
**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, 2023

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

(State or other jurisdiction of
incorporation or organization)

20-5120010

(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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, 2023, was approximately \$80.3 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 5, 2024 there were 10,456,880 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 2024 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, 2023

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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;
- geopolitical tensions, including current or anticipated impact of military conflicts;
- higher lending risks associated with our commercial and agricultural banking activities;
- future pandemics (including new variants of COVID-19);
- cybersecurity risks;
- adverse impacts on the regional banking industry and the business environment in which it operates;
- interest rate risk;
- lending risk;
- changes in the fair value or ratings downgrades of our securities;
- the sufficiency of allowance for credit losses;
- 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;
- 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 credit 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, 2023 (which we sometimes refer to in this Annual Report as “fiscal 2023”) and December 31, 2022 (which we sometimes refer to in this Annual Report as “fiscal 2022”).

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, 2023, we had approximately \$1.851 billion in total assets, \$1.519 billion in deposits, and \$173.3 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 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 this 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 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, 2023, were \$1.465 billion, consisting of \$1.173 billion in commercial/agricultural real estate loans, \$147.4 million in C&I/agricultural operating loans, \$131.9 million in residential mortgage loans and \$12.7 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, asset-backed securities, U.S. Government sponsored agency securities and corporate debt 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, 2023, our total deposits were \$1.519 billion including interest bearing deposits of \$1.253 billion and non-interest bearing deposits of \$0.266 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.

Federal Banking Regulation

Federal banking institutions, like the Bank, their holding companies and their affiliates are extensively regulated under federal law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of applicable statutes and by the regulations and policies of various bank regulatory agencies, including our primary regulator, the Federal Reserve, and the Bank's primary regulator, the OCC, as well as the FDIC, as the insurer of our deposits, and the Consumer Financial Protection Bureau ("CFPB"), as the regulator of consumer financial services and their providers. Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board ("FASB"), securities laws administered by the Securities and Exchange Commission ("SEC") and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury ("Treasury") have an impact on our business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to our operations and results.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of federal banking institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of our business, the kinds and amounts of investments we may make, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, our ability to merge, consolidate and acquire, dealings with the Company's and the Bank's insiders and affiliates and our payment of dividends. In reaction to the global financial crisis and particularly following passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), we experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically significant financial service providers, their influence filtered down in varying degrees to community banks over time and caused our compliance and risk management processes, and the costs thereof, to increase. The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("Regulatory Relief Act") eliminated questions about the applicability of certain Dodd-Frank Act reforms to community bank systems, including relieving us of any requirement to engage in mandatory stress tests, maintain a risk committee or comply with the Volcker Rule's complicated prohibitions on proprietary trading and ownership of private funds. In 2022, the Company adopted a clawback policy that is consistent with Section 10D and Rule 10D-1 of the Securities Exchange Act of 1934, as amended, and the listing standards adopted by the Nasdaq Stock Market, each of which were mandated by the Dodd-Frank Act.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Bank. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

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 being deemed to have 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. The current maximum per depositor FDIC insurance amount is \$250,000. The FDIC applies a risk-based system for setting deposit insurance assessments. 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 FDIC currently defines the base for FDIC insurance assessments based on 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, 2023, the Bank had \$7.3 million in FHLB stock, which was in compliance with this requirement. The Bank receives dividends on its FHLB stock.

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

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

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

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

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 5, 2024, we had 214 full-time employees and 232 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 as of December 2023 was 3.4% measured by consumer price index. 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.

Geopolitical tensions, including current or anticipated impact of military conflicts, could adversely affect general economic industry conditions. Geopolitical tensions may affect our earnings. Adverse economic conditions may result from a variety of factors including domestic and global economic and political developments, including civil unrest, terrorism, foreign investment restrictions, or military action, such as the armed conflict between Ukraine and Russia and corresponding sanctions imposed by the United States and other countries or the conflict in Israel and the surrounding areas, and new or evolving legal and regulatory requirements on business investment, hiring, migration, labor supply and global supply chains.

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.

Future pandemics (including new variants of COVID-19), could materially affect our results of operations, financial position and/or liquidity. COVID-19 presented, and any future pandemics (including new variants of COVID-19) could present, the following risks, among others: inflation; increased unemployment levels; disruptions in global supply chains and financial markets; adverse legislative or regulatory actions; operational disruptions; increased general and administrative expenses; financial market disruption; and an economic downturn. These risks could materially and adversely impact our results of operations, financial position and/or liquidity. For a further discussion of risks that can impact us as a result of financial market disruption or an economic downturn, see "*Our business may be adversely affected by conditions in the financial markets and economic conditions generally.*"

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

We rely on network and information systems and other technologies, and, as a result, we are subject to various Cybersecurity risks. Cybersecurity refers to the combination of technologies, processes and procedures established to protect information technology systems and data from unauthorized access, attack, or damage. Our business involves the storage and transmission of customers' personal information. While we have internal policies and procedures designed to prevent or limit the effect of a failure, interruption or security breach of our information systems, as well as contracts and service agreements with applicable outside vendors, we cannot be assured that any such failures, interruptions or security breaches will not occur or, if they do, that they will be addressed adequately. 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.

The impact of larger or similar-sized financial institutions encountering financial difficulties may adversely affect the Company's business, earnings and financial condition.

The Company is exposed to the risk that when a peer financial institution experiences financial difficulties, there could be an adverse impact on the regional banking industry and the business environment in which it operates. The bank failures of Silicon Valley Bank in California, Signature Bank in New York, and First Republic Bank in California during the first and second quarters of 2023 have caused a degree of concern and uncertainty in the investor community and among bank customers generally. Uncertainty may be compounded by the reach and depth of media attention and its ability to disseminate concerns about these types of events. This public uncertainty and concern could potentially affect the Bank despite its relatively high percentage of deposits (82% as of December 31, 2023) that are either insured or collateralized and its balance sheet liquidity and collateralized borrowing capacity being well in excess of the uninsured deposit balances. While the Company does not believe that the circumstances of these three banks' failures are indicators of broader issues with the banking system, the failures may reduce customer confidence, affect sources of funding and liquidity, increase regulatory requirements and costs, adversely affect financial markets and/or have a negative reputational ramification for the banking industry, including the Company. The Company will continue to monitor the ongoing events concerning these three banks as well as any future potential bank failures and volatility within the banking industry generally, together with any responsive measures taken by the banking regulators to mitigate or manage potential turmoil in the banking industry.

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, 2023, \$155.7 million of our securities, were classified as available for sale (AFS) and \$91.2 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, an allowance for credit losses ("ACL") will be established. At December 31, 2023, no ACL was established for available for sale securities or held to maturity securities. At December 31, 2023, U.S. government issued or U.S. agency issued securities were carried at \$181.3 million or 73.4% of the combined AFS and HTM portfolio.

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.

Our allowance for credit losses - loans may be insufficient. To address risks inherent in our loan portfolio, we maintain an allowance for credit losses that represents the Company's best estimate of the reserve necessary to adequately account for probable losses expected over the remaining life of the assets. Factors considered by the Company in evaluating the overall adequacy of the allowance include historical net loan losses, the level and composition of nonaccrual, past due and modifications, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates. The Company estimates the appropriate level of allowance for credit losses by evaluating loans collectively on a pooled basis when similar risk characteristics exist, and on an individual basis when management determines that a loan does not share similar risk characteristics with other loans. 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 credit losses. In addition, bank regulatory agencies periodically examine our allowance for credit 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 credit losses, we will need to take additional credit loss provisions to increase our allowance for credit losses. Any additional provision for credit losses 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.

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 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 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, 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 9,047,304 shares of our common stock held by nonaffiliates as of March 5, 2024. 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") adopted a new accounting standard referred to as Current Expected Credit Loss, or CECL, which requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. CECL became effective in January 2023 for smaller reporting companies such as the Company. This changed 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 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 October 1, 2020, a Federal Reserve Board final rule became effective 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 being deemed to have 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, stockholders 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 1C. CYBERSECURITY

We maintain an information security program and governance framework that are designed to protect our information systems against operational risks related to cybersecurity.

Risk Management and Strategy

Cyber risk management is a critical component of our risk management framework. Processes for assessing, identifying, and managing material risks arising from cybersecurity threats are integrated in our policies and procedures, including our enterprise risk appetite, risk assessment, risk treatment, risk acceptance or exceptions, and third party risk management policies.

Our cybersecurity program (“Cybersecurity Program”) provides a framework for compliance with applicable cybersecurity and data protection laws. Our program is designed to ensure the security and confidentiality of customer information, protect against known or evolving threats to the security or integrity of customer records and personal information and protect against unauthorized access to or use of such information. We work with our regulators to ensure that these policies are adequately designed to appropriately safeguard personal information. We use a variety of processes and technologies to monitor for and identify cybersecurity threats, including vulnerabilities scans, endpoint and network monitoring software, and email scanning software. We also have a Cyber Incident Response Policy and detailed plans. We conduct annual cybersecurity risk assessments which drive strategic decisions. Employees are required to abide by our cybersecurity and data protection policies. We maintain a corporate cyber risk insurance policy as part of our cybersecurity risk strategy that is reviewed annually.

To date, the Company has not experienced a material cybersecurity incident.

Governance

Cybersecurity and data protection are important for the Company to maintain the trust of our customers, team members and stakeholders. Overseen by the Board of Directors and its Risk Committee, we regularly review, and as appropriate, adapt our Cybersecurity Program to an evolving landscape of emerging threats, evaluate effectiveness of key security controls, and assess cybersecurity best practices.

The Chief Information Security Officer (“CISO”) and the Chief Technology Officer (“CTO”) are key management roles responsible for assessing and managing material risks from cybersecurity threats. The CISO reports to the Risk Committee and is responsible for implementing and maintaining our enterprise cybersecurity organization. The CISO will maintain an Incident Response Plan. The CISO ensures that the Incident Response Plan is tested annually and will present testing results to the Risk Committee. The CISO and/or its delegate will share applicable threat information to ensure Board members and staff are informed on the evolving threat environment. The CISO is responsible for ensuring the Board of Directors and staff are trained annually on cybersecurity and information security awareness. Additionally, the CISO ensures staff is adequately trained on Incident Response Plan procedures. The CISO will ensure security incidents are logged and maintained. The CTO provides our Cybersecurity Program with the technical and functional resources to achieve its strategic goals and objectives, and partners and collaborates with the CISO.

The Risk Committee is responsible for overseeing the Company’s management of cybersecurity risk, including oversight into appropriate risk mitigation, strategies, processes, systems, and controls. The CISO has regular and direct communication with the Risk Committee, providing a written cybersecurity report to the Risk Committee and a written cybersecurity report and briefing to the full Board on an annual basis (more frequently as necessary), in order to inform the Risk Committee of the state of the Company’s Cybersecurity Program. These reports cover, but are not limited to, the Company’s cybersecurity posture, overall status of the Company’s compliance with the Cybersecurity Program, threat environment, material cybersecurity risks and events, Cybersecurity Program improvements and effectiveness, and other material matters related to the Cybersecurity Program.

ITEM 2. PROPERTIES

The Company leases its main administrative offices located at 2174 EastRidge Center, Eau Claire, WI 54701. At December 31, 2023, 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 564 stockholders of record at March 5, 2024. 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, 2023, approximately 27 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, 2023.

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, 2023 - October 31, 2023	—	\$ —	—	229,659
November 1, 2023 - November 30, 2023	27,500	\$ 11.00	27,500	202,159
December 1, 2023 - December 31, 2023	—	\$ —	—	202,159
Total	27,500	\$ 11.00	27,500	

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, 2023 and December 31, 2022, and our financial position as of December 31, 2023 and December 31, 2022, 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, 2023 and December 31, 2022.

PERFORMANCE SUMMARY

The following is a summary of some of the significant factors that affected our operating results for the twelve months ended December 31, 2023, and 2022. In 2023, net interest income decreased, primarily due to the impact of higher short-term interest rates on the Bank's liability-sensitive balance sheet, i.e., higher deposit costs, and customer account shifts to higher-cost certificates, along with increased borrowing costs, partially offset by higher yields on assets. The Company recorded \$0.475 million of negative provision for credit losses in 2023, largely due to net recoveries of \$0.451 million. In 2023, the allowance for credit losses ("ACL") impact of loan growth was offset by favorable changes in overall economic factors and a modest reduction in specific ACL. A provision for loan losses of \$1.475 million was recorded in 2022. Fiscal 2023's higher interest rate and tight housing supply environment, led the Company to originate fewer mortgage loans for sale, which decreased gain on sale and income recorded in loan servicing income from the capitalization of mortgage servicing rights. Non-interest expense decreased modestly in 2023, largely due to lower compensation expense due to lower production incentives and lower net income and higher branch closing costs incurred in 2022.

When comparing year-over-year results, changes in net interest income, provision for credit 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 \$13.06 million for the twelve months ended December 31, 2023, compared to net income of \$17.76 million for the twelve months ended December 31, 2022. Diluted earnings per share were \$1.25 for the twelve months ended December 31, 2023, compared to \$1.69 for the twelve months ended December 31, 2022. Return on average assets for the twelve months ended December 31, 2023, was 0.71%, compared to 1.00% for the twelve months ended December 31, 2022. The return on average equity was 7.87% for the twelve months ended December 31, 2023, and 10.70% for the comparable period in 2022.

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 Credit Losses

We adopted ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), “Measurement of Credit Losses on Financial Instruments” through a cumulative-effect adjustment on January 1, 2023. We have selected a loss estimation methodology, utilizing a third-party model. See also Notes 1 and 3 to the audited consolidated financial statements for further discussion of our adoption of ASU 2016-13.

Allowance for Credit Losses – Held-to-Maturity Securities. Currently, all of the Company’s held-to-maturity securities are backed by governments or government agencies, for which the risk of credit loss is minimal. Accordingly, the Company does not record an allowance for credit losses on held-to-maturity securities.

Allowance for Credit Losses – Loans - We maintain an allowance for credit losses to absorb probable and inherent losses in our loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated lifetime losses in our loan portfolio. In evaluating the level of the allowance for credit 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 Allowances for Credit losses,” issued by the Office of the Comptroller of the Currency, Department of the Treasury, Federal Deposit Insurance Corporation, and National Credit Union Administration. We believe that the Bank’s Allowance for Credit Losses Policy conforms to all applicable regulatory requirements. However, based on periodic examinations by regulators, the amount of the allowance for credit losses recorded during a particular period may be adjusted.

Our determination of the allowance for credit losses - loans is based on (1) an individual allowance for specifically identified and evaluated loans that management has determined have unique risk characteristics. For these loans, the estimated loss is 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 amortized cost of the 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 collective allowance for loans not specifically identified in (1) above. The allowance for these loans is estimated by pooling loans with a similar risk profile and calculating a collective loss rate using the pool’s risk drivers, historical loss experience, and reasonable and supportable future economic forecasts to project lifetime losses. This collectively estimated loss is adjusted for qualitative factors.

Assessing the allowance for credit losses - loans 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.

Allowance for Credit Losses – Unfunded Commitments. The Company estimates expected credit losses over the contractual period for which the Company is exposed to credit risk, via a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Company. The allowance for credit losses - unfunded commitments on off-balance sheet exposures is included in other liabilities on the consolidated balance sheet.

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, 2023, 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 monitored events and conditions quarterly since December 31, 2022, and has determined that no triggering event has occurred that would require goodwill to be tested for impairment at an interim date. The Company also performed its required annual goodwill impairment testing and determined that goodwill was not impaired as of December 31, 2023.

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, 2023, a valuation allowance related to the realizability of its deferred tax assets was necessary due to the 2023 Wisconsin budget change, which resulted in the company not realizing a future deduction on its deferred assets. In the third quarter of 2023, a valuation allowance of \$1.8 million was established.

STATEMENT OF OPERATIONS ANALYSIS

Twelve months ended December 31, 2023 vs. Twelve months ended December 31, 2022

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 \$48.3 million for 2023 compared to \$56.4 million for 2022. The decrease, overall, is largely due to the impact of higher short-term interest rates, which with the Company’s liability sensitive balance sheet (See Market Risk Section of the MDA) resulted in (1) higher deposit costs due to customer retention strategies; (2) a deposit mix change, increasing deposit costs as customers moved from lower cost savings and money market products to higher cost certificates; (3) increased borrowing costs on FHLB advances; and (4) lower merger discount accretion of \$1.2 million and lower SBA accretion of \$0.3 million. These decreases to net interest income were partially offset by (1) a positive loan volume variance due to loan growth; and (2) increases in loan and investment yields due to contractual repricing; and (3) higher coupons on new loans.

The net interest margin for 2023 was 2.81% compared to 3.39% for 2022. The decrease in the net interest margin was due to the following factors: (1) higher deposit and borrowing costs, including the impact of a full year of interest expense on the subordinated debt issued in March 2022; and (2) eight basis points of lower accretion on merger discount and SBA PPP accretion. These decreases were partially offset by increases in loan and investment yields.

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, 2023 and December 31, 2022. Non-accruing loans average balances are included in the table with the loans carrying a zero yield.

	Twelve months ended December 31, 2023			Twelve months ended December 31, 2022		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Average interest earning assets:						
Cash and cash equivalents	\$ 18,469	\$ 1,010	5.47 %	\$ 19,796	\$ 203	1.03 %
Loans receivable	1,430,035	73,577	5.15 %	1,351,052	61,639	4.56 %
Interest bearing deposits	63	1	1.59 %	1,106	24	2.17 %
Investment securities (1)	257,020	8,606	3.35 %	278,056	6,767	2.43 %
Other investments	16,274	1,054	6.48 %	15,230	764	5.02 %
Total interest earning assets (1)	<u>\$ 1,721,861</u>	<u>\$ 84,248</u>	<u>4.89 %</u>	<u>\$ 1,665,240</u>	<u>\$ 69,397</u>	<u>4.17 %</u>
Average interest bearing liabilities:						
Savings accounts	\$ 200,087	\$ 1,427	0.71 %	\$ 234,755	\$ 753	0.32 %
Demand deposits	359,866	6,727	1.87 %	403,289	1,881	0.47 %
Money market accounts	306,020	6,976	2.28 %	317,879	1,721	0.54 %
CD's	317,376	10,619	3.35 %	178,726	2,074	1.16 %
Total deposits	\$ 1,183,349	\$ 25,749	2.18 %	\$ 1,134,649	\$ 6,429	0.57 %
FHLB advances and other borrowings	208,373	10,150	4.87 %	189,274	6,599	3.49 %
Total interest bearing liabilities	<u>\$ 1,391,722</u>	<u>\$ 35,899</u>	<u>2.58 %</u>	<u>\$ 1,323,923</u>	<u>\$ 13,028</u>	<u>0.98 %</u>
Net interest income		<u>\$ 48,349</u>			<u>\$ 56,369</u>	
Interest rate spread			<u>2.31 %</u>			<u>3.19 %</u>
Net interest margin (1)			<u>2.81 %</u>			<u>3.39 %</u>
Average interest earning assets to average interest bearing liabilities			<u>1.24 %</u>			<u>1.26 %</u>

(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, 2023 and 2022. The FTE adjustment to net interest income included in the rate calculations totaled \$0 thousand and \$1 thousand for the twelve month periods ended December 31, 2023 and 2022, 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, 2023 v. 2022 increase (decrease) due to			
	Volume (1)	Rate (1)	Total Increase / (Decrease)
Interest income:			
Cash and cash equivalents	\$ (15)	\$ 822	\$ 807
Loans receivable	3,742	8,196	11,938
Interest bearing deposits	(17)	(6)	(23)
Investment securities	(546)	2,385	1,839
Other investments	55	235	290
Total interest earning assets	\$ 3,219	\$ 11,632	\$ 14,851
Interest expense:			
Savings accounts	\$ (128)	\$ 802	\$ 674
Demand deposits	(226)	5,072	4,846
Money market accounts	(67)	5,322	5,255
CD's	2,179	6,366	8,545
Total deposits	1,758	17,562	19,320
FHLB advances and other borrowings	715	2,836	3,551
Total interest bearing liabilities	2,473	20,398	22,871
Net interest income	\$ 746	\$ (8,766)	\$ (8,020)

(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 Credit Losses. We determine our provision for credit losses ("provision") based on our desire to provide an adequate Allowance for Credit Losses ("ACL") - Loans to reflect estimated lifetime losses in our loan portfolio and ACL - Unfunded Commitments to reflect estimated losses on our unfunded commitments to lend. We use a third-party model to collectively evaluate and estimate the ACL on loans and unfunded commitments on a pooled basis. The model pools loans and commitments with similar characteristics and calculates an estimated loss rate for the pool based on identified risk drivers. These risk drivers vary with loan type. Projections about future economic conditions and the effect they could have on future losses are inherent in the model. Loans with uniquely identified circumstances and risks are individually evaluated. Lifetime losses on these loans are estimated based on the loans' individual characteristics.

