loans evaluated for impairment as of December 31, 2020 was as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2020					
With No Related Allowance Recorded:					
Commercial/Agricultural real estate	$ 24,013	$ 24,013	$ —	$ 32,264	$ 1,894
C&I/Agricultural operating	6,334	6,334	—	7,906	284
Residential mortgage	8,542	8,542	—	8,619	450
Consumer installment	356	356	—	368	30
Total	$ 39,245	$ 39,245	$ —	$ 49,157	$ 2,658
With An Allowance Recorded:					
Commercial/Agricultural real estate	$ 2,290	$ 2,290	$ 698	$ 2,217	$ 100
C&I/Agricultural operating	781	781	190	636	22
Residential mortgage	1,079	1,079	226	1,255	54
Consumer installment	2	2	1	35	1
Total	$ 4,152	$ 4,152	$ 1,115	$ 4,143	$ 177
December 31, 2020 Totals					
Commercial/Agricultural real estate	$ 26,303	$ 26,303	$ 698	$ 34,481	$ 1,994
C&I/Agricultural operating	7,115	7,115	190	8,542	306
Residential mortgage	9,621	9,621	226	9,874	504
Consumer installment	358	358	1	403	31
Total	$ 43,397	$ 43,397	$ 1,115	$ 53,300	$ 2,835

At December 31, 2020, the Company had nine residential real estate loans, secured by residential real estate properties, for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction, with a recorded investment of $685. At December 31, 2020. the Company had ten commercial real estate loans, secured by commercial and agricultural real estate properties, for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction, with a recorded investment of $3,530.

A summary of loans evaluated for impairment as of December 31, 2019 was as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2019					
With No Related Allowance Recorded:					
Commercial/Agricultural real estate	$ 40,514	$ 40,514	$ —	$ 24,693	$ 699
C&I/Agricultural operating	9,477	9,477	—	19,163	119
Residential mortgage	8,695	8,695	—	4,461	128
Consumer installment	379	379	—	3,640	6
Total	$ 59,065	$ 59,065	$ —	$ 51,957	$ 952
With An Allowance Recorded:					
Commercial/Agricultural real estate	$ 2,143	$ 2,143	$ 495	$ 1,738	$ 4
C&I/Agricultural operating	490	490	312	734	3
Residential mortgage	1,431	1,431	136	789	15
Consumer installment	67	67	13	47	—
Total	$ 4,131	$ 4,131	$ 956	$ 3,308	$ 22
December 31, 2019 Totals					
Commercial/Agricultural real estate	$ 42,657	$ 42,657	$ 495	$ 26,431	$ 703
C&I/Agricultural operating	9,967	9,967	312	19,897	122
Residential mortgage	10,126	10,126	136	5,250	143
Consumer installment	446	446	13	3,687	6
Total	$ 63,196	$ 63,196	$ 956	$ 55,265	$ 974

Troubled Debt Restructuring – A TDR includes a loan modification where a borrower is experiencing financial difficulty, and the Bank grants a concession to that borrower that the Bank would not otherwise consider, except for the borrower's financial difficulties. Concessions may include: extension of the loan's term, renewals of existing balloon loans, reductions in interest rates and consolidating existing Bank loans at modified terms. A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management's assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until a sufficient period of performance under the restructured terms has occurred at which time it is returned to accrual status. There was one accruing, delinquent TDR, greater than 60 days past due, with a recorded investment of $20 at December 31, 2020, compared to two accruing, delinquent TDRs, greater than 60 days past due, with a recorded investment of $101 at December 31, 2019.

Following is a summary of TDR loans by accrual status as of December 31, 2020 and December 31, 2019.

	December 31 2020	December 31 2019
Troubled debt restructure loans:		
Accrual status	$ 11,742	$ 5,396
Non-accrual status	6,735	7,198
Total	$ 18,477	$ 12,594

There were no TDR commitments meeting our TDR criteria as of December 31, 2020. There were unused lines of credit totaling $15 meeting our TDR criteria as of December 31, 2020. There were no TDR commitments meeting our TDR criteria as of December 31, 2019. There were unused lines of credit totaling $12 meeting our TDR criteria as of December 31, 2019.

The following provides detail, including specific reserve and reasons for modification, related to loans identified as TDRs during the years ended December 31, 2020 and December 31, 2019:

	Number of Contracts	Modified Rate	Modified Payment	Modified Under-writing	Other	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Twelve months ended December 31, 2020								
TDRs:								
Commercial/Agricultural real estate	12	$ 4,441	$ 198	$ 293	$ —	$ 4,932	$ 4,932	$ —
C&I/Agricultural operating	6	3,295	78	3,000	—	6,373	6,373	—
Residential mortgage	17	456	858	117	—	1,431	1,431	—
Consumer installment	3	6	—	4	—	10	10	—
Totals	38	$ 8,198	$ 1,134	$ 3,414	$ —	$ 12,746	$ 12,746	$ —

	Number of Contracts	Modified Rate	Modified Payment	Modified Under-writing	Other	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Twelve months ended December 31, 2019								
TDRs:								
Commercial/Agricultural real estate	18	$ 2,028	$ 159	$ 3,224	$ —	$ 5,411	$ 5,411	$317,867
C&I/Agricultural operating	11	184	364	996	—	1,544	1,544	98,152
Residential mortgage	14	823	—	212	—	1,035	1,035	42,035
Consumer installment	1	2	—	—	—	2	2	—
Totals	44	$ 3,037	$ 523	$ 4,432	$ —	$ 7,992	$ 7,992	$458,054

A summary of loans by loan class modified in a troubled debt restructuring as of December 31, 2020 and December 31, 2019:

	December 31, 2020		December 31, 2019	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings:				
Commercial/Agricultural real estate	31	$ 9,386	27	$ 6,599
C&I/Agricultural operating	16	5,123	16	2,338
Residential mortgage	52	3,919	43	3,589
Consumer installment	8	49	7	68
Total loans	107	$ 18,477	93	$ 12,594

The following table provides the number of loans modified in a TDR during the previous twelve months which subsequently defaulted during the year ended December 31, 2020, as well as the recorded investment in these restructured loans as of December 31, 2020:

	December 31, 2020	
	Number of Modifications	Recorded Investment
Troubled debt restructurings:		
Commercial/Agricultural real estate	1	$ 100
C&I/Agricultural operating	1	224
Residential mortgage	4	404
Consumer installment	—	—
Total troubled debt restructurings	6	$ 728

The following table provides information related to restructured loans that were considered in default as of December 31, 2019:

	December 31, 2019	
	Number of Modifications	Recorded Investment
Troubled debt restructurings:		
Commercial/Agricultural real estate	13	$ 4,868
C&I/Agricultural operating	14	1,973
Residential mortgage	3	357
Consumer installment	—	—
Total troubled debt restructurings	30	$ 7,198

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

	December 31, 2020
Accountable for under ASC 310-30 (PCI loans)	
Outstanding balance	$ 17,946
Carrying amount	$ 16,859
Accountable for under ASC 310-20 (non-PCI loans)	
Outstanding balance	$ 268,218
Carrying amount	$ 264,242
Total acquired loans	
Outstanding balance	$ 286,164
Carrying amount	$ 281,101

The following table provides changes in accretable yield for all acquired loans from prior acquisitions with deteriorated credit quality:

	December 31, 2020	December 31, 2019
Balance at beginning of period	$ 3,201	$ 3,163
Acquisitions	—	814
Reduction due to unexpected early payoffs	(971)	—
Reclass from non-accretable difference	2,754	80
Accretion	(1,008)	(856)
Balance at end of period	$ 3,976	$ 3,201

Non-accretable yield on purchased credit impaired loans was $6,290 at December 31, 2019. The following table provides changes in non-accretable yield for all acquired loans from prior acquisitions with deteriorated credit quality:

	December 31, 2020
Balance at beginning of period	$ 6,290
Additions to non-accretable difference for acquired purchased credit impaired loans	—
Non-accretable difference realized as interest from payoffs of purchased credit impaired loans	(1,693)
Transfers from non-accretable difference to accretable discount	(2,754)
Non-accretable difference used to reduce loan principal balance	(505)
Non-accretable difference transferred to OREO due to loan foreclosure	(251)
Balance at end of period	$ 1,087

The following table reflects amounts for all acquired credit impaired and acquired performing loans acquired from F&M at acquisition.

