Citizens Community Bancorp Inc.
Form 10-K
December 07, 2015

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-33003

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý
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 ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (do not check if a smaller reporting company)	Smaller reporting company	x

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

The aggregate market value of the voting and non-voting, if applicable, stock held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was approximately $44,207,525. Shares of the registrant's common stock held or beneficially owned by any executive officer or director of the registrant have been excluded from this computation because such persons may be deemed to be affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

At December 7, 2015 there were 5,231,265 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 2016 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III of this report.

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

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Forward-Looking Statements

Certain matters discussed in this Form 10-K contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and the Company intends that these forward-looking statements be covered by the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as “anticipate,” “believe,” “could,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” “would,” or the negative of those terms or other words of s 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: general economic conditions, in particular, relating to consumer demand for the Bank’s products and services; the Bank’s ability to maintain current deposit and loan levels at current interest rates; competitive and technological developments; deteriorating credit quality, including changes in the interest rate environment reducing interest margins; prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; the Bank’s ability to maintain required capital levels and adequate sources of funding and liquidity; maintaining capital requirements may limit the Bank’s operations and potential growth or restrict the Bank's ability to engage in strategic transactions; changes and trends in capital markets; competitive pressures among depository institutions; effects of critical accounting policies and judgments; changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board (FASB) or other regulatory agencies; write-downs in the Bank’s investment securities portfolio; the Bank’s ability to implement its cost-savings and revenue enhancement initiatives; legislative or regulatory changes or actions, or significant litigation, adversely affecting the Bank; fluctuation of the Company’s stock price; the Bank’s ability to attract and retain key personnel; the Bank’s ability to secure confidential information through the use of computer systems and telecommunications networks; and the impact of reputation risk created by these developments on such matters as business generation and retention, funding and liquidity. Stockholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this filing and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances occurring after the date of this report.

PART 1

ITEM 1. BUSINESS

General

The Company is a Maryland corporation organized in 2004. The Company is a bank holding company and was subject to regulation by the Office of Thrift Supervision (OTS) through July 21, 2011 and has been subject to regulation by the Office of the Comptroller of the Currency (“OCC”) and by the Federal Reserve Bank thereafter. Our primary activities consist of holding the stock of our wholly-owned subsidiary bank, Citizens Community Federal N.A., and providing consumer and small commercial and agricultural banking activities through the Bank. At September 30, 2015, we had approximately $580 million in total assets, $456 million in deposits, and $61 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.

As of May 31, 2014, the Bank is a federally chartered National Bank with 18 full-service offices; seven stand-alone locations and 11 in-store branches. In October 2014, we announced the closing of three in-store branches, effective January 2015; and the relocation of the Mankato, Minnesota branch to a new full-service traditional branch in Mankato, MN in October 2015. In October 2015, we entered into a purchase agreement with Central Bank of Golden Valley, Minnesota, to purchase certain assets from, and assume all deposit liabilities of Central Bank’s Rice Lake and Barron branch banking operations in Wisconsin pending regulatory approval. The transaction is expected to be finalized in our second fiscal quarter of 2016.

In November 2015, we announced the closing of three in-store branches, to be effective in December 2015 and January 2016. We intend to continue to review our branch network to deploy assets and capital to growth markets and exit markets where we have limited growth opportunities. Through all of our branch locations, in Wisconsin, Minnesota and Michigan, we provide a variety of commercial and consumer banking products and services to customers, including online and mobile banking options.

Internet Website

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

Selected Consolidated Financial Information

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

Yields Earned and Rates Paid

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

Rate/Volume Analysis

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

Average Balance, Interest and Average Yields and Rates

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

Lending

We offer a variety of loan products including commercial loans, agricultural loans, residential mortgages, home equity lines-of-credit, commercial and industrial (C&I) loans and consumer loans. We make real estate, consumer, commercial and agricultural loans in accordance with the basic lending policies established by Bank management and approved by our Board of Directors. We focus our lending activities on individual consumers and small commercial borrowers within our market areas. Our lending has been historically concentrated primarily within Wisconsin, Minnesota and Michigan. Competitive and economic pressures exist in our lending markets, and recent and any future developments in (a) the general economy, (b) real estate lending markets, and (c) the banking regulatory environment could have a material adverse effect on our business and operations. These factors may impact the credit quality of our existing loan portfolio, or adversely impact our ability to originate sufficient high quality loans in the future.

Our total gross outstanding loans, before net deferred loan costs, as of September 30, 2015, were $448,080, consisting of $181,206 in consumer real estate loans, $63,266 in commercial real estate loans, $200,704 in secured consumer and other loans, and $2,904 in unsecured consumer loans.

Investments

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

Deposits

We offer a broad range of deposit products through our branches, including demand deposits, various savings and money-market accounts and certificates of deposit. Deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. At September 30, 2015, our total deposits were $456,298 including interest bearing deposits of $436,944 and non-interest bearing deposits of $19,354.

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

Regulation and Supervision
The Bank is examined and regulated by the Office of the Comptroller of Currency (OCC), and the Company is examined and regulated by the Federal Reserve Bank of Minneapolis. The Bank is a member of the Federal Reserve System and Federal Home Loan Bank of Chicago, which is one of the 12 regional banks in the Federal Home Loan Bank System. In addition, the Bank's deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over the Bank.
Employees
At December 7, 2015, we had 111 full-time employees and 173 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 think are immaterial may also impair our future business operations. If any of the events or circumstances described in the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In such cases, the trading price of our common stock could decline.
Our business may be adversely affected by conditions in the financial markets and economic conditions generally. From December 2007 to June 2009, the United States economy experienced the worst economic downturn since the Great Depression, resulting in a general reduction of business activity and growth across industries and regions as well as significant increases in unemployment. Many businesses experienced serious financial difficulties due to the lack of consumer spending and liquidity in the credit markets. The financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes. General declines in home prices and the resulting impact on sub-prime mortgages, and eventually, all mortgage and real estate classes as well as equity markets resulted in continued widespread shortages of liquidity across the financial services industry. Moreover, the country and our geographic region experienced high rates of unemployment which negatively impacted the creditworthiness of our borrowers and customer base.
Although the economy has been in the recovery phase since 2009, the recovery is weak and there can be no assurance that the economy will not enter into another recession, whether in the near term or long term. Continuation of the slow recovery or another economic downturn or sustained, high unemployment levels may negatively impact our operating results. Additionally, adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans. These factors could expose us to an increased risk of loan defaults and losses and could have an adverse impact on our earnings.
Weaknesses in the markets for residential real estate, including secondary residential mortgage loan markets, could reduce our net income and profitability. During the severe recession that lasted from 2007 to 2009, softened residential housing markets, increased delinquency and default rates, and volatile and constrained secondary credit markets negatively impacted the mortgage industry. Our financial results were adversely affected by these effects including changes in real estate values, primarily in Wisconsin, Minnesota and Michigan, and our net income declined as a result. Decreases in real estate values adversely affected the value of property used as collateral for loans as well as investments in our portfolio. Continued slow growth in the economy since 2009 has resulted in increased

competition and lower rates, which has negatively impacted our net income and profits.
The foregoing changes could affect our ability to originate loans and deposits, the fair value of our financial assets and liabilities and the average maturity of our securities portfolio. An increase in the level of interest rates may also adversely affect

the ability of certain of our borrowers to repay their obligations. If interest rates paid on deposits or other borrowings were to increase at a faster rate than the interest rates earned on loans and investments, our net income would be adversely affected.

