2022 ANNUAL REPORT

CITIZENS COMMUNITY BANCORP, INC.

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To Our Valued Shareholders,

We continued to execute our business plan in 2022 and increase franchise value. The highlights included solid loan growth, strong asset quality, increases in total deposits and average deposits per branch, disciplined expense management and a focus on strengthening our culture and community outreach. These drivers generated a return on average assets of 1.0% and return on average tangible common equity over 14.3% for shareholders of Citizens.

Our markets showed robust economic activity and unemployment levels below 3% throughout the year. In addition, the agricultural sector, row crops and dairy in our region, experienced historically high revenue and profit levels. This resulted in loan growth of 8.6% centered in multifamily housing, campground lending, one to four family housing and other commercial real estate. Asset quality improved modestly during the year evidenced by a reduction in nonperforming assets to total assets by 6 basis points to .70% and net charge offs in 2022 were minimal at three basis points compared to six basis points average in the previous five years.

Efforts to strengthen our deposit base and distribution network continued. Total deposits increased 2.7% to $1.42 billion as our deposit focus, product offering and deposit gathering culture matured. We also closed two branches and merged two branches into another in three different markets, enhancing efficiency and improving our deposits per branch to over $62 million from $56 million one year ago and $37 million five years ago.

Our team has embraced technology, innovation and change to serve our customers more effectively and efficiently without increasing our overall technology spending. This has allowed us to grow revenue faster than expenses and improve our efficiency ratio to 61% in 2022 compared to 77% five years ago.

The strength of our culture is evident in our Annual Colleague Engagement survey. In 2022 we saw a 91% participation rate and an 87% overall colleague satisfaction rating and 89% satisfaction with their supervisor. This speaks to our continuing effort to build a positive, performance-based, and inclusive work environment which drives our customer commitment to "Make More Possible." Community engagement was strong with colleagues giving over 3,000 hours of their time to organizations and projects that improve the economy and lives of all members of our communities. I would like to thank my colleagues for their efforts in 2022.

Thank you to our shareholders for their continuing investment in Citizens. We are a proud, committed team and appreciate your investment in Citizens!

Yours truly,

Stephen Bianchi
Chair, President & CEO

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, 2022

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, 2022, was approximately $123.9 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 7, 2023 there were 10,482,821 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 2022 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, 2022

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

Forward-Looking Statements

Certain matters discussed in this 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;
- the impact of inflation on our business and our customers;
- acts of terrorism and political or military actions by the United States or other governments;
- adverse impacts to the Company or Bank arising from the COVID-19 pandemic;
- higher lending risks associated with our commercial and agricultural banking activities;
- interest rate risk;
- lending risk;
- changes in the fair value or ratings downgrades of our securities;
- the possibility of a deterioration in the residential real estate markets;
- the sufficiency of loan allowances;
- competitive pressures among depository and other financial institutions;
- disintermediation risk;
- our ability to maintain our reputation;
- our ability to maintain or increase our market share;
- our ability to realize the benefits of net deferred tax assets;
- our inability to obtain needed liquidity;
- our ability to raise capital needed to fund growth or meet regulatory requirements;
- our ability to attract and retain key personnel;
- our ability to keep pace with technological change;
- prevalence of fraud and other financial crimes;
- cybersecurity risks;
- the possibility that our internal controls and procedures could fail or be circumvented;
- 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;
- restrictions on our ability to pay dividends;
- the potential volatility of our stock price;
- accounting standards for loan losses;
- legislative or regulatory changes or actions, or significant litigation, adversely affecting the Company or Bank;
- public company reporting obligations;
- changes in federal or state tax laws; and
- changes in accounting principles, policies or guidelines and their impact on financial performance.

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, 2022 (which we sometimes refer to in this Annual Report as “fiscal 2022”) and December 31, 2021 (which we sometimes refer to in this Annual Report as “fiscal 2021”).

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, 2022, we had approximately $1.816 billion in total assets, $1.425 billion in deposits, and $167.1 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 23 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.

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.

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, 2022, were $1.416 billion, consisting of $1.125 billion in commercial/agricultural real estate loans, $164.8 million in C&I/agricultural operating loans, $108.7 million in residential mortgage loans and $17.4 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, 2022, our total deposits were $1.425 billion including interest bearing deposits of $1.140 billion and non-interest bearing deposits of $0.285 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 Federal Funds Purchased Lines of Credit. 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. 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 foregoing 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. 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. In addition, we are currently considered a "non-accelerated filer" and will maintain that status for so long as the Company's annual revenues are less than $100 million, and its public float is more than $75 million but less than $700 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. If the Company were to be classified as an "accelerated filer" rather than a "non-accelerated filer," then we would become subject to the provisions of Section 404(b) of the Sarbanes-Oxley Act. Section 404(b) requires 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 Dodd-Frank Act

In July 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act has significantly changed the bank regulatory structure and affected the lending, investment, trading and operating activities of financial institutions and their holding companies. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations, some of which have not yet been issued in final form. The Dodd-Frank Act and implementing regulations have increased the regulatory burden, compliance cost and interest expense for the Company and the Bank.

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

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 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. The Federal Reserve Board recently issued 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, 2022, the Bank had $7.7 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.

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 7, 2023, we had 210 full-time employees and 236 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.

Inflation may have an adverse impact on our business and on our customers. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. The annual inflation rate in the United States increased during most of 2022, and, as of December 2022, was 6.5% measured by consumer price index. As a result, the Federal Reserve has continued to increase the target federal funds rate, and has indicated its intention to continue to increase interest rates in an effort to combat inflation. As inflation increases, the value of our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation increases the cost of goods and services we use in our business operations, such as electricity and other utilities, which increases our non-interest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us.

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.

The COVID-19 pandemic may continue to impact economic conditions and affect our financial condition, our results of operations and other aspects of our business. The COVID-19 pandemic caused significant economic dislocation in the United States and internationally, resulting in a slow-down in economic activity, increased unemployment levels, and disruptions in global supply chains and financial markets. The pandemic and related government actions to curb its spread also resulted in closures of many organizations and the institution of social distancing requirements in many states and communities. In response to the pandemic, various state governments and federal agencies required lenders to provide forbearance and other relief to borrowers (e.g., waiving late payment and other fees). Federal banking agencies encouraged financial institutions to prudently work with affected borrowers and legislation provided relief from reporting loan classifications due to modifications related to the COVID-19 outbreak. The spread of the coronavirus also caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences.

Given the ongoing dynamic nature of variants of COVID-19, it is difficult to predict the full impact of the COVID-19 pandemic outbreak on our business. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to a number of risks, any of which could have an adverse effect on our business, financial condition, liquidity, results of operations, ability to execute our growth strategy, and ability to pay dividends. These risks include, but are not limited to: changes in demand for our products and services; increased loan losses or other impairments in our loan portfolios and increases in our allowance for loan losses; a decline in collateral for our loans, especially real estate; unanticipated unavailability of employees; increased cyber security risks as employees work remotely; a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could necessitate a valuation allowance against our current outstanding deferred tax assets; a triggering event leading to impairment testing on our goodwill or core deposit and customer relationships intangibles, which could result in an impairment charge; and increased costs as the Company and our regulators, customers and vendors adapt to evolving pandemic-related conditions.

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.

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. 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.

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. Our exposure to lending risk is managed through the use of consistent underwriting standards, and we avoid highly leveraged transactions as well as excessive industry and other concentrations, but there can be no assurance that our risk mitigation measures will be effective in avoiding undue credit risk. An increase in interest rates or weakening economic conditions (such as high levels of unemployment) could further adversely impact the ability of borrowers to repay outstanding loans, or could substantially weaken the value of collateral securing those loans. Downward pressure on real estate values could increase the potential for problem loans and thus have a direct impact on our consolidated results of operations. In addition, we may purchase real estate, or we may foreclose on and take title to real estate. Although we exercise prudent due diligence when making loans, we could be subject to environmental liabilities with respect to these properties. See also "***The COVID-19 pandemic may continue to impact economic conditions and affect our financial condition, our results of operations and other aspects of our business.***"

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, 2022, $166.0 million of our securities, were classified as available for sale (AFS) and $96.4 million were classified as held to maturity (HTM). The estimated fair value of our AFS securities portfolio may increase or decrease depending on market conditions. Our AFS 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 AFS 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 due to interest rate changes 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 will 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. At December 31, 2022, U.S. government issued or U.S. agency issued securities were carried at $192.7 million or 73.4% of the combined AFS and HTM portfolio.

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.

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.

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.

Competition may affect our results. Competition in the banking and financial services industry is intense. Our profitability depends upon our continued ability to compete in our primary market area. 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, have greater human and financial resources, and may offer certain services that we do not or cannot provide. 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.

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 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.

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.

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.

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

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

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

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

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

Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes. As a bank, we are susceptible to fraudulent activity that may be committed against us or our customers which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customers' information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity in recent periods. Given such increase in electronic fraudulent activity and the growing level of use of electronic, internet-based and networked systems to conduct business directly or indirectly with our clients, certain fraud losses may not be avoidable regardless of the preventative and detection systems in place. Nationally, reported incidents of fraud and other financial crimes have increased. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur.

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. Any failure or interruption of these systems could result in failures or disruptions in our loan, deposit, general ledger and other systems. We rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. 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.

Although, to date, we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the outsourcing of some of our business operations and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. 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 internal controls and procedures may fail or be circumvented. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable assurances that the objectives of the system are met. Any (a) failure or circumvention of our controls and procedures, (b) failure to adequately address any internal control deficiencies, or (c) failure to comply with regulations related to controls and procedures could have a material effect on our business, consolidated financial condition and results of operations. See Item 9A "Controls and Procedures" for further discussion of our internal controls.

Our 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.

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 Agreements dated August 27, 2020 and March 11, 2022 and Business Note Agreement dated June 26, 2019 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 9,941,590 shares of our common stock held by nonaffiliates as of March 7, 2023. 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, which may make it difficult for investors to resell shares at the volume, prices and times desired. 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, the level of deposit insurance premiums assessed, 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. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation, or additional deposit insurance premiums could have a material impact on our operations. 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 or our ability to pay dividends.

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 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. 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.

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. In addition, the Company is currently considered a "non-accelerated filer" and will maintain that status for so long as the Company's annual revenues are less than $100 million, and its public float is more than $75 million but less than $700 million. If the Company were to be classified as an "accelerated filer" rather than a "non-accelerated filer," then we would become subject to the provisions of Section 404(b) of the Sarbanes-Oxley Act. Section 404(b) requires 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.

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. 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 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, 2022, the Bank had a total of 23 full-service branch offices located in the Wisconsin cities of Altoona, Barron, Eau Claire, Ellsworth, Ettrick, La Crosse, Ladysmith, Lake Hallie, Mondovi, Osseo, Rice Lake, Spooner, Strum and Tomah (2); and the Minnesota cities of Albert Lea, Blue Earth, Fairmont, Faribault, Mankato, Oakdale, St. Peter and Wells. Of these, the Bank owns 19 and leases the remaining 4 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 5, 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 7, 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 584 stockholders of record at March 7, 2023. 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 Agreements entered into with certain accredited purchasers in August 2020 and March 2022, 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 10, Capital Matters of Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Securities Authorized for Issuance Under Equity Compensation Plans

For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12.

Purchases of Equity Securities by the Issuer

On July 23, 2021, the Board of Directors adopted a new share repurchase program. Under this new share repurchase program, the Company may repurchase up to approximately 5% of the outstanding shares of its common stock as of July 23, 2021, or 532,962 shares, from time to time. During the quarter ended December 31, 2022, approximately 58 thousand shares were repurchased under this authorization. The table below shows information about our repurchases of our common stock during the three months ended December 31, 2022.

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
October 1, 2022 - October 31, 2022	—	$ —	—	301,305
November 1, 2022 - November 30, 2022	57,500	$ 13.59	57,500	243,805
December 1, 2022 - December 31, 2022	—	$ —	—	243,805
Total	57,500	$ 13.59	57,500	

ITEM 6. RESERVED

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, 2022 and December 31, 2021, and our financial position as of December 31, 2022 and December 31, 2021, 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, 2022 and December 31, 2021.

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, 2022 and 2021. In 2022, net interest income was favorably impacted by the following: (1)growth in the loan portfolio and related growth in loan interest income; (2) the positive impact of higher interest rates on loan yields on new, renewing and repricing loans, which was more than offset by a reduction in the accretion of the Small Business Administration Paycheck Protection Program ("SBA PPP") loan fees of $5.9 million; and (3) growth in the investment securities portfolio. These positive additions were offset by higher interest expense on subordinated debt due to (a) the issuance of $35 million with a coupon of 4.75%, partially offset by the call and redemption of $15 million of 6.75% subordinated debt issued in 2017 and (b) the impact of higher interest rates on FHLB advances and deposits. The Company recorded $1.5 million of provision for loan losses in 2022, largely due to loan growth and net charge-offs, partially offset by a reduction in specific reserves. No provision for loan losses was recorded in 2021 largely due to qualitative factor decreases to reflect greater certainty and improvement in current general economic conditions, offsetting the impact of organic loan growth. In 2022's higher interest rate and tight housing supply environment, the Company experienced fewer mortgage loans originated for sale, which decreased gain on sale and income recorded in loan servicing income from the capitalization of mortgage servicing rights. Non-interest expense increased modestly in 2022, largely due to the cost of closing branches.

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.

We reported net income of $17.76 million for the twelve months ended December 31, 2022, compared to net income of $21.27 million for the twelve months ended December 31, 2021. Diluted earnings per share were $1.69 for the twelve months ended December 31, 2022, compared to $1.98 for the twelve months ended December 31, 2021. Return on average assets for the twelve months ended December 31, 2022, was 1.00%, compared to 1.23% for the twelve months ended December 31, 2021. The return on average equity was 10.70% for the twelve months ended December 31, 2022, and 12.97% for the comparable period in 2021.

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 losses, 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 the 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

Loans acquired in connection with acquisitions are recorded at their acquisition-date fair value with no carryover of related allowance for loan 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).

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, 2022, 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 2022, the Company performed quarterly reviews to determine if a triggering event had occurred that would require impairment testing. These quarterly reviews determined that no triggering event occurred during 2022. The Company performed its required annual goodwill impairment test as of December 31, 2022, and determined that goodwill was not impaired.

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 operations. 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, 13 and 14 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 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, 2022, management does not believe a valuation allowance related to the realizability of its deferred tax assets is necessary.

STATEMENT OF OPERATIONS ANALYSIS

Twelve months ended December 31, 2022 vs. Twelve months ended December 31, 2021

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 $56.4 million for 2022 compared to $53.7 million for 2021. The increase is largely due to the positive loan volume variance due to growth in loans outstanding. Negative loan rate variances are due to a decrease in SBA PPP accretion of $5.9 million, which was partially offset by the impact of higher interest rates on newly originated, renewed and repricing loans. The positive rate variance on investment securities was largely due to the repricing of variable rate securities and the impact of new purchases above the portfolio rate. This positive rate variance was partially offset by higher interest expense on subordinated debt of $35 million issued in March 2022, with a coupon rate of 4.75%. In August 2022, interest expense was partially reduced by the call and redemption of $15 million of 6.75% subordinated debt issued in 2017. In addition, the impact of higher interest rates on liability costs reduced net interest income.

The net interest margin for 2022 was 3.39% compared to 3.34% for 2021. The increase in the net interest margin was due to the following factors: (1) the impact of higher interest rates on new, maturing, and repricing loans; (2) the impact of higher interest rates on the variable rate investment portfolio; and (3) a reduction in the balance of low yielding cash as a percentage of total assets. These positive impacts were partially offset by: (1) a decrease in SBA PPP loan accretion income of $5.9 million; (2) higher interest expense on subordinated debt, due to the issuance of $35 million with a coupon rate of 4.75%, partially offset by the call and redemption of $15 million of 6.75% subordinated debt issued in 2017; and (3) the impact of higher interest rates on liability costs.

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, 2022 and December 31, 2021. Non-accruing loans average balances are included in the table with the loans carrying a zero yield.

	Twelve months ended December 31, 2022			Twelve months ended December 31, 2021		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest earning assets:						
Cash and cash equivalents	$ 19,796	$ 203	1.03 %	$ 99,839	$ 122	0.12 %
Loans	1,351,052	61,639	4.56 %	1,216,244	58,172	4.78 %
Interest-bearing deposits	1,106	24	2.17 %	2,047	45	2.20 %
Investment securities (1)	278,056	6,767	2.43 %	271,715	5,009	1.84 %
Other investments	15,230	764	5.02 %	15,025	687	4.57 %
Total interest earning assets (1)	$1,665,240	$ 69,397	4.17 %	$1,604,870	$ 64,035	3.99 %
Average interest bearing liabilities:						
Savings accounts	$ 225,204	$ 730	0.32 %	$ 212,867	$ 369	0.17 %
Demand deposits	403,289	1,881	0.47 %	367,103	1,047	0.29 %
Money market	317,879	1,721	0.54 %	269,620	783	0.29 %
CD's	153,085	1,853	1.21 %	224,708	3,200	1.42 %
IRA's	35,192	244	0.69 %	39,699	451	1.14 %
Total deposits	$1,134,649	$ 6,429	0.57 %	$1,113,997	$ 5,850	0.53 %
FHLB Advances and other borrowings	189,274	6,599	3.49 %	173,029	4,518	2.61 %
Total interest bearing liabilities	$1,323,923	$ 13,028	0.98 %	$1,287,026	$ 10,368	0.81 %
Net interest income		$ 56,369			$ 53,667	
Interest rate spread			3.19 %			3.18 %
Net interest margin (1)			3.39 %			3.34 %
Average interest earning assets to average interest bearing liabilities			1.26 %			1.25 %

(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, 2022 and 2021. The FTE adjustment to net interest income included in the rate calculations totaled $1 thousand and $3 thousand for the twelve month periods ended December 31, 2022 and 2021, 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, 2022 v. 2021 increase (decrease) due to		
	Volume (1)	Rate (1)	Total Increase / (Decrease)
Interest income:			
Cash and cash equivalents	$ (353)	$ 434	$ 81
Loans	6,244	(2,777)	3,467
Interest-bearing deposits	(20)	(1)	(21)
Investment securities	119	1,639	1,758
Other investments	9	68	77
Total interest earning assets	$ 5,999	$ (637)	$ 5,362
Interest expense:			
Savings accounts	$ 22	$ 339	$ 361
Demand deposits	111	723	834
Money market accounts	158	780	938
CD’s	(904)	(443)	(1,347)
IRA’s	(46)	(161)	(207)
Total deposits	(659)	1,238	579
FHLB Advances and other borrowings	453	1,628	2,081
Total interest bearing liabilities	(206)	2,866	2,660
Net interest income	$ 6,205	$ (3,503)	$ 2,702

(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.