	Acquired Credit Impaired Loans	Acquired Performing Loans	Total Acquired Loans
Contractually required cash flows at acquisition	$ 18,355	$ 111,919	$ 130,274
Non-accretable difference (expected losses and foregone interest)	(2,728)	—	(2,728)
Cash flows expected to be collected at acquisition	15,627	111,919	127,546
Accretable yield	—	(814)	(814)
Fair value of acquired loans at acquisition	$ 15,627	$ 111,105	$ 126,732

NOTE 5 – MORTGAGE SERVICING RIGHTS

Mortgage servicing rights--Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid balances of the one- to four-family residential mortgage loans as of December 31, 2020 and December 31, 2019 were $553,655 and $524,715, respectively. These residential mortgage loans are serviced primarily for the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and the Federal National Mortgage Association.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in deposits were $2,890 and $2,868, at December 31, 2020 and December 31, 2019, respectively. Mortgage servicing rights activity for the year ended December 31, 2020 and December 31, 2019 were as follows:

	As of and for the twelve months ended December 31, 2020	As of and for the twelve months ended December 31, 2019
Mortgage servicing rights:		
Mortgage servicing rights, beginning of period	$ 4,541	$ 4,486
Increase in mortgage servicing rights resulting from transfers of financial assets	2,020	904
Amortization during the period	(1,295)	(849)
Mortgage servicing rights, end of period	5,266	4,541
Valuation allowance, beginning of period	(259)	—
Additions	(1,755)	(259)
Recoveries	—	—
Write-downs	—	—
Valuation allowance, end of period	(2,014)	(259)
Mortgage servicing rights, net	$ 3,252	$ 4,282
Fair value of mortgage servicing rights, end of period	$ 3,285	$ 4,309
Residential mortgage loans serviced for others	$ 553,655	$ 524,715
Net book value of mortgage servicing rights to loans serviced for others	0.59 %	0.82 %

To estimate the fair value of the MSR asset, a valuation model is applied at the loan level to calculate the present value of the expected future cash flows. The valuation model incorporates various assumptions that would impact market participants' estimations of future servicing income. Central to the valuation model is the discount rate. Fair value at December 31, 2020 was determined using discount rates ranging from 9% to 12%. Other assumptions utilized in the valuation model include, but are not limited to, prepayment speed, servicing costs, delinquencies, costs of advances, foreclosure costs, ancillary income, and income earned on float and escrow. Servicing fees totaled $1,391 for the year ended December 31, 2020. Late fees and ancillary fees related to loan servicing are not material.

At December 31, 2020, the estimated future aggregate amortization expense for the mortgage servicing rights is as follows. The estimated amortization expense is based on existing mortgage servicing asset balances. The timing of amortization expense actually recognized in future periods may differ significantly based on actual prepayment speeds, mortgage interest rates and other factors.

	Amortization Expense
2021	$ 1,696
2022	1,338
2023	980
2024	630
2025	403
After 2025	219
Total	$ 5,266

NOTE 6 - OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment for each of the periods shown below consisted of the following:

	December 31, 2020	December 31, 2019
Land	$ 4,298	$ 4,361
Buildings	16,008	15,781
Furniture, equipment and vehicles	7,493	6,701
Subtotals	27,799	26,843
Less--Accumulated depreciation	(6,634)	(5,737)
Office properties and equipment, net	$ 21,165	$ 21,106

Depreciation expense was $1,954 for the year ended December 31, 2020 and $1,564 for the year ended December 31, 2019.

NOTE 7 - GOODWILL AND INTANGIBLE ASSETS

Goodwill— The following table provides beginning and ending balances and changes in goodwill during the periods ended December 31, 2020 and December 31, 2019:

	Year ended December 31, 2020	Year ended December 31, 2019
Balance at beginning of period	$ 31,498	$ 31,474
F&M acquisition (see Note 2)	—	24
Balance at end of period	$ 31,498	$ 31,498

Intangible assets--Intangible assets consist of core deposit intangibles arising from various bank acquisitions and the premium on the Wells Insurance Agency customer relationships, until its disposition in June 2020. A summary of intangible assets and related amortization for the periods shown below follows:

	Year ended December 31, 2020	Year Ended December 31, 2019
Gross carrying amount	$ 12,180	$ 12,798
Accumulated amortization	(6,686)	(5,211)
Net book value	$ 5,494	$ 7,587
Additions during the period (1)	$ —	$ 1,582
Sales during the period - carrying amount (2)	$ 618	$ —
Sales during the period - accumulated amortization (2)	$ 147	$ —
Amortization during the period	$ 1,622	$ 1,496

(1) Intangible asset additions during the year ended December 31, 2019, consisted of F&M core deposit intangible assets in the amount of $1,582.

(2) Intangible asset sales during the year ended December 31, 2020, consisted of Wells Insurance Agency customer relationships included in the sale of the Wells Insurance Agency. Accumulated amortization at disposition was $147. The remaining carrying amount at disposition was $618.

At December 31, 2020, the estimated future aggregate amortization expense for the intangible assets are as follows:

	Intangible Assets
2021	$ 1,596
2022	1,449
2023	755
2024	715
2025	584
After 2025	395
Total	$ 5,494

NOTE 8—LEASES

We have operating leases for our corporate offices (1), bank branch offices (5) and one production office (1). Our leases have remaining lease terms of one month to 7.50 years, some of which include options to extend the leases for up to 5 years. As of December 31, 2020, we have no additional lease commitments that have not yet commenced. For the twelve months ended December 31, 2020 operating lease costs were $619 and variable lease costs were $45. Lease costs are included in non-interest expense/occupancy in the consolidated statement of operations.

	Twelve Months Ended	
	December 31, 2020	December 31, 2019
Supplemental cash flow information related to leases was as follows:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 638	$ 824
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 508	$ —
	December, 31 2020	December 31, 2019
Supplemental balance sheet information related to leases was as follows:		
Operating lease right-of-use assets	$ 2,657	$ 2,787
Operating lease liabilities	$ 2,762	$ 2,845
Weighted average remaining lease term in years; operating leases	6.32	6.63
Weighted average discount rate; operating leases	2.70 %	3.07 %

Future payments due under operating leases as of December 31, 2020 are as follows:

Fiscal years ending December 31,	
2021	$ 592
2022	558
2023	506
2024	419
2025	403
Thereafter	826
Total lease payments	3,304
Less: effects of discounting	(542)
Lease liability recognized	$ 2,762

NOTE 9—DEPOSITS

The following is a summary of deposits by type at December 31, 2020 and December 31, 2019, respectively:

	December 31, 2020	December 31, 2019
Non interest bearing demand deposits	$ 238,348	$ 168,157
Interest bearing demand deposits	301,764	223,102
Savings accounts	196,348	156,599
Money market accounts	245,549	246,430
Certificate accounts	313,247	401,414
Total deposits	$ 1,295,256	$ 1,195,702
Brokered deposits included above:	$ 2,516	$ 50,377

At December 31, 2020, the scheduled maturities of time deposits were as follows:

2021	$ 206,713
2022	94,561
2023	7,905
2024	3,492
2025	576
After 2025	—
Total	$ 313,247

Time deposits of $250 or more were $46,660 at December 31, 2020.