We are subject to interest rate risk. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time due to many factors that are beyond our control, including but not limited to: general economic conditions and government policy decisions, especially policies of the Federal Reserve Bank. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk.

We are subject to lending risk. There are inherent risks associated with our lending activities. These risks include the impact of changes in interest rates and changes in the economic conditions in the markets we serve, as well as those across the United States. An increase in interest rates or weakening economic conditions (such as high levels of unemployment) could adversely impact the ability of borrowers to repay outstanding loans, or could substantially weaken the value of collateral securing those loans. Downward pressure on real estate values could increase the potential for problem loans and thus have a direct impact on our consolidated results of operations.

Our allowance for loan losses may be insufficient. To address risks inherent in our loan portfolio, we maintain an allowance for loan losses that represents management’s best estimate of probable losses that exist within our loan portfolio. The level of the allowance reflects management’s continuing evaluation of various factors, including specific credit risks, historical loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions, and unidentified losses inherent in the current loan portfolio. Determining the appropriate level of the allowance for loan losses involves a high degree of subjectivity and requires us to make estimates of significant credit risks, which may undergo material changes. In evaluating our impaired loans, we assess repayment expectations and determine collateral values based on all information that is available to us. However, we must often make subjective decisions based on our assumption about the creditworthiness of the borrowers and the values of collateral securing these loans.

Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of our control, may require an increase in our allowance for loan losses. In addition, bank regulatory agencies periodically examine our allowance for loan losses and may require an increase in the allowance or the recognition of further loan charge-offs, based on judgments different from those of our management.

If charge-offs in future periods exceed our allowance for loan losses, we will need to take additional loan loss provisions to increase our allowance for loan losses. Any additional loan loss provision will reduce our net income or increase our net loss, which could have a direct material adverse affect on our financial condition and results of operations.

Changes in the fair value or ratings downgrades of our securities may reduce our stockholders’ equity, net earnings, or regulatory capital ratios. At September 30, 2015, $79,921 of our securities, were classified as available for sale and $8,012 were classified as held to maturity. The estimated fair value of our available for sale securities portfolio may increase or decrease depending on market conditions. Our available for sale securities portfolio is comprised primarily of fixed-rate securities. We increase or decrease stockholders’ equity by the amount of the change in unrealized gain or loss (the difference between the estimated fair value and amortized cost) of our available for sale securities portfolio, net of the related tax benefit or provision, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in our reported stockholders’ equity, as well as our book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold, the decrease may be recovered over the life of the securities.

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

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

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

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

We may not have sufficient pre-tax net income in future periods to fully realize the benefits of our net deferred tax assets. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence. Based on future pre-tax net income projections and the planned execution of existing tax planning strategies, we believe that it is more likely than not that we will fully realize the benefits of our net deferred tax assets. However, our current assessment is based on assumptions and judgments that may or may not reflect actual future results. If a valuation allowance becomes necessary, it could have a material adverse effect on our consolidated results of operations and financial condition.

Maintaining or increasing our market share may depend on lowering prices and market acceptance of new products and services. Our success depends, in part, on our ability to adapt our products and services to evolving industry standards and customer demands. We face increasing pressure to provide products and services at lower prices, which can reduce our net interest margin and revenues from our fee-based products and services. In addition, the widespread adoption of new technologies, including internet and mobile banking services, could require us to make substantial expenditures to modify or adapt our existing products and services. Also, these and other capital investments in our business may not produce expected growth in earnings anticipated at the time of the expenditure. We may not be successful in introducing new products and services, achieving market acceptance of our products and services, or developing and maintaining loyal customers, which in turn, could adversely affect our results of operations and profitability.

Acts or threats of terrorism and political or military actions by the United States or other governments could adversely affect general economic industry conditions. Geopolitical conditions may affect our earnings. Acts or threats of terrorism and political actions taken by the United States or other governments in response to terrorism, or similar activity, could adversely affect general or industry conditions and, as a result, our consolidated financial condition and results of operations.

We operate in a highly regulated environment, and are subject to changes, which could increase our cost structure or have other negative impacts on our operations. The banking industry is extensively regulated at the federal and state levels. Insured depository institutions and their holding companies are subject to comprehensive regulation and supervision by financial regulatory authorities covering all aspects of their organization, management and operations. Specifically, the Dodd-Frank Wall Street Reform and Consumer Protection Act has resulted in the elimination of the Office of Thrift Supervision, tightening of capital standards, and the creation of the new Consumer Financial Protection Bureau. Moreover, it has resulted, or is likely to result, in new laws, regulations and regulatory supervisors that are expected to increase our cost of operations. In addition, the recent change to the Office of the Comptroller of the Currency (“OCC”) as our primary regulator may result in interpretations different than those formerly provided by the Office of Thrift Supervision. In addition to its regulatory powers, the OCC also has significant enforcement authority that it can use to address banking practices that it believes to be unsafe and unsound, violations of laws, and capital and operational deficiencies. Regulation includes, among other things, capital and reserve requirements, permissible investments and lines of business, dividend limitations, limitations on products and services offered, loan limits, geographical limits, consumer credit regulations, community reinvestment requirements and restrictions on transactions with affiliated parties. The system of supervision and regulation applicable to us establishes a comprehensive framework for our operations and is intended primarily for the protection of the Deposit Insurance Fund, our depositors and the public, rather than our stockholders. We are also subject to regulation by the SEC. Failure to comply with applicable laws, regulations or policies could result in sanction by regulatory agencies, civil monetary penalties, and/or damage to our reputation, which could have a material adverse effect on our business, consolidated financial condition and results of operations. In addition, any change in government regulation could have a material adverse effect on our business.

We are subject to increases in FDIC insurance premiums and special assessments by the FDIC, which will adversely affect our earnings. During 2008 and continuing in 2009, higher levels of bank failures dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which, in part, permanently raised the current standard maximum deposit insurance amount to $250,000 per customer (up from $100,000). These programs placed additional stress on the Deposit Insurance Fund. In order to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund, the FDIC increased assessment rates of the insured institutions. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If additional bank or financial institution failures increase, or if the cost of resolving prior failures exceeds expectations, we may be required to pay even higher FDIC premiums than the current levels. Any future increases or required prepayments of FDIC insurance premiums may adversely impact our earnings and financial condition.

Customers may decide not to use banks to complete their financial transactions, which could result in a loss of income to us. Technology and other changes are allowing customers to complete financial transactions that historically have involved banks at one or both ends of the transaction. For example, customers can now pay bills and transfer funds directly without going through a bank. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits.

Our internal controls and procedures may fail or be circumvented. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable assurances that the objectives of the system are met. Any (a) failure or circumvention of our controls and procedures, (b) failure to adequately address any internal control deficiencies, or (c) failure to comply with regulations related to controls and procedures could have a material effect on our business, consolidated financial condition and results of operations. See Item 9A “Controls and Procedures” for further discussion of our internal controls.

We 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 skilled people. Our success depends, in part, on our ability to attract and retain key people. 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 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 4,764,310 shares of our common stock held by nonaffiliates as of December 7, 2015. Thus, our common stock will be less liquid than the stock of companies with broader public ownership, and as a result, the trading prices for our shares of common stock may be more volatile. Among other things, trading of a relatively small volume of our common stock may have a greater impact on the trading price of our stock than would be the case if our public float were larger.