Total benefit, i.e., negative provision, for credit losses for the twelve months ended December 31, 2023, was \$0.475 million, compared to provision of \$1.475 million for the twelve months ended December 31, 2022. The current year's negative provision is primarily the result of net recoveries of \$0.425 million in the last six months of 2023 and improving forecasted future economic conditions.

Continued improving economic conditions in our markets, as evidenced by unemployment rates below the national average in our two largest population centers, have resulted in good overall economic trends for businesses.

Note that in discussing ACL allocations, the entire ACL balance is available for any loan that, in management's judgment, should be charged off.

Management believes that the provision recorded for the current year's twelve-month period is adequate in view of the present condition of our loan portfolio and the sufficiency of collateral supporting our non-performing loans. We continually

monitor non-performing loan relationships and will adjust our provision, as necessary, if changing facts and circumstances require a change in the ACL. 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 otherwise, could all affect the adequacy of our ACL. If there are significant charge-offs against the ACL, or we otherwise determine that the ACL is inadequate, we will need to record an additional provision in the future.

Non-Interest Income. The following table reflects the various components of non-interest income for 2023 and 2022, respectively.

	Twelve months ended December 31,		Change from prior year
	2023	2022	2023 over 2022
Non-interest Income:			
Service charges on deposit accounts	\$ 1,949	\$ 2,018	(3.42)%
Interchange income	2,324	2,343	(0.81)%
Loan servicing income	2,218	2,439	(9.06)%
Gain on sale of loans	1,692	1,474	14.79%
Loan fees and service charges	432	679	(36.38)%
Net gains on investment securities	459	541	(15.16)%
Other	1,176	936	25.64%
Total non-interest income	\$ 10,250	\$ 10,430	(1.73)%

N/M means not meaningful

Loan servicing income decreased for the twelve-month period ended December 31, 2023, compared to the same prior year period, due to lower origination volume of loans sold resulting in lower capitalization of mortgage service rights, along with lower mortgage servicing income due to servicing a smaller portfolio.

The increase in gain on sale of loans in 2023 is due to an increase in SBA loans sold, more than offsetting lower mortgage gains.

Loan fees and services charges are lower for the twelve-month period ended December 31, 2023, compared to the same period in 2022 due to lower customer transaction activity.

The change in net gains on investment securities between the twelve months ended December 31, 2023, and the twelve months ended December 31, 2022, is primarily due to the change in valuations of equity securities and a small gain on the sale of available for sale securities in the second quarter of 2023.

Other non-interest income increased for the twelve months ended December 31, 2023, compared to the same period in 2022 due in part to higher BOLI income and certain positive one-time events.

Non-Interest Expense. The following table reflects the various components of non-interest expense for 2023 and 2022.

	Twelve months ended December 31,		% Change From prior year
	2023	2022	2023 over 2022
Non-interest Expense:			
Compensation and related benefits	\$ 21,106	\$ 22,128	(4.62)%
Occupancy	5,431	5,490	(1.07)%
Data processing	5,951	5,453	9.13%
Amortization of intangible assets	755	1,449	(47.90)%
Mortgage servicing rights expense, net	615	222	177.03%
Advertising, marketing and public relations	734	1,017	(27.83)%
FDIC premium assessment	812	470	72.77%
Professional services	1,524	1,707	(10.72)%
(Losses) gains on repossessed assets, net	62	(395)	(115.70)%
New market tax credit depletion	—	650	N/M
Other	3,152	3,552	(11.26)%
Total non-interest expense	\$ 40,142	\$ 41,743	(3.84)%
Non-interest expense (annualized) / Average assets	2.19 %	2.32 %	

Compensation expense decreased in 2023 largely due to lower incentive compensation due to lower production volumes and lower net income.

Amortization of intangible assets decreased for the twelve months ended December 31, 2023, from the same prior year period, as intangible assets related to certain acquisitions have been fully amortized.

Mortgage servicing rights expense, net increased for the twelve months ended December 31, 2023, compared to the comparable prior year period due to the impact of a \$566 thousand impairment reversal recorded in the comparable prior year period, partially offset by lower amortization due to lower forecasted prepayments and the impact of a lower balance of loans serviced for others.

Advertising, marketing and public relations expense decreased for the twelve months ended December 31, 2023, compared to the prior year period, due to management's intentional decision to limit expenditures.

The FDIC insurance premium increased for the twelve-month period ended December 31, 2023, from the comparable prior year period due to an increase in the FDIC assessment rate. This was partially offset by the favorable impact of increased bank capital ratios, largely due to both a \$15 million capital injection following the Company's subordinated debt issuance in March of 2022, and the impact of growth in the Bank's retained earnings.

In the first quarter of 2022, the Bank invested \$4.1 million in a New Market Tax Credit. Based on the applicable accounting guidance at the time of investment, the related non-tax-deductible asset depletion would have occurred over a 5-year period in lockstep with the recognition of the tax credit. In March of 2023, FASB issued ASU 2023-02, which allows for proportional amortization of tax credit investments that meet certain criteria. We determined that our New Market Tax Credit investment met the criteria of ASU 2023-02 and chose to early adopt, using the modified retrospective approach as of January 1, 2023. Under ASU 2023-02, the amortization of the investment is now included in income tax expense.

The decrease in other expenses during the twelve months ended December 31, 2023, from the comparable prior year period, is largely related to branch closure costs incurred in 2022 of \$1.0 million compared to \$0.4 million in 2023.

Income Taxes. Income tax provision was \$5.9 million in 2023 compared to \$5.8 million for 2022. The 2023 effective tax rate was 31.0% compared to 24.7% in 2022. The Wisconsin state budget, signed by Governor Evers on July 5, 2023, provides financial institutions a tax exemption on income earned on Wisconsin commercial and agricultural loans up to \$5 million retroactive to January 1, 2023. This change reduced the Company's 2023 Wisconsin state income tax rate and thus, its overall effective tax rate. However, this benefit was offset by a one-time tax expense of \$1.8 million reflecting the impact of the lower

2023 Wisconsin state tax rate on the future realization of existing net deferred tax assets, with the charge creating a Wisconsin state tax valuation allowance. In addition, the impact of the New Market Tax Credit investment depletion, now being included in income tax expense, increased the income tax rate, while lower pre-tax income reduced current period income tax expense.

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. As noted above, a Wisconsin income tax valuation allowance was created due to the Wisconsin budget law change, resulting in reduction of the realization of Wisconsin deferred tax assets.

BALANCE SHEET ANALYSIS

Total assets increased by \$35.0 million to \$1.85 billion at December 31, 2023, from \$1.82 billion at December 31, 2022.

Cash and Cash Equivalents. Cash and cash equivalents increased from \$35.4 million at December 31, 2022, to \$37.1 million at December 31, 2023, largely due to an increase in interest-bearing balances.

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 \$155.7 million at December 31, 2023, compared with \$166.0 million at December 31, 2022. This decrease is due to principal repayments, maturities and \$5 million of SBA floating-rate securities sales. These reductions were partially offset by purchases of \$8 million of SBA floating-rate securities.

Securities held to maturity decreased to \$91.2 million at December 31, 2023, compared to \$96.4 million at December 31, 2022. The decrease was largely due to principal repayments. The unrealized loss on the held to maturity portfolio decreased by \$1.6 million during the year to \$18.0 million at December 31, 2023.

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, 2023			
U.S. government agency obligations	\$	16,655	\$ 16,576
Mortgage-backed securities		91,091	73,480
Corporate debt securities		47,158	41,174
Asset-backed securities		24,840	24,513
Total available for sale securities	\$	179,744	\$ 155,743
December 31, 2022			
U.S. government agency obligations	\$	18,373	\$ 18,313
Mortgage-backed securities		97,458	78,610
Corporate debt securities		44,636	40,251
Asset-backed securities		29,877	28,817
Total available for sale securities	\$	190,344	\$ 165,991
Held to maturity securities		Amortized Cost	Fair Value
December 31, 2023			
Obligations of states and political subdivisions	\$	600	\$ 565
Mortgage-backed securities		90,629	72,697
Total held to maturity securities	\$	91,229	\$ 73,262
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

The amortized cost and fair values of our investment securities by maturity, as of December 31, 2023 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	13,986	13,703
Due after five years through ten years	45,549	39,701
Due after ten years	29,118	28,859
Total securities with contractual maturities	88,653	82,263
Mortgage-backed securities	91,091	73,480
Total available for sale securities	<u>\$ 179,744</u>	<u>\$ 155,743</u>

Held to maturity securities	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 100	\$ 100
Due after one year through five years	500	465
Due after five years through ten years	—	—
Total securities with contractual maturities	600	565
Mortgage-backed securities	90,629	72,697
Total held to maturity securities	<u>\$ 91,229</u>	<u>\$ 73,262</u>

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	<u>\$ 190,344</u>	<u>\$ 165,991</u>

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	<u>\$ 96,379</u>	<u>\$ 76,779</u>

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	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities						
December 31, 2023						
U.S. government agency obligations	\$ 3,776	\$ 5	\$ 3,627	\$ 151	\$ 7,403	\$ 156
Mortgage-backed securities	—	—	73,476	17,611	73,476	17,611
Corporate debt securities	3,350	76	35,916	5,914	39,266	5,990
Asset-backed securities	3,348	22	20,008	317	23,356	339
Total available for sale securities	<u>\$ 10,474</u>	<u>\$ 103</u>	<u>\$ 133,027</u>	<u>\$ 23,993</u>	<u>\$ 143,501</u>	<u>\$ 24,096</u>
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
Asset-backed securities	7,955	221	20,862	839	28,817	1,060
Total available for sale securities	<u>\$ 42,325</u>	<u>\$ 2,943</u>	<u>\$ 109,611</u>	<u>\$ 21,583</u>	<u>\$ 151,936</u>	<u>\$ 24,526</u>
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held to maturity securities						
December 31, 2023						
Obligations of states and political subdivisions	\$ —	\$ —	\$ 565	\$ 35	\$ 565	\$ 35
Mortgage-backed securities	—	—	72,507	17,938	72,507	17,938
Total held to maturity securities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 73,072</u>	<u>\$ 17,973</u>	<u>\$ 73,072</u>	<u>\$ 17,973</u>
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	<u>\$ 16,627</u>	<u>\$ 2,416</u>	<u>\$ 59,913</u>	<u>\$ 17,191</u>	<u>\$ 76,540</u>	<u>\$ 19,607</u>

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:

	December 31, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale securities				
U.S. government agency	\$ 98,977	\$ 81,351	\$ 112,477	\$ 93,669
AAA	9,695	9,508	8,640	8,334
AA	23,913	23,709	24,591	23,737
A	8,200	7,292	5,700	5,133
BBB	38,959	33,883	38,936	35,118
Non-rated	—	—	—	—
Total available for sale securities	\$ 179,744	\$ 155,743	\$ 190,344	\$ 165,991

	December 31, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Held to maturity securities				
U.S. government agency	\$ 90,629	\$ 72,697	\$ 95,779	\$ 76,233
AAA	—	—	—	—
AA	—	—	—	—
A	600	565	600	546
Total	\$ 91,229	\$ 73,262	\$ 96,379	\$ 76,779

At December 31, 2023, the Bank pledged certain of its mortgage-backed securities with a carrying value of \$29.2 million as collateral to secure a line of credit with the Federal Reserve Bank. As of December 31, 2023, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2023, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of \$0.5 million and mortgage-backed securities with a carrying value of \$1.9 million as collateral against specific municipal deposits. As of December 31, 2023, the Bank also has mortgage-backed securities with a carrying value of \$0.2 million and U.S. Government Agencies with a carrying value of \$0.4 million pledged as collateral to the Federal Home Loan Bank of Des Moines.

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.

Loans. Total loans outstanding, net of deferred loan fees and costs, increased to \$1.46 billion at December 31, 2023, from \$1.42 billion at December 31, 2022.

Gross loan growth consisted largely of \$24.6 million in commercial real estate loans, \$19.2 million of multi-family real estate loans, \$8.4 million in construction and land development loans and residential mortgage loan growth of \$23.6 million. The growth in these portfolios exceeded the reduction in the remaining loan portfolios of \$27.1 million.

The following table reflects the composition, or mix, of our loan portfolio at December 31, 2023 and December 31, 2022:

	December 31, 2023		December 31, 2022	
	Amount	Percent	Amount	Percent
Real Estate Loans:				
Commercial/Agricultural real estate:				
Commercial real estate	\$ 750,531	51.4 %	\$ 725,971	51.5 %
Agricultural real estate	83,350	5.7 %	87,908	6.2 %
Multi-family real estate	228,095	15.6 %	208,908	14.8 %
Construction and land development	110,941	7.6 %	102,492	7.3 %
Residential mortgage:				
Residential mortgage	129,021	8.8 %	105,389	7.5 %
Purchased HELOC loans	2,880	0.2 %	3,262	0.2 %
Total real estate loans	1,304,818	89.3 %	1,233,930	87.5 %
C&I/Agricultural operating and Consumer installment loans:				
C&I/Agricultural operating:				
Commercial and industrial ("C&I")	121,666	8.3 %	136,013	9.6 %
Agricultural operating	25,691	1.8 %	28,806	2.0 %
Consumer installment:				
Originated indirect paper	6,535	0.5 %	10,236	0.7 %
Other consumer	6,187	0.4 %	7,150	0.5 %
Total C&I/Agricultural operating and Consumer installment loans	160,079	11.0 %	182,205	12.8 %
Gross loans	1,464,897	100.3 %	1,416,135	100.3 %
Unearned net deferred fees and costs and loans in process	(2,900)	(0.2)%	(2,585)	(0.2)%
Unamortized discount on acquired loans	(1,205)	(0.1)%	(1,766)	(0.1)%
Total loans (net of unearned income and deferred expense)	1,460,792	100.0 %	1,411,784	100.0 %
Allowance for credit losses	(22,908)		(17,939)	
Total loans receivable, net	\$ 1,437,884		\$ 1,393,845	

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, 2023, the largest loan concentration we identified was commercial real estate loans which comprised 51% of our total loan portfolio. Approximately 89% of our total gross loans are secured by real estate.

The following table sets forth, as of December 31, 2023 and December 31, 2022 respectively the fixed and adjustable-rate loans in our loan portfolio:

	December 31, 2023		December 31, 2022	
	Amount	Percent	Amount	Percent
Fixed rate loans:				
Real estate loans:				
Commercial/Agricultural real estate	\$ 457,931	31.3 %	\$ 433,988	30.8 %
Residential mortgage	44,740	3.1 %	51,558	3.6 %
Total fixed rate real estate loans	502,671	34.4 %	485,546	34.4 %
Non-real estate loans:				
C&I/Agricultural Operating	116,193	7.9 %	128,068	9.0 %
Consumer installment	12,722	0.9 %	17,369	1.2 %
Total fixed rate non-real estate loans	128,915	8.8 %	145,437	10.2 %
Total fixed rate loans	631,586	43.2 %	630,983	44.6 %
Adjustable-rate loans:				
Real estate loans:				
Commercial/Agricultural real estate	714,986	49.0 %	691,290	49.0 %
Residential mortgage	87,160	6.0 %	57,094	4.1 %
Total adjustable-rate real estate loans	802,146	55.0 %	748,384	53.1 %
Non-real estate loans:				
C&I/Agricultural operating	31,164	2.1 %	36,752	2.6 %
Consumer installment	1	— %	16	— %
Total adjustable-rate non-real estate loans	31,165	2.1 %	36,768	2.6 %
Total adjustable-rate loans	833,311	57.1 %	785,152	55.7 %
Gross loans	1,464,897		1,416,135	
Unearned net deferred fees and costs and loans in process	(2,900)	(0.2)%	(2,585)	(0.2)%
Unamortized discount on acquired loans	(1,205)	(0.1)%	(1,766)	(0.1)%
Total loans (net of unearned income)	1,460,792	100.0 %	1,411,784	100.0 %
Allowance for credit losses	(22,908)		(17,939)	
Total loans receivable, net	\$ 1,437,884		\$ 1,393,845	

Loan amounts, their contractual maturities and weighted average interest rates at December 31, 2023 are shown below.

	Real estate				Non-real estate				Total	
	Commercial/Agricultural real estate		Residential mortgage		C&I/Agricultural operating		Consumer installment			
	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)	\$ 80,068	5.61 %	\$ 1,107	5.43 %	\$ 41,603	8.29 %	\$ 784	7.86 %	\$ 123,562	5.72 %
Due after one year through five years	310,377	4.87 %	7,587	5.33 %	50,929	5.16 %	7,817	6.21 %	376,710	4.94 %
Due after five years	782,472	5.01 %	123,207	5.68 %	54,825	6.73 %	4,121	5.95 %	964,625	4.90 %
	\$ 1,172,917	5.01 %	\$ 131,901	5.66 %	\$ 147,357	6.63 %	\$ 12,722	6.23 %	\$ 1,464,897	4.98 %

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

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

	Real estate				Non-real estate				Total	
	Commercial/Agricultural real estate		Residential mortgage		C&I/Agricultural operating		Consumer installment			
	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.

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

Risk Management and the Allowance for Credit Losses - Loans. The Allowance for Credit Losses - Loans ("ACL") is a valuation allowance for expected future credit losses in the Company's loan portfolio as of the balance sheet date. In determining the allowance, the Company estimates credit losses over the loan's entire contractual term, adjusted for expected prepayments when appropriate. The allowance estimate considers qualitative and quantitative relevant information from internal and external sources relating to historical loss experience; known and inherent risks in our portfolio; information about specific borrowers' ability to repay; estimated collateral values; current economic conditions; reasonable and supportable forecasts for future conditions; and other relevant factors determined by management. To ensure that the ACL is maintained at an adequate level, a detailed analysis is performed on a quarterly basis and an appropriate provision is made to adjust the allowance. The entire ACL balance is available for any loan that, in management's judgment, should be charged off.