Deposits from the Company’s directors, executive officers, principal stockholders and their affiliates held by the Bank at December 31, 2020 and December 31, 2019 amounted to $48,596, and $38,802, respectively.

NOTE 10 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

A summary of Federal Home Loan Bank (FHLB) advances and other borrowings at December 31, 2020 and December 31, 2019 is as follows:

		December 31,					
		2020			2019		
	Stated Maturity	Amount	Range of Stated Rates		Amount	Range of Stated Rates	
Federal Home Loan Bank advances (1), (2), (3), (4), (5)	2020	$ —	— %	— %	$ 69,000	1.67 %	2.05 %
	2021	8,000	0.00 %	2.16 %	4,000	1.85 %	2.16 %
	2022	15,000	2.34 %	2.45 %	15,000	2.34 %	2.45 %
	2023	20,000	1.43 %	1.44 %	—	— %	— %
	2024	20,530	0.00 %	1.45 %	530	0.00 %	0.00 %
	2025	5,000	1.45 %	1.45 %	—	— %	— %
	2029	42,500	1.00 %	1.13 %	42,500	1.00 %	1.13 %
	2030	12,500	0.52 %	0.86 %	—	— %	— %
Subtotal		123,530			131,030		
Unamortized discount on acquired notes		(32)			(59)		
Federal Home Loan Bank advances, net		$ 123,498			$ 130,971		
Other borrowings:							
Senior notes (6)	2031	$ 28,856	3.25 %	3.50 %	$ 28,856	4.00 %	4.75 %
Subordinated notes (7)	2027	$ 15,000	6.75 %	6.75 %	$ 15,000	6.75 %	6.75 %
	2030	15,000	6.00 %	6.00 %			
		$ 30,000					
Unamortized debt issuance costs		(528)			(296)		
Total other borrowings		$ 58,328			$ 43,560		
Totals		$ 181,826			$ 174,531		

(1) The FHLB advances bear fixed rates, require interest-only monthly payments, and are collateralized by a blanket lien on pre-qualifying first mortgages, home equity lines, multi-family loans and certain other loans which had pledged balances of $723,862 and $792,909 at December 31, 2020 and 2019, respectively. At December 31, 2020, the Bank's available and unused portion under the FHLB borrowing arrangement was approximately $118,391 compared to $203,935 as of December 31, 2019.

(2) Maximum month-end borrowed amounts outstanding under this borrowing agreement were $162,530 and $151,530, during the twelve months ended December 31, 2020 and December 31, 2019, respectively.

(3) The weighted-average interest rates on FHLB borrowings, with maturities less than twelve months, outstanding as of December 31, 2020 and December 31, 2019 were 0.50% and 1.74%, respectively.

(4) Five of the FHLB notes with remaining balances totaling $8,530, were acquired as a result of the F&M acquisition. These notes mature on various dates through 2024 with a weighted average rate of 2.05% and weighted average maturity of 13 months.

(5) FHLB term notes totaling $55,000, with various maturity dates in 2029 and 2030, can be called or replaced by the FHLB on a quarterly basis, beginning approximately three months after the initial advance.

(6) Senior notes, entered into by the Company in June 2019 consist of the following:

(a) A term note which was subsequently refinanced in October 2020, requiring quarterly interest-only payments through June 2022, and quarterly principal and interest payments thereafter. Interest is variable, based on US Prime rate with a floor rate of 3.25%.

(b) A $5,000 line of credit, maturing in August 2021, that remains undrawn upon.

(7) Subordinated notes resulted from the following:

(a) The Company's private sale in August 2017, which bears a fixed interest rate of 6.75% for five years. In August 2022, they convert to a three-month LIBOR plus 4.90% rate, and the interest rate will reset quarterly thereafter. Interest-only payments are due quarterly.

(b) The Company's Subordinated Note Purchase Agreement entered into with certain purchasers in August 2020, which bears a fixed interest rate of 6.00% for five years. In September 2025, the fixed interest rate will be reset quarterly to equal the three-month term Secured Overnight Financing Rate plus 591 basis points. Interest-only payments are due semi-annually each year during the fixed interest period and quarterly during the floating interest period.

Federal Home Loan Bank Letters of Credit

The Bank has an irrevocable Standby Letter of Credit Master Reimbursement Agreement with the Federal Home Loan Bank. This irrevocable standby letter of credit ("LOC") is supported by loan collateral as an alternative to directly pledging investment securities on behalf of a municipal customer as collateral for their interest bearing deposit balances. These balances were $179,400 and $147,991 at December 31, 2020 and 2019, respectively.

Federal Reserve Bank Paycheck Protection Program Liquidity Facility ("FRB PPPLF") Program

The Bank has originated Small Business Association's Paycheck Protection Program ("SBA PPP") loans and has complied with the requirements to pledge these loans to the FRB PPPLF program which provides 100% funding for SBA PPP loans upon request. At December 31, 2020, the Bank had $123,702 of borrowing capacity under the Federal Reserve SBA PPP Liquidity Facility, which the Federal Reserve established in 2020. The Bank has no outstanding loan balances under this facility at December 31, 2020. Maximum month-end borrowed amounts outstanding under this agreement were $25,136, during the twelve months ended December 31, 2020.

NOTE 11—CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by 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. Failure to meet capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Although these terms are not used to represent overall financial condition, if adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2020 and 2019, the most recent notifications from our regulatory agency categorized the Bank as "Well Capitalized" under the regulatory framework for Prompt Corrective Action. There are no conditions or events since these notifications that management believes have changed the Bank's category.

The Bank's Tier 1 (leverage) and risk-based capital ratios at December 31, 2020 and 2019, respectively, are presented below

(actual amount rounded to the nearest thousand)

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of December 31, 2020								
Total capital (to risk weighted assets)	$ 171,702,000	14.7 %	$ 93,381,000	> =	8.0 %	$ 116,726,000	> =	10.0 %
Tier 1 capital (to risk weighted assets)	157,081,000	13.5 %	70,035,000	> =	6.0 %	93,381,000	> =	8.0 %
Common equity tier 1 capital (to risk weighted assets)	157,081,000	13.5 %	52,527,000	> =	4.5 %	75,872,000	> =	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	157,081,000	9.9 %	63,718,000	> =	4.0 %	79,647,000	> =	5.0 %
As of December 31, 2019								
Total capital (to risk weighted assets)	$ 160,302,000	13.1 %	$ 98,174,000	> =	8.0 %	$ 122,718,000	> =	10.0 %
Tier 1 capital (to risk weighted assets)	149,982,000	12.2 %	73,631,000	> =	6.0 %	98,174,000	> =	8.0 %
Common equity tier 1 capital (to risk weighted assets)	149,982,000	12.2 %	55,223,000	> =	4.5 %	79,767,000	> =	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	149,982,000	10.4 %	57,834,000	> =	4.0 %	72,293,000	> =	5.0 %

The Company's Tier 1 (leverage) and risk-based capital ratios at December 31, 2020 and 2019, respectively, are presented below:

(actual amount rounded to the nearest thousand)

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of December 31, 2020								
Total capital (to risk weighted assets)	$ 166,703,000	14.3 %	$ 93,381,000	> =	8.0 %	N/A		N/A
Tier 1 capital (to risk weighted assets)	122,082,000	10.5 %	70,035,000	> =	6.0 %	N/A		N/A
Common equity tier 1 capital (to risk weighted assets)	122,082,000	10.5 %	52,527,000	> =	4.5 %	N/A		N/A
Tier 1 leverage ratio (to adjusted total assets)	122,082,000	7.7 %	63,718,000	> =	4.0 %	N/A		N/A
As of December 31, 2019								
Total capital (to risk weighted assets)	$ 137,259,000	11.2 %	$ 98,174,000	> =	8.0 %	$ 122,718,000	> =	10.0 %
Tier 1 capital (to risk weighted assets)	111,939,000	9.1 %	73,631,000	> =	6.0 %	98,174,000	> =	8.0 %
Common equity tier 1 capital (to risk weighted assets)	111,939,000	9.1 %	55,223,000	> =	4.5 %	79,767,000	> =	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	111,939,000	7.7 %	57,834,000	> =	4.0 %	72,293,000	> =	5.0 %

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 Subordinated Note Purchase Agreement dated August 27, 2020 and Business Note Agreement dated August 1, 2018, which prohibits the Company from making dividend payments while an event of default has occurred and is continuing under the loan agreement or from allowing payment of a dividend which would create an event of default.