We rely on network and information systems and other technologies, and, as a result, we are subject to various Cybersecurity risks. Cybersecurity refers to the combination of technologies, processes and procedures established to protect information technology systems and data from unauthorized access, attack, or damage. Our business involves the storage and transmission of customers' personal information. While we have internal policies and procedures designed to prevent or limit the effect of a failure, interruption or security breach of our information systems, as well as contracts and service agreements with applicable outside vendors, we cannot be assured that any such failures, interruptions or security breaches will not occur or, if they do, that they will be addressed adequately. Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, could severely harm our business. Although we have implemented measures to prevent security breaches, cyber incidents and other security threats, our facilities and systems, and those of third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human error, or other similar events that could have a material adverse affect on our business. Furthermore, the storage and transmission of such data is regulated at the federal and state level. Privacy information security laws and regulation changes, and compliance therewith, may result in cost increases due to system changes and the development of new administrative processes. If we fail to comply with applicable laws and regulations or experience a data security breach involving the misappropriation, loss or other unauthorized disclosure of confidential information, whether by us or our vendors, our reputation could be damaged, possibly resulting in lost future business, and we could be subject to fines, penalties, administrative orders and other legal risks as a result of a breach or non-compliance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2015 (in thousands)
ADMINISTRATIVE OFFICES:			
2174 EastRidge Center (5) Eau Claire, WI 54701	Lease	September 30, 2018	
BRANCH OFFICES			
Appleton Branch (9) 3701 E Calumet Street Appleton, WI 54915	Lease	January 31, 2019	
Chippewa Falls Branch (4) 2786 Commercial Boulevard Chippewa Falls, WI 54729	Lease	June 30, 2017	
Gordy’s County Market (10) 3310 E Hamilton Ave Eau Claire, WI 54701	Lease	October 1, 2020	
Fairfax Branch 219 Fairfax Street Altoona, WI 54720	Owned	N/A	$ 712
Fond du Lac Branch (9) 377 N Rolling Meadows Dr Fond du Lac, WI 54936	Lease	January 31, 2019	
Oshkosh Branch (9) 351 S Washburn Street Oshkosh, WI 54904	Lease	January 31, 2019	
Rice Lake Branch (4) (8) 2501 West Avenue Rice Lake, WI 54868	Lease	May 1, 2018	

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2015 (in thousands)
Westside Branch 2125 Cameron Street Eau Claire, WI 54703	Owned	N/A	$ 246
Lake Orion Branch (1) 688 S. LaPeer Road Lake Orion, MI 48362	Lease	February 28, 2017	
Rochester Hills Branch 310 W Tienken Road Rochester Hills, MI 48306	Owned	N/A	$ 257
Brooklyn Park Branch (3) 8000 Lakeland Avenue Brooklyn Park, MN 55445	Lease	January 31, 2017	
Faribault Branch (9) 150 Western Avenue Faribault, MN 55021	Lease	January 31, 2019	
Mankato Branch (7) 1901 Madison Ave East, Suite 410 Mankato, MN 56001	Lease	May 1, 2016	
Mankato Traditional Branch (6) 180 St. Andrews Drive Mankato, MN 56001	Lease	October 31, 2025	
Oakdale Branch 7035 10th Street North Oakdale, MN 55128	Lease	September 30, 2017	
Red Wing Branch (9) 295 Tyler Road S Red Wing, MN 55066	Lease	March 3, 2018	
Winona Branch (3) 955 Frontenac Drive Winona, MN 55987	Lease	January 31, 2018	
Menomonie Branch (2) 180 Cedar Falls Road Menomonie, WI 54751	Lease	March 4, 2016	

Location	Owned or Leased	Lease Expiration Date	Net Book Value at September 30, 2015 (in thousands)
Neenah Branch (9) 1155 Winneconne Avenue Neenah, WI 54956	Lease	March 31, 2019	
Rice Lake Traditional Branch (11) 2850 Decker Drive Rice Lake, WI 54868	Lease	October 14, 2023	

(1) Effective March 1, 2007, Citizens Community Federal N.A. has a right to cancel this lease, with the cancellation to take effect 90 days after it exercises the right to cancel.

(2) Effective on or about December 16, 2015, the Menomonie, Wisconsin Branch office, located within a Walmart store will close.

(3) Effective on or about January 20, 2016, the Brooklyn Park, Minnesota Branch office, located within a Walmart store will close. Effective on or about January 21, 2016, the Winona, Minnesota Branch office, located within a Walmart store will close.

(4) Leased WalMart locations each have a lessee option to extend the lease by up to two five-year periods, each at predetermined rent rates.

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

(6) Leased Mankato traditional location opened on October 26, 2015 with a predetermined rent increase each year and a lessee option to extend the lease by up to two five-year periods, each at predetermined rent rates.

(7) Leased Mankato location closed on October 23, 2015 and moved to the traditional branch location in Mankato, Minnesota on October 26, 2015.

(8) Leased Rice Lake location has a predetermined rent rate increase each year starting in May 2013 for each of the five years remaining in the term.

(9) On October 18, 2013, the Bank exercised its first lessee option to extend all these leases up to one five-year period, each at predetermined rent rates. Leased Walmart locations each have a lessee option to extend the lease by up to one, five-year period, each at predetermined rent rates.

(10) Leased Gordy's branch location closed on September 23, 2015 and was replaced with a full-service ATM which accepts cash and check deposits. The leased ATM location within Gordy's has a lessee option to extend the lease by up to one five-year period at a predetermined rent rate.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None

PART II

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

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

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

	High	Low	Cash dividends per share
Fiscal 2015			
First Quarter (three months ended December 31, 2014)	$9.43	$8.59	$—
Second Quarter (three months ended March 31, 2015)	$9.50	$8.60	$0.08
Third Quarter (three months ended June 30, 2015)	$9.50	$8.56	$—
Fourth Quarter (three months ended September 30, 2015)	$9.40	$8.80	$—
Fiscal 2014			
First Quarter (three months ended December 31, 2013)	$7.70	$7.21	$—
Second Quarter (three months ended March 31, 2014)	$8.56	$7.29	$0.04
Third Quarter (three months ended June 30, 2014)	$8.50	$7.74	$—
Fourth Quarter (three months ended September 30, 2014)	$9.36	$8.26	$—

The closing price per share of Citizens Community Bancorp, Inc. common stock on September 30, 2015 (the last trading day of our fiscal year end) was $8.84.

We had approximately 362 stockholders of record at December 7, 2015. The number of stockholders does not separately reflect persons or entities that hold their stock in nominee or “street” name through various brokerage firms. We believe that the number of beneficial owners of our common stock on that date was substantially greater.

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

The following table reflects the annual cash dividend paid in the fiscal years ended September 30, 2015, 2014 and 2013 respectively.