The determination of the ACL requires significant judgement to estimate credit losses. The ACL is measured collectively on a pooled basis when similar risk characteristics exist, and on an individual basis when management determines that the loan does not share similar risk characteristics with other loans. The ACL on loans collectively evaluated is measured using the loss rate model. The Company categorizes its loan portfolio into four segments based on similar risk characteristics. Loans within each segment are pooled based on individual loan characteristics. Aggregated risk drivers are then calculated at a pool level. Risk drivers are identified attributes that have proven to be predictive of loan loss rates and vary based on loan segment and type. A loss rate is calculated and applied to the pool utilizing a model that combines the pool's risk drivers, historical loss experience, and reasonable and supportable future economic forecasts to projected lifetime losses. The loss rate is then combined with the loan's balance and contractual maturity, adjusted for expected prepayments, to determine expected future losses. Future and supportable economic forecasts are based on national economic conditions and their reversion to the mean is implicit in the model and generally occurs over a period of two years.

Qualitative adjustments are made to the allowance calculated on collectively evaluated loans to incorporate factors not included in the model. Qualitative factors include but are not limited to: lending policies and procedures, the experience and ability of lending and other staff, the volume and severity of problem credits, quality of the loan review system, and other external factors.

Loans that exhibit different risk characteristics from the pool are individually evaluated for impairment. Loans can be identified for individual evaluation for a variety of reasons including delinquency, nonaccrual status, risk rating and loan modification. Accruing loans that exhibit different risk characteristics from their pool may also be within scope. On these loans, an allowance may be established so that the loan is reported, net, at the lower of (a) its amortized cost; (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 the loan is collateral dependent. Collateral dependency is determined using the practical expedient when: (1) the borrower is experiencing financial difficulty; and (2) repayment is expected to be provided substantially through the sale or operation of the collateral.

In addition, various regulatory agencies periodically review the ACL. These agencies may require the Company to make additions to the ACL or may require that certain loan balances be charged off or downgraded into classified loan categories when the agencies' evaluation differs from management's evaluation based on their judgments of collectability from the information available to them at the time of examination.

The Allowance for Credit Losses - Unfunded Commitments is a liability for expected future credit losses on the Company's commitments to lend. The Company estimates expected credit losses over the contractual period for which the Company is exposed to credit risk, via a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Company. The Allowance for Credit Losses - Unfunded Commitments on off-balance sheet exposures is included in other liabilities on the consolidated balance sheet.

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments using the modified retrospective method. This adoption resulted in a \$4.7 million increase in the ACL on loans ("ACL - Loans") and established a \$1.5 million ACL on unfunded commitments ("ACL - Unfunded Commitments"). The increase in transition ACL is primarily due to the interaction of change from an incurred loss model to a lifetime loss model and the duration of our portfolio. Since transition, the ACL- Loans modestly increased \$0.3 million to \$23.0 million at December 31, 2023, representing 1.57% of loans receivable. The allowance for loan losses, prior to the ASU 2016-13 transition, was \$17.9 million at December 31, 2022, representing 1.27% of loans receivable. The increase in the ACL - Loans from ACL adoption in 2023, was primarily due to net loan recoveries. The ACL - Unfunded Commitments, established under ASU 2016-13, was \$1.3 million at December 31, 2023.

Allowance for Credit Losses - Loans Roll Forward
(in thousands, except ratios)

	Twelve Months Ended	
	December 31, 2023	December 31, 2022
Allowance for Credit Losses ("ACL")		
ACL - Loans, at beginning of period	\$ 17,939	\$ 16,913
Cumulative effect of ASU 2016-13 adoption	4,706	—
Loans charged off:		
Commercial/Agricultural real estate	(46)	(205)
C&I/Agricultural operating	—	(346)
Residential mortgage	(78)	(68)
Consumer installment	(36)	(48)
Total loans charged off	(160)	(667)
Recoveries of loans previously charged off:		
Commercial/Agricultural real estate	489	102
C&I/Agricultural operating	47	36
Residential mortgage	42	29
Consumer installment	33	51
Total recoveries of loans previously charged off:	611	218
Net loan recoveries/(charge-offs) ("NCOs")	451	(449)
(Reversals)/additions to ACL - Loans via provision for credit losses charged to operations	(188)	1,475
ACL - Loans, at end of period	\$ 22,908	\$ 17,939
Average outstanding loan balance	\$ 1,430,035	\$ 1,351,052
Ratios:		
NCOs (annualized) to average loans	(0.03)%	0.03 %

Allowance for Credit Losses - Loans Activity by Segment
(in thousands, except ratios)

	Commercial/Agricultural Real Estate	C&I/Agricultural operating	Residential Mortgage	Consumer Installment	Unallocated	Total
Twelve months ended December 31, 2023						
Allowance for Credit Losses - Loans:						
ACL - Loans, at beginning of period	\$ 14,085	\$ 2,318	\$ 599	\$ 129	\$ 808	\$ 17,939
Cumulative effect of ASU 2016-13 adoption	4,510	(331)	1,119	216	(808)	4,706
Charge-offs	(46)	—	(78)	(36)	—	(160)
Recoveries	489	47	42	33	—	611
(Reversals)/additions to ACL - Loans via provision for credit losses charged to operations	(254)	(929)	1,062	(67)	—	(188)
ACL - Loans, at end of period	\$ 18,784	\$ 1,105	\$ 2,744	\$ 275	\$ —	\$ 22,908

Allowance for Credit Losses - Loans to Percentage
(in thousands, except ratios)

	December 31, 2023	December 31, 2022
Loans, end of period	\$ 1,460,792	\$ 1,411,784
ACL - Loans	\$ 22,908	\$ 17,939
ACL - Loans to loans, end of period	1.57 %	1.27 %

Allowance for Credit Losses - Unfunded Commitments:
(in thousands)

In addition to the ACL - Loans, the Company has established an ACL - Unfunded Commitments of \$1.250 million at December 31, 2023 and \$0 at December 31, 2022, classified in other liabilities on the consolidated balance sheets.

	December 31, 2023 and Twelve Months Ended	December 31, 2022 and Twelve Months Ended
ACL - Unfunded Commitments - beginning of period	\$ —	\$ —
Cumulative effect of ASU 2016-13 adoption	1,537	—
Reversals to ACL - Unfunded Commitments via provision for credit losses charged to operations	(287)	—
ACL - Unfunded Commitments - end of period	<u>\$ 1,250</u>	<u>\$ —</u>

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 being recorded as interest income. The Company adopted ASU 2022-02 on January 1, 2023, which eliminated special accounting rules for TDRs. Prior to the elimination of the special accounting rules, TDR loans were accounted for under ASC 310-40. A TDR is typically involved granting some concession to the borrower involving a loan modification, such as modifying the payment schedule or making interest rate changes. TDR loans may have involved loans that 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.

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 ACL for the periods then ended:

	December 31, 2023 and twelve months ended	December 31, 2022 and twelve months ended
Nonperforming assets:		
Nonaccrual loans		
Commercial real estate	\$ 10,359	\$ 5,736
Agricultural real estate	391	2,742
Construction and land development	54	—
Commercial and industrial ("C&I")	—	552
Agricultural operating	1,180	890
Residential mortgage	1,167	1,253
Consumer installment	33	31
Total nonaccrual loans	13,184	11,204
Accruing loans past due 90 days or more	389	246
Total nonperforming loans ("NPLs")	13,573	11,450
Other real estate owned	1,795	1,265
Other collateral owned	—	6
Total nonperforming assets ("NPAs")	\$ 15,368	\$ 12,721
Average outstanding loan balance	\$ 1,430,035	\$ 1,351,052
Loans, end of period	\$ 1,460,792	\$ 1,411,784
Total assets, end of period	\$ 1,851,391	\$ 1,816,386
ACL - Loans, at beginning of period	\$ 17,939	\$ 16,913
Cumulative effect of ASU 2016-13 adoption	4,706	—
Loans charged off:		
Commercial/Agricultural real estate	(46)	(205)
C&I/Agricultural operating	—	(346)
Residential mortgage	(78)	(68)
Consumer installment	(36)	(48)
Total loans charged off	(160)	(667)
Recoveries of loans previously charged off:		
Commercial/Agricultural real estate	489	102
C&I/Agricultural operating	47	36
Residential mortgage	42	29
Consumer installment	33	51
Total recoveries of loans previously charged off:	611	218
Net loan recoveries/(charge-offs) ("NCOs")	451	(449)
(Reversals)/additions to ACL - Loans via provision for credit losses charged to operations	(188)	1,475
ACL - Loans, at end of period	\$ 22,908	\$ 17,939
Ratios:		
ACL to NCOs (annualized)	(5,079.38)%	3,995.32 %
NCOs (annualized) to average loans	0.03 %	(0.03)%
ACL to total loans	1.57 %	1.27 %
NPLs to total loans	0.93 %	0.81 %
NPAs to total assets	0.83 %	0.70 %

Nonaccrual Loans Roll Forward

	Quarter Ended				
	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
Balance, beginning of period	\$ 13,456	\$ 15,663	\$ 10,410	\$ 11,204	\$ 10,772
Additions	538	33	7,826	154	1,039
Charge offs	—	(53)	(23)	(49)	(37)
Transfers to OREO	(23)	—	(110)	(25)	—
Return to accrual status	—	(190)	—	(252)	—
Payments received	(781)	(1,994)	(2,429)	(527)	(561)
Other, net	(6)	(3)	(11)	(95)	(9)
Balance, end of period	<u>\$ 13,184</u>	<u>\$ 13,456</u>	<u>\$ 15,663</u>	<u>\$ 10,410</u>	<u>\$ 11,204</u>

Nonaccrual loans increased by \$2.0 million at December 31, 2023, from \$11.2 million at December 31, 2022, largely due to adding a \$5.4 million hotel loan from special mention to substandard and nonaccrual in the second quarter of 2023, partially offset by payments received, which include loan payoffs. Nonperforming assets increased to \$15.4 million or 0.83% of total assets at December 31, 2023, compared to \$12.7 million, or 0.70% of total assets at December 31, 2022. During 2023, the transfer of a closed branch to REO was offset by the reduction in 90+ delinquent and accruing residential loans.

Refer to the “Allowance for Credit Losses - Loans” and “Nonperforming Loans, Potential Problem Loans and Foreclosed Properties” sections above for more information related to nonperforming loans.

Below is a summary of loan modifications made to borrowers experiencing financial difficulty during the twelve months ended December 31, 2023.

Loan Class	Term Extension	
	Amortized Cost Basis at December 31, 2023	% of Total Class of Financing Receivables
Commercial real estate	\$ 4,694	0.63 %
Commercial and industrial	\$ 2,200	1.82 %
Residential mortgage	\$ 35	0.03 %
Other consumer	\$ 1	0.02 %
Other-Than-Insignificant Payment Delay		
Loan Class	Other-Than-Insignificant Payment Delay	
	Amortized Cost Basis at December 31, 2023	% of Total Class of Financing Receivables
Residential mortgage	\$ 69	0.05 %
Other consumer	\$ 19	0.31 %

Included in the nonaccrual loans roll forward table above, for periods prior to the January 1, 2023 adoption of ASU 2022-02 are nonaccrual TDR loans. Nonaccrual TDR loans were \$2.6 million at December 31, 2022.

	December 31, 2022	
	Number of Modifications	Recorded Investment
Troubled debt restructurings: Accrual Status		
Commercial/Agricultural real estate	10	\$ 1,336
C&I/Agricultural operating	5	960
Residential mortgage	36	2,875
Consumer installment	—	—
Total loans	51	\$ 5,171

The table below shows a summary of criticized loans, split by special mention and substandard balances, for the past five quarters. Criticized loans increased by \$8.5 million in the twelve months ended December 31, 2023. Two new relationships, each \$9 million, moved to special mention in the second quarter and a \$5 million relationship moved from special mention to substandard in the second quarter. Special mention loans decreased \$1.7 million in the fourth quarter, largely due to loans being upgraded and principal reductions of \$2.2 million. Substandard changes from December 31, 2022, are impacted by the addition of a \$5 million loan relationship in the second quarter moving from special mention and a \$3.7 million loan relationship secured by single family rental homes in the Twin Cities added in the fourth quarter, partially offset by loan repayments.

In addition to our discussion of criticized, special mention, and substandard loans above, the following information provides further insights about our loans to certain industries. As of December 31, 2023, hotel loans totaled \$97 million with a weighted average LTV of 55% and average balance of \$3.9 million. Restaurant loans totaled \$52 million, at December 31, 2023. The weighted-average LTV percentage on these restaurant loans was 48% and the average loan balance was \$709 thousand. Approximately \$39 million of restaurant loans are to franchise quick-service restaurants. At December 31, 2023, we have \$40 million of office loans with a weighted average LTV of 64% and average loan balance of \$574 thousand. A large percentage of the related office properties are located outside of large cities.

	(in thousands)				
	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
(Loan balance at unpaid principal balance)					
Special mention loan balances	\$ 18,392	\$ 20,043	\$ 20,507	\$ 6,636	\$ 12,170
Substandard loan balances	19,596	16,171	19,203	15,439	17,319
Criticized loans, end of period	\$ 37,988	\$ 36,214	\$ 39,710	\$ 22,075	\$ 29,489

Mortgage Servicing Rights. Mortgage servicing rights (“MSR”) assets are initially measured at fair value; 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 amortized cost of MSR assets decreased as amortization exceeded additions due to loan sales, resulting in the unpaid balances of one-to-four family residential real estate loans serviced for others to decrease as of December 31, 2023, to \$495.5 million from \$523.7 million at December 31, 2022.

The fair market value of the Company’s MSR asset was \$5.6 million at December 31, 2023, and \$5.7 million at December 31, 2022. At December 31, 2023, and December 31, 2022, the Company did not have an MSR impairment, or related valuation allowance. The fair market value of the Company’s MSR asset as a percentage of its servicing portfolio at December 31, 2023, and December 31, 2022, was 1.13% and 1.08%, respectively.

Intangible Assets. We have intangible assets of \$1.7 million at December 31, 2023, compared to \$2.4 million at December 31, 2022. The intangible assets were comprised of core deposit intangible assets arising from various acquisitions

from 2016 through 2019. In the fourth quarter of 2022, one of the acquisition core deposits became fully amortized, leading to a reduction in amortization in 2023. Amortization of these intangibles was \$0.8 million in 2023.

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 \$0.9 million and \$0.7 million, respectively, which represent their estimated fair market values less the anticipated costs to sell. In 2023, a loss of \$0.4 million was recognized on the reclassification of the \$0.7 million from property and equipment to foreclosed assets, which was recorded in other expense.

Deposits. Deposits have grown each quarter since December 31, 2022, with growth in brokered deposits accounting for the growth in the first and second quarters of 2023. From March 7, 2023, to March 31, 2023, a period closely monitored for unusual withdrawal activity, balances remained stable. Total deposits increased \$94.4 million during the twelve months ended December 31, 2023, to \$1.52 billion.

Deposit Composition
(in thousands)

	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
Non-interest bearing demand deposits	\$ 265,704	\$ 275,790	\$ 261,876	\$ 247,735	\$ 284,722
Interest bearing demand deposits	343,276	336,962	358,226	390,730	371,210
Savings accounts	176,548	183,702	206,380	214,537	220,019
Money market accounts	374,055	312,689	288,934	309,005	323,435
Certificate accounts	359,509	364,092	349,266	274,786	225,334
Total deposits	<u>\$ 1,519,092</u>	<u>\$ 1,473,235</u>	<u>\$ 1,464,682</u>	<u>\$ 1,436,793</u>	<u>\$ 1,424,720</u>

Consumer, commercial and government deposits have been stable since January 31, 2023, and following the two large coastal bank failures in early March 2023. There are no material customer or industry deposit concentrations. Deposits decreased during January 2023 as commercial customers decreased their cash balances to support the needs of their businesses with the commercial customers balances increasing from March 31, 2023.

Deposit Portfolio Composition
(in thousands)

	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
Consumer deposits	\$ 814,899	\$ 794,970	\$ 790,404	\$ 786,614	\$ 805,598
Commercial deposits	423,762	429,358	401,079	391,534	405,733
Public deposits	182,172	163,734	175,869	194,683	173,548
Brokered deposits	98,259	85,173	97,330	63,962	39,841
Total deposits	<u>\$ 1,519,092</u>	<u>\$ 1,473,235</u>	<u>\$ 1,464,682</u>	<u>\$ 1,436,793</u>	<u>\$ 1,424,720</u>

At December 31, 2023, our deposit portfolio composition was 54% consumer, 28% commercial, 12% public and 6% brokered deposits. At December 31, 2022, our deposit portfolio composition was 57% consumer, 28% commercial, 12% public and 3% brokered deposits.

Uninsured and uncollateralized deposits were \$275.8 million, or 18% of total deposits at December 31, 2023, and \$298.8 million, or 21% of total deposits at December 31, 2022. Uninsured deposits alone at December 31, 2023, were \$427.5 million, or 28% of total deposits, and \$441.2 million, or 31% of total deposits at December 31, 2022, with the difference being an increase in fully secured government deposits.

Federal Home Loan Bank (FHLB) advances and other borrowings. A summary of Federal Home Loan Bank (FHLB) advances and other borrowings at December 31, 2023 and December 31, 2022 is as follows:

	December 31, 2023			December 31, 2022		
	Stated Maturity	Amount	Range of Stated Rates	Stated Maturity	Amount	Range of Stated Rates
Federal Home Loan Bank advances (1), (2), (3), (4)	2023	\$ —	— % — %	2023	\$ 117,000	1.43 % 4.31 %
	2024	64,530	0.00 % 5.45 %	2024	20,530	0.00 % 1.45 %
	2025	5,000	1.45 % 1.45 %	2025	5,000	1.45 % 1.45 %
	2028	10,000	3.82 % 3.82 %	2028	—	— % — %
Federal Home Loan Bank advances		<u>\$ 79,530</u>			<u>\$ 142,530</u>	
Other borrowings:						
Senior notes (5)	2034	\$ 18,083	6.75 % 7.75 %	2034	\$ 23,250	3.00 % 6.75 %
Subordinated notes (6)	2030	\$ 15,000	6.00 % 6.00 %	2030	\$ 15,000	6.00 % 6.00 %
	2032	35,000	4.75 % 4.75 %	2032	35,000	4.75 % 4.75 %
		<u>\$ 50,000</u>			<u>\$ 50,000</u>	
Unamortized debt issuance costs		(618)			(841)	
Total other borrowings		<u>\$ 67,465</u>			<u>\$ 72,409</u>	
Totals		<u><u>\$ 146,995</u></u>			<u><u>\$ 214,939</u></u>	

(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 \$1,106,267 and \$984,878 at December 31, 2023 and 2022, respectively. At December 31, 2023, the Bank's available and unused portion under the FHLB borrowing arrangement was approximately \$370,569 compared to \$256,773 as of December 31, 2022.

(2) Maximum month-end borrowed amounts outstanding under this borrowing agreement were \$217,530 and \$157,530, during the twelve months ended December 31, 2023 and December 31, 2022, respectively.

(3) The weighted-average interest rates on FHLB borrowings, with maturities less than twelve months, outstanding as of December 31, 2023 and December 31, 2022 were 4.16% and 4.09%, respectively.

