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Citizens Community Bancorp, Inc. Earns \$5.5 Million, Per Share in 1Q21; Record Quarterly Earnings Increase from 4Q20 Earnings; Asset Quality Continues to Improve

Company Release - 4/26/2021 4:15 PM ET

EAU CLAIRE, Wis., April 26, 2021 (GLOBE NEWSWIRE) -- **Citizens Community Bancorp, Inc. (the "Company") (Nasdaq: CZWI)**, the parent of Citizens Community Federal N.A. (the "Bank" or "CCFBank"), today reported earnings of \$5.5 million or \$0.50 per diluted share for the quarter ended March 31, 2021, compared to \$3.6 million, or \$0.32 per diluted share for the quarter ended December 31, 2020, and \$2.6 million, or \$0.23 per diluted share for the quarter ended September 30, 2020. Net income as adjusted (non-GAAP)¹ was \$5.6 million or \$0.51 per diluted share for the first quarter of 2021, compared to \$3.7 million, or \$0.32 per diluted share for the preceding quarter and \$2.6 million or \$0.23 per diluted share for the first quarter a year ago.

The Company's first quarter 2021 operating results reflected: (1) lower net interest income largely resulting from decreased accretion due to record credit impaired loan payoffs, partially offset by higher accretion of deferred fees on the Small Business Administration's Paycheck Protection Program loan forgiveness; (2) no loan loss provisions, primarily due to loan shrinkage, lower net charge-offs and no provision related to economic uncertainty slow-down in the refinancing market which led to decreased, yet strong gain on sale of loans; and (4) a decrease in non-interest expenses largely due to a \$0.9 million of previously recorded MSR impairment as forecasted future prepayments slowed, and no branch closure costs, offset by modestly increased expense and \$0.1 million of debt termination costs.

Book value per share was \$14.75 at March 31, 2021 compared to \$14.52 at December 31, 2020 and \$13.27 at March 31, 2020. Tangible book value per share (non-GAAP)⁵ was \$11.39 at March 31, 2021 compared to \$11.18 at December 31, 2020 and \$9.80 at March 31, 2020. Book value per share increased 12 months, an 11% increase from March 31, 2020. Tangible book value per share increased \$1.59 over the past 12 months, a 16% increase from March 31, 2020.

"I am pleased with our Team's effort in building a strong culture focused on deepening our customer relationships has translated into strong financial performance. Our continued focus on building tangible book value, improving asset quality and expense management was demonstrated in the quarter and year over year. Book value increased 16% year over year and the cash dividend was increased 10% to \$0.23 per share paid in the first quarter, despite operating in a challenging environment. Nonperforming assets declined 19% in the quarter and have declined over 50% in the past 12 months. I am optimistic that with continued asset growth, our branch lobbies reopening in June, and our cold winter coming to a close, that loan demand should increase, especially since unemployment rates in our markets are below the national averages," said Stephen Bianchi, Chairman, President and Chief Executive Officer. "We also assisted our business customers seeking a second draw of SBA PPP loans, with the expected \$3.3 million of deferred fees to be accreted over the life of the loans," continued.

March 31, 2021 Highlights: (as of or for the 3-month period ended March 31, 2021 compared to December 31, 2020 and March 31, 2020.)

- Record quarterly earnings of \$5.5 million, or \$0.50 per diluted share for the first quarter ended March 31, 2021 were led by a continued strong loan origination climate, no loan loss provision and lower non-interest expenses supported by a reversal in mortgage servicing rights impairment. In the quarter ended December 31, 2020, earnings were \$3.6 million or \$0.32 per diluted share.
- Stockholders' equity as a percent of total assets was to 9.27% at March 31, 2021 compared to 9.74% at December 31, 2020. Tangible common equity as a percent of tangible assets (non-GAAP)⁵ was 7.32% at March 31, 2021 compared to 7.67% at December 31, 2020. These decreases were primarily due to asset growth which increased liquidity and resulted in asset growth.
- No loan loss provisions were realized during the quarter ended March 31, 2021 due to improved asset quality, a smaller balance of loans and lower net charge-off activity. Economic conditions in our markets continued to improve from those seen in the last quarter of 2020. This has led to increased demand for businesses most impacted by the pandemic, but further improvements in their prospects will depend on the timing and efficacy of vaccine impact on consumer behavior and business activities.
- The Bank's COVID-19 related modifications under Section 4013 of the CARES Act totaled \$57.3 million, or 5% of gross loans at March 31, 2021, compared to \$57.3 million, or 5% of gross loans at December 31, 2020. At March 31, 2021, hotel industry sector loans represent \$48.9 million of the approved modifications.

Approximately \$39 million of commercial loan modifications are scheduled to make their principal and interest payment in the second quarter of these dollars had a contractual payment due in April and all borrowers made this payment.

- The allowance for loan losses on originated loans, excluding SBA PPP loans, increased to 1.84% at March 31, 2021 from 1.77% at December 31, 2020. SBA PPP loans are guaranteed by the SBA, they are excluded from this reserve calculation. Additionally, loans resulting from Bank acquisitions marked to market value at the time of their acquisition and were also excluded from this reserve calculation. The allowance for loan losses allocated \$15.0 million to the originated loan portfolio and \$1.9 million to the acquired loan portfolio.
- Nonperforming assets continued to decline and at March 31, 2021 were \$9.3 million compared to \$11.5 million one quarter earlier or a reduction of 19.3%.