	2015	2014	2013
Cash dividends per share	$0.08	$0.04	$0.02
Stockholder record date	03/13/2015	03/13/2014	04/04/2013
Dividend payment date	03/27/2015	03/27/2014	04/18/2013

ITEM 6. SELECTED FINANCIAL DATA

	Year ended September 30, (dollars in thousands, except per share data)				
	2015	2014	2013	2012	2011
Selected Results of Operations Data:					
Interest income	23,004	$24,033	$24,575	$27,085	$29,764
Interest expense	4,438	4,275	5,312	6,591	8,913
Net interest income	18,566	19,758	19,263	20,494	20,851
Provision for loan losses	656	1,910	3,143	4,440	5,864
Net interest income after provision for loan losses	17,910	17,848	16,120	16,054	14,987
Fees and service charges	3,006	2,868	2,584	2,068	1,913
Net impairment losses recognized in earnings	—	(78)	(797)	(1,332)	(570)
Net gain (loss) on sale of available for sale securities	60	(168)	552	243	659
Other non-interest income	847	794	712	693	615
Non-interest income	3,913	3,416	3,051	1,672	2,617
Non-interest expense	17,719	18,434	17,489	17,359	17,274
Income before provision for income taxes	4,104	2,830	1,682	367	330
Income tax provision	1,490	1,047	635	161	137
Net income	$2,614	$1,783	$1,047	$206	$193
Per Share Data: (1)					
Net income per share (basic) (1)	$0.50	$0.35	$0.20	$0.04	$0.04
Net income per share (diluted) (1)	$0.50	$0.34	$0.20	$0.04	$0.04
Cash dividends per common share	$0.08	$0.04	$0.02	$—	$—
Book value per share at end of period	$11.57	$11.09	$10.51	$10.73	$10.30

CITIZENS COMMUNITY BANCORP, INC.
FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

	Year ended September 30, (dollars in thousands, except per share data)				
	2015	2014	2013	2012	2011
Selected Financial Condition Data:					
Total assets	$580,148	$569,815	$554,521	$530,183	$536,557
Investment securities	87,933	70,974	79,695	67,111	44,338
Total loans, net of deferred costs (fees)	450,510	470,366	440,863	427,789	431,746
Total deposits	456,298	449,767	447,398	422,058	448,973
Short-term borrowings (2)	33,600	20,000	7,500	22,100	16,000
Other borrowings (2)	25,291	38,891	42,500	27,150	14,400
Total shareholders' equity	60,535	57,293	54,185	55,103	52,888
Performance Ratios:					
Return on average assets	0.45%	0.32%	0.19%	0.04%	0.03%
Return on average total shareholders' equity	4.44%	3.20%	1.92%	0.38%	0.38%
Net interest margin (3)	3.36%	3.61%	3.62%	3.94%	3.77%
Net interest spread (3)					
Average during period	3.24%	3.54%	3.51%	3.81%	3.64%
End of period	3.15%	3.58%	3.69%	3.84%	4.09%
Net overhead ratio (4)	2.40%	2.67%	2.66%	2.94%	2.59%
Average loan-to-average deposit ratio	101.63%	101.57%	99.91%	98.68%	95.97%
Average interest bearing assets to average interest bearing liabilities	114.15%	109.35%	109.92%	109.99%	107.91%
Efficiency ratio (5)	78.82%	79.28%	75.67%	73.87%	71.86%
Asset Quality Ratios:					
Non-performing loans to total loans (6)	0.27%	0.34%	0.59%	1.05%	1.02%
Allowance for loan losses to:					
Total loans (net of unearned income)	1.44%	1.38%	1.40%	1.34%	1.13%
Non-performing loans	532.02%	410.47%	236.96%	127.44%	111.32%
Net charge-offs to average loans	0.14%	0.35%	0.62%	0.84%	1.15%
Non-performing assets to total assets	0.37%	0.46%	0.66%	0.95%	1.07%
Capital Ratios:					
Shareholders' equity to assets (7)	10.43%	10.05%	9.77%	10.39%	9.86%
Average equity to average assets (7)	10.25%	9.92%	10.08%	10.12%	9.09%
Tier 1 capital (leverage ratio) (8)	10.4%	10.0%	9.9%	10.2%	10.1%
Total risk-based capital (8)	16.5%	16.1%	16.3%	15.4%	14.1%

(1) Earnings per share are based on the weighted average number of shares outstanding for the period.
(2) Consists of Federal Home Loan Bank term notes.
(3) Net interest margin represents net interest income as a percentage of average interest earning assets, and net interest rate spread represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
(4) Net overhead ratio represents the difference between non-interest expense and non-interest income, divided by average assets.
(5) Efficiency ratio represents non-interest expense, divided by the sum of net interest income and non-interest income, excluding impairment losses from OTTI and from Goodwill.
(6)

Non-performing loans are either 90+ days past due or nonaccrual. Non-performing assets consist of non-performing loans plus other real estate owned plus other collateral owned.

(7) Presented on a consolidated basis.

(8) Presented on a Bank (i.e. regulatory) basis.

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

GENERAL

The following discussion sets forth management's discussion and analysis of our consolidated financial condition and results of operations that should be read in conjunction with our consolidated financial statements, related notes, the selected financial data and the statistical information presented elsewhere in this report for a more complete understanding of the following discussion and analysis. Unless otherwise noted, years refer to the Company's fiscal years ended September 30, 2015, 2014 and 2013.

PERFORMANCE SUMMARY

The following is a brief summary of some of the significant factors that affected our operating results in 2015. See the remainder of this section for a more thorough discussion. We reported net income of $2,614 for the year ended September 30, 2015, compared to net income of $1,783 for the year ended September 30, 2014. Basic earnings per share were $0.50 for 2015 compared to $0.35 for the year ended September 30, 2014. Diluted earnings per share were $0.50 for 2015 compared to $0.34 for the year ended September 30, 2014. Return on average assets for the year ended September 30, 2015 was 0.45%, compared to 0.32% for the year ended September 30, 2014. The return on average equity was 4.44% for 2015 and 3.20% for 2014. An annual cash dividend in the amount of $0.08 per share and $0.04 per share was paid in the fiscal year ended September 30, 2015 and 2014, respectively.

Key factors behind these results were:

- Net interest income was $18,566 for 2015, a decrease of $1,192, or 6.03% from $19,758 for 2014, due to increased competition for loans at lower interest rates and a shortening duration of our loan portfolio. Interest income decreased to $23,004 from $24,033, or 4.28% from 2015 to 2014. Meanwhile, interest expense increased to $4,438 from $4,275, or 3.81% from 2015 to 2014.
- The net interest margin for 2015 was 3.36% compared to 3.63% for 2014. The 27 bp decrease in net interest margin was mainly attributable to a 32 bp decrease in interest rate spread resulting from a 26 bp decline in return on interest earning assets and a 6 bp increase in the cost of interest bearing liabilities during 2015. Yield on loans decreased 27 bps and average rates paid on deposits increased 5 bps year over year, respectively, during these two periods. Yields on investment securities decreased 6 bps year over year.
- Loan charge-offs decreased from a year ago resulting in net charge-offs of $666 for 2015, a decrease of $918, or 57.95%, compared to $1,584 for 2014. Non-performing loans decreased from $1,585 to $1,221, a $364 or 22.97% decrease from 2014 to 2015. Net loan charge-offs represented 0.14% of average loans outstanding in 2015, compared to 0.35% in 2014.
- Provision for loan losses was reduced to $656 for fiscal 2015, compared to $1,910 for fiscal 2014, due to improved asset quality.
- Non-interest income, was $3,913 for 2015 and $3,416 for 2014. OTTI losses on securities decreased from $78 in 2014 to $0 in 2015. We realized $168 of net losses on the sale of available for sale securities in 2014 and $60 in net gains on the sale of available for sale securities in 2015.
- Non-interest expense was $17,719 for 2015, a decrease of $715 from an amount of $18,434 in 2014.
- We recognized a tax provision of $1,490 and $1,047 for 2015 and 2014, respectively.
- Total loans were $450,510 at September 30, 2015, a decrease of $19,856, or 4.22% from their levels at September 30, 2014. Total deposits were $456,298 as of September 30, 2015, compared to $449,767 at September 30, 2014, an increase of $6,531, or 1.45% from their levels at September 30, 2014.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with Accounting Standards Generally Accepted in the United States of America ("GAAP") as applied in the United States. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amount of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Some of these estimates are more critical than others. Below is a discussion of our critical accounting estimates.

Allowance for Loan Losses.