The provision for loan losses recorded in 2022 was $1.5 million compared to no provision for 2021. In 2022, the provision allocated for originated loan growth was approximately $1.3 million for 2022 and the provision related to charge-offs, reduced by decreases in changes in specific reserves, was approximately $0.2 million. The remaining provision in 2022 was related to qualitative factor increases to reflect uncertainty in current general economic conditions and a modest increase in unallocated ALL. In 2021, the impact of growth in the originated loan portfolio and modest charge-offs were offset by a reduction in Q-Factors related to economic qualitative factor decreases to reflect reduced uncertainty in current general economic conditions and a modest reduction in the unallocated reserve.

Management believes that the provisions for the years ended December 31, 2022, and 2021, are both adequate in view of the condition of the Bank’s loan portfolio and the sufficiency of collateral supporting non-performing loans as of the respective year-end dates. 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 2022 and 2021, respectively.

	Twelve months ended December 31, 2022	Twelve months ended December 31, 2021	Change from prior year 2022 over 2021
Non-interest Income:			
Service charges on deposit accounts	$ 2,018	$ 1,726	16.92%
Interchange income	2,343	2,354	(0.47)%
Loan servicing income	2,439	3,322	(26.58)%
Gain on sale of loans	1,474	5,399	(72.70)%
Loan fees and service charges	679	705	(3.69)%
Net gains on investment securities	541	1,224	(55.80)%
Other	936	1,094	(14.44)%
Total non-interest income	$ 10,430	$ 15,824	(34.09)%

N/M means not meaningful

Service charges on deposit accounts increased $292 thousand due to an increase in customer spending activity.

Loan servicing income decreased largely due to decreased capitalized mortgage servicing rights as a result of lower mortgage loan origination sold volumes.

The decrease in gain on sale of loans in 2022 is due to fewer mortgage loan originations and lower related sale volumes and a decrease in SBA loans sold.

Net gains on investment securities decreased in 2022 due to no realized gains on sale of AFS securities in 2022, compared to a $573 thousand net gain on sale in 2021. The sales in 2021 consisted of senior debt of large bank holding companies and lower yielding trust preferred securities. Both helped fund loan growth and decrease 100% risk weighted AFS securities. The net gains on investment securities were also impacted by smaller increases in the market value of our investment in Farmer Mac and Bankers' Bank stock and the recognition of $367 thousand of net unrealized gain on investments recorded at Net Asset Value ("NAV").

Other income decreased largely due to the cash receipt of $131 thousand in 2021 related to a private mortgage-backed security claim. This cash receipt 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 2022 and 2021.

	Twelve months ended December 31,		% Change From prior year
	2022	2021	2022 over 2021
Non-interest Expense:			
Compensation and related benefits	$ 22,128	$ 22,723	(2.62)%
Occupancy	5,490	5,327	3.06%
Data processing	5,453	5,560	(1.92)%
Amortization of intangible assets	1,449	1,596	(9.21)%
Mortgage servicing rights expense, net	222	191	16.23%
Advertising, marketing and public relations	1,017	986	3.14%
FDIC premium assessment	470	551	(14.70)%
Professional services	1,707	1,542	10.70%
Gains on repossessed assets, net	(395)	(199)	98.49%
New market tax credit depletion	650	—	N/M
Other	3,552	2,255	57.52%
Total non-interest expense	$ 41,743	$ 40,532	2.99%
Non-interest expense (annualized) / Average assets	2.32 %	2.35 %	

Compensation expense decreased in 2022 primarily due to lower salaries due to lower headcount and a decrease in incentives based on performance.

Professional fees increased slightly in 2022 largely due to a modest increase in utilization of third parties in completing one-time and ongoing projects.

Gains on repossessed assets increased largely due to the sale of a former branch sold in 2022, partially offset by limited gains on sales of repossessed assets due to foreclosure compared to 2021.

In the first quarter of 2022, the Bank invested $4.1 million in a New Markets Tax Credit (“NMTC”). Based on current accounting guidance, the related non-tax-deductible asset depletion will occur over a 5-year period in lockstep with the recognition of the tax credit. The Emerging Issues Task Force of the Financial Accounting Standards Board has issued guidance that, if implemented in its current proposal, would change the depletion expense from equal to the tax credit until the asset is depleted, to being proportional with the NMTC recognized, which is seven years.

Other non-interest expense increased in 2022 primarily due to branch closure costs in 2022 of $1.0 million and $0.3 million of increased origination costs and deposit product costs.

Income Taxes. Income tax provision was $5.8 million in 2022 compared to $7.7 million for 2021 primarily due to the impact of lower pre-tax income and the impact of the new market tax credit purchased in 2022 discussed above. The 2022 effective tax rate was 24.7% compared to 26.6% in 2021. This difference is primarily due to the impact of the NMTC.

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 $76.8 million to $1.82 billion at December 31, 2022, from $1.74 billion at December 31, 2021. Strong originated loan growth was funded by the utilization of excess asset liquidity, resulting in a decrease in cash and cash equivalents, net deposit growth, and the utilization of FHLB advances.

Cash and Cash Equivalents. Cash and cash equivalents decreased from $47.7 million at December 31, 2021, to $35.4 million at December 31, 2022. As noted above, this decrease, along with deposit growth and FHLB advances, funded loan portfolio 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 $166.0 million at December 31, 2022, compared with $203.1 million at December 31, 2021. This decrease is due to the change in unrealized losses of $24.6 million in 2022, along with principal repayments and maturities. These reductions were partially offset primarily by purchases of bank holding company issued capital instruments, which are classified as corporate debt securities.

In 2021, the sale of trust preferred securities issued by bank holding companies with an amortized cost of $17.4 million and $10.6 million of non-CDFI bank holding company senior debt, reduced the portfolio of these securities to zero. The weighted average coupon of these sales was 2.2%. The sale of these 100% risk-weighted assets partially offset the impact of loan growth on risk-weighted assets and increased the overall yield of interest-earning assets. In addition, the bank sold $9.7 million of other AFS securities, largely U.S. agency mortgage-backed securities. These 2021 sales resulted in net realized gains of $573 thousand, which is included in net gains on investment securities in the Consolidated Statements of Operations

Securities held to maturity increased to $96.4 million at December 31, 2022, compared to $71.1 million at December 31, 2021. The increase was largely due to the purchase of agency mortgage-backed securities, net of principal repayments. The unrealized loss on the held to maturity portfolio increased by $17.6 million during the year to $19.6 million at December 31, 2022.

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, 2022		
U.S. government agency obligations	$ 18,373	$ 18,313
Obligations of states and political subdivisions	—	—
Mortgage-backed securities	97,458	78,610
Corporate debt securities	44,636	40,251
Corporate asset-backed securities	29,877	28,817
Total available for sale securities	$ 190,344	$ 165,991
December 31, 2021		
U.S. government agency obligations	$ 25,826	$ 26,265
Obligations of states and political subdivisions	140	140
Mortgage-backed securities	107,636	107,167
Corporate debt securities	35,342	35,588
Corporate asset-backed securities	33,902	33,908
Total available for sale securities	$ 202,846	$ 203,068

Held to maturity securities		Amortized Cost		Fair Value
December 31, 2022				
Obligations of states and political subdivisions	$	600	$	546
Mortgage-backed securities		95,779		76,233
Total held to maturity securities	$	96,379	$	76,779
December 31, 2021				
Obligations of states and political subdivisions	$	4,600	$	4,593
Mortgage-backed securities		66,541		64,584
Total held to maturity securities	$	71,141	$	69,177

The amortized cost and fair values of our investment securities by maturity, as of December 31, 2022 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		8,525		8,184
Due after five years through ten years		45,622		41,427
Due after ten years		38,739		37,770
Total securities with contractual maturities		92,886		87,381
Mortgage-backed securities		97,458		78,610
Total available for sale securities	$	190,344	$	165,991

Held to maturity securities		Amortized Cost		Estimated Fair Value
Due after one year through five years	$	450	$	415
Due after five years through ten years		150		131
Total securities with contractual maturities		600		546
Mortgage-backed securities		95,779		76,233
Total held to maturity securities	$	96,379	$	76,779

The amortized cost and fair values of our investment securities by maturity, as of December 31, 2021 were as follows:

Available for sale securities		Amortized Cost		Estimated Fair Value
Due in one year or less	$	140	$	140
Due after one year through five years		4,903		4,971
Due after five years through ten years		40,410		40,818
Due after ten years		49,757		49,972
Total securities with contractual maturities		95,210		95,901
Mortgage-backed securities		107,636		107,167
Total available for sale securities	$	202,846	$	203,068

Held to maturity securities		Amortized Cost		Estimated Fair Value
Due after one year through five years	$	4,300	$	4,298
Due after five years through ten years		300		295
Total securities with contractual maturities		4,600		4,593
Mortgage-backed securities		66,541		64,584
Total held to maturity securities	$	71,141	$	69,177

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:

	Less than 12 Months		12 Months or More		Total	
Available for sale securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
U.S. government agency obligations	$ 3,169	$ 138	$ 1,138	$ 95	$ 4,307	$ 233
Mortgage-backed securities	9,654	896	68,907	17,952	78,561	18,848
Corporate debt securities	21,547	1,688	18,704	2,697	40,251	4,385
Corporate asset-backed securities	7,955	221	20,862	839	28,817	1,060
Total available for sale securities	$ 42,325	$ 2,943	$ 109,611	$ 21,583	$ 151,936	$ 24,526
December 31, 2021						
U.S. government agency obligations	$ 1,169	$ 1	$ —	$ —	$ 1,169	$ 1
Mortgage-backed securities	89,010	878	—	—	89,010	878
Corporate debt securities	17,240	142	735	15	17,975	157
Corporate asset-backed securities	19,296	127	—	—	19,296	127
Total available for sale securities	$ 126,715	$ 1,148	$ 735	$ 15	$ 127,450	$ 1,163

	Less than 12 Months		12 Months or More		Total	
Held to maturity securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Obligations of states and political subdivisions	$ —	$ —	$ 546	$ 54	$ 546	$ 54
Mortgage-backed securities	16,627	2,416	59,367	17,137	75,994	19,553
Total held to maturity securities	$ 16,627	$ 2,416	$ 59,913	$ 17,191	$ 76,540	$ 19,607
December 31, 2021						
Obligations of states and political subdivisions	$ 593	$ 7	$ —	$ —	$ 593	$ 7
Mortgage-backed securities	46,969	1,346	14,716	715	61,685	2,061
Total held to maturity securities	$ 47,562	$ 1,353	$ 14,716	$ 715	$ 62,278	$ 2,068

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, 2022 Amortized Cost	December 31, 2022 Fair Value	December 31, 2021 Amortized Cost	December 31, 2021 Fair Value
U.S. government agency	$ 112,477	$ 93,669	$ 131,115	$ 131,008
AAA	8,640	8,334	9,662	9,710
AA	24,591	23,737	26,727	26,762
A	5,700	5,133	5,700	5,720
BBB	38,936	35,118	29,642	29,868
Below investment grade	—	—	—	—
Non-rated	—	—	—	—
Total available for sale securities	$ 190,344	$ 165,991	$ 202,846	$ 203,068

Held to maturity securities	December 31, 2022 Amortized Cost	December 31, 2022 Fair Value	December 31, 2021 Amortized Cost	December 31, 2021 Fair Value
U.S. government agency	$ 95,779	$ 76,233	$ 66,541	$ 64,584
AAA	—	—	—	—
AA	—	—	4,000	4,000
A	600	546	600	593
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	—	—	—	—
Total	$ 96,379	$ 76,779	$ 71,141	$ 69,177

At December 31, 2022, the Bank pledged certain of its mortgage-backed securities with a carrying value of $5.4 million as collateral to secure a line of credit with the Federal Reserve Bank. As of December 31, 2022, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2022, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $2.6 million and mortgage-backed securities with a carrying value of $2.2 million as collateral against specific municipal deposits. As of December 31, 2022, the Bank also has mortgage-backed securities with a carrying value of $0.1 million pledged as collateral to the Federal Home Loan Bank of Des Moines.

At December 31, 2021, the Bank has pledged certain of its mortgage-backed securities with a carrying value of $0.9 million as collateral to secure a line of credit with the Federal Reserve Bank. As of December 31, 2021, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2021, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $3.9 million and mortgage-backed securities with a carrying value of $2.9 million as collateral against specific municipal deposits. As of December 31, 2021, the Bank also has mortgage-backed securities with a carrying value of $0.3 million pledged as collateral to the Federal Home Loan Bank of Des Moines.

Loans. Total loans outstanding, net of deferred loan fees and costs, increased to $1.41 billion at December 31, 2022, from $1.31 billion at December 31, 2021.

Gross loan growth consisted largely of $27.5 million in commercial real estate loans, $30.6 million of multi-family real estate loans, $23.0 of construction and land development loans, and $13.8 million of commercial and industrial loan growth. In addition, the growth in residential mortgage and agricultural real estate portfolios of $23.8 million exceeded the reduction in the remaining loan portfolios of $19.6 million. Included in the shrink numbers above is 100% of the of SBA PPP loans of $8.8 million at December 31, 2021.

The following table reflects the composition, or mix, of our loan portfolio at December 31, 2022 and December 31, 2021:

	December 31, 2022		December 31, 2021	
	Amount	Percent	Amount	Percent
Real Estate Loans:				
Commercial/Agricultural real estate:				
Commercial real estate	$ 725,971	51.5 %	$ 698,465	53.3 %
Agricultural real estate	87,908	6.2 %	78,495	6.0 %
Multi-family real estate	208,908	14.8 %	178,349	13.6 %
Construction and land development	102,492	7.3 %	79,520	6.1 %
Residential mortgage:				
Residential mortgage	105,389	7.5 %	90,990	6.9 %
Purchased HELOC loans	3,262	0.2 %	3,871	0.3 %
Total real estate loans	1,233,930	87.5 %	1,129,690	86.2 %
C&I/Agricultural operating and Consumer installment loans:				
C&I/Agricultural operating:				
Commercial and industrial ("C&I)	136,013	9.6 %	122,167	9.3 %
Agricultural operating	28,806	2.0 %	31,588	2.4 %
Consumer installment:				
Originated indirect paper	10,236	0.7 %	15,971	1.2 %
Other consumer	7,150	0.5 %	8,874	0.7 %
Total C&I/Agricultural operating and Consumer installment loans	182,205	12.8 %	178,600	13.6 %
Gross loans before SBA PPP loans	1,416,135	100.3 %	1,308,290	99.8 %
SBA PPP Loans	—	— %	8,755	0.7 %
Gross loans	1,416,135	100.3 %	1,317,045	100.5 %
Unearned net deferred fees and costs and loans in process	(2,585)	(0.2)%	(2,482)	(0.2)%
Unamortized discount on acquired loans	(1,766)	(0.1)%	(3,600)	(0.3)%
Total loans (net of unearned income and deferred expense)	1,411,784	100.0 %	1,310,963	100.0 %
Allowance for Loan losses	(17,939)		(16,913)	
Total loans receivable, net	$1,393,845		$1,294,050	

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, 2022, the largest loan concentration we identified was commercial real estate loans which comprised 52% of our total loan portfolio. Approximately 88% of our total gross loans are secured by real estate.

The following table sets forth, as of December 31, 2022 and December 31, 2021 respectively the fixed and adjustable-rate loans in our loan portfolio:

	December 31, 2022		December 31, 2021	
	Amount	Percent	Amount	Percent
Fixed rate loans:				
Real estate loans:				
Commercial/Agricultural real estate	$ 433,988	30.8 %	$ 412,797	31.5 %
Residential mortgage	51,558	3.6 %	61,964	4.7 %
Total fixed rate real estate loans	485,546	34.4 %	474,761	36.2 %
Non-real estate loans:				
C&I/Agricultural Operating	128,068	9.0 %	117,770	9.0 %
Consumer installment	17,369	1.2 %	24,828	1.9 %
Total fixed rate non-real estate loans	145,437	10.2 %	142,598	10.9 %
Total fixed rate loans	630,983	44.6 %	617,359	47.1 %
Adjustable-rate loans:				
Real estate loans:				
Commercial/Agricultural real estate	691,290	49.0 %	622,032	47.5 %
Residential mortgage	57,094	4.1 %	32,897	2.5 %
Total adjustable-rate real estate loans	748,384	53.1 %	654,929	50.0 %
Non-real estate loans:				
C&I/Agricultural operating	36,752	2.6 %	44,740	3.4 %
Consumer installment	16	— %	17	— %
Total adjustable-rate non-real estate loans	36,768	2.6 %	44,757	3.4 %
Total adjustable-rate loans	785,152	55.7 %	699,686	53.4 %
Gross loans	1,416,135		1,317,045	
Unearned net deferred fees and costs and loans in process	(2,585)	(0.2)%	(2,482)	(0.2)%
Unamortized discount on acquired loans	(1,766)	(0.1)%	(3,600)	(0.3)%
Total loans (net of unearned income)	1,411,784	100.0 %	1,310,963	100.0 %
Allowance for loan losses	(17,939)		(16,913)	
Total loans receivable, net	$ 1,393,845		$ 1,294,050	

Loan amounts, their contractual maturities and weighted average interest rates at December 31, 2022 are shown below.

	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)	$ 80,481	5.93 %	$ 2,199	5.10 %	$ 56,915	7.91 %	$ 760	7.41 %	$ 140,355	6.73 %
Due after one year through five years	281,561	4.28 %	6,820	5.15 %	46,279	4.57 %	8,859	5.91 %	343,519	4.38 %
Due after five years	763,237	4.47 %	99,632	5.08 %	61,625	5.66 %	7,767	5.41 %	932,261	4.62 %
	$1,125,279	4.53 %	$ 108,651	5.08 %	$ 164,819	6.13 %	$ 17,386	5.76 %	$1,416,135	4.77 %

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

Loan amounts, their contractual maturities and weighted average interest rates at December 31, 2021, are shown below. SBA PPP loans at an interest rate of 1% are included in the C&I/agricultural operating segment amounts as follows: (1) $2.1 million is included in the one year or less amounts and (2) $6.7 million is included in the one year to five-year amounts.

	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)	$ 60,102	4.42 %	$ 5,234	4.50 %	$ 50,573	3.71 %	$ 871	6.98 %	$ 116,780	4.13 %
Due after one year through five years	223,257	3.85 %	10,259	4.52 %	65,031	3.69 %	10,774	5.80 %	309,321	3.91 %
Due after five years	751,470	3.88 %	79,368	4.69 %	46,906	3.93 %	13,200	5.36 %	890,944	3.98 %
	$1,034,829	3.91 %	$ 94,861	4.66 %	$ 162,510	3.76 %	$ 24,845	5.61 %	$ 1,317,045	3.98 %

(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.