The following table reflects the annual cash dividend paid in the years ended December 31, 2020 and 2019, respectively.

	December 31, 2020	December 31, 2019
Cash dividends per share	$ 0.21	$ 0.20
Stockholder record date	02/05/2020	02/08/2019
Dividend payment date	02/19/2020	03/08/2019

NOTE 12—COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk—The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include off-balance-sheet credit instruments consisting of commitments to make loans. The face amounts for these items represent the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Set forth below are the balances of the Company's off-balance-sheet credit instruments consisting of commitments to make loans as of December 31, 2020 and December 31, 2019, respectively.

	Contract or Notional Amount at December 31, 2020	Contract or Notional Amount at December 31, 2019
Commitments to extend credit	$ 247,324	$ 243,642
Commercial standby letter of credit	$ 524	$ 3,011

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company evaluates each customer's credit worthiness on a case-by-case basis. The credit and collateral policy for commitments and letters of credit is comparable to that for granting loans. The Company has recorded no liability associated with standby letters of credit as of December 31, 2020 and 2019.

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

NOTE 13—RETIREMENT PLAN

401(k) Plan—The Company sponsors a 401(k) profit sharing plan that covers all employees who qualify based on minimum age and length of service requirements. Employees may make pretax voluntary contributions to the plan, which are matched, in part, by the Company. Employer matching contributions to the plan were $610 and $524 for the year ended December 31, 2020 and 2019, respectively.

NOTE 14 - STOCK-BASED COMPENSATION

In February 2008, the Company's stockholders approved the Company's 2008 Equity Incentive Plan for a term of 10 years. As of December 31, 2020, 89,183 restricted shares and 181,000 options had been granted to eligible participants. Due to the plan's expiration, no new awards can be granted under this plan. Restricted shares granted under the 2008 Equity Incentive Plan were awarded at no cost to the employee and vest pro rata over a two to five-year period from the grant date. Options granted to date under this plan vest pro rata over a five-year period from the grant date. Unexercised, nonqualified stock options expire within 15 years of the grant date and unexercised incentive stock options expire within 10 years of the grant date.

On March 27, 2018, the stockholders of Citizens Community Bancorp, Inc. approved the 2018 Equity Incentive Plan. The aggregate number of shares of common stock reserved and available for issuance under the 2018 Equity Incentive Plan is 350,000 shares. As of December 31, 2020, 99,575 restricted shares had been granted under this plan. As of December 31, 2020, no stock options had been granted under this plan.

Net compensation expense related to restricted stock awards from these plans was $530 and $470 for the years ended December 31, 2020 and 2019, respectively.

Restricted Common Stock Awards

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of Shares	Weighted Average Grant Price	Number of Shares	Weighted Average Grant Price
Restricted Shares				
Unvested and outstanding at beginning of year	43,457	$ 12.76	75,407	$ 13.24
Granted	45,507	11.79	12,847	11.50
Vested	(31,722)	12.32	(32,630)	12.89
Forfeited	—	—	(12,167)	13.28
Unvested and outstanding at end of year	57,242	$ 12.23	43,457	$ 12.76

The Company accounts for stock-based employee compensation related to the Company's 2008 Equity Incentive Plan using the fair-value-based method. Accordingly, management records compensation expense based on the value of the award as measured on the grant date and then the Company recognizes that cost over the vesting period for the award. The net compensation cost recognized for stock-based employee compensation from this plan for the years ended December 31, 2020 and 2019 was $14 and $18, respectively.

Common Stock Option Awards

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Year ended December 31, 2020				
Outstanding at beginning of year	78,100	$ 11.18		
Forfeited or expired	(5,800)	11.95		
Outstanding at end of year	72,300	11.05	5.49	
Exercisable at end of year	54,100	$ 10.82	5.37	$ 4
Fully vested and expected to vest	72,300	$ 11.05	5.49	$ —
Year ended December 31, 2019				
Outstanding at beginning of year	108,930	$ 10.15		
Exercised	(28,430)	7.12		
Forfeited or expired	(2,400)	12.38		
Outstanding at end of year	78,100	11.18	6.55	
Exercisable at end of year	44,700	$ 10.73	6.30	$ 67
Fully vested and expected to vest	78,100	$ 11.18	6.55	$ 81

Information related to the 2008 Equity Incentive Plan during each period follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Intrinsic value of options exercised	$ —	$ 130
Cash received from options exercised	$ —	$ 203
Tax benefit realized from options exercised	$ —	$ —

NOTE 15 – INCOME TAXES

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

	Year ended December 31, 2020	Year ended December 31, 2019
Current tax provision		
Federal	$ 5,000	$ 2,535
State	2,081	1,081
	7,081	3,616
Deferred tax provision (benefit)		
Federal	(1,866)	(305)
Bank owned life insurance - Tax Act clarification	(660)	(300)
State	—	(197)
	(2,526)	(802)
Total	$ 4,555	$ 2,814

The provision for income taxes differs from the amount of income tax determined by applying statutory federal income tax rates to pretax income as result of the following differences:

	Year ended December 31, 2020		Year ended December 31, 2019	
	Amount	Rate	Amount	Rate
Tax expense at statutory rate	$ 3,629	21.0 %	$ 2,577	21.0 %
State income taxes, net of federal	1,123	6.5 %	813	6.6 %
Bank owned life insurance - Tax Act clarification	—	— %	(300)	(2.4)%
Bank owned life insurance	(130)	(0.8)%	(116)	(0.9)%
Tax exempt interest	(61)	(0.3)%	(153)	(1.3)%
Other	(6)	— %	(7)	(0.1)%
Total	$ 4,555	26.4 %	$ 2,814	22.9 %

On October 25, 2019, the Department of the Treasury released regulations which clarified the tax status of acquired life insurance policies, resulting in policies acquired from United Bank and F&M retaining their tax-free status. As a result, the Company reduced its related deferred tax liabilities by $342 (F&M), and $300 (United Bank) and F&M's initial goodwill was reduced by $342 on the December 31, 2019 consolidated balance sheet. $300 was recorded as a discrete tax credit reduction on the Company's statement of operations for the twelve-months ended December 31, 2019.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31, 2020 and December 31, 2019, respectively:

	Year ended December 31, 2020	Year ended December 31, 2019
Deferred tax assets:		
Allowance for loan losses	$ 4,567	$ 2,694
Deferred loan costs/fees	1,117	209
Director/officer compensation plans	116	83
Net unrealized loss on securities available for sale	—	179
Economic performance accruals	694	504
Other real estate	89	31
Deferred revenue	64	87
Loan Discounts	1,218	2,391
FHLB Advances	55	107
Lease Liability	758	768
Other	70	58
Deferred tax assets	$ 8,748	$ 7,111
Deferred tax liabilities:		
Office properties and equipment	(1,551)	(1,574)
Federal Home Loan Bank stock	(129)	(129)
Core Deposit Intangible	(1,615)	(1,937)
Net gain on equity securities	(442)	(456)
Prepaid expenses	(204)	(137)
Mortgage servicing rights	(893)	(1,177)
Leases; right of use asset	(730)	(753)
Other acquired intangibles	—	(111)
Net unrealized gains on securities available for sale	(565)	—
Deferred tax liabilities	$ (6,129)	$ (6,274)
Net deferred tax assets	$ 2,619	$ 837

The Company regularly reviews the carrying amount of its deferred tax assets to determine if the establishment of a valuation allowance is necessary, as further discussed in Note 1 "Nature of Business and Summary of Significant Accounting Policies", above. At December 31, 2020 and December 31, 2019, respectively, management determined that no valuation allowance was necessary.