We maintain an allowance for loan losses to absorb probable and inherent losses in our loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable incurred losses in our loan portfolio. In evaluating the level

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of the allowance for loan loss, we consider the types of loans and the amount of loans in our loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, prevailing economic conditions and other relevant factors determined by management. We follow all applicable regulatory guidance, including the "Interagency Policy Statement on the Allowance for Loan and Lease Losses," issued by the Federal Financial Institutions Examination Council (FFIEC). We believe that the Bank's Allowance for Loan Losses Policy conforms to all applicable regulatory requirements. However, based on periodic examinations by regulators, the amount of the allowance for loan losses recorded during a particular period may be adjusted.

Our determination of the allowance for loan losses is based on (1) specific allowances for specifically identified and evaluated impaired loans and their corresponding estimated loss based on likelihood of default, payment history, and net realizable value of underlying collateral. Specific allocations for collateral dependent loans are based on fair value of the underlying collateral relative to the unpaid principal balance of individually impaired loans. For loans that are not collateral dependent, the specific allocation is based on the present value of expected future cash flows discounted at the loan's original effective interest rate through the repayment period; and (2) a general allowance on loans not specifically identified in (1) above, based on historical loss ratios, which are adjusted for qualitative and general economic factors. We continue to refine our allowance for loan losses methodology, with an increased emphasis on historical performance adjusted for applicable economic and qualitative factors.

Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans, any of which estimates may be susceptible to significant change. In our opinion, the allowance, when taken as a whole, reflects estimated probable loan losses in our loan portfolio.

Income Taxes.

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

The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and application of specific provisions of federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the deferred tax assets and liabilities are adequate and properly recorded in the accompanying consolidated financial statements. As of September 30, 2015, management does not believe a valuation allowance related to the realizability of its deferred tax assets is necessary.

STATEMENT OF OPERATIONS ANALYSIS

2015 compared to 2014

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.

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 discuses net interest income, interest rate spread, and net interest margin.

Tax equivalent net interest income was $18,698 for 2015, compared to $19,836 for 2014. Interest income on tax exempt securities is computed on a tax equivalent basis. The net interest margin for 2015 was 3.36% compared to 3.63% for 2014. The 27 bp decrease in net interest margin was mainly attributable to a 32 bp decrease in interest rate spread resulting from a 26 bp decline in return on interest earning assets, reflecting sustained low market interest rates and a continued commitment to stronger credit quality, and a 6 bp increase in the cost of interest bearing liabilities during 2015.

Competitive pricing on new and refinanced loans resulted in loan volume at lower rates, as well as increased refinancing of one to four family loans due to the current low rate environment, both contributed to reduced loan yields in 2015. Yields on securities decreased largely due to increases in holdings of lower risk and lower yielding securities, as well as volatility in prepayments. Certain FHLB advances were purchased, with longer term maturities and higher interest rates, than in the previous fiscal year, and certain deposits from closed branches were replaced with higher rate interest bearing deposits, causing the increase in rates on our interest-bearing liabilities.

As shown in the rate/volume analysis table below, positive volume changes resulted in a $339 increase in net interest income in 2015. Average loan volume increases were due to commercial real estate and non-real estate loan growth in the current fiscal year over the prior fiscal year, arising from management's strategy to continue to diversify its credit portfolio. The increase and changes in the composition of interest earning assets resulted in a $975 decrease in interest income for 2015, and a $163 increase in interest expense due to the composition change in interest bearing liabilities. Rate changes on interest earning assets caused a decrease in interest income by $1,269 and increased interest expense by $208, for a net impact of a $1,477 decrease in net interest income between 2015 and 2014.

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

Average interest earning assets were $556,937 in 2015 compared to $546,835 in 2014. Average loans outstanding increased to $457,707 in 2015 from $451,933 in 2014. Average loans to average interest bearing assets decreased to 82% in 2015 from 83% in 2014. Interest income on loans decreased $971, of which $286 related to the increase in average outstanding balances, offset by a reduction in interest income due to lower yields on such loans in the amount of $1,257.

Average interest bearing liabilities decreased $12,179 in 2015 from their 2014 levels. The decrease in average interest bearing liabilities was primarily due to decreases in demand deposits and FHLB advances. Average interest bearing deposits decreased $4,541, or 1.03% to $435,701 over 2015. Interest expense on interest bearing deposits increased $44 during 2015 from the volume and mix changes and increased $149 from the impact of the rate environment, resulting in an aggregate increase of $193 in interest expense on interest bearing deposits.

	Year ended September 30, 2015				Year ended September 30, 2014				Year ended September 30, 2013			
	Average Balance	Interest Income/ Expense	Average Yield/ Rate		Average Balance	Interest Income/ Expense	Average Yield/ Rate		Average Balance	Interest Income/ Expense	Average Yield/ Rate	
Average interest earning assets:												
Cash and cash equivalents	$19,456	$47	0.24	%	$15,242	$20	0.13	%	$24,326	$41	0.17	%
Loans receivable	457,707	21,641	4.73	%	451,933	22,612	5.00	%	429,403	23,201	5.40	%
Interest bearing deposits	1,495	30	2.01	%	551	6	1.09	%	1,781	15	0.84	%
Investment securities (1)	73,282	1,307	1.78	%	75,072	1,384	1.84	%	73,503	1,307	1.78	%
Non-marketable equity securities, at cost	4,997	111	2.22	%	4,037	89	2.20	%	3,492	11	0.32	%
Total interest earning assets	$556,937	$23,136	4.15	%	$546,835	$24,111	4.41	%	$532,505	$24,575	4.61	%
Average interest bearing liabilities:												
Savings accounts	$27,608	$30	0.11	%	$25,814	$19	0.07	%	$24,550	$14	0.06	%
Demand deposits	20,797	156	0.75	%	36,008	90	0.25	%	30,080	7	0.02	%
Money market accounts	143,194	632	0.44	%	142,116	542	0.38	%	146,640	775	0.53	%
CD’s	221,827	2,727	1.23	%	214,461	2,705	1.26	%	211,094	3,636	1.72	%
IRA’s	22,275	263	1.18	%	21,843	259	1.19	%	23,341	359	1.54	%
Total deposits	$435,701	$3,808	0.87	%	$440,242	$3,615	0.82	%	$435,705	$4,791	1.10	%
FHLB advances	52,199	630	1.21	%	59,837	660	1.10	%	48,754	521	1.07	%
Total interest bearing liabilities	$487,900	$4,438	0.91	%	$500,079	$4,275	0.85	%	$484,459	$5,312	1.10	%
Net interest income		$18,698				$19,836				$19,263		
Interest rate spread			3.24	%			3.56	%			3.51	%
Net interest margin			3.36	%			3.63	%			3.62	%
Average interest earning assets to average interest bearing liabilities			114.15	%			109.35	%			109.92	%

(1) For the 12 months ended September 30, 2015, 2014 and 2013, the average balance of the tax exempt investment securities, included in investment securities, were $15,019, $9,576 and $0 respectively. The interest income on tax exempt securities is computed on a tax-equivalent basis using a tax rate of 34% for all periods presented.

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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). Changes due to both rate and volume which cannot be segregated have been allocated in proportion to the relationship of the dollar amounts of the change in each.