The following table summarizes SBA PPP loans by origination year as of December 31, 2022 and December 31, 2021, respectively.

	2020 Originations		2021 Originations		Total	
	Balance	Net Deferred Fee Income	Balance	Net Deferred Fee Income	Balance	Net Deferred Fee Income
SBA PPP loans, December 31, 2020	$ 123,702	$ 2,991	$ —	$ —	$ 123,702	$ 2,991
2021 SBA PPP loan originations	—	—	55,854	3,494	55,854	3,494
Less: 2021 SBA PPP loan forgiveness and fee accretion	(121,574)	(2,987)	(49,227)	(3,201)	(170,801)	(6,188)
SBA PPP loans, December 31, 2021	2,128	4	6,627	293	8,755	297
Less: 2022 SBA PPP loan forgiveness and fee accretion	(2,128)	(4)	(6,627)	(293)	(8,755)	(297)
SBA PPP loans, December 31, 2022	$ —	$ —	$ —	$ —	$ —	$ —

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
<u>Year ended December 31, 2022:</u>						
Allowance for Loan Losses:						
Beginning balance, January 1, 2022	$ 12,354	$ 1,959	$ 518	$ 225	$ 774	$ 15,830
Charge-offs	(157)	(310)	(35)	(45)	—	(547)
Recoveries	74	35	2	50	—	161
Provision	1,280	571	89	(109)	34	1,865
Total Allowance on originated loans	13,551	2,255	574	121	808	17,309
Other acquired loans:						
Beginning balance, January 1, 2022	856	69	130	28	—	1,083
Charge-offs	(48)	(36)	(33)	(3)	—	(120)
Recoveries	28	1	27	1	—	57
Provision	(302)	29	(99)	(18)	—	(390)
Total allowance on other acquired loans	534	63	25	8	—	630
Total allowance on acquired loans	534	63	25	8	—	630
Ending balance, December 31, 2022	$ 14,085	$ 2,318	$ 599	$ 129	$ 808	$ 17,939

	Commercial/ Agricultural Real Estate	C&I/ Agricultural operating	Residential Mortgage	Consumer Installment	Unallocated	Total
<u>Year ended December 31, 2021:</u>						
Allowance for Loan Losses:						
Beginning balance, January 1, 2021	$ 10,271	$ 2,112	$ 1,041	$ 489	$ 906	$ 14,819
Charge-offs	(51)	—	—	(54)	—	(105)
Recoveries	14	110	9	41	—	174
Provision	2,120	(263)	(532)	(251)	(132)	942
Total Allowance on originated loans	12,354	1,959	518	225	774	15,830
Other acquired loans:						
Beginning balance, January 1, 2021	$ 1,684	$ 141	$ 335	$ 64	$ —	$ 2,224
Charge-offs	(200)	(7)	—	(27)	—	(234)
Recoveries	14	13	4	4	—	35
Provision	(642)	(78)	(209)	(13)	—	(942)
Total Allowance on other acquired loans	856	69	130	28	—	1,083
Total Allowance on acquired loans	856	69	130	28	—	1,083
Ending balance, December 31, 2021	$ 13,210	$ 2,028	$ 648	$ 253	$ 774	$ 16,913

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, 2022, the Company had evaluated loans for impairment with a recorded investment of $26.8 million, consisting of $7.0 million PCI loans, with a carrying amount of $6.9 million, $7.0 million of TDR loans, net of TDR PCI loans and $12.9 million of substandard non-TDR non-PCI loans. The $26.8 million total of loans individually evaluated for impairment includes $5.2 million of performing TDR loans. At December 31, 2021, the Company had evaluated loans for impairment with a recorded investment of $31.7 million, consisting of $11.2 million PCI loans, with a carrying amount of $10.6 million, $9.9 million of TDR loans, net of TDR PCI loans and $11.3 million of substandard non-TDR non-PCI loans. The $31.7 million total of loans individually evaluated for impairment includes $8.0 million of performing TDR loans.

At December 31, 2022, the allowance for loan losses was $17.9 million or 1.27% of total loans compared to $16.9 million or 1.29% of our total loan portfolio at December 31, 2021. This level was based on our analysis of the loan portfolio risk at each of December 31, 2022, and December 31, 2021, as discussed above.

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

	December 31, 2022	December 31, 2021
Loans, end of period	$ 1,411,784	$ 1,310,963
SBA PPP loans, net of deferred fees	—	(8,457)
Loans, net of SBA PPP loans and deferred fees	$ 1,411,784	$ 1,302,506
Allowance for loan losses	$ 17,939	$ 16,913
ALL to loans, end of period	1.27 %	1.29 %

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.

Accruing loans 30-89 days or more past due increased $7.5 million at December 31, 2022, compared to December 31, 2021, largely related to increases in agricultural real estate and construction and land development loans 30-59 days delinquent.

Nonaccrual loans decreased modestly to $11.2 million at December 31, 2022, from $11.7 million at December 31, 2021.

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, 2022, net loan charge-offs were $0.449 million compared to $0.130 million for the year ended December 31, 2021.

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 President of the United States has announced that the national emergency declaration will end on May 11, 2023. 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, 2022, the Bank has $0.1 million of remaining residential mortgage COVID-19 related modifications under Section 4013 of the CARES Act. All previously deferred commercial loans have exited deferral status. At December 31, 2021, COVID-19 related modifications under Section 4013 of the CARES Act totaled $6.6 million, or 0.5% of gross loans.

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, 2022 and twelve months ended	December 31, 2021 and twelve months ended
Nonperforming assets:		
Nonaccrual loans		
Commercial real estate	$ 5,736	$ 5,374
Agricultural real estate	2,742	3,490
Commercial and industrial ("C&I")	552	298
Agricultural operating	890	993
Residential mortgage	1,253	1,433
Consumer installment	31	77
Total nonaccrual loans	11,204	11,665
Accruing loans past due 90 days or more	246	160
Total nonperforming loans ("NPLs")	11,450	11,825
Other real estate owned	1,265	1,406
Other collateral owned	6	2
Total nonperforming assets ("NPAs")	$ 12,721	$ 13,233
Troubled Debt Restructurings ("TDRs")	$ 7,788	$ 12,523
Nonaccrual TDRs	$ 2,617	$ 4,539
Average outstanding loan balance	$ 1,351,052	$ 1,216,244
Loans, end of period	$ 1,411,784	$ 1,310,963
Total assets, end of period	$ 1,816,386	$ 1,739,628
ALL, at beginning of period	$ 16,913	$ 17,043
Loans charged off:		
Commercial/Agricultural real estate	(205)	(251)
C&I/Agricultural operating	(346)	(7)
Residential mortgage	(68)	—
Consumer installment	(48)	(81)
Total loans charged off	(667)	(339)
Recoveries of loans previously charged off:		
Commercial/Agricultural real estate	102	28
C&I/Agricultural operating	36	123
Residential mortgage	29	13
Consumer installment	51	45
Total recoveries of loans previously charged off:	218	209
Net loans charged off ("NCOs")	(449)	(130)
Additions to ALL via provision for loan losses charged to operations	1,475	—
ALL, at end of period	$ 17,939	$ 16,913
Ratios:		
ALL to NCOs (annualized)	3,995.32 %	13,010.00 %
NCOs (annualized) to average loans	0.03 %	0.01 %
ALL to total loans	1.27 %	1.29 %
NPLs to total loans	0.81 %	0.90 %
NPAs to total assets	0.70 %	0.76 %

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

Nonperforming Originated and Acquired Assets

	December 31, 2022	December 31, 2021
Nonperforming assets:		
Originated nonperforming assets:		
Nonaccrual loans	$ 8,947	$ 6,448
Accruing loans past due 90 days or more	213	63
Total originated nonperforming loans (“NPL”)	9,160	6,511
Other real estate owned (“OREO”)	1,041	—
Other collateral owned	6	2
Total originated nonperforming assets (“NPAs”)	$ 10,207	$ 6,513
Acquired nonperforming assets:		
Nonaccrual loans	$ 2,257	$ 5,217
Accruing loans past due 90 days or more	33	97
Total acquired nonperforming loans (“NPL”)	2,290	5,314
Other real estate owned (“OREO”)	224	1,406
Other collateral owned	—	—
Total acquired nonperforming assets (“NPAs”)	$ 2,514	$ 6,720
Total nonperforming assets (“NPAs”)	$ 12,721	$ 13,233
Loans, end of period	$ 1,411,784	$ 1,310,963
Total assets, end of period	$ 1,816,386	$ 1,739,628
Ratios:		
Originated NPLs to total loans	0.65 %	0.50 %
Acquired NPLs to total loans	0.16 %	0.41 %
Originated NPAs to total assets	0.56 %	0.37 %
Acquired NPAs to total assets	0.14 %	0.39 %

Non-performing assets include non-performing loans, other real estate owned, and other collateral owned. Our non-performing assets were $12.7 million, or 0.70% of total assets, at December 31, 2022, compared to $13.2 million, or 0.76% of total assets, at December 31, 2021. The decrease was largely due to a decrease in acquired nonaccrual loans and sale of a former branch asset transferred to OREO in 2021, partially offset by an increase in acquired nonaccrual loans and the transfer to OREO of two former branch assets in 2022.

Nonaccrual Loans Roll Forward

	Year Ended	
	December 31, 2022	December 31, 2021
Balance, beginning of period	$ 11,665	$ 10,747
Additions	3,934	6,580
Charge offs	(493)	(288)
Transfers to OREO	(92)	(64)
Return to accrual status	(168)	(1,017)
Repurchase of government guaranteed loans	517	
Payments received	(4,140)	(4,271)
Other, net	(19)	(22)
Balance, end of period	$ 11,204	$ 11,665

The table below shows the totals of accruing troubled debt restructurings as of December 31, 2022, and December 31, 2021. The decrease in troubled debt restructurings from 2021 to 2022 in dollars was largely due to one commercial real estate loan of $3.5 million that paid in full in 2022.

Troubled Debt Restructurings in Accrual Status

	December 31, 2022		December 31, 2021	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings: Accrual Status				
Commercial/Agricultural real estate	10	$ 1,336	11	$ 4,618
C&I/Agricultural Operating	5	960	3	649
Residential mortgage	36	2,875	36	2,681
Consumer installment	—	—	6	36
Total loans	51	$ 5,171	56	$ 7,984

The table below shows the totals of special mention, substandard and the total of these, known as criticized loans as of December 31, 2022, and 2021. The increase in criticized loans in 2022 was largely due to the addition of two loans in the second quarter of 2022. One was a commercial real estate loan secured by a hotel, and the other was a fully secured C&I working capital loan. This increase was partially offset by a reduction in originated accruing TDR loans, nonperforming and other substandard loans.

	December 31, 2022	December 31, 2021
Special mention loan balances	$ 12,170	$ 4,536
Substandard loan balances	17,319	22,817
Criticized loans, end of period	$ 29,489	$ 27,353

Accretable difference:

The table below shows scheduled accretion by year for the accretable difference recognized due to fair value purchase accounting on recent whole bank acquisitions. In addition, the table below shows $1.16 million of accretable discount from purchased impaired loans with the original non-accretable discount transferred to accretable discount. The accretion on this balance is scheduled to be approximately $80 in 2023; however, large balance payoffs, as seen in 2022, 2021 and 2020, would accelerate this accretion.

Fiscal years ending December 31,	Purchase Accounting Accretable Discount
2023	$ 363
2024	215
2025	180
2026	84
2027	77
Thereafter	751
Total	$ 1,670

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 increased to $5.7 million at December 31, 2022, compared to $4.3 million at December 31, 2021. Impairment reversals of $0.6 million were recorded in 2022 on the MSR impairment which reduced the impairment to zero at December 31, 2022. This was partially offset by a reduction in the gross MSR balance of $0.5 million, which was due to amortization of $0.8 million and additions from originations of $0.3 million. In 2021, amortization was $1.6 million and additions from originations were $1.1 million for a reduction in the gross asset of $0.5 million The unpaid balances of one- to four-family residential real estate loans serviced for others as of December 31, 2022, and December 31, 2021, were $523.7 million and $556.1 million, respectively. The fair market value of the Company's MSR asset as a percentage of its servicing portfolio at December 31, 2022, and December 31, 2021 was 1.08% and 0.78%, respectively.

Intangible Assets. We have intangible assets of $2.4 million at December 31, 2022, compared to $3.9 million at December 31, 2021. The intangible assets are comprised of core deposit intangible assets arising from various acquisitions from 2016 through 2019. Amortization of these intangibles was $1.4 million in 2022.

Foreclosed and repossessed assets. Included in foreclosed and repossessed assets, net are two closed branch locations that are being held for sale. These properties are being held at $1,041 and $130, respectively, which represent their estimated fair market values less the cost to sell. In 2022, a loss of $666 was recognized on the reclassification of these properties from fixed assets to foreclosed assets.

The bank closed on the sale of the property valued at $130 in January 2023 to a non-financial institution at the carrying value.

Deposits. Deposits are our largest source of funds. Total deposits increased to $1.42 billion at December 31, 2022, from $1.39 billion at December 31, 2021. The increase in deposits was largely due to the addition of $39.8 million of broker certificates in the third and fourth quarter. Based on current market conditions, the brokered CD markets are available to the Bank for supplemental additions. Growth in non-interest bearing demand deposits and money market accounts was partially offset by a $25.0 million reduction in interest bearing demand deposits as customers sought higher yields and a reduction in CD's of $17.5 million before the impact of brokered CD additions.

The following is a summary of deposits by type at December 31, 2022 and December 31, 2021, respectively:

	December 31, 2022	December 31, 2021
Non interest bearing demand deposits	$ 284,722	$ 276,631
Interest bearing demand deposits	371,210	396,231
Savings accounts	220,019	222,674
Money market accounts	323,435	288,985
Certificate accounts	225,334	203,014
Total deposits	$ 1,424,720	$ 1,387,535

Federal Home Loan Bank (FHLB) advances and other borrowings. A summary of Federal Home Loan Bank (FHLB) advances and other borrowings at December 31, 2022 and December 31, 2021 is as follows:

	December 31, 2022				December 31, 2021			
	Stated Maturity	Amount	Range of Stated Rates		Stated Maturity	Amount	Range of Stated Rates	
Federal Home Loan Bank advances (1), (2), (3), (4)	2022	$ —	— %	— %	2022	$ 11,000	2.45 %	2.45 %
	2023	117,000	1.43 %	4.31 %	2023	20,000	1.43 %	1.44 %
	2024	20,530	0.00 %	1.45 %	2024	20,530	0.00 %	1.45 %
	2025	5,000	1.45 %	1.45 %	2025	5,000	1.45 %	1.45 %
	2029	—	— %	— %	2029	42,500	1.00 %	1.13 %
	2030	—	— %	— %	2030	12,500	0.52 %	0.86 %
Subtotal		142,530				111,530		
Unamortized discount on acquired notes		—				(3)		
Federal Home Loan Bank advances, net		$ 142,530				$ 111,527		
Other borrowings:								
Senior notes (5)	2034	$ 23,250	3.00 %	6.75 %	2031	$ 28,856	3.00 %	3.50 %
Subordinated notes (6)	2027	$ —	— %	— %	2027	$ 15,000	6.75 %	6.75 %
	2030	15,000	6.00 %	6.00 %	2030	15,000	6.00 %	6.00 %
	2032	35,000	4.75 %	4.75 %	2032	—	— %	— %
		$ 50,000				$ 30,000		
Unamortized debt issuance costs		(841)				(430)		
Total other borrowings		$ 72,409				$ 58,426		
Totals		$ 214,939				$ 169,953		

(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 $984,878 and $861,900 at December 31, 2022 and 2021, respectively. At December 31, 2022, the Bank's available and unused portion under the FHLB borrowing arrangement was approximately $256,773 compared to $204,271 as of December 31, 2021.

(2) Maximum month-end borrowed amounts outstanding under this borrowing agreement were $157,530 and $123,530, during the twelve months ended December 31, 2022 and December 31, 2021, respectively.

(3) The weighted-average interest rates on FHLB borrowings, with maturities less than twelve months, outstanding as of December 31, 2022 and December 31, 2021 were 4.09% and 2.45%, respectively.

(4) At December 31, 2022, no FHLB term notes can be called by the FHLB. At December 31, 2021, FHLB term notes totaling $55,000 could be called by the FHLB on a quarterly basis, and if not called, would mature at various dates in 2029 and 2030. These notes were called by the FHLB in 2022.

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

(a) A term note, which was subsequently refinanced in March 2022, requiring quarterly interest-only payments through March 2025, and quarterly principal and interest payments thereafter. Interest is variable, based on US Prime rate minus 75 basis points with a floor rate of 3.00%.

(b) A $5,000 line of credit, maturing in August 2023, that remains undrawn upon.

(6) Subordinated notes resulted from the following:

(a) The Company's private sale in August 2017, which bore a fixed interest rate of 6.75% for five years. In August 2022, they converted to a three-month LIBOR plus 4.90% rate, and the interest rate will reset quarterly thereafter. The note was callable by the Bank when, and anytime after, the floating rate is initially set. Interest-only payments were due quarterly. The Company sent the required redemption notice to the note holders in June 2022, and this subordinated note was called and repaid in full on August 10, 2022.

(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. The note is callable by the Bank when, and anytime after, the floating rate is initially set. Interest-only payments are due semi-annually each year during the fixed interest period and quarterly during the floating interest period.

(c) The Company's Subordinated Note Purchase Agreement entered into with certain purchasers in March 2022, which bears a fixed interest rate of 4.75% for five years. In April 2027, the fixed interest rate will be reset quarterly to equal the three-month term Secured Overnight Financing Rate plus 329 basis points. The note is callable by the Bank when, and anytime after, the floating rate is initially set. 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 increased $31.0 million to $142.5 million as of December 31, 2022, compared to $111.5 million as of December 31, 2021. The Bank terminated $15.0 million of advances in the quarter ended March 31, 2022, incurring a $0.002 million prepayment penalty, as we modestly reduced excess liquidity. $27.5 million of FHLB advances were called by the FHLB in each of the quarters ended June 30, 2022, and September 30, 2022. The Bank added a $5 million advance maturing in the second quarter of 2023. The Bank had $12 million of FHLB advances maturing overnight as of December 31, 2022, and an additional $95.0 million maturing in January of 2023. The Bank has an irrevocable Standby Letter of Credit Master Reimbursement Agreement with the Federal Home Loan Bank. This irrevocable standby letter of credit ("LOC") is supported by loan collateral as an alternative to directly pledging investment securities on behalf of a municipal customer as collateral for their interest-bearing deposit balances. The Bank's current unused borrowing capacity, supported by loan collateral as of December 31, 2022, is approximately $256.8 million.