(4) At December 31, 2023, one FHLB term note totaling \$10,000 could be called once by the FHLB on June 15, 2024, and if not called, would mature in 2028. At December 31, 2022, no FHLB term notes could be called by the FHLB.

(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 and modified in February of 2023, requiring quarterly interest-only payments through March 2027, 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 2024, 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 would have converted to a three-month LIBOR plus 4.90% rate, and the interest rate would have reset quarterly thereafter if not called. 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. The note was callable by the Bank when, and anytime after, the floating rate was initially set. Interest-only payments were due quarterly.

(b) The Company's Subordinated Note Purchase Agreement entered into with certain purchasers in August 2020, which bears a fixed interest rate of 6.00% for five years. In September 2025, the fixed interest rate will be reset quarterly to equal the three-month term Secured Overnight Financing Rate plus 591 basis points. 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 decreased \$63.0 million to \$79.5 million as of December 31, 2023, compared to \$142.5 million as of December 31, 2022. The Bank had January 2024 advance maturities of \$44 million and an additional \$5 million of advances maturing in the first quarter of 2024. The bank entered into \$15 million of five-year advances, callable once after six months, in the second quarter of 2023, which were called in the fourth quarter 2023. The Bank entered into a \$10 million five-year maturity advance callable one time in June 2024. The Bank terminated \$15.0 million of advances in the quarter ended March 31, 2022, incurring a \$2 thousand prepayment penalty, as we 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 \$107 million of FHLB advances maturing in January 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, 2023, is approximately \$370.6 million.

The Bank maintains two unsecured federal funds purchased lines of credit with its banking partners which total \$70.0 million. These lines bear interest at the lender banks 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, 2023, or December 31, 2022.

At December 31, 2023, and 2022, the Bank had the ability to borrow \$22.4 million and \$4.1 million from the Federal Reserve Bank of Minneapolis. The ability to borrow is based on mortgage-backed securities pledged with a carrying value of \$29.2 million and \$5.4 million as of December 31, 2023, and 2022, respectively. There were no Federal Reserve borrowings outstanding as of December 31, 2023, and 2022.

Stockholders' Equity. Total stockholders' equity was \$173.3 million at December 31, 2023, compared to \$167.1 million at December 31, 2022. The increase in stockholders' equity included the Company's net income of \$13.0 million, restricted stock amortization of \$0.7 million and a decrease in the unrealized loss on available for sale securities of \$0.3 million, net of tax, due to lower interest rates. These increases were offset by: (1) the \$4.4 million cumulative effect adjustment from the adoption of ASU 2016-13; (2) the payment of the annual cash dividend paid in February to common stockholders of \$0.29 per share, or \$3.0 million; and (3) the repurchase of approximately 42 thousand shares of its common stock, which reduced equity by \$0.4 million.

On July 23, 2021, the Board of Directors adopted a share repurchase program. There were 14 thousand shares repurchased in the second quarter of 2023, no shares repurchased during the first and third quarters of 2023, and 27 thousand

shares repurchased during the fourth quarter. As of December 31, 2023, an additional 202 thousand shares remain available for repurchase.

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 unpledged securities portfolio divided by total assets. At December 31, 2023, our on-balance sheet liquidity ratio decreased to 11.4% percent from 13.0% at December 31, 2022, remaining above our internal requirement of 10%. This was largely due to reductions in the AFS and HTM investment portfolios.

There are no material customers or industry deposit concentrations. At December 31, 2023, our deposit portfolio composition was 54% consumer, 28% commercial, 12% public and 6% brokered deposits. At December 31, 2022, our deposit portfolio composition was 57% consumer, 28% commercial, 12% public and 3% brokered deposits.

Uninsured and uncollateralized deposits were \$275.8 million, or 18% of total deposits, at December 31, 2023, and \$298.8 million, or 21% of total deposits, at December 31, 2022. Uninsured deposits alone at December 31, 2023, were \$427.5 million, or 28% of total deposits, and \$441.2 million, or 31% of total deposits at December 31, 2022, with the difference being an increase in fully secured government deposits.

On-balance sheet liquidity, collateralized borrowing and uncommitted federal funds availability was \$673.6 million, or 244% of uninsured and uncollateralized deposits at December 31, 2023. At December 31, 2022, on-balance sheet liquidity, collateralized borrowing and uncommitted federal funds availability was \$614.9 million, or 221% of uninsured and uncollateralized deposits.

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 \$329.9 million of our \$359.5 million (92%) 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 2021 and early 2022. Since June of 2022, we strategically increased CD pricing, which resulted in growth in certificates, as customers looked to increase duration. Retail non-maturity interest-bearing accounts have decreased at approximately the same rate as the certificate accounts, as our customers have moved to higher-yielding certificates and spent money. 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. However, this is challenging in the current competitive environment.

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 \$370.6 million available to borrow under this arrangement, supported by loan collateral as of December 31, 2023. We also had borrowing capacity of \$22.4 million at the Federal Reserve Bank and have been approved to access the Bank Term Funding Program ("BTFP") if the need should arise. The Bank maintains \$70 million of uncommitted federal funds purchased lines with correspondent banks as part of our contingency funding plan. In addition, the Company has 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, 2023, we believe that the Bank could access this market, which provides an additional potential source of liquidity, as evidenced by access to this market during the past four quarters. 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, 2023, the Company had approximately \$210.4 million in unused loan commitments, compared to approximately \$243.0 million in unused commitments as of December 31, 2022. In addition, there are \$3.4 million of commitments for contributions of capital to an SBIC and an investment company at December 31, 2023. These commitments totaled \$4.7 million at December 31, 2022. 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	
<u>As of December 31, 2023</u>										
Total capital (to risk weighted assets)	\$ 228,092	14.6 %	\$ 124,883	> =	8.0 %		\$ 156,104	> =	10.0 %	
Tier 1 capital (to risk weighted assets)	208,726	13.4 %	93,662	> =	6.0 %		124,883	> =	8.0 %	
Common equity tier 1 capital (to risk weighted assets)	208,726	13.4 %	70,247	> =	4.5 %		101,468	> =	6.5 %	
Tier 1 leverage ratio (to adjusted total assets)	208,726	11.5 %	72,479	> =	4.0 %		90,599	> =	5.0 %	
<u>As of December 31, 2022</u>										
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 %	

At December 31, 2023, 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	
<u>As of December 31, 2023</u>						
Total capital (to risk weighted assets)	\$ 230,160	14.7 %	\$ 124,883	> =	8.0 %	
Tier 1 capital (to risk weighted assets)	160,794	10.3 %	93,662	> =	6.0 %	
Common equity tier 1 capital (to risk weighted assets)	160,794	10.3 %	70,247	> =	4.5 %	
Tier 1 leverage ratio (to adjusted total assets)	160,794	8.9 %	72,479	> =	4.0 %	
<u>As of December 31, 2022</u>						
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 %	

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, 2023:

	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023
Interest dividend income	\$ 19,673	\$ 20,777	\$ 21,772	\$ 22,026
Interest expense	6,878	9,091	9,651	10,279
Net interest income before provision for credit losses	12,795	11,686	12,121	11,747
Provision for credit losses	50	450	(325)	(650)
Net interest income after provision for credit losses	12,745	11,236	12,446	12,397
Non-interest income	2,292	2,913	2,565	2,480
Non-interest expense	10,121	9,846	9,969	10,206
Income before provision for income taxes	4,916	4,303	5,042	4,671
Provision for income taxes	1,254	1,097	2,544	978
Net income attributable to common stockholders	\$ 3,662	\$ 3,206	\$ 2,498	\$ 3,693
Basic earnings per share	\$ 0.35	\$ 0.31	\$ 0.24	\$ 0.35
Diluted earnings per share	\$ 0.35	\$ 0.31	\$ 0.24	\$ 0.35
Cash dividends paid	\$ 0.29	\$ —	\$ —	\$ —

Year ended December 31, 2022:

	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022
Interest dividend income	\$ 15,376	\$ 16,703	\$ 17,959	\$ 19,359
Interest expense	2,209	2,436	3,502	4,881
Net interest income before provision for loan losses	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 provision for income taxes	6,212	5,777	5,277	6,315
Provision for income taxes	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
Cash dividends paid	\$ 0.26	\$ —	\$ —	\$ —

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

In managing our assets and liabilities to achieve desired levels of interest rate risk, 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 growing core deposits;
- utilize 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, 2023 and December 31, 2022 an analysis of our interest rate risk as measured by the estimated changes in Economic Value of Equity (“EVE”) resulting from an immediate and permanent shift in the yield curve (up 300 basis points and down 200 basis points).

Change in Interest Rates in Basis Points (“bp”) Rate Shock in Rates (1)	Percent Change in Economic Value of Equity (EVE)	
	At December 31, 2023	At December 31, 2022
+300 bp	0%	0%
+200 bp	0%	0%
+100 bp	0%	0%
-100 bp	0%	(1)%
-200 bp	(2)%	(4)%

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

Our overall interest rate sensitivity is demonstrated by net interest income shock analysis, which measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of change in our net interest income over the next 12 months in the event of an immediate and parallel shift in the yield curve (up 300 basis points and down 200 basis points). The table below presents our projected change in net interest income for the various rate shock levels at December 31, 2023, and December 31, 2022.

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, 2023	At December 31, 2022
+300 bp	(13)%	(3)%
+200 bp	(8)%	(2)%
+100 bp	(4)%	(1)%
-100 bp	4%	1%
-200 bp	7%	2%

(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 projected changes in net interest income in the rate shock scenarios is largely due to the impact of growth in short-term certificates of deposits, which reprice faster and at a higher rate than other deposit products. 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

Report of Independent Registered Public Accounting Firm (Eide Bailly LLP; Phoenix, Arizona; PCAOB ID 286)

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Income (Loss)

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements



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, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss), 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, 2023 and 2022, 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.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company adopted the provisions of FASB Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023, using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

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 Credit Losses

The Company has a gross loan portfolio of \$1.5 billion and related allowance for credit losses (ACL) of \$22.9 million as of December 31, 2023. As discussed in Notes 1 and 3 to the Company's consolidated financial statements, the ACL represents management's estimate of expected credit losses over the contractual life of the loan portfolio. The ACL is estimated using relevant available information relating to past events, current economic conditions, and reasonable and supportable forecasts, as well as qualitative adjustments applied on a portfolio segment basis. The qualitative adjustments are used to bring the ACL to the level management believes is appropriate based on factors that are otherwise unaccounted for in the quantitative process.

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 establishing the ACL, including the models selected by management to estimate quantitative components of the ACL and qualitative adjustments made to the ACL. This includes the process utilized by management to challenge the model results and determine the best estimate of the ACL as of the balance sheet date.
- Evaluating the design and testing the operating effectiveness of controls relating to the development and approval of the ACL methodology, management's identification and determination of the significant assumptions used in the Probability of Default (PD) and Loss Given Default (LGD) models, controls related to the reliability and accuracy of the data used in the models, analysis of the ACL results and the management's review and approval of the ACL.
- Evaluating the appropriateness of the model methodology used to incorporate a reasonable and supportable forecast period and reversion to historical loss rates by inspecting the model documentation and by comparing it to relevant industry practices.
- Determining whether the loan portfolio is segmented by similar risk characteristics by comparing to the Company's business environment and relevant industry practices.
- Testing the completeness and accuracy of internal loan level data used as the basis for the calculation.
- Evaluating the reasonableness of forecasted economic scenarios.
- Evaluating the identification and measurement of the qualitative adjustments, including the basis for concluding an adjustment was warranted and compared the adjustments utilized by management to both internal portfolio metrics and external macroeconomic data to support the adjustments and evaluated the trends in such adjustments. We evaluated information that corroborates or contradicts management's reasonable and supportable forecast as well as identification and measurement of qualitative factors.

/s/ Eide Bailly, LLP

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

Phoenix, Arizona
March 5, 2024

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

<i>Assets</i>	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 37,138	\$ 35,363
Other interest bearing deposits	—	249
Available for sale ("AFS") securities, at amortized cost of \$179,744, net of allowance for credit losses of \$0 at December 31, 2023	155,743	165,991
Held to maturity ("HTM") securities, at amortized cost, net of allowance for credit losses of \$0 at December 31, 2023	91,229	96,379
Equity investments	3,284	1,794
Other investments	15,725	15,834
Loans receivable	1,460,792	1,411,784
Allowance for credit losses	(22,908)	(17,939)
Loans receivable, net	1,437,884	1,393,845
Loans held for sale	5,773	—
Mortgage servicing rights, net	3,865	4,262
Office properties and equipment, net	18,373	20,493
Accrued interest receivable	5,409	5,285
Intangible assets	1,694	2,449
Goodwill	31,498	31,498
Foreclosed and repossessed assets, net	1,795	1,271
Bank owned life insurance ("BOLI")	25,647	24,954
Other assets	16,334	16,719
TOTAL ASSETS	\$ 1,851,391	\$ 1,816,386
<i>Liabilities and Stockholders' Equity</i>		
Liabilities:		
Deposits	\$ 1,519,092	\$ 1,424,720
Federal Home Loan Bank ("FHLB") advances	79,530	142,530
Other borrowings	67,465	72,409
Other liabilities	11,970	9,639
Total liabilities	1,678,057	1,649,298
Stockholders' Equity:		
Common stock— \$0.01 par value, authorized 30,000,000; 10,440,591 and 10,425,119 shares issued and outstanding, respectively	104	104
Additional paid-in capital	119,441	119,240
Retained earnings	71,117	65,400
Accumulated other comprehensive loss	(17,328)	(17,656)
Total stockholders' equity	173,334	167,088
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,851,391	\$ 1,816,386

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, 2023	For the year ended December 31, 2022
Interest and dividend income:		
Interest and fees on loans	\$ 73,577	\$ 61,639
Interest on investments	10,671	7,758
Total interest and dividend income	84,248	69,397
Interest expense:		
Interest on deposits	25,749	6,429
Interest on FHLB borrowed funds	5,966	2,303
Interest on other borrowed funds	4,184	4,296
Total interest expense	35,899	13,028
Net interest income before provision for credit losses	48,349	56,369
Provision for credit losses	(475)	1,475
Net interest income after provision for credit losses	48,824	54,894
Non-interest income:		
Service charges on deposit accounts	1,949	2,018
Interchange income	2,324	2,343
Loan servicing income	2,218	2,439
Gain on sale of loans	1,692	1,474
Loan fees and service charges	432	679
Net gains on investment securities	459	541
Other	1,176	936
Total non-interest income	10,250	10,430
Non-interest expense:		
Compensation and related benefits	21,106	22,128
Occupancy	5,431	5,490
Data processing	5,951	5,453
Amortization of intangible assets	755	1,449
Mortgage servicing rights expense, net	615	222
Advertising, marketing and public relations	734	1,017
FDIC premium assessment	812	470
Professional services	1,524	1,707
Losses (gains) on repossessed assets, net	62	(395)
New market tax credit depletion	—	650
Other	3,152	3,552
Total non-interest expense	40,142	41,743
Income before provision for income taxes	18,932	23,581
Provision for income taxes	5,873	5,820
Net income attributable to common stockholders	\$ 13,059	\$ 17,761
Per share information:		
Basic earnings	\$ 1.25	\$ 1.69
Diluted earnings	\$ 1.25	\$ 1.69
Cash dividends paid	\$ 0.29	\$ 0.26

See accompanying notes to audited consolidated financial statements.

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

	For the year ended December 31, 2023	For the year ended December 31, 2022
Net income attributable to common stockholders	\$ 13,059	\$ 17,761
Other comprehensive income (loss), net of tax:		
Securities available for sale		
Net unrealized gains (losses) arising during period, net of tax	337	(17,817)
Reclassification adjustment for net gains included in net income, net of tax	(9)	—
Other comprehensive income (loss), net of tax	328	(17,817)
Comprehensive income (loss)	\$ 13,387	\$ (56)

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, 2021	10,502,442	\$ 105	\$ 119,925	\$ 50,675	\$ 161	\$ 170,866
Net income	—	—	—	17,761	—	17,761
Other comprehensive loss, 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
Net income	—	—	—	13,059	—	13,059
Other comprehensive income, net of tax	—	—	—	—	328	328
Forfeiture of unvested shares	(4,752)	—	—	—	—	—
Surrender of restricted shares of common stock	(10,287)	—	(129)	—	—	(129)
Restricted common stock awarded under the equity incentive plan	50,606	1	—	—	—	1
Restricted common stock issued upon achievement of the 2020 performance criteria	18,551	—	—	—	—	—
Common stock options exercised	3,000	—	28	—	—	28
Common stock repurchased	(41,646)	(1)	(420)	—	—	(421)
Amortization of restricted stock	—	—	722	—	—	722
Cumulative change in accounting principle for adoption of ASU2016-13	—	—	—	(4,432)	—	(4,432)
Cumulative change in accounting principle for adoption of ASU2023-02	—	—	—	130	—	130
Cash dividends (\$0.29 per share)	—	—	—	(3,040)	—	(3,040)
Balance, December 31, 2023	10,440,591	\$ 104	\$ 119,441	\$ 71,117	\$ (17,328)	\$ 173,334

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, 2023	For the year ended December 31, 2022
Cash flows from operating activities:		
Net income attributable to common stockholders	\$ 13,059	\$ 17,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment securities net (discount accretion) premium amortization	(64)	41
Depreciation expense	2,371	2,357
Provision for credit losses	(475)	1,475
Net realized gain on equity securities	(447)	(541)
Net realized gain on debt securities	(12)	—
Deferred tax asset valuation allowance, net of accretion	1,792	—
Increase in mortgage servicing rights resulting from transfers of financial assets	(218)	(323)
Mortgage servicing rights amortization and impairment reversal, net	615	222
Amortization of intangible assets	755	1,449
Amortization of restricted stock	722	860
Net stock based compensation expense	—	3
Loss on closure of branch facilities	380	736
Decrease in deferred income taxes	202	506
Increase in cash surrender value of life insurance	(693)	(642)
Net gain (loss) from disposals of foreclosed and repossessed assets	62	(395)
Gain on sale of loans held for sale, net	(1,692)	(1,474)
Proceeds from sale of loans held for sale	46,907	46,862
Origination of loans held for sale	(50,988)	(38,718)
New market tax credit depletion expense	—	650
Net change in:		
Accrued interest receivable and other assets	54	79
Other liabilities	794	(1,620)
Total adjustments	65	11,527
Net cash provided by operating activities	13,124	29,288
Cash flows from investing activities:		
Net decrease in other interest bearing deposits	249	1,262
Purchase of available for sale securities	(11,007)	(13,315)
Proceeds from principal payments of available for sale securities	16,594	25,815
Proceeds from sales of available for sale securities	5,105	—
Purchase of held to maturity securities	—	(35,342)
Proceeds from principal payments and maturities of held to maturity securities	5,134	10,065
Equity investment capital distribution	132	136
Purchase of equity investments	(1,350)	(300)
Net sales (purchases) of other investments	284	(290)
Proceeds from sales of foreclosed and repossessed assets	307	1,797
Net increase in loans	(48,298)	(101,371)
Net capital expenditures	(1,367)	(3,602)
Proceeds from disposal of office properties and equipment	12	14
New market tax credit investment	—	(4,056)
Net cash used in investing activities	(34,205)	(119,187)
Cash flows from financing activities:		
Net change in Federal Home Loan Bank short-term advances	(68,000)	112,000
Federal Home Loan Bank advances	25,000	—
Amortization of fair value adjustments for acquired Federal Home Loan Bank advances	—	3
Federal Home Loan Bank advance call payments	(15,000)	(55,000)
Federal Home Loan Bank advance termination payments	—	(15,015)
Federal Home Loan Bank maturities	(5,000)	(11,000)
Amortization of debt issuance costs	223	398

Proceeds from other borrowings, net of origination costs	—	34,191
Other borrowings principal reductions	(5,167)	(5,606)
Other borrowings called and repaid	—	(15,000)
Net increase in deposits	94,361	37,185
Restricted common stock awarded under the equity incentive plan	1	—
Repurchase shares of common stock	(421)	(1,764)
Surrender of restricted shares of common stock	(129)	(150)
Common stock options exercised	28	71
Cash dividends paid	(3,040)	(2,742)
Net cash provided by financing activities	22,856	77,571
Net increase (decrease) in cash and cash equivalents	1,775	(12,328)
Cash and cash equivalents at beginning of period	35,363	47,691
Cash and cash equivalents at end of period	\$ 37,138	\$ 35,363
Supplemental cash flow information:		
Cash paid during the period for:		
Interest on deposits	\$ 23,353	\$ 6,435
Interest on borrowings	\$ 10,180	\$ 6,210
Income taxes	\$ 3,977	\$ 4,865
Supplemental noncash disclosure:		
Transfers from loans receivable to foreclosed and repossessed assets	\$ 158	\$ 92
Transfers from office properties and equipment to foreclosed and repossessed assets	\$ 724	\$ 1,171

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, 2023 through the date on which the consolidated financial statements were available to be issued on March 5, 2024, 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 credit 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, 2023 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. As of December 31, 2023, there were no other interest bearing deposit investments. As of December 31, 2022, the weighted average months to maturity of the interest bearing deposits was 3.00 months. Balances over \$250 in other financial 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, 2023 and December 31, 2022, there were no certificate of deposit investment 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. 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.