Balance Sheet and Asset Quality

Total assets increased \$83.2 million during the quarter to \$1.73 billion at March 31, 2021 compared to \$1.65 billion at December 31, 2020. This increase was approximately the same as the increase in deposits of \$84.9 million.

Securities available for sale increased \$41.0 million during the quarter ended March 31, 2021 to \$185.2 million from \$144.2 million at December 31, 2020. Securities held to maturity increased \$13.9 million in the quarter. This growth was largely through the purchase of 30-year agency mortgage-backed securities which allowed the Bank to modestly reduce the asset sensitive interest rate profile from December 31, 2020.

Loans receivable decreased by \$45.5 million to \$1.19 billion at March 31, 2021. The originated loan portfolio before SBA PPP loans decreased \$45.5 million during the quarter. This decrease included the repayment of \$5.5 million of draws on a line of credit originated the last business day of December and repaid on the first business day of January. Total SBA PPP loans decreased \$4.8 million due to debt forgiveness of \$52 million, offset by strong new SBA PPP second round loans of \$47 million. Acquired loans decreased by \$22.6 million. This decrease was partially due to reductions in agricultural real estate due to the borrower's term fixed-rate loan which the Bank facilitated using Farmer Mac financing.

The allowance for loan losses modestly decreased to \$16.9 million at March 31, 2021, representing 1.41% of loans receivable compared to \$17.0 million at December 31, 2020, representing 1.38% of loans receivable. Excluding the SBA PPP loans, which are guaranteed by the SBA, the allowance for loan losses was 1.53% at March 31, 2021 compared to 1.53% at December 31, 2020. Approximately 22% of the loan portfolio at March 31, 2021 consists of loans purchased through acquisitions resulting in these loans being recorded at fair market value at acquisition. The allowance for loan losses as a percent of originated loans was 1.84% at March 31, 2021 compared to 1.77% at December 31, 2020. For the quarter ended March 31, 2021, the Bank had net charge-offs of \$0.1 million.

Allowance for Loan Losses Percentages

(in thousands, except ratios)

	March 31, 2021	December 31, 2020	September 30, 2020
Originated loans, net of deferred fees and costs	\$ 817,261	\$ 835,769	\$ 777,340
SBA PPP loans, net of deferred fees	115,920	120,711	135,177
Acquired loans, net of unamortized discount	258,945	281,101	317,622
Loans, end of period	<u>\$ 1,192,126</u>	<u>\$ 1,237,581</u>	<u>\$ 1,230,139</u>
SBA PPP loans, net of deferred fees	(115,920)	(120,711)	(135,177)
Loans, net of SBA PPP loans and deferred fees	<u>\$ 1,076,206</u>	<u>\$ 1,116,870</u>	<u>\$ 1,094,962</u>
Allowance for loan losses allocated to originated loans	\$ 15,028	\$ 14,819	\$ 12,809
Allowance for loan losses allocated to other loans	1,832	2,224	2,027
Allowance for loan losses	<u>\$ 16,860</u>	<u>\$ 17,043</u>	<u>\$ 14,836</u>
Non-accretable difference on purchased credit impaired loans	\$ 966	\$ 1,087	\$ 1,661
ALL as a percentage of loans, end of period	1.41 %	1.38 %	1.21 %
ALL as a percentage of loans, net of SBA PPP loans and deferred fees	1.57 %	1.53 %	1.35 %
ALL allocated to originated loans as a percentage of originated loans, net of deferred fees and costs	1.84 %	1.77 %	1.65 %

Nonperforming assets decreased 19.3% to \$9.3 million or 0.54% of total assets at March 31, 2021 compared to \$11.5 million or 0.70% of total assets at December 31, 2020. Included in nonperforming assets at March 31, 2021 are \$6.5 million of nonperforming assets acquired during recent whole-bank acquisitions. Nonperforming assets were \$2.8 million, or 0.16% of total assets for the most recent quarter. Over the past year, nonperforming assets declined 19.3% from \$11.5 million at March 31, 2020 to \$9.3 million at March 31, 2021.

Substandard and special mention loans increased \$4.5 million during the quarter ended March 31, 2021 largely due to one hotel loan that moved to special mention status. This loan is currently in payment deferral status. Over the past year, total criticized loans decreased 31.3% from \$57.8 million at March 31, 2020 to \$39.7 million at March 31, 2021.

	(in thousands)			
	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Special mention loan balances	\$ 13,659	\$ 6,672	\$ 7,777	\$ 19,958
Substandard loan balances	26,064	28,541	32,922	35,911
Criticized loans, end of period	<u>\$ 39,723</u>	<u>\$ 35,213</u>	<u>\$ 40,699</u>	<u>\$ 55,869</u>

Deposits increased \$84.9 million to \$1.38 billion at March 31, 2021 from \$1.30 billion at December 31, 2020. The increase was in non-maturity deposits which more than offset the decrease of \$23.8 million in certificates of deposit.

The decrease in certificates of deposit was due to the Company choosing not to match higher rate local retail certificate competition.

Review of Operations

Net interest income was \$12.8 million for the first quarter ended March 31, 2021 compared to \$13.4 million for the fourth quarter ended December 31, 2020. The net interest margin ("NIM") decreased to 3.31% in the first quarter ended March 31, 2021 compared to 3.51% for the fourth quarter ended December 31, 2020. The decrease in NIM was primarily due to a larger percentage of lower yielding interest-bearing cash and securities, lower yields on loans and securities, the impact of higher yielding loans being replaced by lower yielding investment securities, and a decrease in liability costs. The net interest margin for the current quarter also reflected a decrease in accretion on purchased credit impaired loans and a decrease in accretion on SBA PPP loans. Net interest income was negatively impacted by two fewer days in the quarter, which decreased net interest income by approximately \$0.6 million.