The Company's income tax returns are subject to review and examination by federal, state and local government authorities. As of December 31, 2020, years open to examination by the U.S. Internal Revenue Service include taxable years ended September 30, 2017 to present. The years open to examination by state and local government authorities varies by jurisdiction.

The tax effects from uncertain tax positions can be recognized in the consolidated financial statements, provided the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Company applied the foregoing accounting standard to all of its tax positions for which the statute of limitations remained open as of the date of the accompanying consolidated financial statements.

The Company’s policy is to recognize interest and penalties related to income tax issues as components of other noninterest expense. The Company recognized no material expense on income tax related interest or penalties during any of the periods presented.

NOTE 16 – FAIR VALUE ACCOUNTING

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

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

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

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

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

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

Assets Measured on a Recurring Basis

The following tables present the financial instruments measured at fair value on a recurring basis as of December 31, 2020 and December 31, 2019.

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Investment securities:				
U.S. government agency obligations	$ 33,365	$ —	$ 33,365	$ —
Obligations of states and political subdivisions	140	—	140	—
Mortgage-backed securities	40,991	—	40,991	—
Corporate debt securities	17,462	—	17,462	—
Corporate asset-backed securities	35,827	—	35,827	—
Trust preferred securities	16,448	—	16,448	—
Total	$ 144,233	$ —	$ 144,233	$ —
December 31, 2019				
Investment securities:				
U.S. government agency obligations	$ 51,805	$ —	$ 51,805	$ —
Obligations of states and political subdivisions	281	—	281	—
Mortgage-backed securities	71,331	—	71,331	—
Corporate debt securities	18,725	—	18,725	—
Corporate asset-backed securities	26,854	—	26,854	—
Trust preferred securities	11,123	—	11,123	—
Total	$ 180,119	$ —	$ 180,119	$ —

For the years ended December 31, 2020 and December 31, 2019, the Company did not own any securities for which the Company utilized significant unobservable inputs (Level 3 inputs) to determine fair value.

There were no transfers in or out of Level 1, Level 2 or Level 3 fair value measurements during the years ended December 31, 2020 or December 31, 2019. There were no losses included in earnings attributable to the change in unrealized gains or losses relating to the available-for-sale securities above with fair value measurements utilizing significant unobservable inputs for the years ended December 31, 2020 or December 31, 2019, respectively.

Assets Measured on a Nonrecurring Basis

The following tables present the financial instruments measured at fair value on a nonrecurring basis as of December 31, 2020 and December 31, 2019:

	Carrying Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Foreclosed and repossessed assets, net	$ 197	$ —	$ —	$ 197
Impaired loans with allocated allowances	3,037	—	—	3,037
Mortgage servicing rights	3,252	—	—	3,285
Total	$ 6,486	$ —	$ —	$ 6,519
December 31, 2019				
Foreclosed and repossessed assets, net	$ 1,460	$ —	$ —	$ 1,460
Impaired loans with allocated allowances	4,131	—	—	4,131
Mortgage servicing rights	4,309	—	—	4,309
Total	$ 9,900	$ —	$ —	$ 9,900

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

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

The fair value of mortgage servicing rights referenced above was determined based on a third party discounted cash flow analysis utilizing both observable and unobservable inputs.

The following table represents additional quantitative information about assets measured at fair value on a recurring and nonrecurring basis and for which we have utilized Level 3 inputs to determine their fair value at December 31, 2020 and December 31, 2019.

	Fair Value	Valuation Techniques (1)	Significant Unobservable Inputs (2)	Range
December 31, 2020				
Foreclosed and repossessed assets, net	$ 197	Appraisal value	Estimated costs to sell	10% - 15%
Impaired loans with allocated allowances	$ 3,037	Appraisal value	Estimated costs to sell	10% - 15%
Mortgage servicing rights	$ 3,285	Discounted cash flows	Discounted rates	9% - 12%
December 31, 2019				
Foreclosed and repossessed assets, net	$ 1,460	Appraisal value	Estimated costs to sell	10% - 15%
Impaired loans with allocated allowances	$ 4,131	Appraisal value	Estimated costs to sell	10% - 15%
Mortgage servicing rights	$ 4,309	Discounted cash flows	Discounted rates	9.5% - 12.5%

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

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

The table below represents what we would receive to sell an asset or what we would have to pay to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amount and estimated fair value of the Company's financial instruments as of the dates indicated below were as follows:

		December 31, 2020		December 31, 2019	
	Valuation Method Used	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	(Level I)	$ 119,440	$ 119,440	$ 55,840	$ 55,840
Other interest bearing deposits	(Level II)	3,752	3,818	4,744	4,792
Securities available for sale "AFS"	(Level II)	144,233	144,233	180,119	180,119
Securities held to maturity "HTM"	(Level II)	43,551	43,784	2,851	2,957
Equity securities with readily determinable fair value	(Level I)	200	200	246	246
Other investments	(Level II)	14,948	14,948	15,005	15,005
Loans receivable, net	(Level III)	1,220,538	1,239,692	1,167,060	1,161,660
Loans held for sale	(Level II)	3,075	3,075	5,893	5,893
Mortgage servicing rights	(Level III)	3,252	3,285	4,282	4,309
Accrued interest receivable	(Level I)	5,652	5,652	4,738	4,738
Financial liabilities:					
Deposits	(Level III)	$ 1,295,256	$ 1,292,104	$ 1,195,702	$ 1,192,777
FHLB and FRB advances	(Level II)	123,498	128,282	130,971	131,593
Other borrowings	(Level I)	58,328	58,328	43,560	43,560
Other liabilities	(Level I)	—	—	10,010	10,010
Accrued interest payable	(Level I)	796	796	453	453

NOTE 17—EARNINGS PER SHARE

Earnings per share is based on the weighted average number of shares outstanding for the year. A reconciliation of the basic and diluted earnings per share is as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Basic		
Net income attributable to common shareholders	$ 12,725	$ 9,463
Weighted average common shares outstanding	11,161,551	11,114,328
Basic earnings per share	$ 1.14	$ 0.85
Diluted		
Net income attributable to common shareholders	$ 12,725	$ 9,463
Weighted average common shares outstanding	11,161,551	11,114,328
Add: Dilutive stock options outstanding	260	6,961
Average shares and dilutive potential common shares	11,161,811	11,121,289
Diluted earnings per share	$ 1.14	$ 0.85
Additional common stock option shares that have not been included due to their antidilutive effect	68,800	26,200

NOTE 18 – OTHER COMPREHENSIVE INCOME (LOSS)

The following table shows the tax effects allocated to each component of other comprehensive income (loss):