The Bank maintains three unsecured federal funds purchased lines of credit with its banking partners which total $75.0 million. These lines bear interest at the lender bank's announced daily federal funds rate, mature daily and are revocable at the discretion of the lending institution. There were no borrowings outstanding on these lines of credit as of December 31, 2022, or December 31, 2021.

At December 31, 2022 and 2021, the Bank had the ability to borrow $4.1 million and $0.8 from the Federal Reserve Bank of Minneapolis. The ability to borrow is based on mortgage-backed securities pledged with a carrying value of $5.4 million and $0.9 million as of December 31, 2022 and 2021, respectively. There were no Federal Reserve borrowings outstanding as of December 31, 2022 and 2021.

Stockholders' Equity. Total stockholders' equity was $167.1 million at December 30, 2022, compared to $170.9 million at December 31, 2021. The increases in stockholders' equity included the Company's net income of $17.8 million and restricted stock amortization of $0.9 million. These increases were more than offset by: (1) the repurchase of approximately 129 thousand shares of its common stock, which reduced equity by $1.8 million; (2) the payment of the annual cash dividend, paid in February 2022, to common stockholders at $0.26 per share or $2.7 million; and (3) an increase in the unrealized loss on available for sale securities of $17.8 million.

In November 2020, the Board of Directors authorized a 5% or 557 thousand share repurchase program. The Company repurchased all remaining authorized shares of the Company's stock under the November 2020 share repurchase program not previously repurchased in 2020 during the year ended December 31, 2021. On July 23, 2021, the Board of Directors adopted a new share repurchase program. Under this new share repurchase program, approximately 129 thousand shares were repurchased during the year ended December 31, 2022. The Company is authorized to repurchase an additional 243 thousand shares under this July 2021 share repurchase program. On August 16, 2022, the Inflation Reduction Act was signed into law, which includes a 1% excise tax on stock repurchases. We do not expect the 1% excise tax on stock repurchases under the Inflation Reduction Act will have a material impact to our financial statements for the fiscal years after December 31, 2022.

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 securities portfolio divided by total assets. At December 31, 2022, our liquidity ratio decreased to 13.0% percent from 17.0% at December 31, 2021. This was largely due to a reduction in interest-bearing cash.

Our primary sources of funds are deposits, amortization, prepayments and maturities on the investment and loan portfolios 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 $128.5 million of our $225.3 million (57%) 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 2022 and may remain at lower than historical levels in 2023 based on management's current pricing strategy, which reflects the Bank's current strong on-balance sheet liquidity ratio. 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 $256.8 million available to borrow under this arrangement, supported by loan collateral as of December 31, 2022. At December 31, 2021, the Bank had no borrowing capacity under the Federal Reserve SBA PPP Liquidity Facility, as the program expired on July 30, 2021. We also had borrowing capacity of $4.1 million at the Federal Reserve Bank and $75 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, 2022, we believe that the Bank could access this market, which provides an additional potential source of liquidity as evidenced by third and fourth quarter 2022 new brokered deposits. See Note 9, "Federal Home Loan Bank and Other Borrowings" of "Notes to Consolidated Financial Statements" which are included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Form 10-K, for further detail.

In reviewing 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, 2022, the Company had approximately $243.0 million in unused loan commitments, compared to approximately $271.0 million in unused commitments as of December 31, 2021. In addition, there are $4.7 million of commitments for contributions of capital to an SBIC and an investment company at December 31, 2022. These commitments totaled $5.0 million at December 31, 2021. See Note 11, "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, 2022								
Total capital (to risk weighted assets)	$ 221,361	14.2 %	$ 124,971	> =	8.0 %	$ 156,213	> =	10.0 %
Tier 1 capital (to risk weighted assets)	203,422	13.0 %	93,728	> =	6.0 %	124,971	> =	8.0 %
Common equity tier 1 capital (to risk weighted assets)	203,422	13.0 %	70,296	> =	4.5 %	101,539	> =	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	203,422	11.5 %	70,610	> =	4.0 %	88,262	> =	5.0 %
As of December 31, 2021								
Total capital (to risk weighted assets)	$ 187,783	13.4 %	$ 111,694	> =	8.0 %	$ 139,618	> =	10.0 %
Tier 1 capital (to risk weighted assets)	170,870	12.2 %	83,771	> =	6.0 %	111,694	> =	8.0 %
Common equity tier 1 capital (to risk weighted assets)	170,870	12.2 %	62,828	> =	4.5 %	90,752	> =	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	170,870	10.0 %	68,323	> =	4.0 %	85,403	> =	5.0 %

At December 31, 2022, 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		
	Amount	Ratio	Amount		Ratio
As of December 31, 2022					
Total capital (to risk weighted assets)	$ 218,737	14.0 %	$ 124,971	> =	8.0 %
Tier 1 capital (to risk weighted assets)	150,798	9.7 %	93,728	> =	6.0 %
Common equity tier 1 capital (to risk weighted assets)	150,798	9.7 %	70,296	> =	4.5 %
Tier 1 leverage ratio (to adjusted total assets)	150,798	8.5 %	70,610	> =	4.0 %
As of December 31, 2021					
Total capital (to risk weighted assets)	$ 182,242	13.1 %	$ 111,694	> =	8.0 %
Tier 1 capital (to risk weighted assets)	135,329	9.7 %	83,771	> =	6.0 %
Common equity tier 1 capital (to risk weighted assets)	135,329	9.7 %	62,828	> =	4.5 %
Tier 1 leverage ratio (to adjusted total assets)	135,329	7.9 %	68,323	> =	4.0 %

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, 2022:

	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022
Interest income	$ 15,376	$ 16,703	$ 17,959	$ 19,359
Interest expense	2,209	2,436	3,502	4,881
Net interest income	13,167	14,267	14,457	14,478
Provision for loan losses	—	400	375	700
Net interest income after provision for loan losses	13,167	13,867	14,082	13,778
Non-interest income	2,713	2,372	2,472	2,873
Non-interest expense	9,668	10,462	11,277	10,336
Income before income tax expense	6,212	5,777	5,277	6,315
Provision for income tax	1,506	1,411	1,284	1,619
Net income	$ 4,706	$ 4,366	$ 3,993	$ 4,696
Basic earnings per share	$ 0.45	$ 0.41	$ 0.38	$ 0.45
Diluted earnings per share	$ 0.45	$ 0.41	$ 0.38	$ 0.45
Dividends paid	$ 0.26	$ —	$ —	$ —

Year ended December 31, 2021:

	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Interest income	$ 15,620	$ 15,478	$ 16,175	$ 16,762
Interest expense	2,856	2,647	2,487	2,378
Net interest income	12,764	12,831	13,688	14,384
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	12,764	12,831	13,688	14,384
Non-interest income	4,176	3,793	3,448	4,407
Non-interest expense	9,489	10,198	10,320	10,525
Income before income tax expense	7,451	6,426	6,816	8,266
Provision for income tax	1,945	1,720	1,819	2,209
Net income	$ 5,506	$ 4,706	$ 4,997	$ 6,057
Basic earnings per share	$ 0.50	$ 0.44	$ 0.47	$ 0.58
Diluted earnings per share	$ 0.50	$ 0.44	$ 0.47	$ 0.58
Dividends paid	$ 0.23	$ —	$ —	$ —

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, agricultural and consumer loan maturities;
- originating variable rate commercial and agricultural 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 growing core deposits;
- utilizing brokered certificate of deposits and borrowings as appropriate, which may have fixed rates with varying maturities;
- purchasing investment securities to modify our interest rate risk profile

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, 2022 and December 31, 2021, 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 with the results of the scenarios shown in the table below. As of December 31, 2021, due to the level of interest rates, EVE estimates for decreases in interest rates greater than 100 basis points were not meaningful. The reduction in risk in the up-interest rate shocks from December 31, 2021 in the percentage of change in economic value of equity is largely due to the increased value of non-maturity deposits.

Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	Percent Change in Economic Value of Equity (EVE) At December 31, 2022	At December 31, 2021
+300 bp	0%	(5)%
+200 bp	0%	(3)%
+100 bp	0%	(1)%
-100 bp	(1)%	(1)%
-200 bp	(4)%	N/M

(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 an immediate and permanent shift in the yield curve. 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 and the results of the scenarios are shown in the table below. As of December 31, 2021, due to the level of interest rates, projected changes in net interest income for rate shock level decreases greater than 100 basis points were not meaningful. The decrease in the reduction of the percent change in net interest income rate shocks in the up-interest scenarios is largely due to the impact of the actual results and changes in the balance sheet compared to a flat balance sheet used in the simulation.

Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	Percent Change in Net Interest Income Over One Year Horizon At December 31, 2022	At December 31, 2021
+300 bp	(3)%	(11)%
+200 bp	(2)%	(7)%
+100 bp	(1)%	(4)%
-100 bp	1%	0%
-200 bp	2%	N/M

(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

INDEX TO FINANCIAL STATEMENTS

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 sheets of Citizens Community Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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, 2022, 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 7, 2023, 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 audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Our audits included performing procedures to assess the risk 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 audits 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 audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was 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 matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses
As discussed in Notes 1 and 3 to the Company's consolidated financial statements, the Company has a gross loan portfolio of $1.4 billion and related allowance for loan losses of $17.9 million as of December 31, 2022. 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:

- Obtaining an understanding of the Company's process for determining the allowance for loan losses, which includes management's determination of and changes to qualitative adjustments as of the balance sheet date.

- Evaluating the design and testing the operating effectiveness of controls relating to the development and approval of the allowance for loan loss methodology, controls around the reliability and accuracy of the information used in the calculation and management's review and approval of the allowance for loan losses.

- 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.

/s/ Eide Bailly, LLP

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

Phoenix, Arizona
March 7, 2023

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

	December 31, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 35,363	$ 47,691
Other interest bearing deposits	249	1,511
Securities available for sale "AFS"	165,991	203,068
Securities held to maturity "HTM"	96,379	71,141
Equity investments	1,794	1,328
Other investments	15,834	15,305
Loans receivable	1,411,784	1,310,963
Allowance for loan losses	(17,939)	(16,913)
Loans receivable, net	1,393,845	1,294,050
Loans held for sale	—	6,670
Mortgage servicing rights, net	4,262	4,161
Office properties and equipment, net	20,493	21,169
Accrued interest receivable	5,285	3,916
Intangible assets	2,449	3,898
Goodwill	31,498	31,498
Foreclosed and repossessed assets, net	1,271	1,408
Bank owned life insurance ("BOLI")	24,954	24,312
Other assets	16,719	8,502
TOTAL ASSETS	$ 1,816,386	$ 1,739,628
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 1,424,720	$ 1,387,535
Federal Home Loan Bank ("FHLB") advances	142,530	111,527
Other borrowings	72,409	58,426
Other liabilities	9,639	11,274
Total liabilities	1,649,298	1,568,762
Stockholders' Equity:		
Common stock— $0.01 par value, authorized 30,000,000; 10,425,119 and 10,502,442 shares issued and outstanding, respectively	104	105
Additional paid-in capital	119,240	119,925
Retained earnings	65,400	50,675
Accumulated other comprehensive (loss) income	(17,656)	161
Total stockholders' equity	167,088	170,866
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,816,386	$ 1,739,628

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, 2022	For the year ended December 31, 2021
Interest and dividend income:		
Interest and fees on loans	$ 61,639	$ 58,172
Interest on investments	7,758	5,863
Total interest and dividend income	69,397	64,035
Interest expense:		
Interest on deposits	6,429	5,850
Interest on FHLB borrowed funds	2,303	1,572
Interest on other borrowed funds	4,296	2,946
Total interest expense	13,028	10,368
Net interest income before provision for loan losses	56,369	53,667
Provision for loan losses	1,475	—
Net interest income after provision for loan losses	54,894	53,667
Non-interest income:		
Service charges on deposit accounts	2,018	1,726
Interchange income	2,343	2,354
Loan servicing income	2,439	3,322
Gain on sale of loans	1,474	5,399
Loan fees and service charges	679	705
Net gains on investment securities	541	1,224
Other	936	1,094
Total non-interest income	10,430	15,824
Non-interest expense:		
Compensation and related benefits	22,128	22,723
Occupancy	5,490	5,327
Data processing	5,453	5,560
Amortization of intangible assets	1,449	1,596
Mortgage servicing rights expense, net	222	191
Advertising, marketing and public relations	1,017	986
FDIC premium assessment	470	551
Professional services	1,707	1,542
Gain on repossessed assets, net	(395)	(199)
New market tax credit depletion	650	—
Other	3,552	2,255
Total non-interest expense	41,743	40,532
Income before provision for income taxes	23,581	28,959
Provision for income taxes	5,820	7,693
Net income attributable to common stockholders	$ 17,761	$ 21,266
Per share information:		
Basic earnings	$ 1.69	$ 1.98
Diluted earnings	$ 1.69	$ 1.98
Cash dividends paid	$ 0.26	$ 0.23

See accompanying notes to audited consolidated financial statements.

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

	For the year ended December 31, 2022	For the year ended December 31, 2021
Net income attributable to common stockholders	$ 17,761	$ 21,266
Other comprehensive loss, net of tax:		
Securities available for sale		
Net unrealized losses arising during period, net of tax	(17,817)	(909)
Reclassification adjustment for net gains included in net income, net of tax	—	(420)
Other comprehensive loss, net of tax	(17,817)	(1,329)
Comprehensive (loss) income	$ (56)	$ 19,937

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	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2020	11,056,349	$ 111	$ 126,154	$ 32,809	$ 1,490	$ 160,564
Net income	—	—	—	21,266	—	21,266
Other comprehensive income, net of tax	—	—	—	—	(1,329)	(1,329)
Forfeiture of unvested shares	(1,500)	—	—	—	—	—
Surrender of restricted shares of common stock	(2,409)	—	(30)	—	—	(30)
Restricted common stock awarded under the equity incentive plan	64,399	—	—	—	—	—
Common stock options exercised	5,800	—	52	—	—	52
Common stock repurchased	(620,197)	(6)	(7,056)	(889)	—	(7,951)
Stock option expense	—	—	8	—	—	8
Amortization of restricted stock	—	—	797	—	—	797
Cash dividends ($0.23 per share)	—	—	—	(2,511)	—	(2,511)
Balance, December 31, 2021	10,502,442	$ 105	$ 119,925	$ 50,675	$ 161	$ 170,866
Net income	—	—	—	17,761	—	17,761
Other comprehensive income, net of tax	—	—	—	—	(17,817)	(17,817)
Forfeiture of unvested shares	(2,626)	—	—	—	—	—
Surrender of restricted shares of common stock	(10,730)	—	(150)	—	—	(150)
Restricted common stock awarded under the equity incentive plan	45,222	—	—	—	—	—
Restricted common stock issued upon achievement of the 2019 performance criteria	11,834	—	—	—	—	—
Common stock options exercised	7,900	—	71	—	—	71
Common stock repurchased	(128,923)	(1)	(1,469)	(294)	—	(1,764)
Stock option expense	—	—	3	—	—	3
Amortization of restricted stock	—	—	860	—	—	860
Cash dividends ($0.26 per share)	—	—	—	(2,742)	—	(2,742)
Balance, December 31, 2022	10,425,119	$ 104	$ 119,240	$ 65,400	$ (17,656)	$ 167,088

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, 2022	For the year ended December 31, 2021
Cash flows from operating activities:		
Net income attributable to common stockholders	$ 17,761	$ 21,266
Adjustments to reconcile net income to net cash provided by operating activities:		
Premium amortization, net of discount accretion on investment securities	41	103
Depreciation expense	2,357	2,255
Provision for loan losses	1,475	—
Net valuation gain on equity securities	(541)	(651)
Net realized gain on debt securities	—	(573)
Increase in mortgage servicing rights resulting from transfers of financial assets	(323)	(1,100)
Mortgage servicing rights amortization and impairment reversal, net	222	191
Amortization of intangible assets	1,449	1,596
Amortization of restricted stock	860	797
Net stock based compensation expense	3	8
Loss on sale of office properties and equipment	—	31
Loss on closure of branch facilities	736	—
Decrease deferred income taxes	506	930
Increase in cash surrender value of life insurance	(642)	(628)
Net gain from disposals of foreclosed and repossessed assets	(395)	(199)
Gain on sale of loans held for sale, net	(1,474)	(5,399)
New market tax credit depletion	650	—
Net change in:		
Loans held for sale	8,144	1,804
Accrued interest receivable and other assets	79	1,241
Other liabilities	(1,620)	(73)
Total adjustments	11,527	333
Net cash provided by operating activities	29,288	21,599
Cash flows from investing activities:		
Net decrease in other interest bearing deposits	1,262	2,241
Purchase of available for sale securities	(13,315)	(130,545)
Purchase of held to maturity securities	(35,342)	(39,784)
Proceeds from sales of available for sale securities	—	38,239
Proceeds from principal payments of available for sale securities	25,815	32,218
Proceeds from principal payments and maturities of held to maturity securities	10,065	8,583
Proceeds from calls of held to maturity securities	—	3,500
Purchase of equity investments	(300)	(960)
Equity investment capital distribution	136	—
Net (purchases) sales of other investments	(290)	126
Proceeds from sales of foreclosed and repossessed assets	1,797	557
Net increase in loans	(101,371)	(73,636)
Net capital expenditures	(3,602)	(3,778)
Proceeds from disposal of office properties and equipment	14	38
New market tax credit investment	(4,056)	—
Net cash used in investing activities	(119,187)	(163,201)
Cash flows from financing activities:		
Federal Home Loan Bank advances	112,000	—
Amortization of fair value adjustments for acquired Federal Home Loan Bank advances	3	29
Federal Home Loan Bank advances called	(55,000)	—
Federal Home Loan Bank advance termination payments	(15,015)	(8,113)
Federal Home Loan Bank maturities	(11,000)	(4,000)
Amortization of debt issuance costs	398	98
Proceeds from other borrowings, net of origination costs	34,191	—

Other borrowings principal reductions	(5,606)	—
Other borrowings called and repaid	(15,000)	—
Net increase in deposits	37,185	92,279
Repurchase shares of common stock	(1,764)	(7,951)
Surrender of restricted shares of common stock	(150)	(30)
Common stock options exercised	71	52
Cash dividends paid	(2,742)	(2,511)
Net cash provided by financing activities	77,571	69,853
Net decrease in cash and cash equivalents	(12,328)	(71,749)
Cash and cash equivalents at beginning of period	47,691	119,440
Cash and cash equivalents at end of period	$ 35,363	$ 47,691
Supplemental cash flow information:		
Cash paid during the period for:		
Interest on deposits	$ 6,435	$ 6,026
Interest on borrowings	$ 6,210	$ 4,552
Income taxes	$ 4,865	$ 6,825
Supplemental noncash disclosure:		
Transfers from loans receivable to foreclosed and repossessed assets	$ 92	$ 84
Transfers from office properties and equipment to foreclosed and repossessed assets	$ 1,171	$ 1,434

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share data)

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

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

The Bank is a national banking association (a "National Bank") and operates under the title of Citizens Community Federal National Association ("Citizens Community Federal N.A." 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. The 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 23 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.