Allowance for Credit Losses - Available for Sale Securities - The Company measures the allowance for credit losses on available for sale debt securities by evaluating securities in an unrealized loss position using a two-step process. First, the Company assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost. If it is determined that the Company intends or will be required to sell the security, it is written down to its fair value as net gains or losses on investment securities in our consolidated statement of operations. For agency mortgage-backed and asset-backed securities that do not meet the criteria in step one, there are no expected credit losses as they are guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. For other debt securities that do not meet the criteria in step one, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and the allowance for credit losses on available for sale investments is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Allowance for Credit Losses - Held to Maturity Securities - The Company measures expected credit losses on held to maturity debt securities on a collective basis by major security type. For agency mortgage-backed securities there are no expected credit losses as they are guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. For other securities, the estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

The Company has elected to not measure an ACL on accrued interest on available for sale and held to maturity securities, as it would write off accrued interest in a timely manner if the related security was determined to be impaired. The Company has no available for sale securities or held to maturity securities which it deems to be impaired at December 31, 2023.

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 or earlier distributions are made. 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 \$15,725 at December 31, 2023 consisted of \$7,302 of FHLB stock, \$5,699 of Federal Reserve Bank stock and \$2,724 of Bankers' Bank stock. 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.

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 deteriorated (PCD) 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 Credit Losses - Loans – The allowance for credit losses ("ACL") on loans is a valuation allowance for current expected credit losses in the Company's loan portfolio. Prior to January 1, 2023, the valuation allowance was established for probable and inherent credit losses. Loan losses are charged against the ACL when management believes that the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the ACL. In determining the allowance, the company estimates credit losses over the loan's entire contractual term, adjusted for expected prepayments when appropriate. The allowance estimate considers relevant available information from internal and external sources relating to historical loss experience; known and inherent risks in our portfolio; information about specific borrowers' ability to repay; estimated collateral values; current economic conditions; reasonable and supportable forecasts for future conditions; and other relevant factors determined by management. To ensure that the ACL is maintained at an adequate level, a detailed analysis is performed on a quarterly basis and an appropriate provision is made to adjust the allowance. The entire ACL balance is available for any loan that, in management's judgment, should be charged off.

The determination of the ACL requires significant judgement to estimate credit losses. The ACL on loans is measured collectively on a pooled basis when similar risk characteristics exist, and on an individual basis when management determines that the loan does not share similar risk characteristics with other loans. The ACL on loans collectively evaluated is measured using the loss rate model. The Company categorizes its loan portfolio into four segments based on similar risk characteristics. Loans within each segment are pooled based on individual loan characteristics. Aggregated risk drivers are then calculated at a pool level. Risk drivers are identified attributes that have proven to be predictive of loan loss rates and vary based on loan

segment and type. A loss rate is calculated and applied to the pool utilizing a model that combines the pool's risk drivers, historical loss experience, and reasonable and supportable future economic forecasts to project lifetime losses. The loss rate is then combined with the loans balance and contractual maturity, adjusted for expected prepayments, to determine expected future losses. Future and supportable economic forecasts are based on national economic conditions and their reversion to the mean is implicit in the model and generally occurs over a period of two years.

Qualitative adjustments are made to the allowance calculated on collectively evaluated loans to incorporate factors not included in the model. Qualitative factors include but are not limited to: lending policies and procedures, the experience and ability of lending and other staff, the volume and severity of problem credits, quality of the loan review system, and other external factors.

Loans that exhibit different risk characteristics from the pool are individually evaluated for impairment. Loans can be identified for individual evaluation for a variety of reasons including delinquency, nonaccrual status, risk rating and loan modification. Accruing loans that exhibit different risk characteristics from their pool may also be within scope. On these loans, an allowance may be established so that the loan is reported, net, at the lower of (a) its amortized cost; (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 the loan is collateral dependent. Collateral dependency is determined using the practical expedient when: 1) the borrower is experiencing financial difficulty; and 2) repayment is expected to be provided substantially through the sale or operation of the collateral.

The Company has elected to not measure an ACL on accrued interest as it writes off accrued interest in a timely manner.

Allowance for Credit Losses - Unfunded Commitments — The ACL on unfunded commitments is a liability for credit losses on commitments to originate or fund loans, and standby letters of credit. It is included in "Other liabilities" on the consolidated balance sheets. Expected credit losses are estimated over the contractual period in which the Company is exposed to credit risk via a commitment that cannot be unconditionally canceled, adjusted for projected prepayments when appropriate. In addition, the estimate of the liability considers the likelihood that funding will occur. The ACL on unfunded commitments is adjusted through provision for credit losses on consolidated statements of operations. Because the business processes and risks associated with unfunded commitments are essentially the same as loans, the Company uses the same process to estimate the liability.

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 72 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, 2023 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, 2023. 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. With the adoption of ASU 2023-02 on January 1, 2023, discussed in *Recent Accounting Pronouncements* – Adopted below, the investment is accounted for using the proportional amortization method, which requires amortizing the investment in the period of and in proportion to the recognition of the related tax credit. Amortization of the investment is included in provision for income taxes and the utilization of the tax credit is recorded as a reduction of the provision for income taxes. Prior to the adoption of ASU 2023-02, the investment was accounted for using the equity method of accounting and was amortized through non-interest expense. Amortization expense for the 12-month periods ended December 31, 2023 and December 31, 2022 was \$452 and \$650, respectively.

As of December 31, 2023, the carrying amount of this investment, which is included in other assets in the consolidated balance sheets, was \$2,898. Prior to the adoption of ASU 2023-02, the carrying amount of the investment, as of December 31, 2022 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, 2023, 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 basis. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

The 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.

The Company's effective tax rates were 31.0% and 24.7% for the twelve months ended December 31, 2023 and December 31, 2022, respectively. The Wisconsin state budget, signed July 5, 2023, effective January 1, 2023, made originated loans in Wisconsin for business purposes up to \$5,000 non-taxable. This change lowers the Company's income tax rate for the twelve-month period ended December 31, 2023 before related valuation allowance. Income tax expense was lower due to the retroactive, effect of this change. This reduction of income tax expense was offset by a one-time tax expense of \$1,828 in the period ended September 30, 2023, as the impact of the resulting lower incremental tax rate decreased the estimated future realization of an existing deferred tax asset resulting in a valuation allowance.

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, 2023, the Company had \$1,672 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, 2023.

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 and ASU 2021-01, Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting—These ASUs provide 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 and ASU 2021-01 was effective immediately upon issuance and will remain in effect 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.

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 was permitted; however, the Company elected not to adopt the ASU early.

The Company formed a cross-functional team to implement ASU 2016-13. Key objectives of the team included selecting a loss estimation methodology, establishing processes and controls, data validation, creation of supporting analytics, documentation of policies and procedures, and developing disclosures. As previously disclosed, the Company is utilizing a third-party model to assist in loss estimation including pooling loans with similar risk characteristics and modeling methodologies.

The Company adopted ASU 2016-13 using the modified retrospective approach effective January 1, 2023. Results for the periods beginning on and after January 1, 2023 are presented under ASU 2016-13 while prior period amounts are reported in accordance with previously applicable accounting standards. The company recorded a reduction to retained earnings of \$4,432 upon the adoption of ASU 2016-13, primarily due to the requirement to estimate credit losses over the life of the loan and the duration of the Company's portfolio. The Company also recorded an increase to the ACL of \$4,706. This increase was made up of two components, \$4,576 for non-purchased credit deteriorated ("PCD") loans and \$130 for PCD loans. An ACL on unfunded commitments of \$1,537 was also established. The Company elected not to record an allowance on HTM securities as the

portfolio consists almost entirely of agency-backed securities that inherently have minimal nonpayment risk. The transition adjustment included corresponding increases in deferred tax assets.

The Company adopted ASU 2016-13 using the prospective transition approach for financial assets considered PCD. These assets were previously classified as purchase credit impaired ("PCI") and accounted for under ASC 310-30 prior to January 1, 2023. In accordance with the standard, the Company did not reassess whether the PCI assets met the criteria of PCD assets as of the adoption date. The amortized cost of the PCD assets were adjusted to reflect the addition of \$130 to the allowance for credit losses. This adjustment is included in the discussion of the transition adjustment above. The remaining noncredit discount, based on the adjusted amortized cost, will be accreted into interest income at the effective interest rate over the remaining life of the assets.

The following table illustrates the impact of ASU 2016-13 adoption in thousands.

	Pre-ASU 2016-13 Adoption December 31, 2022	Impact of ASU 2016-13 Adoption	As Reported under ASU 2016-13 January 1, 2023
Allowance for credit losses:			
Commercial/Agricultural Real Estate	\$ 14,085	\$ 4,510	\$ 18,595
C&I/Agricultural operating	2,318	(331)	1,987
Residential Mortgage	599	1,119	1,718
Consumer Installment	129	216	345
Unallocated	808	(808)	—
Total allowance for credit losses on loans	17,939	4,706	22,645
Allowance for credit losses on unfunded commitments	—	1,537	1,537
Total allowance for credit losses	\$ 17,939	\$ 6,243	\$ 24,182

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. The company adopted ASU 2022-02 in conjunction with ASU 2016-13 on January 1, 2023 using the prospective approach.

ASU 2023-02, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method - This ASU expands the use of the proportional amortization method in accounting for tax credit investments to all tax credit investments that meet certain criteria. The Company has determined that its New Markets Tax Credit investment qualifies for use of the proportional amortization method under this ASU and has elected to early adopt the update as of January 1, 2023 using the modified retrospective approach. The transition adjustment resulted in an increase to retained earnings of \$130. Amortization of the investment will now be recognized in the period of and proportional to recognition of the related tax credit and included in provision for income taxes in the consolidated statements of operations. Prior to adoption of this amendment, the amortization was included in other non-interest expense as a separate line item.

The Company chose to adopt ASU 2023-02 because it felt that the proportional amortization method more accurately reflects the economic substance of its tax credit investment. Proportional amortization better matches the cost of the investment with the benefits received, and including the amortization of the investment in provision for income taxes better reflects the benefit the Company receives from the transaction. For the twelve months ended December 31, 2023, adopting ASU 2023-02 increased net income \$120.

Recently Issued, But Not Yet Effective Accounting Pronouncements

ASU 2023-06, Disclosure Improvements – Codification Amendments in Response to SEC’s Disclosure Update and Simplification Initiative – This ASU, issued in October 2023, provides for changes to clarify or improve consistency of disclosure and presentation requirements on a variety of topics. This ASU has various effective dates, coinciding with the SEC’s removal of each specific change from Regs X-S and S-K, with early adoption permitted. The Company is currently

evaluating the applicability of these new disclosure requirements. As all requirements are disclosure-related only, adoption will have no material impact on the Company’s financial condition or results of operations.

ASU 2023-09, Income Taxes – Improvements to Income Tax Disclosures – This ASU, issued in December 2023, is effective for fiscal years beginning after December 15, 2024 and interim periods therein, with early adoption permitted. This ASU requires expanded income tax-related note disclosures. The Company is currently evaluating the impact of these new disclosure requirements. As all requirements are disclosure-related only, adoption will have no material impact on the Company’s financial condition or results of operations.

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, 2023 and December 31, 2022, respectively, were as follows:

Available for sale securities		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2023					
U.S. government agency obligations	\$	16,655	\$ 77	\$ 156	\$ 16,576
Mortgage-backed securities		91,091	—	17,611	73,480
Corporate debt securities		47,158	6	5,990	41,174
Asset-backed securities		24,840	12	339	24,513
Total available for sale securities	\$	179,744	\$ 95	\$ 24,096	\$ 155,743
December 31, 2022					
U.S. government agency obligations	\$	18,373	\$ 173	\$ 233	\$ 18,313
Mortgage-backed securities		97,458	—	18,848	78,610
Corporate debt securities		44,636	—	4,385	40,251
Asset-backed securities		29,877	—	1,060	28,817
Total available for sale securities	\$	190,344	\$ 173	\$ 24,526	\$ 165,991

Held to maturity securities		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2023					
Obligations of states and political subdivisions	\$	600	\$ —	\$ 35	\$ 565
Mortgage-backed securities		90,629	6	17,938	72,697
Total held to maturity securities	\$	91,229	\$ 6	\$ 17,973	\$ 73,262
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

At December 31, 2023, the Bank has pledged certain of its mortgage-backed securities with a carrying value of \$29,191 as collateral to secure a line of credit with the Federal Reserve Bank. As of December 31, 2023, there were no borrowings outstanding on this Federal Reserve Bank line of credit. As of December 31, 2023, the Bank has pledged certain of its U.S. Government Agency securities with a carrying value of \$516 and mortgage-backed securities with a carrying value of \$1,928 as collateral against specific municipal deposits. As of December 31, 2023, the Bank also has mortgage-backed securities with a carrying value of \$179 and U.S. Government Agencies with a carrying value of \$415 pledged as collateral to the Federal Home Loan Bank of Des Moines.

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.

For the twelve-month period ending December 31, 2023, and December 31, 2022, gross sales of available for sale securities were \$5,105 and \$0 respectively. Gross gains on sale of available for sale securities for the twelve-month period ending December 31, 2023 and December 31, 2022, were \$12 and \$0 respectively. Gross losses on sale of available for sale securities for the twelve-month period ended December 31, 2023 and December 31, 2022 were both \$0.

The estimated fair value of available for sale securities at December 31, 2023 and December 31, 2022, 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.

	December 31, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available for sale securities				
Due in one year or less	\$ —	\$ —	\$ —	\$ —
Due after one year through five years	13,986	13,703	8,525	8,184
Due after five years through ten years	45,549	39,701	45,622	41,427
Due after ten years	29,118	28,859	38,739	37,770
Total securities with contractual maturities	88,653	82,263	92,886	87,381
Mortgage-backed securities	91,091	73,480	97,458	78,610
Total available for sale securities	\$ 179,744	\$ 155,743	\$ 190,344	\$ 165,991

	December 31, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to maturity securities				
Due in one year or less	\$ 100	\$ 100	\$ —	\$ —
Due after one year through five years	500	465	450	415
Due after five years through ten years	—	—	150	131
Total securities with contractual maturities	600	565	600	546
Mortgage-backed securities	90,629	72,697	95,779	76,233
Total held to maturity securities	\$ 91,229	\$ 73,262	\$ 96,379	\$ 76,779

Securities with unrealized losses at December 31, 2023 and December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale securities						
December 31, 2023						
U.S. government agency obligations	\$ 3,776	\$ 5	\$ 3,627	\$ 151	\$ 7,403	\$ 156
Mortgage-backed securities	—	—	73,476	17,611	73,476	17,611
Corporate debt securities	3,350	76	35,916	5,914	39,266	5,990
Asset-backed securities	3,348	22	20,008	317	23,356	339
Total	\$ 10,474	\$ 103	\$ 133,027	\$ 23,993	\$ 143,501	\$ 24,096
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
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

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Held to maturity securities						
<u>December 31, 2023</u>						
Obligations of states and political subdivisions	\$ —	\$ —	\$ 565	\$ 35	\$ 565	\$ 35
Mortgage-backed securities	—	—	72,507	17,938	72,507	17,938
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 73,072</u>	<u>\$ 17,973</u>	<u>\$ 73,072</u>	<u>\$ 17,973</u>
<u>December 31, 2022</u>						
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	<u>\$ 16,627</u>	<u>\$ 2,416</u>	<u>\$ 59,913</u>	<u>\$ 17,191</u>	<u>\$ 76,540</u>	<u>\$ 19,607</u>

At December 31, 2023 no ACL was established for available for sale or held to maturity securities. Substantially all the held to maturity portfolio is made up of agency backed mortgage securities. These securities are guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Accordingly, the Company does not expect to incur credit losses on these securities. Unrealized losses on available-for-sale investment securities have not been recognized into income because the issuers' bonds are agency backed securities or other securities that all principal and interest is expected to be received on a timely basis. Furthermore, the Company does not intend to sell, and it is likely that management will not be required to sell, the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The issuers continue to make timely principal and interest payments on their bonds.

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

Portfolio Segments:

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

Commercial and industrial ("C&I") loans are primarily underwritten 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.

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 are stated at the principal amount outstanding net of unearned net deferred fees and costs and loans in process, unearned discounts on acquired loans, and allowance for credit losses (“ACL”). Unearned net deferred fees and costs includes deferred loan origination fees reduced by loan origination costs and is amortized to interest income over the life of the related loan using methods that approximated the effective interest rate method. Interest on substantially all loans is credited to income based on the principal amount outstanding. A summary of loans at December 31, 2023 follows:

	December 31, 2023	
	Amortized Cost	% of Total
Commercial/Agricultural real estate:		
Commercial real estate	\$ 748,447	51.2 %
Agricultural real estate	83,157	5.7 %
Multi-family real estate	228,004	15.6 %
Construction and land development	110,218	7.5 %
C&I/Agricultural operating:		
Commercial and industrial	121,190	8.3 %
Agricultural operating	25,695	1.8 %
Residential mortgage:		
Residential mortgage	128,479	8.8 %
Purchased HELOC loans	2,880	0.2 %
Consumer installment:		
Originated indirect paper	6,535	0.4 %
Other consumer	6,187	0.4 %
Total loans receivable	\$ 1,460,792	100 %
Less Allowance for credit losses	(22,908)	
Net loans receivable	\$ 1,437,884	

Loans are stated at the unpaid principal balance outstanding at December 31, 2022.