The net interest margin decreased to 3.31% for the quarter ended March 31, 2021 from 3.64% for the quarter ended March 31, 2020. This decrease was primarily due to the Federal Reserve decreasing interest rates 125 basis points in six days in March 2020, which resulted in lower loan and security yields, part of which was offset by a decrease in deposit costs. Approximately half of the decrease is due to uninvested liquidity.

The table below shows the impact of accretion related to purchased credit impaired loans and SBA PPP loans on interest income and NIM.

Net interest income and net interest margin analysis:

(in thousands, except yields and rates)

	Three months ended							
	March 31, 2021		December 31, 2020		September 30, 2020		June 30, 2020	
	Net Interest Income	Net Interest Margin						
As reported	\$ 12,764	3.31 %	\$ 13,372	3.51 %	\$ 11,909	3.11 %	\$ 12,303	3.34 %
Less non-accretable difference realized as interest from payoff of purchased credit impaired loans	\$ (58)	(0.02) %	\$ (324)	(0.08) %	\$ (130)	(0.03) %	\$ (196)	(0.05) %
Less accelerated accretion from payoff of certain PCI loans with transferred non-accretable differences	\$ (90)	(0.02) %	\$ (872)	(0.23) %	\$ —	— %	\$ (99)	(0.03) %
Less scheduled accretion interest	\$ (266)	(0.07) %	\$ (252)	(0.07) %	\$ (276)	(0.07) %	\$ (247)	(0.07) %
Without loan purchase accretion	\$ 12,350	3.20 %	\$ 11,924	3.13 %	\$ 11,503	3.01 %	\$ 11,761	3.19 %
Less SBA PPP net loan fee accretion	\$ (1,750)	(0.45) %	\$ (985)	(0.26) %	\$ (643)	(0.17) %	\$ (500)	(0.14) %
Without SBA PPP purchase and net loan fee accretion	\$ 10,600	2.75 %	\$ 10,939	2.87 %	\$ 10,860	2.84 %	\$ 11,261	3.05 %

The table below lists the SBA PPP loans and net deferred loan fee accretion balances related to 2020 and 2021 SBA PPP loan originations:

	March 31, 2021		December 31, 2020	
	Balance	Net Deferred Fee Income	Balance	Net Deferred Fee Income
SBA PPP loans - Round 1	\$ 71,464	\$ 1,290	\$ 123,702	\$ —
SBA PPP loans - Round 2	47,467	1,721	—	—
Total SBA PPP loans	\$ 118,931	\$ 3,011	\$ 123,702	\$ —

The Bank's current pipeline would add an additional \$7 million of new SBA PPP loans and the Bank should collect an additional \$1.6 million in fees associated with loans closed in the first quarter of 2021 were received at March 31, 2021.

The Bank continued to manage deposit interest rates, as various non-maturity deposit product rates were reduced, and interest rates on new additions of deposit were lower than the previous quarter. These actions reduced the cost of deposits by 11 basis points in the quarter. At March 31, 2021, approximately \$160 million of certificate of deposit accounts maturing in 2021 with a weighted average cost of approximately 1.1% and approximately \$140 million of certificate of deposit accounts maturing in 2022 with a weighted average cost of approximately 2.0%. The 2021 maturities are approximately evenly distributed throughout the year, with approximately 85% of the 2022 maturities occurring in the first half of 2022. The approximate weighted average cost of new certificates of deposit in the first quarter of 2021 was below 0.5%.

Loan loss provisions were zero for the quarter ended March 31, 2021 compared to \$2.5 million for the quarter ended December 31, 2020 and \$ earlier. During the quarter ended March 31, 2021, asset quality improved as indicated by a lower level of non-performing assets, substandard a deferrals under Section 4013 of the Cares Act. This, along with reduced overall loan balances, resulted in an adequate ALLL without recording in the quarter. Additionally, both the December 31, 2020 and March 31, 2020 quarters had provisions related to increases in Q-Factors related t decreases in loan deferrals and improvements in general economic conditions, no such Q-factor increase was applied in the quarter ended Ma extent, the quarters ended December 31, 2020 and March 31, 2020 also had provisions related to loan growth.

Non-interest income decreased \$0.6 million in the quarter ended March 31, 2021 to \$4.2 million compared to \$4.8 million in the quarter ended I increased \$0.6 million from the quarter ended March 31, 2020. The decrease in the first quarter compared to the fourth quarter was largely due in gain on sale of loans. This modest reduction was due to the impact of higher interest rates, which slowed refinancing activity and, to a lesser which slowed customer purchase activity. The increase during the quarter compared to the year ago quarter was largely due to higher gain on s offset by the sale of Wells Insurance Agency in the second quarter of 2020 resulting in no insurance commission income in the first quarter of 2

Total non-interest expense decreased \$1.3 million in the first quarter of 2021 to \$9.5 million compared to \$10.8 million for the quarter ended De \$10.7 million for the quarter ended March 31, 2020. The decrease from the fourth quarter was largely due to the reversal of \$0.9 million of prev impairment, compared to MSR impairment recorded in the fourth quarter of \$0.3 million. This decrease in the first quarter of 2021 was offset by termination charges and a \$0.16 million increase in compensation expense, largely due to higher payroll taxes and benefit costs. In addition, th had \$0.2 million of costs related to the closure of 3 branches in mid-November.