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, 2022 through the date on which the consolidated financial statements were available to be issued on March 7, 2023, for items that should potentially be recognized or disclosed in these consolidated financial statements.

Unless otherwise stated herein, and except for share and per share amounts, all amounts are in thousands.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant 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 annual report on Form 10-K for the year ended December 31, 2022 and external market factors such as market interest rates and unemployment rates, changes to operating policies and procedures, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period.

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.

Other 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 3.00 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, 2022 and December 31, 2021, 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. Realized gains or losses on sales of available for sale securities are calculated with the specific identification method and are included in the consolidated statements of operations under net gains on investment securities. 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 investments - 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.

Also included in equity investments are the Company's investments in a Volcker Rule-compliant Small Business Investment Company (SBIC) and an investment fund. The SBIC and investment fund meet the definition of investment companies, as defined in ASC 946, Financial Services - Investment Companies. These investments seek returns by investing in various small businesses and do not have redemption rights. Distributions from the investments will be received as the underlying investments, which generally have a life of 10 years, are liquidated. We elected the practical expedient available in Topic 820, Fair Value Measurements, which permits the use of net asset value ("NAV") per share or equivalent to value investments in entities that are or are similar to investment companies. SBICs and investment funds report their investments at estimated fair value. We record the unrealized gains and losses resulting from changes in the fair value of these investments as gains or losses on equity securities in our consolidated statements of operations. The carrying value of these investments is equal to the capital account balance as provided by the investee and adjusted as necessary.

Other investments - As a member of the Federal Reserve Bank 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 interest on investments in the consolidated statement of operations.

Also included in other investments is stock 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 $15,834 at December 31, 2022 consisted of $7,652 of FHLB stock, $5,674 of Federal Reserve Bank stock and $2,508 of Bankers' Bank stock. Other investments totaling $15,305 at December 31, 2021 consisted of $7,877 of FHLB stock, $5,200 of Federal Reserve Bank stock, and $2,228 of Bankers' Bank stock.

Loans receivable – 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 yield on acquired loans, and non-accretable discount 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 over the contractual life of the loan with no prepayments assumed. If the loan is prepaid, any amortized net fee is recognized at that time. 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 consumer 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 accruing troubled debt restructured ("TDR") loans, 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 ended consumer installment 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, commercial and industrial and 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 3, "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 discount 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 discount 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 discount 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. Such gains and losses are included as non-interest income in the consolidated statement of operations. All sales are made without recourse. Interest rate lock commitments on mortgage loans to be funded and sold are valued at fair value, and are included in other assets or liabilities, if material.

***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 at least annually; 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 fees 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 statements of operations.

Goodwill and other intangible assets—The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, "Intangibles - Goodwill and Other." The Company records the excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumed, as goodwill. The Company amortizes acquired intangible assets, primarily Core Deposit Intangibles (CDI) with definite useful economic lives over their useful economic lives originally 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, 2022 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, 2022. See Note 6 for additional information on goodwill and other intangible assets.

Foreclosed and Repossessed Assets – 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 statements of operations.

New Markets Tax Credits - As a part of its commitment to the communities it serves, in the first quarter of 2022, the Company made an investment in an LLC that is sponsoring a community development project that has been awarded a New Markets Tax Credit ("NMTC") through the U.S. Department of the Treasury's Community Development Financial Institutions Fund. This investment is Community Reinvestment Act eligible and is designed to generate a return primarily through the realization of the tax credit. This LLC is considered a Variable Interest Entity ("VIE"), as the Company represents the holder of the equity investment at risk. However, the Company does not have the ability to direct the activities that most significantly affect the performance of the LLC. As such, the Company is not the primary beneficiary of the VIE and the LLC has not been consolidated. The investment is accounted for using the equity method of accounting and is amortized through non-interest expense as the related tax credits are utilized. The utilization of the tax credit is recognized as a reduction in income tax expense.

As of December 31, 2022, the carrying amount of this investment, which is included in other assets in the consolidated balance sheets, was $3,350. The risk of loss with this investment is limited to its carrying value and is tied to its ability to operate in compliance with the rules and regulations necessary for the qualification of the tax credit generated by the investment. As of December 31, 2022, there were no known instances of noncompliance associated with the investment.

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. Lease expense is included in non-interest expense, occupancy in the consolidated statements of operations.

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. Some of the Bank's leases require it to make variable payments for the Bank's share of property taxes, insurance, common area maintenance and other costs. These variable costs are recognized when incurred and are also included in lease expense.

Debt and equity issuance costs—Debt issuance costs, which consist primarily of fees paid to note lenders, are deferred and included in other borrowings in the consolidated balance sheets. Debt issuance costs with a Company call option that originated prior to 2020 and senior note 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 statements of operations. Debt issuance costs that originated in 2020 and thereafter, are amortized through the first Company call option date of the corresponding debt, as a component of interest expense on other borrowed funds in the consolidated statements 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 sheets, 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 14, "Income Taxes" for details on the Company's income taxes.

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

Revenue Recognition - The Company's 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.

The company accounts for revenue from contracts with customers in accordance with ASC Topic 606, "Revenue from Contracts with Customers." Topic 606 provides that revenue from contracts with customers be recognized when performance obligations under the terms of a contract are satisfied. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing service. The company does not have any materially significant payment terms as payment is received shortly after the satisfaction of the performance obligation. The statement of operations line items recognized under the scope of Topic 606 are as follows:

Service charges on deposit accounts - Service charges on accounts consist of monthly service fees, transaction-based fees, overdraft fees and other deposit account related fees. The Company's performance obligation for monthly services fees is generally satisfied over the period in which the service is provided. Revenue for these monthly fees is recognized during the service period. Other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied at the time the service is provided. Payment for service charges on deposit accounts are primarily received immediately or in the following month through a direct charge to a customer's account.

Interchange income - The Company earns interchange fees when cardholder debit card transaction are processed through card association networks. The interchange rates are generally set by the card association based upon purchase volumes and other factors. Interchange fees represent a percentage of the underlying transaction value. The Company has a continuous contract, based on customary business practices, with the card association networks to make funds available for settlement of card transactions. The Company's performance obligation is satisfied over time as it makes funds available, and the related income is recognized when received.

Gain (loss) on repossessed assets - The Company records a gain or loss from the sale of repossessed assets, when control of the property or asset transfers to the buyer, which generally occurs at the time of an executed deed or sales agreement. When the company finances the sale of repossessed assets to a buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the repossessed asset is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. In determining the gain on sale or loss on the sale, the Company adjust the transaction price and related gain or loss on sale if a significant financing component is present.

Non-interest income outside of the scope of Revenue from Contracts with Customers, Topic 606 is recognized on the accrual basis of accounting as services are provided or as transactions occur. Non-interest income outside of the scope of Topic 606 includes mortgage banking activities, loan fees and service charges, net gains (losses) on investment securities, and other, which is primarily made up of BOLI related income.

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

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

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

Derivatives--Rate-lock Commitments and Forward Sale Agreements —The Company enters into commitments to originate loans, whereby the interest rate on the loan is determined prior to funding (rate-lock commitment). Rate-lock commitments on mortgage loans held for sale are derivative instruments. 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, 2022, the Company had $1,164 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, 2022.

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, net of tax, and is shown on the accompanying consolidated statements of comprehensive (loss) 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.

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 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 contracts, 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, 2024. 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 elected not to adopt the ASU early. The Company has selected a loss estimation methodology, utilizing a third-party model, and is refining the remaining facets of its CECL model, as well as finalizing internal controls. Company will record the effect of implementing this ASU through a cumulative-effect adjustment through retained earnings as of the beginning of the reporting period in which the ASU is effective, which will be January 1, 2023. Management estimates the adoption of the new standard will result in an increase in the Allowance for Credit Losses ("ACL") in the range of 25-30%. Approximately 30% of the increase is due to the impact of the new guidance on the Company's acquired loan portfolio. Approximately 40% of the increase is the result of the new requirement to estimate losses over the full remaining expected life of the loans. This especially affected the Company's Commercial/Agricultural real estate and Residential mortgage portfolio segments, which have longer maturities. Approximately 30% of this increase is due to the requirement to record an allowance on non-cancelable off-balance sheet commitments. Post-tax retained earnings adjustment will reduce stockholders' equity by approximately 0.2%. At adoption, the Company will not record an allowance with respect to HTM securities as the portfolio consists almost entirely of agency-backed securities that inherently have minimal nonpayment risk.

ASU 2022-02, Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures - The ASU addresses and amends areas identified by the FASB as part of its post-implementation review of the accounting standard that introduced the current expected credit losses model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the current expected credit losses model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. As the Company has not yet adopted the amendments in ASU 2016-13, ASU 2022-02 becomes effective in the first quarter of 2023. Adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements; however, it will result in new disclosures. The Company expects to adopt the guidance for our fiscal year beginning January 1, 2023.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost, estimated fair value and related unrealized gains and losses on securities available for sale and held to maturity as of December 31, 2022 and December 31, 2021, respectively, were as follows:

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022				
U.S. government agency obligations	$ 18,373	$ 173	$ 233	$ 18,313
Obligations of states and political subdivisions	—	—	—	—
Mortgage-backed securities	97,458	—	18,848	78,610
Corporate debt securities	44,636	—	4,385	40,251
Corporate asset-backed securities	29,877	—	1,060	28,817
Total available for sale securities	$ 190,344	$ 173	$ 24,526	$ 165,991
December 31, 2021				
U.S. government agency obligations	$ 25,826	$ 440	$ 1	$ 26,265
Obligations of states and political subdivisions	140	—	—	140
Mortgage-backed securities	107,636	409	878	107,167
Corporate debt securities	35,342	403	157	35,588
Corporate asset-backed securities	33,902	133	127	33,908
Total available for sale securities	$ 202,846	$ 1,385	$ 1,163	$ 203,068

Held to maturity securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022				
Obligations of states and political subdivisions	$ 600	$ —	$ 54	$ 546
Mortgage-backed securities	95,779	7	19,553	76,233
Total held to maturity securities	$ 96,379	$ 7	$ 19,607	$ 76,779
December 31, 2021				
Obligations of states and political subdivisions	$ 4,600	$ —	$ 7	$ 4,593
Mortgage-backed securities	66,541	104	2,061	64,584
Total held to maturity securities	$ 71,141	$ 104	$ 2,068	$ 69,177

At December 31, 2022, the Bank has pledged certain of its mortgage-backed securities with a carrying value of $5,421 as collateral to secure a line of credit with the Federal Reserve Bank. As of December 31, 2022, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2022, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $2,602 and mortgage-backed securities with a carrying value of $2,219 as collateral against specific municipal deposits. As of December 31, 2022, the Bank also has mortgage-backed securities with a carrying value of $142 pledged as collateral to the Federal Home Loan Bank of Des Moines.

At December 31, 2021, the Bank has pledged certain of its mortgage-backed securities with a carrying value of $863 as collateral to secure a line of credit with the Federal Reserve Bank. As of December 31, 2021, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2021, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of $3,934 and mortgage-backed securities with a carrying value of $2,879 as collateral against specific municipal deposits. As of December 31, 2021, the Bank also has mortgage-backed securities with a carrying value of $267 pledged as collateral to the Federal Home Loan Bank of Des Moines.

For the twelve months ended December 31, 2022, there were no sales of available for sale securities.

For the twelve months ended December 31, 2021, gross sales of available for sale securities were $38,239, gross gains on sale of available for sale securities were $646, and gross losses on sale of available for sale securities were $73.

The estimated fair value of available for sale securities at December 31, 2022 and December 31, 2021, 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, 2022 Amortized Cost	December 31, 2022 Estimated Fair Value	December 31, 2021 Amortized Cost	December 31, 2021 Estimated Fair Value
Due in one year or less	$ —	$ —	$ 140	$ 140
Due after one year through five years	8,525	8,184	4,903	4,971
Due after five years through ten years	45,622	41,427	40,410	40,818
Due after ten years	38,739	37,770	49,757	49,972
Total securities with contractual maturities	92,886	87,381	95,210	95,901
Mortgage-backed securities	97,458	78,610	107,636	107,167
Total available for sale securities	$ 190,344	$ 165,991	$ 202,846	$ 203,068

Held to maturity securities	December 31, 2022 Amortized Cost	December 31, 2022 Estimated Fair Value	December 31, 2021 Amortized Cost	December 31, 2021 Estimated Fair Value
Due after one year through five years	$ 450	$ 415	$ 4,300	$ 4,298
Due after five years through ten years	150	131	300	295
Total securities with contractual maturities	600	546	4,600	4,593
Mortgage-backed securities	95,779	76,233	66,541	64,584
Total held to maturity securities	$ 96,379	$ 76,779	$ 71,141	$ 69,177

Securities with unrealized losses at December 31, 2022 and December 31, 2021, 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, 2022						
U.S. government agency obligations	$ 3,169	$ 138	$ 1,138	$ 95	$ 4,307	$ 233
Mortgage-backed securities	9,654	896	68,907	17,952	78,561	18,848
Corporate debt securities	21,547	1,688	18,704	2,697	40,251	4,385
Corporate asset-backed securities	7,955	221	20,862	839	28,817	1,060
Total	$ 42,325	$ 2,943	$ 109,611	$ 21,583	$ 151,936	$ 24,526
December 31, 2021						
U.S. government agency obligations	$ 1,169	$ 1	$ —	$ —	$ 1,169	$ 1
Mortgage-backed securities	89,010	878	—	—	89,010	878
Corporate debt securities	17,240	142	735	15	17,975	157
Corporate asset-backed securities	19,296	127	—	—	19,296	127
Total	$ 126,715	$ 1,148	$ 735	$ 15	$ 127,450	$ 1,163

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, 2022						
Obligations of states and political subdivisions	$ —	$ —	$ 546	$ 54	$ 546	$ 54
Mortgage-backed securities	16,627	2,416	59,367	17,137	75,994	19,553
Total	$ 16,627	$ 2,416	$ 59,913	$ 17,191	$ 76,540	$ 19,607
December 31, 2021						
Obligations of states and political subdivisions	$ 593	$ 7	$ —	$ —	$ 593	$ 7
Mortgage-backed securities	46,969	1,346	14,716	715	61,685	2,061
Total	$ 47,562	$ 1,353	$ 14,716	$ 715	$ 62,278	$ 2,068

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 3 – LOANS, ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

Portfolio Segments:

Commercial real estate loans, including multi-family, agricultural, and construction and land development 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. All of the SBA PPP originated loan balances were forgiven and repaid at June 30, 2022.

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. 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, 2022		December 31, 2021
<u>Originated Loans:</u>				
Commercial/Agricultural real estate:				
Commercial real estate	$	640,816	$	578,395
Agricultural real estate		69,431		52,372
Multi-family real estate		205,601		174,050
Construction and land development		101,681		78,613
C&I/Agricultural operating:				
Commercial and industrial		127,115		107,937
Agricultural operating		23,124		26,202
Residential mortgage:				
Residential mortgage		84,783		63,855
Purchased HELOC loans		3,262		3,871
Consumer installment:				
Originated indirect paper		10,236		15,971
Other Consumer		6,894		8,473
Total originated loans before SBA PPP loans	$	1,272,943	$	1,109,739
SBA PPP loans		—		8,755
Total originated loans	$	1,272,943	$	1,118,494
<u>Acquired Loans:</u>				
Commercial/Agricultural real estate:				
Commercial real estate	$	85,155	$	120,070
Agricultural real estate		18,477		26,123
Multi-family real estate		3,307		4,299
Construction and land development		811		907
C&I/Agricultural operating:				
Commercial and industrial		8,898		14,230
Agricultural operating		5,682		5,386
Residential mortgage:				
Residential mortgage		20,606		27,135
Consumer installment:				
Other Consumer		256		401
Total acquired loans	$	143,192	$	198,551
<u>Total Loans:</u>				
Commercial/Agricultural real estate:				
Commercial real estate	$	725,971	$	698,465
Agricultural real estate		87,908		78,495
Multi-family real estate		208,908		178,349
Construction and land development		102,492		79,520
C&I/Agricultural operating:				
Commercial and industrial		136,013		122,167
Agricultural operating		28,806		31,588
Residential mortgage:				
Residential mortgage		105,389		90,990
Purchased HELOC loans		3,262		3,871
Consumer installment:				
Originated indirect paper		10,236		15,971
Other Consumer		7,150		8,874
Total loans before SBA PPP loans	$	1,416,135	$	1,308,290
SBA PPP loans		—		8,755
Gross loans	$	1,416,135	$	1,317,045
Less:				
Unearned net deferred fees and costs and loans in process		(2,585)		(2,482)
Unamortized discount on acquired loans		(1,766)		(3,600)
Allowance for loan losses		(17,939)		(16,913)
Loans receivable, net	$	1,393,845	$	1,294,050

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 weaknesses 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, 2022:

	1 to 5	6	7	8	9	TOTAL
Originated Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 628,999	$ 5,771	$ 6,046	$ —	$ —	$ 640,816
Agricultural real estate	67,248	549	1,634	—	—	69,431
Multi-family real estate	205,601	—	—	—	—	205,601
Construction and land development	101,681	—	—	—	—	101,681
C&I/Agricultural operating:						
Commercial and industrial	120,882	5,526	707	—	—	127,115
Agricultural operating	20,896	324	1,904	—	—	23,124
Residential mortgage:						
Residential mortgage	82,236	—	2,547	—	—	84,783
Purchased HELOC loans	3,262	—	—	—	—	3,262
Consumer installment:						
Originated indirect paper	10,190	—	46	—	—	10,236
Other Consumer	6,878	—	16	—	—	6,894
Total originated loans before SBA PPP loans	1,247,873	12,170	12,900	—	—	1,272,943
SBA PPP loans	—	—	—	—	—	—
Total originated loans	$ 1,247,873	$ 12,170	$ 12,900	$ —	$ —	$ 1,272,943
Acquired Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 83,659	$ —	$ 1,496	$ —	$ —	$ 85,155
Agricultural real estate	16,967	—	1,510	—	—	18,477
Multi-family real estate	3,307	—	—	—	—	3,307
Construction and land development	704	—	107	—	—	811
C&I/Agricultural operating:						
Commercial and industrial	8,866	—	32	—	—	8,898
Agricultural operating	5,522	—	160	—	—	5,682
Residential mortgage:						
Residential mortgage	19,494	—	1,112	—	—	20,606
Consumer installment:						
Other Consumer	254	—	2	—	—	256
Total acquired loans	$ 138,773	$ —	$ 4,419	$ —	$ —	$ 143,192
Total Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 712,658	$ 5,771	$ 7,542	$ —	$ —	$ 725,971
Agricultural real estate	84,215	549	3,144	—	—	87,908
Multi-family real estate	208,908	—	—	—	—	208,908
Construction and land development	102,385	—	107	—	—	102,492
C&I/Agricultural operating:						
Commercial and industrial	129,748	5,526	739	—	—	136,013
Agricultural operating	26,418	324	2,064	—	—	28,806
Residential mortgage:						
Residential mortgage	101,730	—	3,659	—	—	105,389
Purchased HELOC loans	3,262	—	—	—	—	3,262
Consumer installment:						
Originated indirect paper	10,190	—	46	—	—	10,236
Other Consumer	7,132	—	18	—	—	7,150
Gross loans before SBA PPP loans	$ 1,386,646	$ 12,170	$ 17,319	$ —	$ —	$ 1,416,135
SBA PPP loans	—	—	—	—	—	—
Gross loans	$ 1,386,646	$ 12,170	$ 17,319	$ —	$ —	1,416,135
Less:						
Unearned net deferred fees and costs and loans in process						(2,585)
Unamortized discount on acquired loans						(1,766)
Allowance for loan losses						(17,939)
Loans receivable, net						$ 1,393,845