	December 31, 2022	
	Loan Principal Balance	% of Total
Commercial/Agricultural real estate:		
Commercial real estate	\$ 725,971	51.5 %
Agricultural real estate	87,908	6.2 %
Multi-family real estate	208,908	14.8 %
Construction and land development	102,492	7.3 %
C&I/Agricultural operating:		
Commercial and industrial	136,013	9.6 %
Agricultural operating	28,806	2.0 %
Residential mortgage:		
Residential mortgage	105,389	7.5 %
Purchased HELOC loans	3,262	0.2 %
Consumer installment:		
Originated indirect paper	10,236	0.7 %
Other consumer	7,150	0.5 %
Gross Loans	\$ 1,416,135	100.3 %
Less:		
Unearned net deferred fees and costs and loans in process	(2,585)	(0.2)%
Unamortized discount on acquired loans	(1,766)	(0.1)%
Total loans receivable	\$ 1,411,784	100.0 %
Less Allowance for loan losses	(17,939)	
Net loans	\$ 1,393,845	

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.

As of December 31, 2023 and December 31, 2022, there were no loans classified as doubtful with a risk rating of 8 and no loans classified as loss with a risk rating of 9.

Below is a summary of the amortized cost of loans summarized by class, credit quality risk rating and year of origination as of December 31, 2023 and gross charge-offs for the twelve months ended December 31, 2023:

	Amortized Cost Basis by Origination Year									
	2023	2022	2021	2020	2019	Prior	Revolving	Revolving to Term	Total	
Commercial/Agricultural real estate:										
Commercial real estate										
Risk rating 1 to 5	\$ 73,564	\$ 133,583	\$ 236,774	\$ 90,881	\$ 71,104	\$ 107,999	\$ 10,204	\$ —	\$ 724,109	
Risk rating 6	309	—	9,510	—	—	—	—	—	9,819	
Risk rating 7	25	696	3,213	4,548	183	5,854	—	—	14,519	
Total	\$ 73,898	\$ 134,279	\$ 249,497	\$ 95,429	\$ 71,287	\$ 113,853	\$ 10,204	\$ —	\$ 748,447	
Current period gross charge-offs	\$ —	\$ —	\$ 10	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ 14	
Agricultural real estate										
Risk rating 1 to 5	\$ 16,335	\$ 19,026	\$ 11,582	\$ 7,719	\$ 5,463	\$ 15,418	\$ 1,009	\$ —	\$ 76,552	
Risk rating 6	—	171	5,409	—	152	482	—	—	6,214	
Risk rating 7	—	360	—	—	31	—	—	—	391	
Total	\$ 16,335	\$ 19,557	\$ 16,991	\$ 7,719	\$ 5,646	\$ 15,900	\$ 1,009	\$ —	\$ 83,157	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ 32	\$ —	\$ —	\$ —	\$ —	\$ 32	
Multi-family real estate										
Risk rating 1 to 5	\$ 5,016	\$ 50,617	\$ 95,686	\$ 45,685	\$ 8,591	\$ 22,364	\$ 45	\$ —	\$ 228,004	
Risk rating 6	—	—	—	—	—	—	—	—	—	
Risk rating 7	—	—	—	—	—	—	—	—	—	
Total	\$ 5,016	\$ 50,617	\$ 95,686	\$ 45,685	\$ 8,591	\$ 22,364	\$ 45	\$ —	\$ 228,004	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Construction and land development										
Risk rating 1 to 5	\$ 42,639	\$ 37,783	\$ 18,912	\$ 8,014	\$ 119	\$ 1,124	\$ 1,314	\$ —	\$ 109,905	
Risk rating 6	—	—	—	—	—	110	—	—	110	
Risk rating 7	—	—	—	—	—	54	149	—	203	
Total	\$ 42,639	\$ 37,783	\$ 18,912	\$ 8,014	\$ 119	\$ 1,288	\$ 1,463	\$ —	\$ 110,218	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Commercial/Agricultural operating:										
Commercial and industrial										
Risk rating 1 to 5	\$ 16,758	\$ 31,915	\$ 28,059	\$ 11,406	\$ 4,746	\$ 2,023	\$ 24,059	\$ —	\$ 118,966	
Risk rating 6	—	—	—	—	5	—	2,200	—	2,205	
Risk rating 7	—	—	—	—	—	2	—	17	19	
Total	\$ 16,758	\$ 31,915	\$ 28,059	\$ 11,406	\$ 4,751	\$ 2,025	\$ 26,259	\$ 17	\$ 121,190	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Agricultural operating										
Risk rating 1 to 5	\$ 4,734	\$ 3,908	\$ 856	\$ 746	\$ 295	\$ 2,144	\$ 11,831	\$ —	\$ 24,514	
Risk rating 6	—	—	—	—	—	—	—	—	—	
Risk rating 7	—	476	704	—	—	1	—	—	1,181	
Total	\$ 4,734	\$ 4,384	\$ 1,560	\$ 746	\$ 295	\$ 2,145	\$ 11,831	\$ —	\$ 25,695	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	

Continued

Continued

	Amortized Cost Basis by Origination Year									
	2023	2022	2021	2020	2019	Prior	Revolving	Revolving to Term	Total	
Residential mortgage:										
Residential mortgage										
Risk rating 1 to 5	\$ 28,808	\$ 33,660	\$ 8,743	\$ 2,610	\$ 2,292	\$ 33,744	\$ 15,544	\$ —	\$ 125,401	
Risk rating 6	—	—	—	—	—	—	—	—	—	
Risk rating 7	—	141	—	—	14	2,875	—	48	3,078	
Total	\$ 28,808	\$ 33,801	\$ 8,743	\$ 2,610	\$ 2,306	\$ 36,619	\$ 15,544	\$ 48	\$ 128,479	
Current period gross charge-offs	\$ —	\$ —	\$ 10	\$ —	\$ —	\$ 68	\$ —	\$ —	\$ 78	
Purchased HELOC loans										
Risk rating 1 to 5	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,880	\$ —	\$ 2,880	
Risk rating 6	—	—	—	—	—	—	—	—	—	
Risk rating 7	—	—	—	—	—	—	—	—	—	
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,880	\$ —	\$ 2,880	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Consumer installment:										
Originated indirect paper										
Risk rating 1 to 5	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,491	\$ —	\$ —	\$ 6,491	
Risk rating 6	—	—	—	—	—	—	—	—	—	
Risk rating 7	—	—	—	—	—	44	—	—	44	
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,535	\$ —	\$ —	\$ 6,535	
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13	\$ —	\$ —	\$ 13	
Other consumer										
Risk rating 1 to 5	\$ 2,104	\$ 1,525	\$ 763	\$ 559	\$ 402	\$ 274	\$ 530	\$ 1	\$ 6,158	
Risk rating 6	—	—	—	—	—	—	—	—	—	
Risk rating 7	9	2	—	—	16	1	1	—	29	
Total	\$ 2,113	\$ 1,527	\$ 763	\$ 559	\$ 418	\$ 275	\$ 531	\$ 1	\$ 6,187	
Current period gross charge-offs	\$ —	\$ 2	\$ 1	\$ 11	\$ 3	\$ 6	\$ —	\$ —	\$ 23	
Total loans receivable	\$ 190,301	\$ 313,863	\$ 420,211	\$ 172,168	\$ 93,413	\$ 201,004	\$ 69,766	\$ 66	\$ 1,460,792	
Total current period gross charge-offs	\$ —	\$ 2	\$ 21	\$ 43	\$ 3	\$ 91	\$ —	\$ —	\$ 160	

Below is a summary of the unpaid principal balance of loans summarized by class and credit quality risk rating as of December 31, 2022:

	1 to 5	6	7	TOTAL
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	<u>\$ 1,386,646</u>	<u>\$ 12,170</u>	<u>\$ 17,319</u>	<u>\$ 1,416,135</u>
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				<u>\$ 1,393,845</u>

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, 2023 and December 31, 2022. A summary of the changes in those loans is as follows:

	Twelve months ended December 31, 2023	Twelve months ended December 31, 2022
Balance—beginning of period	\$ 38,410	\$ 32,423
New loan originations	624	7,994
Repayments	(2,442)	(2,007)
Balance—end of period	<u>\$ 36,592</u>	<u>\$ 38,410</u>
Available and unused lines of credit	<u>\$ 603</u>	<u>\$ —</u>

Allowance for Credit Losses - Loans- On January 1, 2023, the Company adopted Accounting Standards Update (“ASU”) 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial instruments and transitioned to the Current Expected Credit Loss (“CECL”) model to estimate losses based on the lifetime of the loan. Under the new methodology, the ACL is comprised of collectively evaluated and individually evaluated components. The allowance for credit losses (“ACL”) represents the Company’s best estimate of the reserve necessary to adequately account for probable losses expected over the remaining life of the assets. The provision for credit losses is the charge against current earnings that is determined by the Company as the amount needed to maintain an adequate allowance for credit losses. In determining the adequacy of the allowance for credit losses, and therefore the provision to be charged to current earnings, the Company relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company’s credit exposure. The review process is directed by the overall lending policy and is intended to identify, at the earliest possible stage, the borrowers who might be facing financial difficulty. Factors considered by the Company in evaluating the overall adequacy of the allowance include historical net loan losses, the level and composition of nonaccrual, past due and modifications, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates. The Company estimates the appropriate level of allowance for credit losses by evaluating loans collectively on a pooled basis when similar risk characteristics exist, and on an individual basis when management determines that a loan does not share similar risk characteristics with other loans.

The following tables present the balance and activity in the allowance for credit losses (“ACL”) - loans by portfolio segment for the twelve months ended December 31, 2023:

	Commercial/Agricultural Real Estate	C&I/Agricultural operating	Residential Mortgage	Consumer Installment	Unallocated	Total
Twelve months ended December 31, 2023						
Allowance for Credit Losses - Loans:						
ACL - Loans, at beginning of period	\$ 14,085	\$ 2,318	\$ 599	\$ 129	\$ 808	\$ 17,939
Cumulative effect of ASU 2016-13 adoption	4,510	(331)	1,119	216	(808)	4,706
Charge-offs	(46)	—	(78)	(36)	—	(160)
Recoveries	489	47	42	33	—	611
Additions/(reversals) to ACL - Loans via provision for credit losses charged to operations	(254)	(929)	1,062	(67)	—	(188)
ACL - Loans, at end of period	<u>\$ 18,784</u>	<u>\$ 1,105</u>	<u>\$ 2,744</u>	<u>\$ 275</u>	<u>\$ —</u>	<u>\$ 22,908</u>

Allowance for Credit Losses - Unfunded Commitments - In addition to the ACL - Loans, the Company has established an ACL - Unfunded Commitments of \$1,250 at December 31, 2023 and \$0 at December 31, 2022, classified in other liabilities on the consolidated balance sheets. The following table presents the balance and activity in the ACL - Unfunded Commitments for the twelve months ended December 31, 2023 and December 31, 2022.

	December 31, 2023 and Twelve Months Ended	December 31, 2022 and Twelve Months Ended
ACL - Unfunded Commitments - beginning of period	\$ —	\$ —
Cumulative effect of ASU 2016-13 adoption	1,537	—
Reversals to ACL - Unfunded Commitments via provision for credit losses charged to operations	(287)	—
ACL - Unfunded Commitments - End of period	<u>\$ 1,250</u>	<u>\$ —</u>

Provision for credit losses - The provision for credit losses is determined by the Company as the amount to be added to the ACL loss accounts for various types of financial instruments (including loans and off-balance sheet credit exposures) after net charge-offs have been deducted to bring the ACL to a level that, in managements judgement, is necessary to absorb expected credit losses over the lives of the respective financial instruments. The following table presents the components of the provision for credit losses.

	December 31, 2023 and Twelve Months Ended
Provision for credit losses on:	
Loans	\$ (188)
Unfunded Commitments	(287)
Total provision for credit losses	<u>\$ (475)</u>

Allowance for Loan Losses - Prior to the adoption of ASU 2016-13, the Allowance for Loan Losses ("ALL") represented management's estimate of probable and inherent credit losses in the Bank's loan portfolio. Estimating the amount of the ALL required 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 have been susceptible to significant change.

There were many factors affecting the ALL; some were quantitative, while others required qualitative judgment. The process for determining the ALL (which management believed adequately considered potential factors which resulted in probable credit losses), included subjective elements and, therefore, may have been susceptible to significant change. To the extent actual outcomes differed from management estimates, additional provision for loan losses could have been required that could have adversely affected the Company's earnings or financial position in future periods. Allocations of the ALL may have been made for specific loans but the entire ALL was available for any loan that, in management's judgment, should have been charged-off or for which an actual loss was realized.

As an integral part of their examination process, various regulatory agencies also reviewed the Bank's ALL. Such agencies may have required that changes in the ALL be recognized when such regulators' credit evaluations differed 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, 2023	\$ 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

Loans receivable by loan type as of December 31, 2022, were as follows:

	Commercial/Agricultural Real Estate	C&I/Agricultural operating	Residential Mortgage	Consumer Installment	Total
Performing loans					
Performing TDR loans	\$ 1,336	\$ 960	\$ 2,875	\$ —	\$ 5,171
Performing loans other	1,115,465	162,417	104,287	17,345	1,399,514
Total performing loans	1,116,801	163,377	107,162	17,345	1,404,685
Nonperforming loans (1)					
Nonperforming TDR loans	1,878	391	348	—	2,617
Nonperforming loans other	6,600	1,051	1,141	41	8,833
Total nonperforming loans	8,478	1,442	1,489	41	11,450
Total loans	\$ 1,125,279	\$ 164,819	\$ 108,651	\$ 17,386	\$ 1,416,135

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

An aging analysis of the Company's commercial/agricultural real estate, C&I, agricultural operating, residential mortgage, consumer installment and purchased third party loans as of December 31, 2023 and December 31, 2022, respectively, was as follows:

(Loan balances at amortized cost)	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 and Accruing	Nonaccrual Loans	Total Past Due Accruing and Nonaccrual Loans	Current	Total Loans
December 31, 2023								
Commercial/Agricultural real estate:								
Commercial real estate	\$ 50	\$ 308	\$ —	\$ 358	\$ 10,359	\$ 10,717	\$ 737,730	\$ 748,447
Agricultural real estate	—	—	—	—	391	391	82,766	83,157
Multi-family real estate	—	—	—	—	—	—	228,004	228,004
Construction and land development	—	—	—	—	54	54	110,164	110,218
C&I/Agricultural operating:								
Commercial and industrial	248	—	—	248	—	248	120,942	121,190
Agricultural operating	—	—	—	—	1,180	1,180	24,515	25,695
Residential mortgage:								
Residential mortgage	826	350	387	1,563	1,167	2,730	125,749	128,479
Purchased HELOC loans	117	—	—	117	—	117	2,763	2,880
Consumer installment:								
Originated indirect paper	66	—	—	66	15	81	6,454	6,535
Other consumer	38	—	2	40	18	58	6,129	6,187
Total	<u>\$ 1,345</u>	<u>\$ 658</u>	<u>\$ 389</u>	<u>\$ 2,392</u>	<u>\$ 13,184</u>	<u>\$ 15,576</u>	<u>\$ 1,445,216</u>	<u>\$ 1,460,792</u>

(Loan balances at unpaid principal balance)	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 and 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
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	<u>\$ 10,816</u>	<u>\$ 595</u>	<u>\$ 246</u>	<u>\$ 11,657</u>	<u>\$ 11,204</u>	<u>\$ 22,861</u>	<u>\$ 1,393,274</u>	<u>\$ 1,416,135</u>

Nonaccrual Loans - The following table presents the amortized cost basis of loans on nonaccrual status and of nonaccrual loans individually evaluated at December 31, 2023 with no allowance for credit losses and interest income that would have been recorded under the original terms of such nonaccrual loans:

December 31, 2023	Total Nonaccrual Loans		Nonaccrual with no Allowance for Credit Losses		Interest Income Not Recorded for Nonaccrual loans	
Commercial/Agricultural real estate:						
Commercial real estate	\$	10,359	\$	10,347	\$	497
Agricultural real estate		391		391		46
Multi-family real estate		—		—		—
Construction and land development		54		54		1
C&I/Agricultural operating:						
Commercial and industrial		—		—		—
Agricultural operating		1,180		1,180		120
Residential mortgage:						
Residential mortgage		1,167		934		68
Purchased HELOC loans		—		—		—
Consumer installment:						
Originated indirect paper		15		15		1
Other consumer		18		18		1
Total	\$	13,184	\$	12,939	\$	734

The Company's policy is to discontinue the accrual of interest income on all loans for which principal or interest is past due 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.

The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged against current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Interest on loans determined to be modified is recognized on an accrual basis in accordance with the restructured terms if the loan is in compliance with the modified terms. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

The amount of interest income recognized by the Company for the twelve months ended December 31, 2023, due to nonaccrual loan payoffs was \$505.

Collateral Dependent Loans - A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the fair value of the collateral at the balance sheet date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The following table presents the amortized cost basis of collateral dependent loans by portfolio segment and collateral type that were individually evaluated to determine expected credit losses and the related allowance for credit losses as of December 31, 2023.

December 31, 2023	Collateral Type			Without an Allowance	With an Allowance	Allowance Allocation
	Real Estate	Other Assets	Total			
Commercial/Agricultural real estate:						
Commercial real estate	\$ 15,086	\$ —	\$ 15,086	\$ 11,350	\$ 3,736	\$ 703
Agricultural real estate	6,605	—	6,605	6,605	—	—
Multi-family real estate	—	—	—	—	—	—
Construction and land development	313	—	313	313	—	—
C&I/Agricultural operating:						
Commercial and industrial	—	2,219	2,219	2,219	—	—
Agricultural operating	—	1,181	1,181	1,181	—	—
Residential mortgage:						
Residential mortgage	3,145	—	3,145	2,591	554	88
Purchased HELOC loans	—	—	—	—	—	—
Consumer installment:						
Originated indirect paper	—	44	44	44	—	—
Other consumer	—	29	29	29	—	—
Total	\$ 25,149	\$ 3,473	\$ 28,622	\$ 24,332	\$ 4,290	\$ 791

There were no outstanding commitments to borrowers experiencing financial difficulty as of December 31, 2023. There were unused lines of credit totaling \$618 on loans with borrowers experiencing financial difficulties as of December 31, 2023.

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, non-PCI loans. The \$26,823 recorded investment of loans individually evaluated for impairment includes \$5,171 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 the Company's loans individually 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

The tables below detail Loan Modifications Made to Borrowers Experiencing Financial Difficulty during the twelve months ended December 31, 2023:

Loan Class	Term Extension	
	Amortized Cost Basis at December 31, 2023	% of Total Class of Financing Receivables
Commercial real estate	\$ 4,694	0.63 %
Commercial and industrial	\$ 2,200	1.82 %
Residential mortgage	\$ 35	0.03 %
Other consumer	\$ 1	0.02 %
Other-Than-Insignificant Payment Delay		
Loan Class	Other-Than-Insignificant Payment Delay	
	Amortized Cost Basis at December 31, 2023	% of Total Class of Financing Receivables
Residential mortgage	\$ 69	0.05 %
Other consumer	\$ 19	0.31 %

The following tables describe the financial effect of the modifications made to borrowers experiencing financial difficulty during the twelve months ended December 31, 2023:

Term Extension	
Loan Class	Financial Effect
Commercial real estate	A weighted average of 20 months was added to the term of the loans
Commercial and industrial	A weighted average of 3 months was added to the term of the loans
Residential mortgage	A weighted average of 16 months was added to the term of the loans
Other consumer	A weighted average of 12 months was added to the term of the loans
Other-Than-Insignificant Payment Delay	
Loan Class	Financial Effect
Residential mortgage	Payments were deferred a weighted average of 6 months
Other consumer	Payments were deferred a weighted average of 3 months

The Company closely monitors the performance of loans that have been modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of such loans that have been modified during the twelve months ended December 31, 2023.