Provisions for income taxes, with record earnings, increased to \$1.9 million in the first quarter of 2021 from the fourth quarter of 2020 at \$1.2 m rate for the most recent quarter was 26.1% compared to 25.9% for the prior quarter, and 26.4% for the comparable prior year quarter.

These financial results are preliminary until the Form 10-Q is filed in May 2021.

About the Company

Citizens Community Bancorp, Inc. (NASDAQ: "CZWI") is the holding company of the Bank, a national bank based in Altoona, Wisconsin, curren primarily in Wisconsin and Minnesota through 25 branch locations. Its primary markets include the Chippewa Valley Region in Wisconsin, the T markets in Minnesota, and various rural communities around these areas. The Bank offers traditional community banking services to businesse consumers, including residential mortgage loans.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained in this release are considered "forward-looking statements" within the meaning of the Private Securities Litigation These statements may be identified using forward-looking words or phrases such as "anticipate," "believe," "could," "expect," "estimates," "inter "planned," "potential," "should," "will," "would" or the negative of those terms or other words of similar meaning. Such forward-looking statement inherently subject to many uncertainties arising in the operations and business environment of the Company and the Bank. These uncertainties in the financial markets and economic conditions generally; adverse impacts to the Company or Bank arising from the COVID-19 pandemic; the deterioration in the residential real estate markets; interest rate risk; lending risk; the sufficiency of loan allowances; changes in the fair value or our securities; competitive pressures among depository and other financial institutions; our ability to maintain our reputation; our ability to realiz deferred tax assets; our ability to maintain or increase our market share; acts of terrorism and political or military actions by the United States o legislative or regulatory changes or actions, or significant litigation, adversely affecting the Company or Bank; increases in FDIC insurance prer assessments by the FDIC; disintermediation risk; our inability to obtain needed liquidity; our ability to successfully execute our acquisition growt by acquisitions and other expansion opportunities, including difficulties and delays in integrating the acquired business operations or fully realiz other benefits; our ability to raise capital needed to fund growth or meet regulatory requirements; the possibility that our internal controls and pr circumvented; our ability to attract and retain key personnel; our ability to keep pace with technological change; cybersecurity risks; changes in laws; changes in accounting principles, policies or guidelines and their impact on financial performance; restrictions on our ability to pay divider volatility of our stock price. Stockholders, potential investors and other readers are urged to consider these factors carefully in evaluating the fo statements and are cautioned not to place undue reliance on such forward-looking statements. Such uncertainties and other risks that may affe performance are discussed further in Part I, Item 1A, "Risk Factors," in the Company's Form 10-K, for the year ended December 31, 2020 filed Exchange Commission ("SEC") on March 8, 2021 and the Company's subsequent filings with the SEC. The Company undertakes no obligation to the forward-looking statements contained in this news release or to update them to reflect events or circumstances occurring after the date o

Non-GAAP Financial Measures

This press release contains non-GAAP financial measures, such as net income as adjusted, net income as adjusted per share, tangible book v value per share, tangible common equity as a percent of tangible assets, return on average tangible common equity and return on average tan adjusted, which management believes may be helpful in understanding the Company's results of operations or financial position and comparin periods.

Net income as adjusted and net income as adjusted per share are non-GAAP measures that eliminate the impact of certain expenses such as closure costs and related data processing termination fees, legal costs, severance pay, accelerated depreciation expense and lease termination of branch deposits and fixed assets and the net impact of the Tax Cuts and Jobs Act of 2017, which management believes enhances investors' understand the underlying business performance and trends related to core business activities. Merger related charges represent expenses to obligations of acquired entities without any useful benefit to the Company or to convert and consolidate customer records onto the Company pl unique to each transaction based on the contracts in existence at the merger date. Tangible book value, tangible book value per share, tangible percent of tangible assets and return on average tangible common equity are non-GAAP measures that eliminate the impact of preferred stock intangible assets on our financial position. Management believes these measures are useful in assessing the strength of our financial position.

Where non-GAAP financial measures are used, the comparable GAAP financial measure, as well as the reconciliation to the comparable GAAP be found in this press release. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP necessarily comparable to non-GAAP performance measures that may be presented by other banks and financial institutions.

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(CZWI-ER)

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

	March 31, 2021 (unaudited)	December 31, 2020 (audited)	
Assets			
Cash and cash equivalents	\$ 196,039	\$ 119,440	\$
Other interest-bearing deposits	2,016	3,752	
Securities available for sale "AFS"	185,160	144,233	
Securities held to maturity "HTM"	57,419	43,551	
Equity securities with readily determinable fair value	297	200	