Below is a breakdown of loans by risk rating as of December 31, 2021:

	1 to 5	6	7	8	9	TOTAL
Originated Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 572,724	$ 667	$ 5,004	$ —	$ —	$ 578,395
Agricultural real estate	50,834	1,267	271	—	—	52,372
Multi-family real estate	173,760	290	—	—	—	174,050
Construction and land development	75,146	—	3,467	—	—	78,613
C&I/Agricultural operating:						
Commercial and industrial	107,798	57	82	—	—	107,937
Agricultural operating	23,935	764	1,503	—	—	26,202
Residential mortgage:						
Residential mortgage	60,754	—	3,101	—	—	63,855
Purchased HELOC loans	3,706	—	165	—	—	3,871
Consumer installment:						
Originated indirect paper	15,818	—	153	—	—	15,971
Other Consumer	8,404	—	69	—	—	8,473
Total originated loans before SBA PPP loans	1,092,879	3,045	13,815	—	—	1,109,739
SBA PPP loans	8,755	—	—	—	—	8,755
Total originated loans	$ 1,101,634	$ 3,045	$ 13,815	$ —	$ —	$ 1,118,494
Acquired Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 116,839	$ 1,314	$ 1,917	$ —	$ —	$ 120,070
Agricultural real estate	21,051	—	5,072	—	—	26,123
Multi-family real estate	4,299	—	—	—	—	4,299
Construction and land development	735	172	—	—	—	907
C&I/Agricultural operating:						
Commercial and industrial	13,931	5	294	—	—	14,230
Agricultural operating	4,936	—	450	—	—	5,386
Residential mortgage:						
Residential mortgage	25,869	—	1,266	—	—	27,135
Consumer installment:						
Other Consumer	398	—	3	—	—	401
Total acquired loans	$ 188,058	$ 1,491	$ 9,002	$ —	$ —	$ 198,551
Total Loans:						
Commercial/Agricultural real estate:						
Commercial real estate	$ 689,563	$ 1,981	$ 6,921	$ —	$ —	$ 698,465
Agricultural real estate	71,885	1,267	5,343	—	—	78,495
Multi-family real estate	178,059	290	—	—	—	178,349
Construction and land development	75,881	172	3,467	—	—	79,520
C&I/Agricultural operating:						
Commercial and industrial	121,729	62	376	—	—	122,167
Agricultural operating	28,871	764	1,953	—	—	31,588
Residential mortgage:						
Residential mortgage	86,623	—	4,367	—	—	90,990
Purchased HELOC loans	3,706	—	165	—	—	3,871
Consumer installment:						
Originated indirect paper	15,818	—	153	—	—	15,971
Other Consumer	8,802	—	72	—	—	8,874
Gross loans before SBA PPP loans	$ 1,280,937	$ 4,536	$ 22,817	$ —	$ —	$ 1,308,290
SBA PPP loans	8,755	—	—	—	—	8,755
Gross loans	$ 1,289,692	$ 4,536	$ 22,817	$ —	$ —	1,317,045
Less:						
Unearned net deferred fees and costs and loans in process						(2,482)
Unamortized discount on acquired loans						(3,600)
Allowance for loan losses						(16,913)
Loans receivable, net						$ 1,294,050

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, 2022 and December 31, 2021. A summary of the changes in those loans is as follows:

	Twelve months ended December 31, 2022	Twelve months ended December 31, 2021
Balance—beginning of period	$ 32,423	$ 26,483
New loan originations	7,994	14,992
Repayments	(2,007)	(9,052)
Balance—end of period	$ 38,410	$ 32,423
Available and unused lines of credit	$ —	$ 75

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, 2022:						
Allowance for Loan Losses:						
Beginning balance, January 1, 2022	$ 12,354	$ 1,959	$ 518	$ 225	$ 774	$ 15,830
Charge-offs	(157)	(310)	(35)	(45)	—	(547)
Recoveries	74	35	2	50	—	161
Provision	1,280	571	89	(109)	34	1,865
Total Allowance on originated loans	13,551	2,255	574	121	808	17,309
Other acquired loans:						
Beginning balance, January 1, 2022	856	69	130	28	—	1,083
Charge-offs	(48)	(36)	(33)	(3)	—	(120)
Recoveries	28	1	27	1	—	57
Provision	(302)	29	(99)	(18)	—	(390)
Total allowance on other acquired loans	534	63	25	8	—	630
Total allowance on acquired loans	534	63	25	8	—	630
Ending Balance, December 31, 2022	$ 14,085	$ 2,318	$ 599	$ 129	$ 808	$ 17,939
Allowance for Loan Losses at December 31, 2022:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$ 519	$ 249	$ 48	$ 10	$ —	$ 826
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$ 13,566	$ 2,069	$ 551	$ 119	$ 808	$ 17,113
Loans Receivable as of December 31, 2022:						
Ending balance of originated loans	$ 1,017,529	$ 150,239	$ 88,045	$ 17,130	$ —	$ 1,272,943
Ending balance of purchased credit-impaired loans	5,748	362	890	—	—	7,000
Ending balance of other acquired loans	102,002	14,218	19,716	256	—	136,192
Ending balance of loans	$ 1,125,279	$ 164,819	$ 108,651	$ 17,386	$ —	$ 1,416,135
Ending balance: individually evaluated for impairment	$ 16,874	$ 3,292	$ 5,998	$ 755	$ —	$ 26,919
Ending balance: collectively evaluated for impairment	$ 1,108,405	$ 161,527	$ 102,653	$ 16,631	$ —	$ 1,389,216

	Commercial/ Agricultural Real Estate	C&I/ Agricultural operating	Residential Mortgage	Consumer Installment	Unallocated	Total
Twelve months ended December 31, 2021:						
Allowance for Loan Losses:						
Beginning balance, January 1, 2021	$ 10,271	$ 2,112	$ 1,041	$ 489	$ 906	$ 14,819
Charge-offs	(51)	—	—	(54)	—	(105)
Recoveries	14	110	9	41	—	174
Provision	2,120	(263)	(532)	(251)	(132)	942
Total Allowance on originated loans	12,354	1,959	518	225	774	15,830
Other acquired loans:						
Beginning balance, January 1, 2021	1,684	141	335	64	—	2,224
Charge-offs	(200)	(7)	—	(27)	—	(234)
Recoveries	14	13	4	4	—	35
Provision	(642)	(78)	(209)	(13)	—	(942)
Total Allowance on other acquired loans	856	69	130	28	—	1,083
Total Allowance on acquired loans	856	69	130	28	—	1,083
Ending balance, December 31, 2021	$ 13,210	$ 2,028	$ 648	$ 253	$ 774	$ 16,913
Allowance for Loan Losses at December 31, 2021:						
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$ 797	$ 99	$ 113	$ —	$ —	$ 1,009
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$ 12,413	$ 1,929	$ 535	$ 253	$ 774	$ 15,904
Loans Receivable as of December 31, 2021:						
Ending balance of originated loans	$ 883,430	$ 142,894	$ 67,726	$ 24,444	$ —	$ 1,118,494
Ending balance of purchased credit-impaired loans	9,060	1,101	1,044	—	—	11,205
Ending balance of other acquired loans	142,339	18,515	26,091	401	—	187,346
Ending balance of loans	$ 1,034,829	$ 162,510	$ 94,861	$ 24,845	$ —	$ 1,317,045
Ending balance: individually evaluated for impairment	$ 21,792	$ 3,337	$ 7,007	$ 257	$ —	$ 32,393
Ending balance: collectively evaluated for impairment	$ 1,013,037	$ 159,173	$ 87,854	$ 24,588	$ —	$ 1,284,652

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, 2022	Dec 31, 2021	Dec 31, 2022	Dec 31, 2021	Dec 31, 2022	Dec 31, 2021	Dec 31, 2022	Dec 31, 2021	Dec 31, 2022	Dec 31, 2021
Performing loans										
Performing TDR loans	$ 1,336	$ 4,618	$ 960	$ 649	$ 2,875	$ 2,681	$ —	$ 36	$ 5,171	$ 7,984
Performing loans other	1,115,465	1,021,346	162,417	160,570	104,287	90,591	17,345	24,729	1,399,514	1,297,236
Total performing loans	1,116,801	1,025,964	163,377	161,219	107,162	93,272	17,345	24,765	1,404,685	1,305,220
Nonperforming loans (1)										
Nonperforming TDR loans	1,878	3,389	391	554	348	593	—	3	2,617	4,539
Nonperforming loans other	6,600	5,476	1,051	737	1,141	996	41	77	8,833	7,286
Total nonperforming loans	8,478	8,865	1,442	1,291	1,489	1,589	41	80	11,450	11,825
Total loans	$ 1,125,279	$ 1,034,829	$ 164,819	$ 162,510	$ 108,651	$ 94,861	$ 17,386	$ 24,845	$ 1,416,135	$ 1,317,045

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

An aging analysis of the Company's commercial/agricultural real estate and non-real estate, consumer real estate and non-real estate and purchased third party loans as of December 31, 2022 and 2021, 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	Total Past Due Accruing and Nonaccrual Loans	Current	Total Loans
December 31, 2022								
Commercial/Agricultural real estate:								
Commercial real estate	$ 202	$ 88	$ —	$ 290	$ 5,736	$ 6,026	$ 719,945	$ 725,971
Agricultural real estate	4,992	—	—	4,992	2,742	7,734	80,174	87,908
Multi-family real estate	—	—	—	—	—	—	208,908	208,908
Construction and land development	3,975	—	—	3,975	—	3,975	98,517	102,492
C&I/Agricultural operating:								
Commercial and industrial	—	26	—	26	552	578	135,435	136,013
SBA PPP loans	—	—	—	—	—	—	—	—
Agricultural operating	826	—	—	826	890	1,716	27,090	28,806
Residential mortgage:								
Residential mortgage	767	479	236	1,482	1,253	2,735	102,654	105,389
Purchased HELOC loans	—	—	—	—	—	—	3,262	3,262
Consumer installment:								
Originated indirect paper	15	—	—	15	27	42	10,194	10,236
Other Consumer	39	2	10	51	4	55	7,095	7,150
Total	$ 10,816	$ 595	$ 246	$ 11,657	$ 11,204	$ 22,861	$ 1,393,274	$ 1,416,135
December 31, 2021								
Commercial/Agricultural real estate:								
Commercial real estate	$ 36	$ —	$ —	$ 36	$ 5,374	$ 5,410	$ 693,055	$ 698,465
Agricultural real estate	498	4	—	502	3,490	3,992	74,503	78,495
Multi-family real estate	—	—	—	—	—	—	178,349	178,349
Construction and land development	—	—	—	—	—	—	79,520	79,520
C&I/Agricultural operating:								
Commercial and industrial	—	32	—	32	298	330	121,837	122,167
SBA PPP loans	—	—	—	—	—	—	8,755	8,755
Agricultural operating	1,123	—	—	1,123	993	2,116	29,472	31,588
Residential mortgage:								
Residential mortgage	1,471	487	156	2,114	1,268	3,382	87,608	90,990
Purchased HELOC loans	117	—	—	117	165	282	3,589	3,871
Consumer installment:								
Originated indirect paper	38	27	—	65	55	120	15,851	15,971
Other Consumer	58	10	4	72	22	94	8,780	8,874
Total	$ 3,341	$ 560	$ 160	$ 4,061	$ 11,665	$ 15,726	$ 1,301,319	$ 1,317,045

At December 31, 2022, the Company individually evaluated loans for impairment with a recorded investment of $26,823, consisting of (1) $7,000 PCI loans, with a carrying amount of $6,904; (2) $7,018 TDR loans, net of TDR PCI loans; and (3) $12,901 of substandard non-TDR loans, non-PCI loans. The $26,823 total of loans individually evaluated for impairment includes $5,171 of performing TDR loans. At December 31, 2021, the Company individually evaluated loans for impairment with a recorded investment of $31,740, consisting of (1) $11,205 PCI loans, with a carrying amount of $10,552; (2) $9,860 TDR loans, net of TDR PCI loans; and (3) $11,328 of substandard non-TDR loans, non-PCI loans. The $31,740 total of loans individually evaluated for impairment includes $7,984 of performing TDR loans. A loan is identified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Performing TDRs consist of loans that have been modified and are performing in accordance with the modified terms for a sufficient length of time, generally six months, or loans that were modified on a proactive basis.

A summary of loans evaluated for impairment as of December 31, 2022 was as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2022					
With No Related Allowance Recorded:					
Commercial/Agricultural real estate	$ 9,741	$ 9,766	$ —	$ 13,657	$ 549
C&I/Agricultural operating	2,744	2,754	—	4,467	200
Residential mortgage	5,846	5,907	—	6,304	276
Consumer installment	745	745	—	307	5
Total	$ 19,076	$ 19,172	$ —	$ 24,735	$ 1,030
With An Allowance Recorded:					
Commercial/Agricultural real estate	$ 7,108	$ 7,108	$ 519	$ 6,028	$ 273
C&I/Agricultural operating	538	538	249	273	48
Residential mortgage	91	91	48	298	65
Consumer installment	10	10	10	2	2
Total	$ 7,747	$ 7,747	$ 826	$ 6,601	$ 388
December 31, 2022 Totals					
Commercial/Agricultural real estate	$ 16,849	$ 16,874	$ 519	$ 19,685	$ 822
C&I/Agricultural operating	3,282	3,292	249	4,741	248
Residential mortgage	5,937	5,998	48	6,603	341
Consumer installment	755	755	10	310	7
Total	$ 26,823	$ 26,919	$ 826	$ 31,336	$ 1,418

At December 31, 2022, the Company had six 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 $258. At December 31, 2022, the Company had three 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 $6,294.

A summary of loans evaluated for impairment as of December 31, 2021 was as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2021					
With No Related Allowance Recorded:					
Commercial/Agricultural real estate	$ 15,521	$ 15,905	$ —	$ 19,412	$ 964
C&I/Agricultural operating	3,153	3,337	—	4,622	146
Residential mortgage	6,221	6,306	—	7,316	316
Consumer installment	256	256	—	306	85
Total	$ 25,151	$ 25,804	$ —	$ 31,656	$ 1,511
With An Allowance Recorded:					
Commercial/Agricultural real estate	$ 5,887	$ 5,887	$ 797	$ 4,089	$ 62
C&I/Agricultural operating	—	—	99	391	84
Residential mortgage	701	701	113	890	17
Consumer installment	1	1	—	2	—
Total	$ 6,589	$ 6,589	$ 1,009	$ 5,372	$ 163
December 31, 2021 Totals					
Commercial/Agricultural real estate	$ 21,408	$ 21,792	$ 797	$ 23,501	$ 1,026
C&I/Agricultural operating	3,153	3,337	99	5,013	230
Residential mortgage	6,922	7,007	113	8,206	333
Consumer installment	257	257	—	308	85
Total	$ 31,740	$ 32,393	$ 1,009	$ 37,028	$ 1,674

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 $15 at December 31, 2022, compared to one accruing, delinquent TDR, greater than 60 days past due, with a recorded investment of $4 at December 31, 2021.

Following is a summary of TDR loans by accrual status as of December 31, 2022 and December 31, 2021.

	December 31 2022	December 31 2021
Troubled debt restructure loans:		
Accrual status	$ 5,171	$ 7,984
Non-accrual status	2,617	4,539
Total	$ 7,788	$ 12,523

There was one TDR commitment totaling $26 meeting our TDR criteria as of December 31, 2022 and there were no TDR commitments meeting our TDR criteria as of December 31, 2021. There were unused lines of credit totaling $484 and $10 meeting our TDR criteria as of December 31, 2022 and December 31, 2021, respectively.

The following provides detail, including specific reserve and reasons for modification, related to loans identified as TDRs during the years ended December 31, 2022 and December 31, 2021:

	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, 2022								
TDRs:								
Commercial/Agricultural real estate	7	$ 1,241	$ —	$ 1,964	$ —	$ 3,205	$ 3,205	$ —
C&I/Agricultural operating	5	1,424	—	736	—	2,160	2,160	—
Residential mortgage	11	116	147	507	—	770	770	—
Consumer installment	—	—	—	—	—	—	—	—
Totals	23	$ 2,781	$ 147	$ 3,207	$ —	$ 6,135	$ 6,135	$ —

	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, 2021								
TDRs:								
Commercial/Agricultural real estate	3	$ 39	$ 81	$ —	$ —	$ 120	$ 120	$ —
C&I/Agricultural operating	1	—	—	240	—	240	240	—
Residential mortgage	8	252	295	202	—	749	749	—
Consumer installment	3	6	—	18	—	24	24	—
Totals	15	$ 297	$ 376	$ 460	$ —	$ 1,133	$ 1,133	$ —

A summary of loans by loan class modified in a troubled debt restructuring as of December 31, 2022 and December 31, 2021:

	December 31, 2022		December 31, 2021	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings:				
Commercial/Agricultural real estate	14	$ 3,214	19	$ 8,007
C&I/Agricultural operating	8	1,351	7	1,203
Residential mortgage	45	3,223	43	3,274
Consumer installment	—	—	7	39
Total loans	67	$ 7,788	76	$ 12,523

The following table provides the number of loans modified in a TDR during the previous twelve months which subsequently defaulted during the years ended December 31, 2022 and December 31, 2021, as well as the recorded investment in these restructured loans as of December 31, 2022 and December 31, 2021:

	December 31, 2022		December 31, 2021	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings:				
Commercial/Agricultural real estate	—	$ —	—	$ —
C&I/Agricultural operating	1	231	—	—
Residential mortgage	2	40	—	—
Consumer installment	—	—	1	3
Total troubled debt restructurings	3	$ 271	1	$ 3

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, 2022	December 31, 2021
Accountable for under ASC 310-30 (PCI loans)		
Outstanding balance	$ 7,000	$ 11,205
Carrying amount	$ 6,904	$ 10,552
Accountable for under ASC 310-20 (non-PCI loans)		
Outstanding balance	$ 136,192	$ 187,346
Carrying amount	$ 134,522	$ 184,399
Total acquired loans		
Outstanding balance	$ 143,192	$ 198,551
Carrying amount	$ 141,426	$ 194,951

The table below shows scheduled accretion by year for the accretable difference recognized due to fair value purchase accounting on recent whole bank acquisitions. In addition, the table below includes $1,165 of accretable discount from purchased impaired loans with the original non-accretable discount transferred to accretable discount. The accretion on this balance is scheduled to be approximately $80 in 2023; however, large balance payoffs, as seen in 2022, 2021 and 2020, would accelerate this accretion and lower future years accretion.