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due
Commercial real estate	\$ 4,694	\$ —	\$ —	\$ —
Commercial and industrial	2,200	—	—	—
Residential mortgage	35	—	69	—
Other consumer	20	—	—	—
Total	\$ 6,949	\$ —	\$ 69	\$ —

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.

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

	December 31 2022
Troubled debt restructure loans:	
Accrual status	\$ 5,171
Non-accrual status	2,617
Total	<u>\$ 7,788</u>

There was one TDR commitment totaling \$26 meeting our TDR criteria as of December 31, 2022. There were unused lines of credit totaling \$484 meeting our TDR criteria as of December 31, 2022.

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

	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	<u>23</u>	<u>\$ 2,781</u>	<u>\$ 147</u>	<u>\$ 3,207</u>	<u>\$ —</u>	<u>\$ 6,135</u>	<u>\$ 6,135</u>	<u>\$ —</u>

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

	December 31, 2022	
	Number of Modifications	Recorded Investment
Troubled debt restructurings:		
Commercial/ Agricultural real estate	14	\$ 3,214
C&I/ Agricultural operating	8	1,351
Residential mortgage	45	3,223
Consumer installment	—	—
Total loans	<u>67</u>	<u>\$ 7,788</u>

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

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

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	
Accountable for under ASC 310-30 (PCI loans)		
Outstanding balance	\$	7,000
Carrying amount	\$	6,904
Accountable for under ASC 310-20 (non-PCI loans)		
Outstanding balance	\$	136,192
Carrying amount	\$	134,522
Total acquired loans		
Outstanding balance	\$	143,192
Carrying amount	\$	141,426

The following table below shows scheduled accretion by year for the accretable differences 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	
Balance at beginning of period	\$	653
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)
Transfers from non-accretable difference to accretable discount		(126)
Non-accretable difference transferred to OREO due to loan foreclosure		(192)
Balance at end of period	\$	96

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, 2023 and December 31, 2022 were \$495,531 and \$523,736, 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 \$2,665 and \$2,649, at December 31, 2023 and December 31, 2022, respectively. Mortgage servicing rights activity for the years ended December 31, 2023 and December 31, 2022 was as follows:

	As of and for the twelve months ended December 31, 2023	As of and for the twelve months ended December 31, 2022
Mortgage servicing rights:		
Mortgage servicing rights, beginning of period	\$ 4,262	\$ 4,727
Increase in mortgage servicing rights resulting from transfers of financial assets	218	323
Amortization during the period	(615)	(788)
Mortgage servicing rights, end of period	3,865	4,262
Valuation allowance, beginning of period	—	(566)
Additions	—	—
Recoveries	—	566
Valuation allowance, end of period	—	—
Mortgage servicing rights, net	\$ 3,865	\$ 4,262
Fair value of mortgage servicing rights, end of period	\$ 5,589	\$ 5,665
Residential mortgage loans serviced for others	\$ 495,531	\$ 523,736

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 \$1,292 and \$1,385 for the years ended December 31, 2023 and December 31, 2022, 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, 2023 was determined using discount rates ranging from 9.375% to 12.375%. Fair value at December 31, 2022 was determined using discount rates ranging from 9.5% to 12.5%. 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.

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. At December 31, 2023, the estimated future aggregate amortization expense for the mortgage servicing rights is as follows:

At December 31, 2023, the estimated future aggregate amortization expense for the mortgage servicing rights is as follows.

	Amortization Expense
2024	\$ 565
2025	513
2026	462
2027	410
2028	358
After 2028	1,557
Total	\$ 3,865

NOTE 5 - OFFICE PROPERTIES AND EQUIPMENT

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

	December 31, 2023	December 31, 2022
Land	\$ 3,783	\$ 3,856
Buildings	16,093	16,856
Furniture, equipment and vehicles	11,096	10,255
Subtotals	30,972	30,967
Less--Accumulated depreciation	(12,599)	(10,474)
Office properties and equipment, net	\$ 18,373	\$ 20,493

Depreciation expense was \$2,371 for the year ended December 31, 2023 and \$2,357 for the year ended December 31, 2022.

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

Goodwill— The beginning and ending balance of goodwill was \$31,498 during the periods ended December 31, 2023 and December 31, 2022. 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, 2023	Year Ended December 31, 2022
Gross carrying amount	\$ 12,180	\$ 12,180
Accumulated amortization	(10,486)	(9,731)
Net book value	\$ 1,694	\$ 2,449
Amortization during the period	\$ 755	\$ 1,449

At December 31, 2023, the estimated future aggregate amortization expense for the intangible assets are as follows:

	Intangible Assets
2024	\$ 715
2025	584
2026	395
Total	\$ 1,694

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 0.67 years to 4.50 years. Some of the leases include an option to extend, the longest of which is for two 5 year terms. As of December 31, 2023, 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, 2023	December 31, 2022
The components of total lease costs were as follows:		
Operating lease cost	\$ 508	\$ 554
Variable lease cost	84	47
Total lease cost	<u>\$ 592</u>	<u>\$ 601</u>
The components of total lease income were as follows:		
Operating lease income	\$ 41	\$ 34
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	\$ 545	\$ 556
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 225	\$ 215
	December 31, 2023	
	December 31, 2023	December 31, 2022
Supplemental balance sheet information related to leases was as follows:		
Operating lease right-of-use assets	\$ 1,477	\$ 1,700
Operating lease liabilities	\$ 1,686	\$ 1,945
Weighted average remaining lease term in years; operating leases	3.94	4.89
Weighted average discount rate; operating leases	3.20 %	2.98 %

Cash obligations and receipts under lease contracts as of December 31, 2023 are as follows:

Fiscal years ending December 31,	Payments	Receipts
2024 \$	549	\$ 32
2025	534	15
2026	464	7
2027	401	—
2028	141	—
Thereafter	—	—
Total lease payments	2,089	<u>\$ 54</u>
Less: effects of discounting	(403)	
Lease liability recognized \$	<u>1,686</u>	

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, 2023 and December 31, 2022, respectively:

	December 31, 2023	December 31, 2022
Non interest bearing demand deposits	\$ 265,704	\$ 284,722
Interest bearing demand deposits	343,276	371,210
Savings accounts	176,548	220,019
Money market accounts	374,055	323,435
Certificate accounts	359,509	225,334
Total deposits	<u>\$ 1,519,092</u>	<u>\$ 1,424,720</u>

At December 31, 2023, the scheduled maturities of time deposits were as follows:

2024	\$ 329,862
2025	20,612
2026	2,693
2027	636
2028	5,706
Total	<u>\$ 359,509</u>

Time deposits of \$250 or more were \$103,802 and \$66,827 at December 31, 2023 and December 31, 2022, respectively. Brokered deposits were \$98,259 and \$39,841 at December 31, 2023 and December 31, 2022, respectively.

Deposits from the Company's directors, executive officers, principal stockholders and their affiliates held by the Bank at December 31, 2023 and December 31, 2022 amounted to \$33,929, and \$33,673, 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, 2023 and December 31, 2022 is as follows:

	December 31, 2023			December 31, 2022		
	Stated Maturity	Amount	Range of Stated Rates	Stated Maturity	Amount	Range of Stated Rates
Federal Home Loan Bank advances (1), (2), (3), (4)	2023	\$ —	— %	2023	\$ 117,000	1.43 %
	2024	64,530	0.00 %	2024	20,530	0.00 %
	2025	5,000	1.45 %	2025	5,000	1.45 %
	2028	10,000	3.82 %	2028	—	— %
Federal Home Loan Bank advances		\$ 79,530			\$ 142,530	
Other borrowings:						
Senior notes (5)	2034	\$ 18,083	6.75 %	2034	\$ 23,250	3.00 %
Subordinated notes (6)	2030	\$ 15,000	6.00 %	2030	\$ 15,000	6.00 %
	2032	35,000	4.75 %	2032	35,000	4.75 %
		\$ 50,000			\$ 50,000	
Unamortized debt issuance costs		(618)			(841)	
Total other borrowings		\$ 67,465			\$ 72,409	
Totals		\$ 146,995			\$ 214,939	

(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 \$1,106,267 and \$984,878 at December 31, 2023 and 2022, respectively. At December 31, 2023, the Bank's available and unused portion under the FHLB borrowing arrangement was approximately \$370,569 compared to \$256,773 as of December 31, 2022.

(2) Maximum month-end borrowed amounts outstanding under this borrowing agreement were \$217,530 and \$157,530, during the twelve months ended December 31, 2023 and December 31, 2022, respectively.

(3) The weighted-average interest rates on FHLB borrowings, with maturities less than twelve months, outstanding as of December 31, 2023 and December 31, 2022 were 4.16% and 4.09%, respectively.

(4) At December 31, 2023, one FHLB term note totaling \$10,000 could be called once by the FHLB on June 15, 2024, and if not called, would mature in 2028. At December 31, 2022, no FHLB term notes could be called by the FHLB.

(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 and modified in February of 2023, requiring quarterly interest-only payments through March 2027, 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 2024, 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 would have converted to a three-month LIBOR plus 4.90% rate, and the interest rate would have reset quarterly thereafter if not called. 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. The note was callable by the Bank when, and anytime after, the floating rate was initially set. Interest-only payments were due quarterly.

(b) The Company's Subordinated Note Purchase Agreement entered into with certain purchasers in August 2020, which bears a fixed interest rate of 6.00% for five years. In September 2025, the fixed interest rate will be reset quarterly to equal the three-month term Secured Overnight Financing Rate plus 591 basis points. 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 \$452,280 and \$191,650 at December 31, 2023 and 2022, respectively.

Federal Funds Purchased Lines of Credit

The Bank maintains two unsecured federal funds purchased lines of credit with its banking partners which total \$70,000. 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, 2023 or December 31, 2022.

Federal Reserve Borrowings

At December 31, 2023 and 2022, the Bank had the ability to borrow \$22,417 and \$4,118 from the Federal Reserve Bank of Minneapolis. The ability to borrow is based on mortgage-backed securities pledged with a carrying value of \$29,191 and \$5,421 as of December 31, 2023 and 2022, respectively. There were no Federal Reserve borrowings outstanding as of December 31, 2023 and 2022.

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, 2023 and 2022, 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, 2023 and 2022, respectively, are presented below:

	Actual		For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio	Amount		Ratio		Amount		Ratio	
<u>As of December 31, 2023</u>										
Total capital (to risk weighted assets)	\$ 228,092	14.6 %	\$ 124,883	>=	8.0 %		\$ 156,104	>=	10.0 %	
Tier 1 capital (to risk weighted assets)	208,726	13.4 %	93,662	>=	6.0 %		124,883	>=	8.0 %	
Common equity tier 1 capital (to risk weighted assets)	208,726	13.4 %	70,247	>=	4.5 %		101,468	>=	6.5 %	
Tier 1 leverage ratio (to adjusted total assets)	208,726	11.5 %	72,479	>=	4.0 %		90,599	>=	5.0 %	
<u>As of December 31, 2022</u>										
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 %	

The Company’s Tier 1 (leverage) and risk-based capital ratios at December 31, 2023 and 2022, respectively, are presented below:

	Actual		For Capital Adequacy Purposes			
	Amount	Ratio	Amount		Ratio	
<u>As of December 31, 2023</u>						
Total capital (to risk weighted assets)	\$ 230,160	14.7 %	\$ 124,883	> =	8.0 %	
Tier 1 capital (to risk weighted assets)	160,794	10.3 %	93,662	> =	6.0 %	
Common equity tier 1 capital (to risk weighted assets)	160,794	10.3 %	70,247	> =	4.5 %	
Tier 1 leverage ratio (to adjusted total assets)	160,794	8.9 %	72,479	> =	4.0 %	
<u>As of December 31, 2022</u>						
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 %	

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, 2023 and 2022, respectively.

	December 31, 2023	December 31, 2022
Cash dividends per share	\$ 0.29	\$ 0.26
Stockholder record date	02/03/2023	02/14/2022
Dividend payment date	02/17/2023	02/28/2022

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, 2023 and 2022, respectively:

	Contract or Notional Amount at December 31, 2023	Contract or Notional Amount at December 31, 2022
Commitments to extend credit	\$ 210,423	\$ 243,045
Commercial standby letter of credit	\$ 2,116	\$ 4,252
Commitment to contribute capital to SBIC	\$ 1,800	\$ 2,400
Commitment to contribute capital to investment company	\$ 1,590	\$ 2,340

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, 2023 and 2022.

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 \$651 and \$621 for the year ended December 31, 2023 and 2022, respectively.

NOTE 13 - STOCK-BASED COMPENSATION

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 initially reserved and available for issuance under the 2018 Equity Incentive Plan was 350,000 shares. As of December 31, 2023, 290,187 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. This amount also includes 18,551 shares of performance based restricted stock granted in 2020 and issued in January 2023 upon achievement of the performance criteria and completion of the three year performance period beginning in January 2020 and ending December 31, 2022. 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, 2023, no stock options had been granted under this plan.

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, 2023, there are no awarded unvested restricted shares and 54,000 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.

Net compensation expense related to restricted stock awards from these plans was \$722 and \$860 for the years ended December 31, 2023 and 2022, respectively.

Restricted Common Stock Awards

	Year ended December 31, 2023		Year ended December 31, 2022	
	Number of Shares	Weighted Average Grant Price	Number of Shares	Weighted Average Grant Price
Restricted Shares				
Unvested and outstanding at beginning of year	75,626	\$ 12.30	75,630	\$ 11.20
Granted	50,606	12.36	43,465	13.99
Vested	(45,879)	12.24	(40,843)	12.12
Forfeited	(4,752)	11.78	(2,626)	11.04
Unvested and outstanding at end of period	<u>75,601</u>	<u>\$ 12.41</u>	<u>75,626</u>	<u>\$ 12.30</u>

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 compensation cost recognized for stock option-based employee compensation related to the 2008 plan for the year ended December 31, 2023 was \$0 as all options have vested. The compensation cost recognized for stock option-based employee compensation related to the 2008 plan for the year ended December 31, 2022 was \$3.

Common Stock Option Awards

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
<u>Year ended December 31, 2023</u>				
Outstanding at beginning of year	58,000	\$ 11.51		
Exercised	(3,000)	9.21		
Forfeited or expired	(1,000)	13.76		
Outstanding at end of period	<u>54,000</u>	<u>\$ 11.59</u>	<u>2.84</u>	<u>\$ 46</u>
Exercisable at end of period	<u>54,000</u>	<u>\$ 11.59</u>	<u>2.84</u>	<u>\$ 46</u>
<u>Year ended December 31, 2022</u>				
Outstanding at beginning of year	65,900	\$ 11.20		
Exercised	(7,900)	8.95		
Forfeited or expired	—	—		
Outstanding at end of year	<u>58,000</u>	<u>\$ 11.51</u>	<u>3.73</u>	<u>\$ 65</u>
Exercisable at end of year	<u>58,000</u>	<u>\$ 11.51</u>	<u>3.73</u>	<u>\$ 65</u>

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

	Year ended December 31, 2023	Year ended December 31, 2022
Intrinsic value of options exercised	\$ 2	\$ 38
Cash received from options exercised	\$ 28	\$ 71
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, 2023	Year ended December 31, 2022
Current tax provision		
Federal	\$ 5,081	\$ 3,565
State	448	1,749
	<u>5,529</u>	<u>5,314</u>
Deferred tax provision (benefit)		
Federal	(1,373)	355
State	(105)	151
	<u>(1,478)</u>	<u>506</u>
Valuation allowance	1,822	—
Total	<u>\$ 5,873</u>	<u>\$ 5,820</u>

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, 2023		Year ended December 31, 2022	
	Amount	Rate	Amount	Rate
Tax expense at statutory rate	\$ 3,976	21.0 %	\$ 4,952	21.0 %
State income taxes, net of federal	271	1.4 %	1,501	6.4 %
Tax credits	—	— %	(514)	(2.2)%
Bank owned life insurance	(146)	(0.8)%	(135)	(0.6)%
Tax exempt interest	(52)	(0.3)%	(59)	(0.3)%
Valuation allowance	1,822	9.6 %	—	— %
Other	2	0.1 %	75	0.4 %
Total	<u>\$ 5,873</u>	<u>31.0 %</u>	<u>\$ 5,820</u>	<u>24.7 %</u>

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, 2023 and December 31, 2022, respectively:

	Year ended December 31, 2023	Year ended December 31, 2022
Deferred tax assets:		
Allowance for credit losses	\$ 6,104	\$ 4,934
Deferred loan costs/fees	632	591
Restricted stock	184	243
Economic performance accruals	769	871
Other real estate owned	230	188
Loan discounts	304	375
Lease liability	426	535
Net unrealized losses on securities available for sale	6,702	6,697
Other	22	44
Deferred tax assets	<u>\$ 15,373</u>	<u>\$ 14,478</u>
Deferred tax liabilities:		
Office properties and equipment	(2,132)	(2,286)
Federal Home Loan Bank stock	(119)	(129)
Core deposit intangible	(852)	(1,019)
Net gain on equity securities	(762)	(710)
Prepaid expenses	(230)	(250)
Mortgage servicing rights	(977)	(1,172)
Leases; right of use asset	(373)	(467)
Deferred tax liabilities	<u>\$ (5,445)</u>	<u>\$ (6,033)</u>
Valuation allowance	<u>(1,822)</u>	<u>—</u>
Net deferred tax assets	<u><u>\$ 8,106</u></u>	<u><u>\$ 8,445</u></u>

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. As of December 31, 2023, management determined a valuation allowance of \$1,822 was necessary due to changes in the realization of deferred tax assets due to a Wisconsin change in the non-taxation of loans under \$5 million reducing the effective tax rate. At December 31, 2022, 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, 2023, years open to examination by the U.S. Internal Revenue Service include taxable years ended December 31, 2020 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 fifty 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 non-interest 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, 2023 and December 31, 2022.

	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, 2023				
Investment securities:				
U.S. government agency obligations	\$ 16,576	\$ —	\$ 16,576	\$ —
Mortgage-backed securities	73,480	—	73,480	—
Corporate debt securities	41,174	—	41,174	—
Asset-backed securities	24,513	—	24,513	—
Total investment securities	155,743	—	155,743	—
Equity investments:				
Equity investments	557	557	—	—
Equity investments measured at NAV(1)	2,727	—	—	—
Total equity investments	3,284	557	—	—
Total	\$ 159,027	\$ 557	\$ 155,743	\$ —
December 31, 2022				
Investment securities:				
U.S. government agency obligations	\$ 18,313	\$ —	\$ 18,313	\$ —
Mortgage-backed securities	78,610	—	78,610	—
Corporate debt securities	40,251	—	40,251	—
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	\$ —

(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, 2023 and December 31, 2022, 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, 2023 or December 31, 2022. 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, 2023 or December 31, 2022, 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, 2023 and December 31, 2022:

	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, 2023				
Foreclosed and repossessed assets, net	\$ 1,795	\$ —	\$ —	\$ 1,795
Collateral dependent loans with allocated allowances	3,499	—	—	3,499
Mortgage servicing rights	3,865	—	—	5,589
Total	\$ 9,159	\$ —	\$ —	\$ 10,883
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

The fair value of collateral dependent loans and 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 collateral dependent loans and 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, 2023 and December 31, 2022.