	For the year ended, December 31, 2020			For the year ended, December 31, 2019		
	Before-Tax Amount	Tax Expense	Net-of-Tax Amount	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Unrealized gains on securities:						
Net unrealized gains arising during the period	$ 2,546	(472)	$ 2,074	$ 1,681	$ (462)	$ 1,219
Reclassification adjustment for gains included in net income	(156)	43	(113)	271	(75)	196
Other comprehensive income	$ 2,390	$ (429)	$ 1,961	$ 1,952	$ (537)	$ 1,415

The changes in the accumulated balances for each component of other comprehensive income (loss), net of tax for the years ended December 31, 2020 and December 31, 2019 were as follows:

	Unrealized Gains (Losses) on Securities	Other Accumulated Comprehensive Income (Loss), net of tax
Beginning Balance, January 1, 2019	$ (1,704)	$ (1,841)
Current year-to-date other comprehensive income	1,415	1,415
Adoption of ASU 2016-01; Equity securities (1)	(45)	(45)
Ending balance, December 31, 2019	$ (334)	$ (471)
Current year-to-date other comprehensive income	2,390	1,961
Ending balance, December 31, 2020	$ 2,056	$ 1,490

(1) Amount reclassified to retained earnings due to January 1, 2019 adoption of ASU 2016-02. For further information, refer to Note 1, "Nature of Business and Summary of Significant Accounting Policies; Recent Pronouncements-Adopted".

Reclassifications out of accumulated other comprehensive income for the twelve months ended December 31, 2020 were as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) (1)	Affected Line Item on the Statement of Operations
Unrealized gains and losses		
Sale of securities	$ 156	Net gains on investment securities
Tax effect	(43)	Provision for income taxes
Total reclassifications for the period	$ 113	Net gain attributable to common shareholders

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

Reclassifications out of accumulated other comprehensive income for the twelve months ended December 31, 2019 were as follows:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) (1)	Affected Line Item on the Statement of Operations
Unrealized gains and losses		
Sale of securities	$ 271	Net gains on investment securities
Tax effect	(75)	Provision for income taxes
Total reclassifications for the period	$ 196	Net gain attributable to common shareholders

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

NOTE 19—CONDENSED FINANCIAL INFORMATION – PARENT COMPANY ONLY

The following condensed balance sheets as of December 31, 2020 and 2019, and condensed statements of operations and cash flows for the years ended December 31, 2020 and 2019, for Citizens Community Bancorp, Inc. should be read in conjunction with the accompanying consolidated financial statements and the notes thereto.

Condensed Balance Sheets

	December 31, 2020	December 31, 2,019
Assets		
Cash and cash equivalents	$ 23,333	$ 5,253
Other assets	375	332
Investment in subsidiary	195,563	188,594
Total assets	$ 219,271	$ 194,179
Liabilities and Stockholders' Equity		
Other borrowings	$ 58,328	$ 43,560
Other liabilities	379	66
Total liabilities	58,707	43,626
Total stockholders' equity	160,564	150,553
Total liabilities and stockholders' equity	$ 219,271	$ 194,179

Statements of Operations

	Year ended December 31, 2020	Year ended December 31, 2019
Interest income	$ —	$ —
Interest expense	2,458	2,015
Net interest expense	(2,458)	(2,015)
Dividend income from bank subsidiary	10,500	7,350
Non-interest income	193	—
Non-interest expense	(848)	(1,596)
Net income before benefit for income taxes and equity in undistributed income of subsidiaries	7,387	3,739
Benefit for income taxes	860	904
Net earnings before equity in undistributed income of subsidiaries	8,247	4,643
Equity in undistributed income of subsidiaries	4,478	4,820
Net income	$ 12,725	$ 9,463

Statements of Cash Flows

	Year ended December 31, 2020	Year ended December 31, 2019
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	$ 12,725	$ 9,463
Depreciation expense	12	12
Stock based compensation expense	14	18
Adjustments to reconcile net income to net cash provided by operating activities - Equity in undistributed income of subsidiary	(14,978)	(12,170)
(Increase) decrease in other assets	(55)	101
Decrease (increase) in other liabilities	313	(391)
Net cash used in operating activities	(1,969)	(2,967)
Cash flows from investing activities:		
Cash consideration paid in business combination	—	(20,970)
Net cash used in investing activities	—	(20,970)
Cash flows from financing activities:		
Proceeds from other borrowings, net of issuance costs	14,677	29,913
Amortization of debt issuance costs	91	—
Repayments of other borrowings	—	(13,000)
Repurchase shares of common stock	(2,820)	—
Surrender of restricted shares of common stock	(27)	(53)
Common stock options exercised	—	203
Dividend from bank to holding company	10,500	7,350
Cash dividends paid	(2,372)	(2,198)
Net cash provided by financing activities	20,049	22,215
Net increase (decrease) in cash and cash equivalents	18,080	(1,722)
Cash and cash equivalents at beginning of year	5,253	6,975
Cash and cash equivalents at end of year	$ 23,333	$ 5,253

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 12, 2020, the Company engaged Eide Bailly LLP to replace Baker Tilly Virchow Krause, LLP as its independent registered public accounting firm. Information regarding the change in the independent registered public accounting firm was disclosed in the Company's Current Report on Form 8-K dated March 16, 2020. There were no disagreements or reportable events requiring disclosure under Item 304(b) of regulation S-K relating to this change in auditors.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have designed our disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives. We carried out an evaluation as of December 31, 2020, under the supervision and with the participation of the Company's management, including our Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020 at reaching a level of reasonable assurance.

The report of management required under Item 9A is included under Item 8 of this report along with the Company's consolidated financial statements under the heading "Report by Citizens Community Bancorp, Inc.'s Management on Internal Control over Financial Reporting" and is incorporated herein by reference.

This Annual Report on Form 10-K includes an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the Company's most recently completed fiscal year ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information with respect to this item is incorporated herein by reference to the discussion under the heading "Proposal 1: Election of Directors," "Executive Officers," "Delinquent Section 16(a) Reports," "Corporate Governance – Director Nominations", "Audit Committee Matters – Audit Committee Financial Expert", and "Corporate Governance Matters – Code of Business Conduct and Ethics" in the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2021.

The Audit Committee of the Company's Board of Directors is an "audit committee" for purposes of Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee consist of the following three outside independent directors: Timothy Olson (Chairman), Richard McHugh and Kristina Bourget.

ITEM 11. EXECUTIVE COMPENSATION

The information with respect to this item is incorporated herein by reference to the discussion under the headings "Directors' Meetings and Committees – Compensation Committee", "Director Compensation" and "Executive Compensation" in the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2021.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to this item is incorporated herein by reference to the discussion under the heading "Security Ownership" and "Equity Compensation Plan Information" in the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2021.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2020, with respect to compensation plans under which shares of common stock were issued or available to be issued:

Plan Category	Number of Common Shares to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Common Shares Available for Future Issuance Under Equity Compensation Plans (2)
Equity compensation plans approved by security holders	72,300	$ 11.05	250,425
Equity compensation plans not approved by security holders	—	—	—
Total	72,300	$ 11.05	250,425

(1) Represents 72,300 shares of our Common Stock to be issued upon exercise of outstanding stock options under the 2008 Equity Incentive Plan, (the "Prior Plan").
(2) Represents 250,425 shares of our Common Stock available for issuance under the 2018 Equity Incentive Plan. No new awards may be granted under the Prior Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information with respect to this item is incorporated herein by reference to the discussion under the headings "Transactions with Related Persons" and "Corporate Governance Matters – Director Independence" in the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2021.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this item is incorporated herein by reference to the discussion under the heading "Audit Committee Matters – Fees of Independent Registered Public Accounting Firm" in the Company's Proxy Statement for the 2021 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2021.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

The following financial statements of the Company are included in Item 8 of this Form 10-K annual report:

Report of Independent Registered Public Accounting Firm (Eide Bailly LLP)

Report of Independent Registered Public Accounting Firm (Baker Tilly Virchow Krause, LLP)

Consolidated Balance Sheets as of December 31, 2020 and 2019

Consolidated Statements of Operations for the Years Ended December 31, 2020 and 2019

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020 and 2019

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2020 and 2019

Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules:

All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable or has otherwise been included in the financial statements or notes hereto.