Fiscal years ending December 31,	Purchase Accounting Accretable Discount
2023	$ 363
2024	215
2025	180
2026	84
2027	77
Thereafter	751
Total	$ 1,670

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

	December 31, 2022	December 31, 2021
Balance at beginning of period	$ 653	$ 1,087
Additions to non-accretable difference for acquired purchased credit impaired loans	—	—
Non-accretable difference realized as interest from payoffs of purchased credit impaired loans	(239)	(105)
Transfers from non-accretable difference to accretable discount	(126)	(329)
Non-accretable difference transferred to OREO due to loan foreclosure	(192)	—
Balance at end of period	$ 96	$ 653

NOTE 4 – MORTGAGE SERVICING RIGHTS

Mortgage servicing rights--Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid balances of the one- to four-family residential mortgage loans as of December 31, 2022 and December 31, 2021 were $523,736 and $556,086, respectively. These residential mortgage loans are serviced primarily for the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and Federal National Mortgage Association.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in deposits were $2,649 and $2,781, at December 31, 2022 and December 31, 2021, respectively. Mortgage servicing rights activity for the years ended December 31, 2022 and December 31, 2021 was as follows:

	As of and for the twelve months ended December 31, 2022	As of and for the twelve months ended December 31, 2021
Mortgage servicing rights:		
Mortgage servicing rights, beginning of period	$ 4,727	$ 5,266
Increase in mortgage servicing rights resulting from transfers of financial assets	323	1,100
Amortization during the period	(788)	(1,639)
Mortgage servicing rights, end of period	4,262	4,727
Valuation allowance, beginning of period	(566)	(2,014)
Additions	—	—
Recoveries	566	1,448
Valuation allowance, end of period	—	(566)
Mortgage servicing rights, net	$ 4,262	$ 4,161
Fair value of mortgage servicing rights, end of period	$ 5,665	$ 4,312
Residential mortgage loans serviced for others	$ 523,736	$ 556,086

The current period change in valuation allowance is included in expense as mortgage servicing rights expense, net on the consolidated statement of operations. Servicing fees totaled $1,385 and $1,414 for the years ended December 31, 2022 and December 31, 2021, respectively. Late fees and ancillary fees related to loan servicing are not material.

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, 2022 was determined using discount rates ranging from 9.5% to 12.5%. Fair value at December 31, 2021 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.

At December 31, 2022, 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
2023	$ 620
2024	568
2025	515
2026	462
2027	410
After 2027	1,687
Total	$ 4,262

NOTE 5 - OFFICE PROPERTIES AND EQUIPMENT

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

	December 31, 2022	December 31, 2021
Land	$ 3,856	$ 4,215
Buildings	16,856	16,781
Furniture, equipment and vehicles	10,255	8,854
Subtotals	30,967	29,850
Less--Accumulated depreciation	(10,474)	(8,681)
Office properties and equipment, net	$ 20,493	$ 21,169

Depreciation expense was $2,357 for the year ended December 31, 2022 and $2,255 for the year ended December 31, 2021.

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

Goodwill— The beginning and ending balance of goodwill was $31,498 during the periods ended December 31, 2022 and December 31, 2021. There were no changes to goodwill during either period.

Intangible assets--Intangible assets consist of core deposit intangibles arising from various bank acquisitions. A summary of intangible assets and related amortization for the periods shown below follows:

	Year ended December 31, 2022	Year Ended December 31, 2021
Gross carrying amount	$ 12,180	$ 12,180
Accumulated amortization	(9,731)	(8,282)
Net book value	$ 2,449	$ 3,898
Amortization during the period	$ 1,449	$ 1,596

At December 31, 2022, the estimated future aggregate amortization expense for the intangible assets are as follows:

	Intangible Assets
2023	$ 755
2024	715
2025	584
2026	395
Total	$ 2,449

NOTE 7—LEASES

We have operating leases for 1 corporate office, 4 bank branch offices, 1 former bank branch office, and 1 ATM location. Our leases have remaining lease terms of 0.83 years to 5.50 years. Some of the leases include an option to extend, the longest of which is for two 5 year terms. As of December 31, 2022, we have no additional lease commitments that have not yet commenced. Lease costs are included in non-interest expense/occupancy in the consolidated statement of operations.

	Twelve Months Ended	
	December 31, 2022	December 31, 2021
The components of total lease costs were as follows:		
Operating lease cost	$ 554	$ 558
Variable lease cost	47	47
Total lease cost	$ 601	$ 605
The components of total lease income were as follows:		
Operating lease income	$ 34	$ 33
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	$ 556	$ 553
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 215	$ 2
	December 31, 2022	December 31, 2021
Supplemental balance sheet information related to leases was as follows:		
Operating lease right-of-use assets	$ 1,700	$ 2,159
Operating lease liabilities	$ 1,945	$ 2,228
Weighted average remaining lease term in years; operating leases	4.89	5.55
Weighted average discount rate; operating leases	2.98 %	2.73 %

Cash obligations and receipts under lease contracts as of December 31, 2022 are as follows:

Fiscal years ending December 31,	Payments	Receipts
2023	$ 539	$ 27
2024	467	10
2025	452	—
2026	396	—
2027	401	—
Thereafter	141	—
Total lease payments	2,396	$ 37
Less: effects of discounting	(451)	
Lease liability recognized	$ 1,945	

In November of 2022 we closed our leased Red Wing, Minnesota branch. We considered the branch closure a triggering event that required us to test the right of use asset for impairment. The carrying amount of the right of use asset was compared to its fair value, which was determined based on an estimate of future sublease income. It was determined that the right of use asset was impaired and a $180 impairment loss was recorded. This impairment loss is included in other non-interest expense in the consolidated statements of operations.

NOTE 8—DEPOSITS

The following is a summary of deposits by type at December 31, 2022 and December 31, 2021, respectively:

	December 31, 2022	December 31, 2021
Non interest bearing demand deposits	$ 284,722	$ 276,631
Interest bearing demand deposits	371,210	396,231
Savings accounts	220,019	222,674
Money market accounts	323,435	288,985
Certificate accounts	225,334	203,014
Total deposits	$ 1,424,720	$ 1,387,535

At December 31, 2022, the scheduled maturities of time deposits were as follows:

2023	$ 128,459
2024	84,604
2025	10,117
2026	1,548
2027	606
Total	$ 225,334

Time deposits of $250 or more were $66,827 and $22,381 at December 31, 2022 and December 31, 2021, respectively. Brokered deposits were $39,841 and $11 at December 31, 2022 and December 31, 2021, respectively.

Deposits from the Company's directors, executive officers, principal stockholders and their affiliates held by the Bank at December 31, 2022 and December 31, 2021 amounted to $33,673, and $34,093, respectively.

NOTE 9 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

A summary of Federal Home Loan Bank (FHLB) advances and other borrowings at December 31, 2022 and December 31, 2021 is as follows:

	December 31, 2022				December 31, 2021			
	Stated Maturity	Amount	Range of Stated Rates		Stated Maturity	Amount	Range of Stated Rates	
Federal Home Loan Bank advances (1), (2), (3), (4)	2022	$ —	— %	— %	2022	$ 11,000	2.45 %	2.45 %
	2023	117,000	1.43 %	4.31 %	2023	20,000	1.43 %	1.44 %
	2024	20,530	0.00 %	1.45 %	2024	20,530	0.00 %	1.45 %
	2025	5,000	1.45 %	1.45 %	2025	5,000	1.45 %	1.45 %
	2029	—	— %	— %	2029	42,500	1.00 %	1.13 %
	2030	—	— %	— %	2030	12,500	0.52 %	0.86 %
Subtotal		142,530				111,530		
Unamortized discount on acquired notes		—				(3)		
Federal Home Loan Bank advances, net		$ 142,530				$ 111,527		
Other borrowings:								
Senior notes (5)	2034	$ 23,250	3.00 %	6.75 %	2031	$ 28,856	3.00 %	3.50 %
Subordinated notes (6)	2027	$ —	— %	— %	2027	$ 15,000	6.75 %	6.75 %
	2030	15,000	6.00 %	6.00 %	2030	15,000	6.00 %	6.00 %
	2032	35,000	4.75 %	4.75 %	2032	—	— %	— %
		$ 50,000				$ 30,000		
Unamortized debt issuance costs		(841)				(430)		
Total other borrowings		$ 72,409				$ 58,426		
Totals		$ 214,939				$ 169,953		

(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 $984,878 and $861,900 at December 31, 2022 and 2021, respectively. At December 31, 2022, the Bank's available and unused portion under the FHLB borrowing arrangement was approximately $256,773 compared to $204,271 as of December 31, 2021.

(2) Maximum month-end borrowed amounts outstanding under this borrowing agreement were $157,530 and $123,530, during the twelve months ended December 31, 2022 and December 31, 2021, respectively.

(3) The weighted-average interest rates on FHLB borrowings, with maturities less than twelve months, outstanding as of December 31, 2022 and December 31, 2021 were 4.09% and 2.45%, respectively.

(4) At December 31, 2022, no FHLB term notes can be called by the FHLB. At December 31, 2021, FHLB term notes totaling $55,000 could be called by the FHLB on a quarterly basis, and if not called, would mature at various dates in 2029 and 2030. These notes were called by the FHLB in 2022.

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

(a) A term note, which was subsequently refinanced in March 2022, requiring quarterly interest-only payments through March 2025, and quarterly principal and interest payments thereafter. Interest is variable, based on US Prime rate minus 75 basis points with a floor rate of 3.00%.

(b) A $5,000 line of credit, maturing in August 2023, that remains undrawn upon.

(6) Subordinated notes resulted from the following:

(a) The Company's private sale in August 2017, which bore a fixed interest rate of 6.75% for five years. In August 2022, they converted to a three-month LIBOR plus 4.90% rate, and the interest rate will reset quarterly thereafter. The note was callable by the Bank when, and anytime after, the floating rate is initially set. Interest-only payments were due quarterly. The Company sent the required redemption notice to the note holders in June 2022, and this subordinated note was called and repaid in full on August 10, 2022.

(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. The note is callable by the Bank when, and anytime after, the floating rate is initially set. Interest-only payments are due semi-annually each year during the fixed interest period and quarterly during the floating interest period.

(c) The Company's Subordinated Note Purchase Agreement entered into with certain purchasers in March 2022, which bears a fixed interest rate of 4.75% for five years. In April 2027, the fixed interest rate will be reset quarterly to equal the three-month term Secured Overnight Financing Rate plus 329 basis points. The note is callable by the Bank when, and anytime after, the floating rate is initially set. 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 $191,650 and $176,150 at December 31, 2022 and 2021, respectively.

Federal Funds Purchased Lines of Credit

The Bank maintains three unsecured federal funds purchased lines of credit with its banking partners which total $75,000. These lines bear interest at the lender bank's announced daily federal funds rate, mature daily and are revocable at the discretion of the lending institution. There were no borrowings outstanding on these lines of credit as of December 31, 2022 or December 31, 2021.

Federal Reserve Borrowings

At December 31, 2022 and 2021, the Bank had the ability to borrow $4,118 and $847 from the Federal Reserve Bank of Minneapolis. The ability to borrow is based on mortgage-backed securities pledged with a carrying value of $5,421 and $863 as of December 31, 2022 and 2021, respectively. There were no Federal Reserve borrowings outstanding as of December 31, 2022 and 2021.

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

The Bank originated Small Business Administration's Paycheck Protection Program ("SBA PPP") loans and complied with the requirements to pledge these loans to the FRB PPPLF program which provided 100% funding for SBA PPP loans upon request. This FRB PPPLF program expired on July 30, 2021. The Bank had no outstanding loan balances under this facility at December 31, 2021. There were no month-end borrowed amounts outstanding under this agreement during the twelve months ended December 31, 2021. In July 2021, the bank pledged these SBA PPP loans to the FHLB.

NOTE 10—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, 2022 and 2021, 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, 2022 and 2021, respectively, are presented below:

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of December 31, 2022								
Total capital (to risk weighted assets)	$ 221,361	14.2 %	$ 124,971	> =	8.0 %	$ 156,213	> =	10.0 %
Tier 1 capital (to risk weighted assets)	203,422	13.0 %	93,728	> =	6.0 %	124,971	> =	8.0 %
Common equity tier 1 capital (to risk weighted assets)	203,422	13.0 %	70,296	> =	4.5 %	101,539	> =	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	203,422	11.5 %	70,610	> =	4.0 %	88,262	> =	5.0 %
As of December 31, 2021								
Total capital (to risk weighted assets)	$ 187,783	13.4 %	$ 111,694	> =	8.0 %	$ 139,618	> =	10.0 %
Tier 1 capital (to risk weighted assets)	170,870	12.2 %	83,771	> =	6.0 %	111,694	> =	8.0 %
Common equity tier 1 capital (to risk weighted assets)	170,870	12.2 %	62,828	> =	4.5 %	90,752	> =	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	170,870	10.0 %	68,323	> =	4.0 %	85,403	> =	5.0 %

The Company's Tier 1 (leverage) and risk-based capital ratios at December 31, 2022 and 2021, respectively, are presented below:

	Actual		For Capital Adequacy Purposes		
	Amount	Ratio	Amount		Ratio
As of December 31, 2022					
Total capital (to risk weighted assets)	$ 218,737	14.0 %	$ 124,971	> =	8.0 %
Tier 1 capital (to risk weighted assets)	150,798	9.7 %	93,728	> =	6.0 %
Common equity tier 1 capital (to risk weighted assets)	150,798	9.7 %	70,296	> =	4.5 %
Tier 1 leverage ratio (to adjusted total assets)	150,798	8.5 %	70,610	> =	4.0 %
As of December 31, 2021					
Total capital (to risk weighted assets)	$ 182,242	13.1 %	$ 111,694	> =	8.0 %
Tier 1 capital (to risk weighted assets)	135,329	9.7 %	83,771	> =	6.0 %
Common equity tier 1 capital (to risk weighted assets)	135,329	9.7 %	62,828	> =	4.5 %
Tier 1 leverage ratio (to adjusted total assets)	135,329	7.9 %	68,323	> =	4.0 %

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 Agreements dated August 27, 2020 and March 11, 2022, and Business Note Agreement dated June 26, 2019, 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, 2022 and 2021, respectively.

	December 31, 2022	December 31, 2021
Cash dividends per share	$ 0.26	$ 0.23
Stockholder record date	02/14/2022	02/11/2021
Dividend payment date	02/28/2022	02/25/2021

NOTE 11—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.

The following table presents a summary of commitments described below as of December 31, 2022 and 2021, respectively:

	Contract or Notional Amount at December 31, 2022		Contract or Notional Amount at December 31, 2021	
Commitments to extend credit	$	243,045	$	270,985
Commercial standby letter of credit	$	4,252	$	3,825
Commitment to contribute capital to SBIC	$	2,400	$	2,400
Commitment to contribute capital to investment company	$	2,340	$	2,640

***Commitments to extend credit*—**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*—**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, 2022 and 2021.

***Capital Contributions*—**The Company has commitments to invest in a SBIC and investment company that call for capital contributions up to an amount specified in the partnership agreements.

***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 12—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 $621 and $613 for the year ended December 31, 2022 and 2021, respectively.

NOTE 13 - STOCK-BASED COMPENSATION

In February 2008, the Company's stockholders approved the Company's 2008 Equity Incentive Plan for a term of 10 years. Due to the plan's expiration, no new awards can be granted under this plan. As of December 31, 2022, there are no awarded unvested restricted shares and 58,000 awarded unexercised options remaining from the plan. Options granted to date under this plan vest pro rata over a five-year period from the grant date. 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, 2022, 221,030 restricted shares had been granted under this plan. This amount includes 11,834 shares of performance based restricted stock granted in 2019 and issued in January 2022 upon achievement of the performance criteria and completion of the three year performance period beginning in January 2019 and ending December 31, 2021. In addition, it includes 1,119 shares of performance based restricted stock granted in 2020 and 638 shares of performance based restricted stock granted in 2021 issued in August of 2022. Both of these issuances were approved by the Compensation Committee in accordance with plan documents and were to a former employee. As of December 31, 2022, no stock options had been granted under this plan.

Net compensation expense related to restricted stock awards from these plans was $860 and $797 for the years ended December 31, 2022 and 2021, respectively.

Restricted Common Stock Awards

	Year ended December 31, 2022		Year ended December 31, 2021	
	Number of Shares	Weighted Average Grant Price	Number of Shares	Weighted Average Grant Price
Restricted Shares				
Unvested and outstanding at beginning of year	75,630	$ 11.20	57,242	$ 12.23
Granted	43,465	13.99	64,399	10.78
Vested	(40,843)	12.12	(44,511)	13.26
Forfeited	(2,626)	11.04	(1,500)	10.78
Unvested and outstanding at end of period	75,626	$ 12.30	75,630	$ 11.20

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, 2022 and 2021 was $3 and $8, respectively.