Other investments	15,069	14,948	
Loans receivable	1,192,126	1,237,581	
Allowance for loan losses	(16,860)	(17,043)	
Loans receivable, net	1,175,266	1,220,538	
Loans held for sale	2,267	3,075	
Mortgage servicing rights, net	3,999	3,252	
Office properties and equipment, net	21,081	21,165	
Accrued interest receivable	5,464	5,652	
Intangible assets	5,095	5,494	
Goodwill	31,498	31,498	
Foreclosed and repossessed assets, net	85	197	
Bank owned life insurance ("BOLI")	23,837	23,684	
Other assets	7,702	8,416	
TOTAL ASSETS	\$ 1,732,294	\$ 1,649,095	\$
<i>Liabilities and Stockholders' Equity</i>			
Liabilities:			
Deposits	\$ 1,380,202	\$ 1,295,256	\$
Federal Home Loan Bank ("FHLB") advances	115,481	123,498	
Other borrowings	58,354	58,328	
Other liabilities	17,595	11,449	
Total liabilities	1,571,632	1,488,531	
Stockholders' equity:			
Common stock— \$0.01 par value, authorized 30,000,000; 10,893,872; 11,056,349 and 11,151,009 shares issued and outstanding, respectively	109	111	
Additional paid-in capital	125,005	126,704	
Retained earnings	35,783	32,809	
Unearned deferred compensation	(1,239)	(550)	
Accumulated other comprehensive income (loss)	1,004	1,490	
Total stockholders' equity	160,662	160,564	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,732,294	\$ 1,649,095	\$

Note: Certain items previously reported were reclassified for consistency with the current presentation.

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

	Three Months Ended	
	March 31, 2021 (unaudited)	December 31, 2020 (unaudited)
Interest and dividend income:		
Interest and fees on loans	\$ 14,517	\$ 15,463
Interest on investments	1,103	1,052
Total interest and dividend income	15,620	16,515
Interest expense:		
Interest on deposits	1,714	1,958
Interest on FHLB and FRB borrowed funds	411	428
Interest on other borrowed funds	731	757
Total interest expense	2,856	3,143
Net interest income before provision for loan losses	12,764	13,372
Provision for loan losses	—	2,500
Net interest income after provision for loan losses	12,764	10,872
Non-interest income:		
Service charges on deposit accounts	398	496

Interchange income	530	520	
Loan servicing income	893	1,014	
Gain on sale of loans	1,595	2,108	
Loan fees and service charges	278	342	
Insurance commission income	—	—	
Net gains on investment securities	235	13	
Other	247	277	
Total non-interest income	4,176	4,770	
Non-interest expense:			
Compensation and related benefits	5,596	5,440	
Occupancy	992	1,017	
Office	390	502	
Data processing	1,276	1,255	
Amortization of intangible assets	399	399	
Mortgage servicing rights expense	(450)	720	
Advertising, marketing and public relations	163	165	
FDIC premium assessment	165	148	
Professional services	521	438	
Gains on repossessed assets, net	(117)	(64)	
Other	554	806	
Total non-interest expense	9,489	10,826	
Income before provision for income taxes	7,451	4,816	
Provision for income taxes	1,945	1,246	
Net income attributable to common stockholders	\$ 5,506	\$ 3,570	\$
Per share information:			
Basic earnings	\$ 0.50	\$ 0.32	\$
Diluted earnings	\$ 0.50	\$ 0.32	\$
Cash dividends paid	\$ 0.23	\$ —	\$
Book value per share at end of period	\$ 14.75	\$ 14.52	\$
Tangible book value per share at end of period (non-GAAP)	\$ 11.39	\$ 11.18	\$

Note: Certain items previously reported were reclassified for consistency with the current presentation.

Reconciliation of GAAP Net Income and Net Income as Adjusted (non-GAAP)

(in thousands, except per share data)

	Three Months Ended			
	March 31, 2021	December 31, 2020	March 31, 2020	
GAAP pretax income	\$ 7,451	\$ 4,816	\$ 3,543	\$
Branch closure costs (1)	—	165	—	
Net gain on sale of acquired business lines (2)	—	—	—	
Settlement proceeds (3)	—	—	—	
FHLB borrowings prepayment fee (4)	102	—	—	
Pretax income as adjusted (5)	7,553	4,981	3,543	
Provision for income tax on net income as adjusted (6)	1,971	1,290	937	
Net income as adjusted after income taxes (non-GAAP) (5)	\$ 5,582	\$ 3,691	\$ 2,606	\$
GAAP diluted earnings per share, net of tax	\$ 0.50	\$ 0.32	\$ 0.23	\$
Branch closure costs, net of tax	—	0.01	—	
Net gain on sale of acquired business lines	—	—	—	
Settlement proceeds	—	—	—	
FHLB borrowings prepayment fee	\$ 0.01	—	—	

Diluted earnings per share, as adjusted, net of tax (non-GAAP)	\$ 0.51	\$ 0.33	\$ 0.23	\$
Average diluted shares outstanding	10,985,994	11,128,628	11,219,660	

(1) Branch closure costs include severance pay recorded in compensation and benefits, accelerated depreciation expense and lease termination occupancy and other costs included in other non-interest expense in the consolidated statement of operations.

(2) Net gain on sale of acquired business lines resulted from (1) the sale of Wells Insurance Agency and (2) the termination and sale of the web business line sales contract acquired in a former acquisition.

(3) Settlement proceeds includes litigation income from a JP Morgan Residential Mortgage-Backed Security (RMBS) claim. This distribution represents the proceeds received in March 2017 from a JP Morgan RMBS previously owned by the Bank and sold in 2011.

(4) FHLB borrowings prepayment fee resulted from the early termination of \$8 million in FHLB borrowings at a weighted average rate of 2.19% maturity of 8.75 months included in other non-interest expense in the consolidated statement of operations.

(5) Net income as adjusted is a non-GAAP measure that management believes enhances the market's ability to assess the underlying business trends related to core business activities.

(6) Provision for income tax on net income as adjusted is calculated at our effective tax rate for each respective period presented.