	Year ended September 30, 2015 v. 2014 Increase (decrease) due to			Year ended September 30, 2014 v. 2013 Increase (decrease) due to		
	Volume (1)	Rate (1)	Total Increase / (Decrease)	Volume (1)	Rate (1)	Total Increase / (Decrease)
Interest income:						
Cash and cash equivalents	$6	$21	$27	$(13)	$(8)	$(21)
Loans receivable	286	(1,257)	(971)	1,181	(1,770)	(589)
Interest bearing deposits	14	10	24	(13)	4	(9)
Investment securities	(33)	(44)	(77)	28	(29)	(1)
Non-marketable equity securities, at cost	21	1	22	2	76	78
Total interest earning assets	$294	$(1,269)	$(975)	$1,185	$(1,727)	$(542)
Interest expense:						
Savings accounts	$1	$10	$11	$1	$4	$5
Demand deposits	(58)	124	66	2	81	83
Money market accounts	4	86	90	(23)	(210)	(233)
CD’s	92	(70)	22	57	(988)	(931)
IRA’s	5	(1)	4	(22)	(78)	(100)
Total deposits	44	149	193	15	(1,191)	(1,176)
FHLB Advances	(89)	59	(30)	122	17	139
Total interest bearing liabilities	(45)	208	163	137	(1,174)	(1,037)
Net interest income (loss)	$339	$(1,477)	$(1,138)	$1,048	$(553)	$495

(1) the change in interest due to both rate and volume has been allocated in proportion to the relationship to the dollar amounts of the change in each.

Provision for Loan Losses. We determine our provision for loan losses (“provision”, or “PLL”) based on our desire to provide an adequate allowance for loan losses (“ALL”) to reflect probable and inherent credit losses in our loan portfolio.

Net loan charge-offs for the years ended September 30, 2015 and 2014 were $666 and $1,584, respectively. Net charge-offs to average loans were 0.14% for 2015 compared to 0.35% for 2014. For 2015, non-performing loans decreased by $364 to $1,221 from $1,585 at September 30, 2014. Refer to the “Risk Management and the Allowance for Loan Losses” section below for more information related to non-performing loans.

We recorded provisions for loan losses of $656 and $1,910 for the years ended September 30, 2015 and 2014, respectively. Management believes that the provision taken for the year ended September 30, 2015 is adequate in view of the present condition of the Bank's loan portfolio and the sufficiency of collateral supporting non-performing loans. We are continually monitoring non-performing loan relationships and will make provisions, as necessary, if the facts and circumstances change. In addition, a decline in the quality of our loan portfolio as a result of general economic conditions, factors affecting particular borrowers or our market areas, or other factors could all affect the adequacy of our ALL. If there are significant charge-offs against the ALL, or we otherwise determine that the ALL is inadequate, we will need to record an additional PLL in the future. See Note 1 “Nature of Business and Summary of Significant Accounting Policies - Allowance for Loan Losses” to our consolidated financial statements for further analysis of the provision for loan losses.

Non-Interest Income. The following table reflects the various components of non-interest income for the years ended September 30, 2015, 2014 and 2013, respectively.

	Twelve months ended September 30,			Change:	
	2015	2014	2013	2015 over 2014	2014 over 2013
Noninterest Income:					
Net gains (losses) on available for sale securities	$60	$(246)	$(245)	124.39 %	(0.41)%
Service charges on deposit accounts	1,715	1,964	1,820	(12.68)%	7.91 %
Loan fees and service charges	1,291	904	768	42.81 %	17.71 %
Other	847	794	708	6.68 %	12.15 %
Total non-interest income	$3,913	$3,416	$3,051	14.55 %	11.96 %

Service charges on deposit accounts decreased $249 during 2015 due to a decrease in overdraft fee income. Loan fees and service charges increased $387 during 2015 mainly due to secondary market and commercial loan origination fees.

Non-Interest Expense. The following table reflects the various components of non-interest expense for the years ended September 30, 2015, 2014 and 2013, respectively.

	Years ended September 30,			Change:	
	2015	2014	2013	2015 over 2014	2014 over 2013
Noninterest Expense:					
Salaries and related benefits	$8,643	$9,287	$9,068	(6.93)%	2.42 %
Occupancy	2,872	2,631	2,493	9.16 %	5.54 %
Office	1,105	1,499	1,223	(26.28)%	22.57 %
Data processing	1,590	1,531	1,657	3.85 %	(7.60)%
Amortization of core deposit	57	57	56	— %	1.79 %
Advertising, marketing and public relations	570	370	233	54.05 %	58.80 %
FDIC premium assessment	390	409	522	(4.65)%	(21.65)%
Professional services	1,088	552	707	97.10 %	(21.92)%
Other	1,404	2,098	1,530	(33.08)%	37.12 %
Total noninterest expense	$17,719	$18,434	$17,489	(3.88)%	5.40 %
Noninterest expense (annualized) / Average assets	3.08 %	3.28 %	3.22 %		

Salaries and related benefits, as well as office expenses, decreased due to efficiencies and cost savings realized over recent periods through management initiatives, including branch closures and technology improvements. Occupancy costs, consisting primarily of office rental and depreciation expenses, increased during the current twelve month period over the same period in the prior year due to accelerated branch depreciation costs in the amount of $562, all of which related to the three branch closures during January 2015, two additional branch closures in September 2015, a future branch closure in December 2015 and two future branch closures in January 2016. Advertising, marketing and public relations expenses increased during 2015 over 2014 due to an increased emphasis on marketing our brand. During our fiscal 2015 third quarter, we introduced our new logo and simplified the Bank's brand to "CCFBank - Delivering Excellence". We are continuing to focus on technology by providing progressive, online and mobile banking services that complement friendly, knowledgeable bankers in convenient community bank locations. As we redefine and expand our footprint, we expect these costs to continue to rise. Professional services expense increased in the current year due to merger and acquisition activity and a legal settlement received in June 2014, that resulted in a reimbursement of previously recognized legal fees from a prior period. Other expenses decreased in the current twelve month period due to branch closure costs incurred in the same period in the prior year.

Income Taxes. Income tax provision was $1,490 for the year ended September 30, 2015, compared to $1,047 for the year ended September 30, 2014. The increase in income tax provision resulted primarily from the income tax effects of income before income taxes of $4,104 for the year ended September 30, 2015 compared to income before income taxes of $2,830 for 2014. Our effective tax rate declined from 37% at September 30, 2014 to 36% at September 30, 2015, as a result of additional purchases of tax exempt security investments.
See Note 1, “Nature of Business and Summary of Significant Accounting Policies” and Note 13, “Income Taxes” in the accompanying Notes to Consolidated Financial Statements for a further discussion of income tax accounting. Income tax expense recorded in the accompanying Consolidated Statements of Operations involves interpretation and application of certain accounting pronouncements and federal and state tax codes and is, therefore, considered a critical accounting policy. We undergo examination by various taxing authorities. Such taxing authorities may require that changes in the amount of tax expense or the amount of the valuation allowance be recognized when their interpretations differ from those of management, based on their judgments about information available to them at the time of their examinations.