(a)(3) Exhibits

2.1	Stock Purchase Agreement between Citizens Community Bancorp, Inc. United Bank and United Bancorporation, dated June 20, 2018 (incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K filed on June 21, 2018 (File No. 001-33003)).
2.2	First Amendment to Stock Purchase Agreement by and among Citizens Community Bancorp, Inc., United Bank and United Bancorporation, dated August 13, 2018 (incorporated by reference to Exhibit 2.4 to the Company's Form 10-K filed on December 10, 2018 (File No. 001-33003)).
2.3	Second Amendment to Stock Purchase Agreement by and among Citizens Community Bancorp, Inc., United Bank and United Bancorporation, dated October 19, 2018 (incorporated by reference to Exhibit 2.2 to the Company's current report on Form 8-K filed on October 22, 2018 (File No. 001-33003)).
2.4	Agreement and Plan of Merger dated January 21, 2019, among F. & M. Bancorp. of Tomah, Inc., Citizens Community Bancorp, Inc., and F&M Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on January 22, 2019 (File No. 001-33003)).
3.1	Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 filed on June 30, 2006 (File No. 333-135527) pursuant to Section 5 of the Securities Act of 1933).
3.2	Articles of Amendment to the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2012 (File No. 001-33003)).
3.3	Articles Supplementary with respect to the Series A Preferred Stock of Citizens Community Bancorp, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 21, 2018 (File No. 001-33003)).
3.4	Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 filed on June 30, 2006 (File No. 333-135527) pursuant to Section 5 of the Securities Act of 1933 and incorporated herein by reference.)
3.5	Amendment to the Bylaws of the Registrant (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K dated December 20, 2013, filed on December 26, 2013 (file No. 001-33003)).

3.6	Amendment to the Bylaws of Citizens Community Bancorp, Inc. dated April 23, 2020 (incorporated by reference Exhibit 3.1 to the Company's current report on Form 8-K filed on April 28, 2020 (file No. 001-33003)).
4.1	Description of Capital Stock (incorporated by reference to Exhibit 4.1 to the Company's annual report on Form 10-K filed on March 10, 2020 (File No. 001-33003)).
4.2	Subordinated Note Purchase Agreement between Citizens Community Bancorp, Inc. and EJF Debt Opportunities Master Fund, LP dated May 30, 2017 (incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed on May 31, 2017 (File No. 001-33003)).
4.3	Form of Subordinated Note (incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed on May 31, 2017 (File No. 001-33003)).
4.4	Form of Subordinated Note Purchase Agreement dated August 27, 2020 (incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed on August 27, 2020 (File No. 001-33003)).
4.5	Form of Subordinated Note (incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed on August 27, 2020 (File No. 001-33003)).
10.1+	Citizens Community Bancorp, Inc. 2008 Equity Incentive Plan (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed on August 28, 2013 (File No. 333-190877)).
10.2+	Form of Restricted Stock Grant Agreement under the Citizens Community Bancorp, Inc. 2008 Equity Incentive Plan (incorporated by referent to Exhibit 10.12 to the Company's annual report on Form 10-K for the fiscal year ended as of September 30, 2014 (File No. 001-33003)).
10.3+	Form of Stock Option Agreement under the Citizens Community Bancorp, Inc. 2008 Equity Incentive Plan (incorporated by referent to Exhibit 10.13 to the Company's annual report on Form 10-K for the fiscal year ended as of September 30, 2014 (File No. 001-33003)).
10.4+	Citizens Community Bancorp, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8 filed on March 30, 2018 (File No. 333-224042)).
10.5+	Form of Restricted Stock Agreement under the Citizens Community Bancorp, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.24 to the Company's Form 10-K filed on December 10, 2018 (File No. 001-33003)).
10.6+	Form of Director Restricted Stock Agreement under the Citizens Community Bancorp, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.25 to the Company's Form 10-K filed on December 10, 2018 (File No. 001-33003)).
10.7+	Citizens Community Bancorp, Inc. 2018 Long Term Incentive Plan under the Citizens Community Bancorp, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.26 to the Company's Form 10-K filed on December 10, 2018 (File No. 001-33003)).
10.8+	Form of Citizens Community Bancorp, Inc. 2019 Long Term Incentive Plan Award Agreement. (incorporated by reference to Exhibit 10.19 to the Company's Transition Report on Form 10-K filed on March 8, 2019 (File No. 001-33003)).
10.9+	Form of Citizens Community Bancorp, Inc. 2020 Long Term Incentive Plan Award Agreement (filed herewith).
10.10	Securities Purchase Agreement between the Citizens Community Bancorp, Inc. and the Purchasers provided therein, dated June 20, 2018 (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on June 21, 2018 (File No. 001-33003)).
10.11	Registration Rights Agreement between the Citizens Community Bancorp, Inc. and the Purchasers provided therein, dated June 20, 2018 (incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on June 21, 2018 (File No. 001-33003)).
10.12	Business Note, dated June 26, 2019, issued by Citizens Community Bancorp, Inc. to Chippewa Valley Bank (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 1, 2019 (File No. 001-33003)).
10.13	Business Credit Agreement, dated August 1, 2019, by and between Citizens Community Bancorp, Inc. and Chippewa Valley Bank (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 1, 2019 (File No. 001-33003)).
10.14	Business Note, dated October 22, 2020, issued by Citizens Community Bancorp, Inc. to Chippewa Valley Bank incorporated by reference to the Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed on November 6, 2020 (File No. 001-33003)).
10.15+	Second Amended and Restated Executive Employment Agreement by and between Citizens Community Bancorp, Inc., Citizens Community Federal, N.A., and Stephen Bianchi, dated as of November 1, 2019 (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on November 4, 2019 (File No. 001-33003)).

10.16 +	Second Amended and Restated Executive Employment Agreement by and between Citizens Community Bancorp, Inc., Citizens Community Federal, N.A., and James S. Broucek, dated as of November 1, 2019 (incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on November 4, 2019 (File No. 001-33003)).
10.17+	Addendum No. 1 to the Second Amended and Restated Executive Employment Agreement with Stephen Addendum No. 1 to the Second Amended and Restated Executive Employment Agreement with Stephen Bianchi, dated April 23, 2020 (incorporated by reference Exhibit 10.1 to the Company's current report on Form 8-K filed on April 28, 2020 (File No. 001-33003))., dated April 23, 2020 (incorporated by reference Exhibit 3.1 to the Company's current report on Form 8-K filed on April 28, 2020 (File No. 001-33003)).
10.18+	Addendum No. 1 to the Amended and Restated Executive Employment Agreement with James Broucek, dated April 23, 2020 (Incorporated by reference Exhibit 10.2 to the Company's current report on Form 8-K filed on April 28, 2020 (File No. 001-33003)).
21	Subsidiaries of the Company as of December 31, 2020 (filed herewith).
23.1	Consent of Independent Registered Public Accounting Firm (Eide Bailly, LLP) (filed herewith).
23.2	Consent of Independent Registered Public Accounting Firm (Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP))(filed herewith).
31.1	Rule 13a-15(e) Certification of the Company's Chief Executive Officer (filed herewith).
31.2	Rule 13a-15(e) Certification of the Company's Chief Financial Officer (filed herewith).
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101	The following materials from Citizens Community Bancorp, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2020 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Changes in Stockholders' Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements.