Loan Composition (in thousands)	March 31, 2021	December 31, 2020		
Originated Loans:				
Commercial/Agricultural real estate:				
Commercial real estate	\$ 365,603	\$ 351,113	\$	
Agricultural real estate	38,140	31,741		
Multi-family real estate	111,503	112,731		
Construction and land development	83,936	91,241		
C&I/Agricultural operating:				
Commercial and industrial	76,693	95,290		
Agricultural operating	21,149	24,457		
Residential mortgage:				
Residential mortgage	82,285	86,283		
Purchased HELOC loans	5,291	6,260		
Consumer installment:				
Originated indirect paper	23,186	25,851		
Other consumer	10,951	12,056		
Originated loans before SBA PPP loans	818,737	837,023		
SBA PPP loans	118,931	123,702		
Total originated loans	\$ 937,668	\$ 960,725	\$	
Acquired Loans:				
Commercial/Agricultural real estate:				
Commercial real estate	\$ 149,586	\$ 156,562	\$	
Agricultural real estate	32,427	37,054		
Multi-family real estate	7,485	9,421		
Construction and land development	6,796	7,276		
C&I/Agricultural operating:				
Commercial and industrial	19,240	21,263		
Agricultural operating	7,101	8,328		
Residential mortgage:				
Residential mortgage	40,046	45,103		
Consumer installment:				
Other consumer	913	1,157		
Total acquired loans	\$ 263,594	\$ 286,164	\$	
Total Loans:				
Commercial/Agricultural real estate:				
Commercial real estate	\$ 515,189	\$ 507,675	\$	
Agricultural real estate	70,567	68,795		
Multi-family real estate	118,988	122,152		
Construction and land development	90,732	98,517		
C&I/Agricultural operating:				
Commercial and industrial	95,933	116,553		
Agricultural operating	28,250	32,785		

Residential mortgage:

Residential mortgage	122,331	131,386
Purchased HELOC loans	5,291	6,260

Consumer installment:

Originated indirect paper	23,186	25,851
Other consumer	11,864	13,213

Gross loans before SBA PPP loans

	1,082,331	1,123,187
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SBA PPP loans

	118,931	123,702
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Gross loans

\$	1,201,262	\$	1,246,889	\$
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Unearned net deferred fees and costs and loans in process

(4,487)	(4,245)
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Unamortized discount on acquired loans

(4,649)	(5,063)
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Total loans receivable

\$	1,192,126	\$	1,237,581	\$
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Nonperforming Originated and Acquired Assets

(in thousands, except ratios)

	March 31, 2021 and Three Months Ended	December 31, 2020 and Three Months Ended	Ma Thru
Nonperforming assets:			
Originated nonperforming assets:			
Nonaccrual loans	\$ 2,344	\$ 3,649	\$
Accruing loans past due 90 days or more	391	415	
Total originated nonperforming loans ("NPL")	2,735	4,064	
Other real estate owned ("OREO")	—	63	
Other collateral owned	28	41	
Total originated nonperforming assets ("NPAs")	\$ 2,763	\$ 4,168	\$
Acquired nonperforming assets:			
Nonaccrual loans	\$ 6,335	\$ 7,098	\$
Accruing loans past due 90 days or more	145	171	
Total acquired nonperforming loans ("NPL")	6,480	7,269	
Other real estate owned ("OREO")	57	93	
Other collateral owned	—	—	
Total acquired nonperforming assets ("NPAs")	\$ 6,537	\$ 7,362	\$
Total nonperforming assets ("NPAs")	\$ 9,300	\$ 11,530	\$
Loans, end of period	\$ 1,192,126	\$ 1,237,581	\$
Total assets, end of period	\$ 1,732,294	\$ 1,649,095	\$
Ratios:			
Originated NPLs to total loans	0.23 %	0.33 %	
Acquired NPLs to total loans	0.54 %	0.59 %	
Originated NPAs to total assets	0.16 %	0.25 %	
Acquired NPAs to total assets	0.38 %	0.45 %	

Nonperforming Total Assets

(in thousands, except ratios)

	March 31, 2021 and Three Months Ended	December 31, 2020 and Three Months Ended	Ma Thru
Nonperforming assets:			
Nonaccrual loans			
Commercial real estate	\$ 760	\$ 827	\$
Agricultural real estate	4,511	5,084	
Commercial and industrial ("C&I")	391	357	
Agricultural operating	764	1,872	
Residential mortgage	2,167	2,451	

Consumer installment		86		156	
Total nonaccrual loans	\$	8,679	\$	10,747	\$
Accruing loans past due 90 days or more		536		586	
Total nonperforming loans ("NPLs")		9,215		11,333	
Foreclosed and repossessed assets, net		85		197	
Total nonperforming assets ("NPAs")	\$	9,300	\$	11,530	\$
Troubled Debt Restructurings ("TDRs")	\$	17,442	\$	18,477	\$
Nonaccrual TDRs	\$	5,690	\$	6,735	\$
Loans, end of period	\$	1,192,126	\$	1,237,581	\$
Total assets, end of period	\$	1,732,294	\$	1,649,095	\$
Ratios:					
NPLs to total loans		0.77 %		0.92 %	
NPAs to total assets		0.54 %		0.70 %	

Deposit Composition
(in thousands)

	March 31, 2021	December 31, 2020	
Non-interest bearing demand deposits	\$ 257,042	\$ 238,348	\$
Interest bearing demand deposits	352,302	301,764	
Savings accounts	222,448	196,348	
Money market accounts	258,942	245,549	
Certificate accounts	289,468	313,247	
Total deposits	\$ 1,380,202	\$ 1,295,256	\$