BALANCE SHEET ANALYSIS
Loans. Total loans outstanding, net of deferred loan fees and costs, decreased to $450,510 at September 30, 2015, a 4.22% decrease from their balance of $470,366 at September 30, 2014. The following table reflects the composition, or mix, of our loan portfolio at September 30, for the last five completed fiscal years:

	2015 Amount	Percent	2014 Amount	Percent	2013 Amount	Percent	2012 Amount	Percent	2011 Amount	Percen
Real estate loans:										
Consumer	$181,206	40.2 %	$223,025	47.4 %	$252,958	57.4 %	$272,441	63.7 %	$275,149	63.7
Commercial/Agricultural	63,266	14.1 %	39,061	8.3 %	12,531	2.8 %	680	0.2 %	190	0.0
Total real estate loans	$244,472	54.3 %	$262,086	55.7 %	$265,489	60.2 %	$273,121	63.9 %	$275,339	63.7
Consumer and other loans:										
Automobile	14,113	3.1 %	12,810	2.7 %	12,662	2.9 %	13,932	3.3 %	15,716	3.6
Other secured personal loans	186,591	41.4 %	188,911	40.2 %	158,842	36.0 %	136,989	32.0 %	139,126	32.2
Unsecured personal loans	2,904	0.6 %	3,512	0.7 %	1,835	0.4 %	2,805	0.7 %	2,583	0.6
Total consumer and other loans	$203,608	45.1 %	$205,233	43.6 %	$173,339	39.3 %	$153,726	35.9 %	$157,425	36.5
Gross loans	$448,080		$467,319		$438,828		$426,847		$432,764	
Net deferred loan costs (fees)	$2,430	0.6 %	$3,047	0.7 %	$2,035	0.5 %	$942	0.2 %	$(1,018)	(0.2
Total loans (net of unearned income and deferred expense)	$450,510	100.0%	$470,366	100.0%	$440,863	100.0%	$427,789	100.0%	$431,746	100.0
Allowance for loan losses	$(6,496)		$(6,506)		$(6,180)		$(5,745)		$(4,898)	
Total loans receivable, net	$444,014		$463,860		$434,683		$422,044		$426,848	

At September 30, 2015, real estate loans decreased $17,614 or 7.2% from their balance at September 30, 2014. Consumer real estate loans consist mainly of fixed-rate conventional home mortgages and home equity loans. During our fiscal 2015 first and fourth quarters, fixed rate residential mortgage loans were sold in the amount of $8.1 million and $8.7 million, respectively. We believe these loan sales better position the bank to manage our assets in a variety of interest rate scenarios. As of March 31, 2012, the Bank began offering consumer real estate balloon loans and as of

September 30, 2015, there were $26,401 in outstanding balloon loan balances. In fiscal 2013, the Bank expanded commercial real estate lending. As of September 30, 2015, commercial and agricultural real estate loans had increased to $63,266, secured primarily by residential one to four family and multi-family real estate.

Consumer and other loans decreased by $1,625, or 0.8% at September 30, 2015 from their 2014 fiscal year end balances. Consumer and other loans consist of short-term installment loans, direct and indirect personal property loans, and other

personal, agricultural and C&I non-real estate loans. Decreases in consumer and other loans resulted primarily from indirect consumer loans.
Our loan portfolio is diversified by types of borrowers and industry groups within the market areas that we serve. Significant loan concentrations are considered to exist for a financial entity when the amounts of loans to multiple borrowers engaged in similar activities cause them to be similarly impacted by economic or other conditions. We have identified certain loan types within our loan portfolio, including one to four family real estate loans and recreational secured consumer loans that represent concentrations in our portfolio. At September 30, 2015, one to four family real estate loans totaled $181,206 or 40.2% of total loans, compared to $223,025 or 47.4% at September 30, 2014. At September 30, 2015, recreational secured consumer loans totaled $116,895 or 25.9% of total loans, compared to $124,600 or 26.5% of total loans at September 30, 2014. Management believes that no significant concentrations exist within our loan portfolio with respect to industry groups, borrower, geographic location or any other relevant factor.

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

	2015		2014		2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percen
Fixed rate loans:										
Real estate:										
Consumer	$177,708	39.5 %	$219,977	46.8 %	$250,718	56.9 %	$269,368	63.0 %	$272,073	63.0
Commercial/Agricultural	47,837	10.6 %	39,061	8.3 %	12,531	2.8 %	680	0.2 %	190	0.1
Total fixed rate real estate loans	225,545	50.1 %	259,038	55.1 %	263,249	59.7 %	270,048	63.2 %	272,263	63.1
Consumer and other loans	198,629	44.1 %	205,233	43.6 %	173,339	39.3 %	153,726	35.9 %	157,425	36.5
Total fixed rate loans	424,174	94.2 %	464,271	98.7 %	436,588	99.0 %	423,774	99.1 %	429,688	99.5
Adjustable rate loans:										
Real estate:										
Consumer	3,498	0.8 %	3,048	0.7 %	2,240	0.5 %	3,073	0.7 %	3,076	0.7
Commercial/Agricultural	15,429	3.4 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0
Total adjustable rate real estate loans	18,927	4.2 %	3,048	0.7 %	2,240	0.5 %	3,073	0.7 %	3,076	0.7
Consumer and other loans	4,979	1.1 %	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0
Total adjustable rate loans	23,906	5.3 %	3,048	0.7 %	2,240	0.5 %	3,073	0.7 %	3,076	0.7
Gross loans	448,080		467,319		438,828		426,847		432,764	
Net deferred loan costs	2,430	0.5 %	3,047	0.6 %	2,035	0.5 %	942	0.2 %	(1,018)	(0.2
Total loans (net of unearned income)	450,510	100.0 %	470,366	100.0 %	440,863	100.0 %	427,789	100.0 %	431,746	100.0
Allowance for loan losses	(6,496)		(6,506)		(6,180)		(5,745)		(4,898)	
Total loans receivable, net	$444,014		$463,860		$434,683		$422,044		$426,848	

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

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

	Real estate				Consumer and other							
	Consumer		Commercial/Agricultural		Automobile		Secured personal and other		Unsecured personal		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2016 (1)	$1,617	4.12%	$9,255	3.92%	$321	6.72%	$7,461	5.14%	$994	11.87%	$19,648	4.85%
2017	1,213	4.71%	7,044	5.23%	1,013	6.65%	1,908	7.47%	401	8.88%	11,579	5.80%
2018	1,631	4.54%	13,173	4.21%	2,519	6.12%	43,735	4.57%	918	8.30%	61,976	4.61%
2019-2020	10,358	4.23%	22,485	5.90%	8,897	5.92%	20,985	6.65%	568	8.31%	63,293	5.90%
2021-2022	24,287	3.69%	2,406	4.79%	1,233	4.84%	13,870	7.23%	23	— %	41,819	4.96%
2023-2037	81,592	4.59%	8,738	6.29%	130	5.47%	98,632	5.40%	—	— %	189,092	5.09%
2038 and after	60,508	5.03%	165	4.65%	—	— %	—	— %	—	— %	60,673	5.03%
	$181,206	4.59%	$63,266	5.19%	$14,113	5.93%	$186,591	5.49%	$2,904	9.54%	$448,080	5.13%

(1) Includes home equity lines of credit, loans having no stated maturity and overdraft loans.

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

Risk Management and the Allowance for Loan Losses. The loan portfolio is our primary asset subject to credit risk. To address this credit risk, we maintain an ALL for probable and inherent credit losses through periodic charges to our earnings. These charges are shown in our accompanying Consolidated Statements of Operations as Provision for Loan Losses. See “Provision for Loan Losses” above. We attempt to control, monitor and minimize credit risk through the use of prudent lending standards, a thorough review of potential borrowers prior to lending and ongoing and timely review of payment performance. Asset quality administration, including early identification of loans performing in a substandard manner, as well as timely and active resolution of problems, further enhances management of credit risk and minimization of loan losses. Any losses that occur and that are charged off against the ALL are periodically reviewed with specific efforts focused on achieving maximum recovery of both principal and interest on the affected loan.