\+ A management contract or compensatory plan or arrangement

* This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS COMMUNITY BANCORP, INC.

Date: March 8, 2021	By:	/s/ James S. Broucek
		James S. Broucek Executive Vice President, Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 8, 2021	By:	/s/ Stephen M. Bianchi
		Stephen M. Bianchi President and Chief Executive Officer, Chairman of the Board (Principal Executive Officer)
Date: March 8, 2021	By:	/s/ Richard McHugh
		Richard McHugh Lead Director
Date: March 8, 2021	By:	/s/ Michael L. Swenson
		Michael L. Swenson Director
Date: March 8, 2021	By:	/s/ James R. Lang
		James R. Lang Director
Date: March 8, 2021	By:	/s/ Francis E. Felber
		Francis E. Felber Director
Date: March 8, 2021	By:	/s/ James D. Moll
		James D. Moll Director
Date: March 8, 2021	By:	/s/ Kristina M. Bourget
		Kristina M. Bourget Director
Date: March 8, 2021	By:	/s/ Timothy L. Olson
		Timothy L. Olson Director
Date: March 8, 2021	By:	/s/ James S. Broucek
		James S. Broucek Executive Vice President, Chief Financial Officer, Treasurer and Secretary (Principal Financial Officer and Principal Accounting Officer)

CITIZENS COMMUNITY BANCORP, INC.

STOCKHOLDER INFORMATION

ANNUAL MEETING

The annual meeting of stockholders of Citizens Community Bancorp, Inc. will be held at the Holiday Inn Eau Claire located at 4751 Owen Ayers Ct, Eau Claire, WI 54701, on Tuesday, June 22, 2021 at 1:30 p.m. local time.

STOCK LISTING

Citizens Community Bancorp, Inc. common stock is traded on the NASDAQ Global Market under the symbol “CZWI”.

PRICE RANGE COMMON STOCK

	High	Low	Cash dividends per share
Fiscal 2020			
First Quarter (three months ended March 31, 2020)	$ 12.41	$ 5.51	$ 0.21
Second Quarter (three months ended June 30, 2020)	$ 8.50	$ 5.26	$ -
Third Quarter (three months ended September 30, 2020)	$ 7.25	$ 6.48	$ -
Fourth Quarter (three months ended December 31, 2020)	$ 11.39	$ 6.83	$ -
Fiscal 2019			
First Quarter (three months ended March 31, 2019)	$ 12.39	$ 10.83	$ 0.20
Second Quarter (three months ended June 30, 2019)	$ 12.30	$ 10.54	$ -
Third Quarter (three months ended September 30, 2019)	$ 11.74	$ 10.52	$ -
Fourth Quarter (three months ended December 31, 2019)	$ 12.75	$ 10.75	$ -

The stock price information set forth in the table above was provided by the NASDAQ Stock Market based upon the high and low bid and asked prices during such periods. The closing price per share of Citizens Community Bancorp, Inc. common stock on March 8, 2021 was $11.43.

At March 8, 2021, there were 10,900,342 shares of Citizens Community Bancorp, Inc. common stock outstanding and the approximate number of holders of record was 626.

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.

STOCKHOLDERS AND GENERAL INQUIRIES

Citizens Community Bancorp, Inc. filed an annual report on Form 10-K for the year ended December 31, 2020 and three quarterly reports on Form 10-Q. Copies of these forms are available upon request. Requests, as well as inquiries from stockholders, analysts and others seeking information about Citizens Community Bancorp, Inc. should be directed to Stephen M. Bianchi, Chief Executive Officer, at 2174 EastRidge Center, Eau Claire, WI 54701, telephone (800) 590-9920.

TRANSFER AGENT

Stockholders should direct inquiries concerning their stock, change of name, address or ownership; report lost certificates or consolidate accounts to our transfer agent at 1-800-509-5586 or write:

Continental Stock Transfer & Trust Company
1 State Street 30th Floor
New York, NY 10004
1-(800)-509-5586

WEBSITE

Our internet website is www.ccf.us. Many of the Company's filings with the Securities and Exchange Commission, as well as other information that may be pertinent to shareholders are available online at the Company's internet website. The Company is not including the information contained on or available through its website as part of, or incorporating such information by reference into, this Annual Report.

ANNUAL AND OTHER REPORTS

A copy of our Annual Report on Form 10-K for the year ended December 31, 2020 and Exhibits, as filed with the Securities and Exchange Commission, may be obtained without charge by contacting Stephen M. Bianchi, Citizens Community Bancorp, Inc., 2174 EastRidge Center, Eau Claire, Wisconsin 54701

CITIZENS COMMUNITY BANCORP, INC.
CORPORATE INFORMATION

Citizens Community Bancorp, Inc.
Board of Directors

Stephen M. Bianchi, *Chairman*
Richard McHugh, *Lead Director*
Michael L. Swenson
James R. Lang
Francis E. Felber
James D. Moll
Kristina M. Bourget
Timothy L. Olson

Citizens Community Federal N.A.
Officers

Stephen M. Bianchi, Chairman of the Board, *President and Chief Executive Officer*
James S. Broucek, *Executive Vice President, Chief Financial Officer, Treasurer and Secretary*

CITIZENS COMMUNITY FEDERAL N.A.
LOCATIONS

Administrative Offices
2174 EastRidge Center
Eau Claire, WI 54701

Branch Offices:
Barron Branch
25 North Mill Street
Barron, WI 54812

Fairfax Branch
219 Fairfax Street
Altoona, WI 54720

Eau Claire - Gateway Branch
3625 Gateway Dr.
Eau Claire, WI 54701

Ellsworth Branch
218 North Broadway
Ellsworth, WI 54011

Ettrick Branch
22818 Main Street
Ettrick, WI 54627

Ladysmith Branch
810 Miner Ave W.
Ladysmith, WI 54848

Lake Hallie Branch
2727 Commercial Boulevard
Lake Hallie, WI 54729

Mondovi Branch
203 E Main Street
Mondovi, WI 54755

Osseo Branch
50518 Charles Street
Osseo, WI 54758

Rice Lake North Branch
1204 W Knapp Street
Rice Lake, WI 54868

Rice Lake South Branch
2850 Decker Drive
Rice Lake, WI 54868

Spooner Branch
322 North River Street
Spooner, WI 54801

Strum Branch
131 5th Ave N
Strum, WI 54770

Tomah Branch
1001 Superior Avenue
Tomah, WI 54660

Tomah North Branch
1500 N. Superior Avenue
Tomah, WI 54660

Minnesota Offices:
Albert Lea Branch
2630 Bridge Ave.
Albert Lea, MN 56007

Blue Earth Branch
303 S. Main St
Blue Earth, MN 56013

Fairmont Branch
1015 Hwy 15 South
Fairmont, MN 56031

Faribault Branch
300 Western Avenue, Suite 100
Faribault, MN 55021

Mankato Branch
180 St. Andrews Drive
Mankato, MN 56001

Oakdale Branch
7035 10th Street North
Oakdale, MN 55128

Red Wing Branch
3151 South Service Drive
Red Wing, MN 55066

St James Branch
501 1st Ave. South
St. James, MN 56081

St Peter Branch
1123 South Minnesota Ave.
Saint Peter, MN 56082

Wells Branch
53 First St SW
Wells, MN 56097

Special Counsel
Taft Stettinius & Hollister
80 South Eighth Street
Minneapolis, MN 55402

Independent Registered Public Accounting Firm
Eide Bailly, LLP
7001 E. Belleview Ave., Ste. 700
Denver, CO 80237

[This page has been intentionally left blank.]