Average balances, Interest Yields and Rates
(in thousands, except yields and rates)

	Three months ended March 31, 2021			Three months ended December, 31 2020			Three months ended	
	Average Balance	Interest Income/Expense	Average Yield/Rate (1)	Average Balance	Interest Income/Expense	Average Yield/Rate (1)	Average Balance	Interest Income/Expense
Average interest earning assets:								
Cash and cash equivalents	\$ 129,642	\$ 29	0.09 %	\$ 79,225	\$ 21	0.11 %	\$ 31,069	\$
Loans receivable	1,213,562	14,517	4.85 %	1,240,895	15,463	4.96 %	1,172,246	
Interest bearing deposits	3,437	20	2.36 %	3,752	23	2.44 %	4,362	
Investment securities (1)	202,981	885	1.77 %	176,802	824	1.85 %	179,287	
Other investments	15,038	169	4.56 %	15,015	184	4.88 %	15,006	
Total interest earning assets (1)	<u>\$ 1,564,660</u>	<u>\$ 15,620</u>	<u>4.05 %</u>	<u>\$ 1,515,689</u>	<u>\$ 16,515</u>	<u>4.33 %</u>	<u>\$ 1,401,970</u>	<u>\$</u>
Average interest bearing liabilities:								
Savings accounts	\$ 197,647	\$ 83	0.17 %	\$ 187,474	\$ 87	0.18 %	\$ 154,596	\$
Demand deposits	330,674	251	0.31 %	285,001	200	0.28 %	234,822	

Money market accounts	254,120	202	0.32 %	243,631	206	0.34 %	236,470
CD's	266,044	1,043	1.59 %	284,728	1,304	1.82 %	354,095
IRA's	40,877	135	1.34 %	41,493	161	1.54 %	42,695
Total deposits	\$ 1,089,362	\$ 1,714	0.64 %	\$ 1,042,327	\$ 1,958	0.75 %	\$ 1,022,678
FHLB advances and other borrowings	180,635	1,142	2.56 %	182,463	1,185	2.58 %	146,810
Total interest bearing liabilities	\$ 1,269,997	\$ 2,856	0.91 %	\$ 1,224,790	\$ 3,143	1.02 %	\$ 1,169,488
Net interest income		\$ 12,764			\$ 13,372		\$
Interest rate spread			3.14 %			3.31 %	
Net interest margin (1)			3.31 %			3.51 %	
Average interest earning assets to average interest bearing liabilities			1.23			1.24	

(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 March 31, 2021, December 31, 2020 and March 31, 2020. The FTE adjustment to net interest income included in the rate calculations totaled \$ for the three months ended March 31, 2021, December 31, 2020 and March 31, 2020, respectively.

The following table reports key financial metric ratios based on a net income and net income as adjusted basis:

	Three Months Ended	
	March 31, 2021	December 31, 2020
Ratios based on net income:		
Return on average assets (annualized)	1.33 %	0.87 %
Return on average equity (annualized)	13.97 %	8.93 %
Return on average tangible common equity ⁵ (annualized)	18.14 %	11.67 %
Efficiency ratio	56 %	60 %
Net interest margin with loan purchase accretion	3.31 %	3.51 %
Net interest margin without loan purchase accretion	3.20 %	3.13 %
Ratios based on net income as adjusted (non-GAAP):		
Return on average assets as adjusted ² (annualized)	1.35 %	0.90 %
Return on average equity as adjusted ³ (annualized)	14.16 %	9.24 %
Return on average tangible common equity as adjusted ⁵ (annualized)	18.39 %	12.06 %
Efficiency ratio ⁴ as adjusted (non-GAAP)	55 %	59 %

Reconciliation of Return on Average Assets as Adjusted (non-GAAP)
(in thousands, except ratios)

	Three Months Ended	
	March 31, 2021	December 31, 2020
GAAP earnings after income taxes	\$ 5,506	\$ 3,570
Net income as adjusted after income taxes (non-GAAP) (1)	\$ 5,582	\$ 3,691
Average assets	\$ 1,682,064	\$ 1,634,459
Return on average assets (annualized)	1.33 %	0.87 %
Return on average assets as adjusted (non-GAAP) (annualized)	1.35 %	0.90 %

(1) See Reconciliation of GAAP Net Income and Net Income as Adjusted (non-GAAP)

Reconciliation of Return on Average Equity as Adjusted (non-GAAP)

(in thousands, except ratios)

	Three Months Ended				
	March 31, 2021		December 31, 2020		
GAAP earnings after income taxes	\$	5,506	\$	3,570	\$
Net income as adjusted after income taxes (non-GAAP) (1)	\$	5,582	\$	3,691	\$
Average equity	\$	159,881	\$	158,968	\$
Return on average equity (annualized)		13.97 %		8.93 %	
Return on average equity as adjusted (non-GAAP) (annualized)		14.16 %		9.24 %	

(1) See Reconciliation of GAAP Net Income and Net Income as Adjusted (non-GAAP)

Reconciliation of Return on Average Tangible Common Equity and Reconciliation of Return on Average Tangible Common Equity, as

(in thousands, except ratios)