	Fair Value	Valuation Techniques (1)	Significant Unobservable Inputs (2)	Range
December 31, 2023				
Foreclosed and repossessed assets, net	\$ 1,795	Appraisal value	Estimated costs to sell	10% - 15%
Collateral dependent loans with allocated allowances	\$ 3,499	Appraisal value / Internal collateral valuations	Estimated costs to sell	10% - 15%
Mortgage servicing rights	\$ 5,589	Discounted cash flows	Discounted rates	9.375% - 12.375%
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%

- (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:

	Valuation Method Used	December 31, 2023		December 31, 2022					
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value				
Financial assets:									
Cash and cash equivalents	(Level I)	\$	37,138	\$	37,138	\$	35,363	\$	35,363
Other interest bearing deposits	(Level II)		—		—		249		250
Securities available for sale "AFS"	(Level II)		155,743		155,743		165,991		165,991
Securities held to maturity "HTM"	(Level II)		91,229		73,262		96,379		76,779
Equity investments	(Level I)		557		557		338		338
Equity investments valued at NAV (1)	N/A		2,727		2,727		1,456		1,456
Other investments	(Level II)		15,725		15,725		15,834		15,834
Loans receivable, net	(Level III)		1,437,884		1,374,387		1,393,845		1,342,838
Loans held for sale - Residential mortgage	(Level I)		1,134		1,134		—		—
Loans held for sale - SBA	(Level II)		4,639		4,639		—		—
Mortgage servicing rights	(Level III)		3,865		5,589		4,262		5,665
Accrued interest receivable	(Level I)		5,409		5,409		5,285		5,285
Financial liabilities:									
Deposits	(Level III)	\$	1,519,092	\$	1,517,361	\$	1,424,720	\$	1,420,871
FHLB advances	(Level II)		79,530		79,087		142,530		141,060
Other borrowings	(Level II)		67,465		59,743		72,409		72,409
Accrued interest payable	(Level I)		3,175		3,175		968		968

(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, 2023	Year ended December 31, 2022
Basic		
Net income attributable to common shareholders	\$ 13,059	\$ 17,761
Weighted average common shares outstanding	10,469	10,505
Basic earnings per share	\$ 1.25	\$ 1.69
Diluted		
Net income attributable to common shareholders	\$ 13,059	\$ 17,761
Weighted average common shares outstanding	10,469	10,505
Add: Dilutive stock options outstanding	1	9
Average shares and dilutive potential common shares	10,470	10,514
Diluted earnings per share	\$ 1.25	\$ 1.69
Additional common stock option shares that have not been included due to their antidilutive effect	40	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,			For the year ended, December 31,		
	2023			2022		
	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 gains (losses) arising during the period	\$ 364	\$ (27)	\$ 337	\$ (24,575)	\$ 6,758	\$ (17,817)
Reclassification adjustment for gains included in net income	(12)	3	(9)	—	—	—
Other comprehensive income (loss)	<u>\$ 352</u>	<u>\$ (24)</u>	<u>\$ 328</u>	<u>\$ (24,575)</u>	<u>\$ 6,758</u>	<u>\$ (17,817)</u>

The changes in the accumulated balances for each component of other comprehensive income (loss), net of tax for the years ended December 31, 2023 and December 31, 2022 were as follows:

	Unrealized Gains (Losses) on AFS Securities	Other Accumulated Comprehensive Income (Loss), net of tax
Beginning Balance, January 1, 2022	\$ 222	\$ 161
Current year-to-date other comprehensive loss	(24,575)	(17,817)
Ending balance, December 31, 2022	<u>\$ (24,353)</u>	<u>\$ (17,656)</u>
Current year-to-date other comprehensive income	352	328
Ending balance, December 31, 2023	<u>\$ (24,001)</u>	<u>\$ (17,328)</u>

Reclassifications out of accumulated other comprehensive income (loss) for the twelve months ended December 31, 2023 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	\$ 12		Net gains (losses) on investment securities
Tax effect	(3)		Provision for income taxes
Total reclassifications for the period	<u>\$ 9</u>		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, 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	<u>\$ —</u>		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, 2023 and 2022, and condensed statements of operations and cash flows for the years ended December 31, 2023 and 2022, 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, 2023	December 31, 2022
<i>Assets</i>		
Cash and cash equivalents	\$ 18,175	\$ 19,221
Equity investments	1,691	946
Other assets	402	386
Investment in subsidiary	221,267	219,714
Total assets	<u>\$ 241,535</u>	<u>\$ 240,267</u>
<i>Liabilities and Stockholders' Equity</i>		
Other borrowings	\$ 67,465	\$ 72,409
Other liabilities	736	770
Total liabilities	68,201	73,179
Total stockholders' equity	173,334	167,088
Total liabilities and stockholders' equity	<u>\$ 241,535</u>	<u>\$ 240,267</u>

Statements of Operations

	Year ended December 31, 2023	Year ended December 31, 2022
Interest income	\$ —	\$ —
Interest expense	4,184	4,296
Net interest expense	(4,184)	(4,296)
Dividend income from bank subsidiary	12,000	6,000
Non-interest income	127	422
Non-interest expense	(762)	(918)
Net income before benefit for income taxes and equity in undistributed income of subsidiaries	7,181	1,208
Benefit for income taxes	1,073	1,310
Net earnings before equity in undistributed income of subsidiaries	8,254	2,518
Equity in undistributed income of subsidiaries	4,805	15,243
Net income	<u>\$ 13,059</u>	<u>\$ 17,761</u>

Statements of Cash Flows

	Year ended December 31, <u>2023</u>	Year ended December 31, <u>2022</u>
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	\$ 13,059	\$ 17,761
Depreciation expense	12	13
Net valuation gain on equity securities	(127)	(422)
Stock based compensation expense	—	3
Adjustments to reconcile net income to net cash provided by operating activities - Equity in undistributed income of subsidiary	(16,805)	(21,243)
Net change in:		
Other assets	(28)	(14)
Other liabilities	(34)	424
Net cash used in operating activities	<u>(3,923)</u>	<u>(3,478)</u>
Cash flows from investing activities:		
Purchase of equity investments	(750)	(300)
Equity investment capital distribution	132	136
Dividend from bank subsidiary	12,000	6,000
Capital contribution to bank subsidiary	—	(15,000)
Net cash provided by (used in) investing activities	<u>11,382</u>	<u>(9,164)</u>
Cash flows from financing activities:		
Proceeds from other borrowings, net of origination costs	—	34,191
Amortization of debt issuance costs	223	398
Other borrowings principal reductions	(5,167)	(5,606)
Other borrowings called and repaid	—	(15,000)
Repurchase shares of common stock	(420)	(1,764)
Surrender of restricted shares of common stock	(129)	(150)
Common stock options exercised	28	71
Cash dividends paid	(3,040)	(2,742)
Net cash (used in) provided by financing activities	<u>(8,505)</u>	<u>9,398</u>
Net decrease in cash and cash equivalents	<u>(1,046)</u>	<u>(3,244)</u>
Cash and cash equivalents at beginning of year	19,221	22,465
Cash and cash equivalents at end of year	<u>\$ 18,175</u>	<u>\$ 19,221</u>

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, 2023, under the supervision and with the participation of the Company's management, including our Chief Executive Officer 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, 2023 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, 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the three months ended December 31, 2023, none of our Section 16 officers or directors adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement" as defined in Item 408 of Regulation S-K during the covered period.

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 2024 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 29, 2024.

The Audit Committee of the Company’s Board of Directors is an “audit committee” for purposes of Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee consist of the following three outside independent directors: Timothy Olson (Chairman), 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 2024 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 29, 2024.

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 2024 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 29, 2024.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2023, 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	54,000	\$ 11.59	59,813
Equity compensation plans not approved by security holders	—	—	—
Total	54,000	\$ 11.59	59,813

(1) Represents 54,000 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 59,813 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 2024 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 29, 2024.

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 2024 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission on or before April 29, 2024.

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, 2023 and 2022

Consolidated Statements of Operations for the Years Ended December 31, 2023 and 2022

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2023 and 2022

Consolidated Statements of Changes in Stockholders’ Equity for the Years Ended December 31, 2023 and 2022

Consolidated Statements of Cash Flows for the Years Ended December 31, 2023 and 2022

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 \(incorporated by reference to Exhibit 3.4 to the Company's annual report on Form 10-K for the year ended December 31, 2022 filed on March 7, 2023 \(File No. 001-33003\)\).](#)
- 4.1 [Description of Capital Stock \(incorporated by reference to Exhibit 4.1 to the Company's annual report on Form 10-K filed on March 10, 2020 \(File No. 001-33003\)\).](#)
- 4.2 [Subordinated Note Purchase Agreement between Citizens Community Bancorp. Inc. and EJF Debt Opportunities Master Fund, LP dated May 30, 2017 \(incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed on May 31, 2017 \(File No. 001-33003\)\).](#)

- 4.3 [Form of Subordinated Note \(incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed on May 31, 2017 \(File No. 001-33003\)\).](#)
- 4.4 [Form of Subordinated Note Purchase Agreement dated August 27, 2020 \(incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed on August 27, 2020 \(File No. 001-33003\)\).](#)
- 4.5 [Form of Subordinated Note \(incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed on August 27, 2020 \(File No. 001-33003\)\).](#)
- 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 reference 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 reference 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+ [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 \(File No. 001-33003\)\).](#)

- 10.16+ [Second Amended and Restated Executive Employment Agreement by and between Citizens Community Bancorp. Inc., Citizens Community Federal, N.A. and James S. Broucek, dated as of April 21, 2022 \(incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on August 4, 2022 \(File No. 001-33003\)\).](#)
- 10.17+ [Addendum No. 1 dated December 13, 2023 to the Third Amended and Restated Executive Employment Agreement dated April 21, 2022 by and between Citizens Community Federal, N.A. and with Stephen M. Bianchi \(filed herewith\).](#)
- 10.18+ [Addendum No. 1 dated December 13, 2023 to the Second Amended and Restated Executive Employment Agreement dated April 21, 2022 by and between Citizens Community Federal, N.A. and with James S. Broucek \(filed herewith\).](#)
- 10.19 [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 \(File No. 001-33003\)\).](#)
- 10.20 [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 \(File No. 001-33003\)\).](#)
- 10.21 [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 \(File No. 001-33003\)\).](#)
- 10.22 [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 \(File No. 001-33003\)\).](#)
- 10.23 [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 \(File No. 001-33003\)\).](#)
- 10.24 [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 \(File No. 001-33003\)\).](#)
- 10.25 [Business Note Renewal, Dated August 1, 2023, 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 3, 2023 \(File No. 001-33003\)\).](#)
- 16.1 [Letter, dated November 20, 2023, from Eide Bailly LLP to the Securities and Exchange Commission \(incorporated by reference to Exhibit 16.1 to the Company's Form 8-K filed on November 20, 2023 \(File No. 001-330003\)\).](#)
- 21 [Subsidiaries of the Company as of December 31, 2023 \(filed herewith\).](#)
- 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, 2023 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; (v) 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 Section 13 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 5, 2024

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 5, 2024

By: /s/ Stephen M. Bianchi
Stephen M. Bianchi
President and Chief Executive Officer, Chairman of the Board (Principal Executive Officer)

Date: March 5, 2024

By: /s/ Michael L. Swenson
Michael L. Swenson
Lead Director

Date: March 5, 2024

By: /s/ Kristina M. Bourget
Kristina M. Bourget
Director

Date: March 5, 2024

By: /s/ Michael Conner
Michael Conner
Director

Date: March 5, 2024

By: /s/ Francis E. Felber
Francis E. Felber
Director

Date: March 5, 2024

By: /s/ James D. Moll
James D. Moll
Director

Date: March 5, 2024

By: /s/ Timothy L. Olson
Timothy L. Olson
Director

Date: March 5, 2024

By: /s/ Kathleen S. Skarvan
Kathleen S. Skarvan
Director

Date: March 5, 2024

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

ADDENDUM NO. 1 TO THIRD AMENDED AND RESTATED EXECUTIVE
EMPLOYMENT AGREEMENT

This Addendum No. 1 is made this [•] day of December, 2023 (the “Effective Date”), to the Third Amended and Restated Executive Employment Agreement by and between Citizens Community Bancorp, Inc., a Maryland corporation, (the “Holding Company”) and its wholly-owned subsidiary, Citizens Community Federal, N.A., a national banking association (the “Bank”) (collectively, the “Company”), and Stephen Bianchi (“Executive”), dated April 21, 2022 (the “Employment Agreement”).

WHEREAS, the Employment Agreement in its Section 3(k) provides for the clawback of certain incentive compensation paid to Executive consistent with applicable law; and

WHEREAS, the Company and Executive mutually agree that certain terms of Section 3(k) of the Employment Agreement should be modified consistent with new SEC Rule 10D-1 and Nasdaq Listing Rule 5608; and

WHEREAS, the Company and Executive agree that the other terms of the Employment Agreement are unaffected by this Addendum No. 1 and will remain in full force and effect.

NOW, THEREFORE, in consideration of the foregoing, and of Section 15 of the Employment Agreement regarding amendments thereto, the parties agree as follows:

1. Section 3(k) of the Employment Agreement is hereby superseded and replaced to state:

The Company may terminate Executive’s right to the unpaid or unvested incentive compensation under Sections 3(b) and 3(c), and may require reimbursement to the Company by Executive of any incentive compensation previously paid or vested pursuant to any applicable incentive compensation plan or award agreement, in the event the Company is required to prepare an accounting restatement of its financial statements due to the Company’s material noncompliance with any financial reporting requirement under securities laws, or Executive is otherwise obligated to disgorge to or reimburse the Company for such compensation paid or payable to Executive by reason of application of Section 304 of the Sarbanes-Oxley Act of 2002, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or any other applicable law or regulation requiring recapture, reimbursement or disgorgement of incentive-based pay. The incentive compensation received by Executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement is subject to forfeiture or reimbursement pursuant to the terms of this Section 3(k). In the event Executive fails to make prompt reimbursement of any such incentive compensation previously paid, the Company may, to the extent permitted by applicable law,

deduct the amount required to be reimbursed from Executive's compensation otherwise due under this Agreement.

2. The provisions of this Addendum are hereby incorporated into and made a part of the Employment Agreement. Except as expressly modified herein, all other terms and provisions set forth in the Employment Agreement shall remain in full force and effect and shall not otherwise be affected by this Addendum.

IN WITNESS WHEREOF, the parties have duly executed this Addendum No. 1 as of the Effective Date.

CITIZENS COMMUNITY BANCORP, INC.

STEPHEN BIANCHI

By: _____

Its: _____

CITIZENS COMMUNITY FEDERAL, N.A.

By: _____

Its: _____

ADDENDUM NO. 1 TO SECOND AMENDED AND RESTATED EXECUTIVE
EMPLOYMENT AGREEMENT

This Addendum No. 1 is made this [•] day of December, 2023 (the “Effective Date”), to the Second Amended and Restated Executive Employment Agreement by and between Citizens Community Bancorp, Inc., a Maryland corporation, (the “Holding Company”) and its wholly-owned subsidiary, Citizens Community Federal, N.A., a national banking association (the “Bank”) (collectively, the “Company”), and James S. Broucek (“Executive”), dated April 21, 2022 (the “Employment Agreement”).

WHEREAS, the Employment Agreement in its Section 3(i) provides for the clawback of certain incentive compensation paid to Executive consistent with applicable law; and

WHEREAS, the Company and Executive mutually agree that certain terms of Section 3(i) of the Employment Agreement should be modified consistent with new SEC Rule 10D-1 and Nasdaq Listing Rule 5608; and

WHEREAS, the Company and Executive agree that the other terms of the Employment Agreement are unaffected by this Addendum No. 1 and will remain in full force and effect.

NOW, THEREFORE, in consideration of the foregoing, and of Section 15 of the Employment Agreement regarding amendments thereto, the parties agree as follows:

1. Section 3(i) of the Employment Agreement is hereby superseded and replaced to state:

The Company may terminate Executive’s right to the unpaid or unvested incentive compensation under Sections 3(b) and 3(c), and may require reimbursement to the Company by Executive of any incentive compensation previously paid or vested pursuant to any applicable incentive compensation plan or award agreement, in the event the Company is required to prepare an accounting restatement of its financial statements due to the Company’s material noncompliance with any financial reporting requirement under securities laws, or Executive is otherwise obligated to disgorge to or reimburse the Company for such compensation paid or payable to Executive by reason of application of Section 304 of the Sarbanes-Oxley Act of 2002, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or any other applicable law or regulation requiring recapture, reimbursement or disgorgement of incentive-based pay. The incentive compensation received by Executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement is subject to forfeiture or reimbursement pursuant to the terms of this Section 3(i). In the event Executive fails to make prompt reimbursement of any such incentive compensation previously paid, the Company may, to the extent permitted by applicable law,

deduct the amount required to be reimbursed from Executive's compensation otherwise due under this Agreement.

2. The provisions of this Addendum are hereby incorporated into and made a part of the Employment Agreement. Except as expressly modified herein, all other terms and provisions set forth in the Employment Agreement shall remain in full force and effect and shall not otherwise be affected by this Addendum.

IN WITNESS WHEREOF, the parties have duly executed this Addendum No. 1 as of the Effective Date.

CITIZENS COMMUNITY BANCORP, INC.

JAMES S. BROUCEK

By: _____

Its: _____

CITIZENS COMMUNITY FEDERAL, N.A.

By: _____

Its: _____

Subsidiaries of Citizens Community Bancorp, Inc.

The following lists the direct and indirect subsidiaries of Citizens Community Bancorp, Inc.:

Name of Subsidiary	Jurisdiction of Incorporation or Organization
Citizens Community Federal National Association	Federal (U.S.)



Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (File No. 333-226268) and Form S-8 (File Nos. 333-128252 and 333-190877 and 333-224042) of Citizens Community Bancorp, Inc. and Subsidiary of our report dated March 5, 2024, relating to the consolidated financial statements, which appears in this annual report on Form 10-K for the year ended December 31, 2023.

/s/ Eide Bailly LLP

Phoenix, Arizona
March 5, 2024

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen M. Bianchi, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Community Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2024

By: /s/ Stephen M. Bianchi
 Stephen M. Bianchi
 President and Chief Executive Officer, Chairman of the Board (Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James S. Broucek, certify that:

1. I have reviewed this Annual Report on Form 10-K of Citizens Community Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2024

By: /s/ James S. Broucek

James S. Broucek
Executive Vice President, Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION OF PERIODIC FINANCIAL REPORT
PURSUANT TO 18 U.S.C. SECTION 1350**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Citizens Community Bancorp, Inc. (the “Company”) certifies that the Annual Report of the Company on Form 10-K for the year ended December 31, 2022, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: March 5, 2024

By: /s/ Stephen M. Bianchi
Stephen M. Bianchi
President and Chief Executive Officer, Chairman of the Board (Principal Executive Officer)

Date: March 5, 2024

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

The above certifications are made solely for the purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.