Common Stock Option Awards

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Year ended December 31, 2022				
Outstanding at beginning of year	65,900	$ 11.20		
Exercised	(7,900)	8.95		
Forfeited or expired	—	—		
Outstanding at end of period	58,000	11.51	3.73	$ 65
Exercisable at end of period	58,000	$ 11.51	3.73	$ 65
Year ended December 31, 2021				
Outstanding at beginning of year	72,300	$ 11.05		
Exercised	(5,800)	8.99		
Forfeited or expired	(600)	13.76		
Outstanding at end of year	65,900	11.20	4.61	$ —
Exercisable at end of year	61,700	$ 11.03	4.54	$ 4

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

	Year ended December 31, 2022	Year ended December 31, 2021
Intrinsic value of options exercised	$ 38	$ 28
Cash received from options exercised	$ 71	$ 52
Tax benefit realized from options exercised	$ —	$ —

NOTE 14 – INCOME TAXES

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

	Year ended December 31, 2022	Year ended December 31, 2021
Current tax provision		
Federal	$ 3,565	$ 4,761
State	1,749	2,002
	5,314	6,763
Deferred tax provision (benefit)		
Federal	355	585
State	151	345
	506	930
Total	$ 5,820	$ 7,693

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, 2022		Year ended December 31, 2021	
	Amount	Rate	Amount	Rate
Tax expense at statutory rate	$ 4,952	21.0 %	$ 6,082	21.0 %
State income taxes, net of federal	1,501	6.4 %	1,854	6.4 %
Tax credits	(514)	(2.2)%	—	— %
Bank owned life insurance	(135)	(0.6)%	(132)	(0.4)%
Tax exempt interest	(59)	(0.3)%	(52)	(0.2)%
Other	75	0.4 %	(59)	(0.2)%
Total	$ 5,820	24.7 %	$ 7,693	26.6 %

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, 2022 and December 31, 2021, respectively:

	Year ended December 31, 2022	Year ended December 31, 2021
Deferred tax assets:		
Allowance for loan losses	$ 4,934	$ 4,587
Deferred loan costs/fees	591	558
Restricted stock	243	189
Economic performance accruals	871	981
Loan discounts	375	854
Lease liability	535	613
Net unrealized losses on securities available for sale	6,697	—
Other	44	71
Deferred tax assets	$ 14,290	$ 7,853
Deferred tax liabilities:		
Office properties and equipment	(2,098)	(1,595)
Federal Home Loan Bank stock	(129)	(129)
Core deposit intangible	(1,019)	(1,298)
Net gain on equity securities	(710)	(641)
Prepaid expenses	(250)	(198)
Mortgage servicing rights	(1,172)	(1,144)
Leases; right of use asset	(467)	(594)
Net unrealized gains on securities available for sale	—	(61)
Deferred tax liabilities	$ (5,845)	$ (5,660)
Net deferred tax assets	$ 8,445	$ 2,193

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, 2022 and December 31, 2021, 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, 2022, years open to examination by the U.S. Internal Revenue Service include taxable years ended December 31, 2019 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 15 – 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, 2022 and December 31, 2021.

	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, 2022				
Investment securities:				
U.S. government agency obligations	$ 18,313	$ —	$ 18,313	$ —
Obligations of states and political subdivisions	—	—	—	—
Mortgage-backed securities	78,610	—	78,610	—
Corporate debt securities	40,251	—	40,251	—
Corporate asset-backed securities	28,817	—	28,817	—
Total investment securities	165,991	—	165,991	—
Equity investments:				
Equity investments	338	338	—	—
Equity investments measured at NAV(1)	1,456	—	—	—
Total equity investments	1,794	338	—	—
Total	$ 167,785	$ 338	$ 165,991	$ —
December 31, 2021				
Investment securities:				
U.S. government agency obligations	$ 26,265	$ —	$ 26,265	$ —
Obligations of states and political subdivisions	140	—	140	—
Mortgage-backed securities	107,167	—	107,167	—
Corporate debt securities	35,588	—	35,588	—
Corporate asset-backed securities	33,908	—	33,908	—
Total Investment Securities	203,068	—	203,068	—
Equity investments:				
Equity investments	368	368	—	—
Equity investments measured at NAV(1)	960	—	—	—
Total equity investments	1,328	368	—	—
Total	$ 204,396	$ 368	$ 203,068	$ —

(1) Investments valued at NAV are excluded from being reported under the fair value hierarchy but are presented to permit reconciliation with the balance sheet in accordance with ASC 820-10-35-54B.

For the years ended December 31, 2022 and December 31, 2021, 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, 2022 or December 31, 2021. 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, 2022 or December 31, 2021, 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, 2022 and December 31, 2021:

	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, 2022				
Foreclosed and repossessed assets, net	$ 1,271	$ —	$ —	$ 1,271
Impaired loans with allocated allowances	6,920	—	—	6,920
Mortgage servicing rights	4,262	—	—	5,665
Total	$ 12,453	$ —	$ —	$ 13,856
December 31, 2021				
Foreclosed and repossessed assets, net	$ 1,408	$ —	$ —	$ 1,408
Impaired loans with allocated allowances	5,580	—	—	5,580
Mortgage servicing rights	4,161	—	—	4,312
Total	$ 11,149	$ —	$ —	$ 11,300

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, 2022 and December 31, 2021.

	Fair Value	Valuation Techniques (1)	Significant Unobservable Inputs (2)	Range
December 31, 2022				
Foreclosed and repossessed assets, net	$ 1,271	Appraisal value	Estimated costs to sell	10% - 15%
Impaired loans with allocated allowances	$ 6,920	Appraisal value	Estimated costs to sell	10% - 15%
Mortgage servicing rights	$ 5,665	Discounted cash flows	Discounted rates	9.5% - 12.5%
December 31, 2021				
Foreclosed and repossessed assets, net	$ 1,408	Appraisal value	Estimated costs to sell	10% - 15%
Impaired loans with allocated allowances	$ 5,580	Appraisal value	Estimated costs to sell	10% - 15%
Mortgage servicing rights	$ 4,312	Discounted cash flows	Discounted rates	9% - 12%

(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, 2022		December 31, 2021	
	Valuation Method Used	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	(Level I)	$ 35,363	$ 35,363	$ 47,691	$ 47,691
Other interest bearing deposits	(Level II)	249	250	1,511	1,535
Securities available for sale "AFS"	(Level II)	165,991	165,991	203,068	203,068
Securities held to maturity "HTM"	(Level II)	96,379	76,779	71,141	69,177
Equity investments	(Level I)	338	338	368	368
Equity investments valued at NAV (1)	N/A	1,456	1,456	960	960
Other investments	(Level II)	15,834	15,834	15,305	15,305
Loans receivable, net	(Level III)	1,393,845	1,342,838	1,294,050	1,319,293
Loans held for sale - Residential mortgage	(Level I)	—	—	1,224	1,250
Loans held for sale - SBA	(Level II)	—	—	5,446	5,776
Mortgage servicing rights	(Level III)	4,262	5,665	4,161	4,312
Accrued interest receivable	(Level I)	5,285	5,285	3,916	3,916
Financial liabilities:					
Deposits	(Level III)	$ 1,424,720	$ 1,420,871	$ 1,387,535	$ 1,388,390
FHLB advances	(Level II)	142,530	141,060	111,527	113,285
Other borrowings	(Level I)	72,409	72,409	58,426	58,426
Accrued interest payable	(Level I)	968	968	586	586

(1) Investments valued at NAV are excluded from being reported under the fair value hierarchy but are presented to permit reconciliation with the balance sheet in accordance with ASC 820-10-35-54B.

NOTE 16—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:

(Share count in thousands)	Year ended December 31, 2022	Year ended December 31, 2021
Basic		
Net income attributable to common shareholders	$ 17,761	$ 21,266
Weighted average common shares outstanding	10,505	10,717
Basic earnings per share	$ 1.69	$ 1.98
Diluted		
Net income attributable to common shareholders	$ 17,761	$ 21,266
Weighted average common shares outstanding	10,505	10,717
Add: Dilutive stock options outstanding	9	10
Average shares and dilutive potential common shares	10,514	10,727
Diluted earnings per share	$ 1.69	$ 1.98
Additional common stock option shares that have not been included due to their antidilutive effect	21	21

NOTE 17 – 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, 2022			For the year ended, December 31, 2021		
	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Unrealized losses on securities:						
Net unrealized losses arising during the period	$ (24,575)	$ 6,758	$ (17,817)	$ (1,261)	$ 352	$ (909)
Reclassification adjustment for gains included in net income	—	—	—	(573)	153	(420)
Other comprehensive loss	$ (24,575)	$ 6,758	$ (17,817)	$ (1,834)	$ 505	$ (1,329)

The changes in the accumulated balances for each component of other comprehensive income (loss), net of tax for the years ended December 31, 2022 and December 31, 2021 were as follows:

	Unrealized Gains (Losses) on AFS Securities	Other Accumulated Comprehensive Income (Loss), net of tax
Beginning Balance, January 1, 2021	$ 2,056	$ 1,490
Current year-to-date other comprehensive loss	(1,834)	(1,329)
Ending balance, December 31, 2021	$ 222	$ 161
Current year-to-date other comprehensive loss	(24,575)	(17,817)
Ending balance, December 31, 2022	$ (24,353)	$ (17,656)

Reclassifications out of accumulated other comprehensive income (loss) for the twelve months ended December 31, 2022 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	$ —	Net gains (losses) on investment securities
Tax effect	—	Provision for income taxes
Total reclassifications for the period	$ —	Net income attributable to common shareholders

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

Reclassifications out of accumulated other comprehensive income (loss) for the twelve months ended December 31, 2021 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	$ 573	Net gains (losses) on investment securities
Tax effect	(153)	Provision for income taxes
Total reclassifications for the period	$ 420	Net income attributable to common shareholders

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

NOTE 18—CONDENSED FINANCIAL INFORMATION – PARENT COMPANY ONLY

The following condensed balance sheets as of December 31, 2022 and 2021, and condensed statements of operations and cash flows for the years ended December 31, 2022 and 2021, 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, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 19,221	$ 22,465
Equity investments	946	360
Other assets	386	386
Investment in subsidiary	219,714	206,427
Total assets	$ 240,267	$ 229,638
Liabilities and Stockholders' Equity		
Other borrowings	$ 72,409	$ 58,426
Other liabilities	770	346
Total liabilities	73,179	58,772
Total stockholders' equity	167,088	170,866
Total liabilities and stockholders' equity	$ 240,267	$ 229,638

Statements of Operations

	Year ended December 31, 2022	Year ended December 31, 2021
Interest income	$ —	$ —
Interest expense	4,296	2,946
Net interest expense	(4,296)	(2,946)
Dividend income from bank subsidiary	6,000	12,500
Non-interest income	422	—
Non-interest expense	(918)	(673)
Net income before benefit for income taxes and equity in undistributed income of subsidiaries	1,208	8,881
Benefit for income taxes	1,310	989
Net earnings before equity in undistributed income of subsidiaries	2,518	9,870
Equity in undistributed income of subsidiaries	15,243	11,396
Net income	$ 17,761	$ 21,266

Statements of Cash Flows

	Year ended December 31, 2022	Year ended December 31, 2021
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	$ 17,761	$ 21,266
Depreciation expense	13	12
Net valuation gain on equity securities	(422)	—
Stock based compensation expense	3	8
Adjustments to reconcile net income to net cash provided by operating activities - Equity in undistributed income of subsidiary	(21,243)	(23,896)
Net change in:		
Other assets	(14)	(23)
Other liabilities	424	(33)
Net cash used in operating activities	(3,478)	(2,666)
Cash flows from investing activities:		
Purchase of equity investments	(300)	(360)
Equity investment capital distribution	136	—
Capital contribution to bank subsidiary	(15,000)	—
Net cash used in investing activities	(15,164)	(360)
Cash flows from financing activities:		
Proceeds from other borrowings, net of origination costs	34,191	—
Amortization of debt issuance costs	398	98
Other borrowings principal reductions	(5,606)	—
Other borrowings called and repaid	(15,000)	—
Repurchase shares of common stock	(1,764)	(7,951)
Surrender of restricted shares of common stock	(150)	(30)
Common stock options exercised	71	52
Dividend from bank subsidiary	6,000	12,500
Cash dividends paid	(2,742)	(2,511)
Net cash provided by financing activities	15,398	2,158
Net decrease in cash and cash equivalents	(3,244)	(868)
Cash and cash equivalents at beginning of year	22,465	23,333
Cash and cash equivalents at end of year	$ 19,221	$ 22,465

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

None

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, 2022, 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, 2022 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.

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, 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTION

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 2023 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2023.

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 four outside independent directors: Timothy Olson (Chairman), Richard McHugh, Kristina Bourget and Kathleen Skarvan.

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 2023 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2023.

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 2023 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2023.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2022, 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	58,000	$ 11.51	128,970
Equity compensation plans not approved by security holders	—	—	—
Total	58,000	$ 11.51	128,970

(1) Represents 58,000 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 128,970 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 2023 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2023.

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 2023 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 30, 2023.

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)

Consolidated Balance Sheets as of December 31, 2022 and 2021

Consolidated Statements of Operations for the Years Ended December 31, 2022 and 2021

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2022 and 2021

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2022 and 2021

Consolidated Statements of Cash Flows for the Years Ended December 31, 2022 and 2021

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	Amended and Restated Bylaws of the Registrant dated January 23, 2023 (filed herewith).
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)).
4.6	Form of Subordinated Note Purchase Agreement (incorporated by reference to Exhibit 4.1 to the Company’s current report on Form 8-K filed on March 14, 2022 (File No. 001-33003).
4.7	Form of Subordinated Note (incorporated by reference to Exhibit 4.2 to the Company’s current report on Form 8-K filed on March 14, 2022 (File No. 001-33003)).
4.8	Form of Global Subordinated Note (incorporated by reference to Exhibit 4.3 to the Company’s current report on Form 8-K filed on March 14, 2022 (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+	First Amendment to Citizens Community Bancorp, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Form 10-K filed on March 2, 2022 (File No. 001-33003)).
10.6+	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)).
10.7+	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)).
10.8+	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)).
10.9+	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)).
10.10+	Form of Citizens Community Bancorp, Inc. 2020 Long Term Incentive Plan Award Agreement (incorporated by reference to Exhibit 10.9 to the Company's annual report on Form 10-K filed on March 8, 2021 (file No. 001-33003)).
10.11+	Form of Citizens Community Bancorp, Inc. Long Term Incentive Plan Award Agreement for Time-Based Restricted Shares (incorporated by reference to Exhibit 10.11 to the Company's Form 10-K filed on March 2, 2022 (File No. 001-33003)).
10.12+	Form of Citizens Community Bancorp, Inc. Long Term Incentive Plan Award Agreement for Performance-Based Restricted Shares (incorporated by reference to Exhibit 10.12 to the Company's Form 10-K filed on March 2, 2022 (File No. 001-33003)).
10.13+	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)).
10.14+	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)).
10.15+	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)).
10.16+	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)).

10.17+	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)).
10.18+	Business Note Renewal, dated August 1, 2021, 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 8, 2021 (File No. 001-33003)).
10.19+	Note Modification Agreement, dated October 20, 2021, to the Business Note, dated October 22, 2020 issued by Citizens Community Bancorp, Inc. to Chippewa Valley Bank (incorporated by reference to Exhibit 10.19 to the Company's Form 10-K filed on March 2, 2022 (File No. 001-33003)).
10.20 +	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)).
10.21+	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)).
10.22+	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)).
10.23+	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)).
10.24+	Third Amended and Restated Executive Employment Agreement by and between Citizens Community Bancorp, Inc., Citizens Community Federal, N.A., and Stephen Bianchi, dated as of April 21, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 4, 2022 (File No. 001-33003)).
10.25+	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 April 21, 2022 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on August 4, 2022 (File No. 001-33003)).
10.26	Business Note Renewal, Dated August 1, 2022, issued by Citizens Community Bancorp, Inc. to Chippewa Valley Bank (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 7, 2022 (File No. 001-33003)).
21	Subsidiaries of the Company as of December 31, 2022 (filed herewith).
23.1	Consent of Independent Registered Public Accounting Firm (Eide Bailly, 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, 2022 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 7, 2023

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 7, 2023	By: /s/ Stephen M. Bianchi Stephen M. Bianchi President and Chief Executive Officer, Chairman of the Board (Principal Executive Officer)
Date: March 7, 2023	By: /s/ Richard McHugh Richard McHugh Lead Director
Date: March 7, 2023	By: /s/ Kristina M. Bourget Kristina M. Bourget Director
Date: March 7, 2023	By: /s/ Francis E. Felber Francis E. Felber Director
Date: March 7, 2023	By: /s/ James D. Moll James D. Moll Director
Date: March 7, 2023	By: /s/ Timothy L. Olson Timothy L. Olson Director
Date: March 7, 2023	By: /s/ Kathleen S. Skarvan Kathleen S. Skarvan Director
Date: March 7, 2023	By: /s/ Michael L. Swenson Michael L. Swenson Director
Date: March 7, 2023	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 South located at 4751 Owen Ayres Ct, Eau Claire, WI 54701, on Tuesday, June 20, 2023 at 4:00 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 2022			
First Quarter (three months ended March 31, 2022)	$ 16.49	$ 13.54	$ 0.26
Second Quarter (three months ended June 30, 2022)	$ 15.52	$ 12.30	$ -
Third Quarter (three months ended September 30, 2022)	$ 13.79	$ 13.66	$ -
Fourth Quarter (three months ended December 31, 2022)	$ 14.55	$ 14.40	$ -
Fiscal 2021			
First Quarter (three months ended March 31, 2021)	$ 13.03	$ 10.42	$ 0.23
Second Quarter (three months ended June 30, 2021)	$ 14.81	$ 12.36	$ -
Third Quarter (three months ended September 30, 2021)	$ 14.25	$ 13.15	$ -
Fourth Quarter (three months ended December 31, 2021)	$ 13.99	$ 13.46	$ -

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 7, 2023 was $12.35.

At March 7, 2023, there were 10,482,821 shares of Citizens Community Bancorp, Inc. common stock outstanding and the approximate number of holders of record was 584.

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, 2022 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, 2022 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
Francis E. Felber
James D. Moll
Kristina M. Bourget
Timothy L. Olson
Kathleen S. Skarvan

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 - Wisconsin:
Altoona - Fairfax Branch
219 Fairfax Street
Altoona, WI 54720

Barron Branch
25 North Mill Street
Barron, WI 54812

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

La Crosse Branch
141 7th St South
La Crosse, WI 54601

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

Special Counsel
Taft Stettinius & Hollister LLP
2200 IDS Center
80 South Eighth Street
Minneapolis, MN 55402

Branch Offices – Wisconsin Cont:
Osseo Branch
50518 Charles Street
Osseo, WI 54758

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

Spooner Branch
322 North River Street
Spooner, WI 54801

Strum Branch
131 5th Ave N
Strum, WI 54770

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

Tomah South Branch
1001 Superior Ave
Tomah, WI 54660

Branch Offices - Minnesota:
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

Branch Offices – Minnesota Cont:
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

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

Wells Branch
53 First St SW
Wells, MN 56097

Independent Registered Public Accounting Firm
Eide Bailly, LLP
1850 N. Central Ave., Ste. 400
Phoenix, AZ 85004