	Three Months Ended				
	March 31, 2021		December 31, 2020		
Total stockholders' equity	\$	160,662	\$	160,564	\$
Less: Goodwill		(31,498)		(31,498)	
Less: Intangible assets		(5,095)		(5,494)	
Tangible common equity (non-GAAP)	\$	124,069	\$	123,572	\$
Average tangible common equity (non-GAAP)	\$	123,088	\$	121,752	\$
GAAP earnings after income taxes	\$	5,506	\$	3,570	\$
Net income as adjusted after income taxes (non-GAAP) (1)	\$	5,582	\$	3,691	\$
Return on average tangible common equity (annualized)		18.14 %		11.67 %	
Return on average tangible common equity as adjusted (non-GAAP) (annualized)		18.39 %		12.06 %	

(1) See Reconciliation of GAAP Net Income and Net Income as Adjusted (non-GAAP)

Reconciliation of Efficiency Ratio as Adjusted (non-GAAP)

(in thousands, except ratios)

	Three Months Ended				
	March 31, 2021		December 31, 2020		
Non-interest expense (GAAP)	\$	9,489	\$	10,826	\$
Branch Closure Costs (1)		—		(165)	
FHLB borrowings prepayment fee (1)		(102)		—	
Non-interest expense as adjusted (non-GAAP)		9,387		10,661	
Non-interest income		4,176		4,770	
Net interest margin		12,764		13,372	
Efficiency ratio denominator (GAAP)	\$	16,940	\$	18,142	\$
Net gain on acquired business lines (1)		—		—	
Settlement proceeds (1)		—		—	
Efficiency ratio denominator (non-GAAP)	\$	16,940	\$	18,142	\$
Efficiency ratio (GAAP)		56 %		60 %	
Efficiency ratio as adjusted (non-GAAP)		55 %		59 %	

(1) See Reconciliation of GAAP Net Income and Net Income as Adjusted (non-GAAP)

Reconciliation of tangible book value per share (non-GAAP)

(in thousands, except per share data)

Tangible book value per share at end of period	March 31, 2021	December 31, 2020	
Total stockholders' equity	\$ 160,662	\$ 160,564	\$
Less: Goodwill	(31,498)	(31,498)	
Less: Intangible assets	(5,095)	(5,494)	
Tangible common equity (non-GAAP)	\$ 124,069	\$ 123,572	\$
Ending common shares outstanding	10,893,872	11,056,349	
Book value per share	\$ 14.75	\$ 14.52	\$
Tangible book value per share (non-GAAP)	\$ 11.39	\$ 11.18	\$

Reconciliation of tangible common equity as a percent of tangible assets (non-GAAP)
(in thousands, except ratios)

Tangible common equity as a percent of tangible assets at end of period

	March 31, 2021	December 31, 2020	
Total stockholders' equity	\$ 160,662	\$ 160,564	\$
Less: Goodwill	(31,498)	(31,498)	
Less: Intangible assets	(5,095)	(5,494)	
Tangible common equity (non-GAAP)	\$ 124,069	\$ 123,572	\$
Total Assets	\$ 1,732,294	\$ 1,649,095	\$
Less: Goodwill	(31,498)	(31,498)	
Less: Intangible assets	(5,095)	(5,494)	
Tangible Assets (non-GAAP)	\$ 1,695,701	\$ 1,612,103	\$
Less SBA PPP Loans	(118,931)	(123,702)	
Tangible Assets, excluding SBA PPP Loans (non-GAAP)	\$ 1,576,770	\$ 1,488,401	\$
Total stockholders' equity to total assets ratio	9.27 %	9.74 %	
Tangible common equity as a percent of tangible assets (non-GAAP)	7.32 %	7.67 %	
Tangible common equity as a percent of tangible assets, excluding SBA PPP Loans (non-GAAP)	7.87 %	8.30 %	

¹ Net income as adjusted and net income as adjusted per share are non-GAAP financial measures that management believes enhances invest understand the underlying business performance and trends related to core business activities. For a detailed reconciliation of GAAP to non-GAAP, see the accompanying financial table "Reconciliation of GAAP Net Income and Net Income as Adjusted (non-GAAP)".

² Return on average assets as adjusted is a non-GAAP measure that management believes enhances investors' ability to better understand the performance and trends relative to average assets. For a detailed reconciliation of GAAP to non-GAAP results, see the accompanying financial table "Return on Average Assets as Adjusted (non-GAAP)".

³ Return on average equity as adjusted is a non-GAAP measure that management believes enhances investors' ability to better understand the performance and trends relative to average equity. For a detailed reconciliation of GAAP to non-GAAP results, see the accompanying financial table "Return on Average Equity as Adjusted (non-GAAP)".

⁴ The efficiency ratio as adjusted (non-GAAP) is a non-GAAP measure that management believes enhances investors' ability to better understand the business performance and the Company's ability to use what it has to generate the most profit possible for shareholders relative to core business activities. For a detailed reconciliation of GAAP to non-GAAP results, see the accompanying financial table "Reconciliation of Efficiency Ratio as Adjusted (non-GAAP)".

⁵ Tangible book value, tangible book value per share, tangible common equity as a percent of tangible assets, return on tangible common equity as adjusted are non-GAAP measures that management believes enhances investors' ability to better understand the Company's performance. For a detailed reconciliation of GAAP to non-GAAP results, see the accompanying financial table "Reconciliation of tangible book value per share (non-GAAP)", "Reconciliation of tangible common equity as a percent of tangible assets (non-GAAP)", and "Reconciliation of return on average tangible common equity as adjusted (non-GAAP)".



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