At least quarterly, we review the adequacy of the ALL. Based on an estimate computed pursuant to the requirements of ASC 450-10, “Accounting for Contingencies” and ASC 310-10, “Accounting by Creditors for Impairment of a Loan”, the analysis of the ALL consists of three components: (i) specific credit allocation established for expected losses relating to specific impaired loans for which the recorded investment in the loan exceeds its fair value; (ii) general portfolio allocation based on historical loan loss experience for significant loan categories; and (iii) general portfolio allocation based on qualitative factors such as economic conditions and other relevant factors specific to the markets in which we operate. We continue to refine our ALL methodology by introducing a greater level of granularity to our loan portfolio. We currently segregate loans into pools based on common risk characteristics for purposes of determining the ALL. The additional segmentation of the portfolio is intended to provide a more effective basis for the determination of qualitative factors affecting our ALL. In addition, management continually evaluates our ALL methodology to assess whether modifications in our methodology are appropriate in light of underwriting practices, market conditions, identifiable trends, regulatory pronouncements or other factors. We believe that any modifications or changes to the ALL methodology would be to enhance the accuracy of the ALL. However, any such modifications could result in materially different ALL levels in future periods.

The specific credit allocation for the ALL is based on a regular analysis of all loans that are considered impaired. In compliance with ASC 310-10, the fair value of the loan is determined based on either the present value of expected cash flows discounted at the loan's effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less the expected cost of sale for such collateral. At September 30, 2015, we had 134 such impaired loans, all secured by real estate or personal property with an aggregate recorded investment of $5,314 See Note 3, "Loans, Allowance for Loan Losses and Impaired Loans" of our accompanying consolidated financial statements for information on what we consider to be impaired loans. The total for the 52 such individual loans where estimated fair value was less than their book value (i.e. we deemed impairment to exist) was $2,349 for which $582 in specific ALL was recorded as of September 30, 2015.

At September 30, 2015, there were 61 individual substandard loans, not considered TDRs, with an aggregate recorded investment of $1,304. The total for the 23 such individual loans where estimated fair value was less than their book value (i.e. we deemed impairment to exist) was $187 for which $42 in specific ALL was recorded as of September 30, 2015.

	9/30/2015	6/30/2015	Quarters ended 3/31/15	12/31/2014	9/30/2014
Component 1 - Specific credit allocation	$582	551	672	661	$732
Component 2 - General and unallocated allowance	5,914	6,011	5,881	5,886	5,774
Allowance for loan losses	$6,496	$6,562	$ 6,553	$6,547	$6,506

At September 30, 2015, the allowance for loan losses was $6,496, or 1.44% of our total loan portfolio, compared to an allowance for loan losses of $6,506, or 1.38% of the total loan portfolio at September 30, 2014. This level was based on our analysis of the loan portfolio risk at each of September 30, 2015 and September 30, 2014, as discussed above. At September 30, 2015, the ALL was 1.58% of our total loan portfolio, excluding the third party purchased consumer loans referenced elsewhere herein, compared to 1.49% of the total loan portfolio excluding these third party purchased consumer loans at September 30, 2014. We have established a separate restricted reserve account for these third party purchased consumer loans. The funds in the reserve account are to be released to compensate the Bank for any nonperforming purchased loans that are not purchased back by the seller of such loans or substituted with performing loans and are ultimately charged off by the Bank.

All of the nine factors identified in the FFIEC's Interagency Policy Statement on the Allowance for Loan and Lease Losses are taken into account in determining the ALL. The impact of the factors in general categories are subject to change; thus the allocations are management’s estimate of the loan loss categories in which the probable and inherent loss has occurred as of the date of our assessment. Of the nine factors, we believe the following have the greatest impact on our customers’ ability to repay loans and our ability to recover potential losses through collateral sales: (1) lending policies and procedures; (2) economic and business conditions; and (3) the value of the underlying collateral. As loan balances and estimated losses in a particular loan type decrease or increase and as the factors and resulting allocations are monitored by management, changes in the risk profile of the various parts of the loan portfolio may be reflected in the allocated allowance. The general component of our ALL covers non-impaired loans and is based on historical loss experience adjusted for these and other qualitative factors. In addition, management continues to refine the ALL estimation process as new information becomes available. These refinements could also cause increases or decreases in the ALL. The unallocated portion of the ALL is intended to account for imprecision in the estimation process or relevant current information that may not have been considered in the process.

The following table identifies the various components of non-performing assets as of the dates indicated below:

	September 30, 2015	2014	2013	2012	2011
Nonperforming assets:					
Nonaccrual loans	$748	$1,184	$2,125	$4,508	$4,400
Accruing loans past due 90 days or more	473	401	483	—	—
Total nonperforming loans (“NPLs”)	1,221	1,585	2,608	4,508	4,400
Other real estate owned	838	1,025	873	497	1,153
Other collateral owned	64	25	155	45	207
Total nonperforming assets (“NPAs”)	$2,123	$2,635	$3,636	$5,050	$5,760
Troubled Debt Restructurings (“TDRs”)	$4,010	$5,581	$8,618	$8,135	$6,662
Nonaccrual TDRs	$332	$249	$1,108	$1,329	$2,206
Average outstanding loan balance	$460,438	$455,615	$434,326	$429,768	$443,989
Loans, end of period (1)	450,510	470,366	440,863	427,789	431,746
Total assets, end of period	580,148	569,815	554,521	530,183	536,557
ALL, at beginning of period	6,506	6,180	5,745	4,898	4,145
Loans charged off:					
Real estate loans	(405)	(1,238)	(1,525)	(1,984)	(2,476)
Consumer loans	(601)	(689)	(1,494)	(1,965)	(2,882)
Total loans charged off	(1,006)	(1,927)	(3,019)	(3,949)	(5,358)
Recoveries of loans previously charged off:					
Real estate loans	69	94	36	30	46
Consumer loans	271	249	275	326	201
Total recoveries of loans previously charged off:	340	343	311	356	247
Net loans charged off (“NCOs”)	(666)	(1,584)	(2,708)	(3,593)	(5,111)
Additions to ALL via provision for loan losses charged to operations	656	1,910	3,143	4,440	5,864
ALL, at end of period	$6,496	$6,506	$6,180	$5,745	$4,898
Ratios:					
ALL to NCOs (annualized)	975.38%	410.73%	228.21%	159.89%	95.83%
NCOs (annualized) to average loans	0.14%	0.35%	0.62%	0.84%	1.15%
ALL to total loans	1.44%	1.38%	1.40%	1.34%	1.13%
NPLs to total loans	0.27%	0.34%	0.59%	1.05%	1.02%
NPAs to total assets	0.37%	0.46%	0.66%	0.95%	1.07%
Total Assets:	$580,148	$569,815	$554,521	$530,183	$536,557

(1) Total loans at September 30, 2015 included $39,101 in consumer and other loans purchased from a third party. See Note 3 in the accompanying Notes to Consolidated Financial Statements regarding the separate restricted reserve account established for these purchased consumer loans.

Loans 30 days or more past due decreased slightly during the year ended September 30, 2015 compared to the comparable prior year period, which management believes is indicative of stabilization of the loan portfolio with seasonal fluctuation, expected quarterly. We believe our credit and underwriting policies continue to support more effective lending decisions by the Bank, which increases the likelihood of maintaining loan quality going forward. Moreover, we believe the favorable trends noted in previous quarters regarding our nonperforming loans and nonperforming assets reflect our continued adherence to improved underwriting criteria and practices along with improvements in macroeconomic factors in our credit markets. The Bank increased its Commercial and Agricultural loan portfolios from last year as part of its strategic plan. The increased loan volume and introduction of new loan products carries an elevated level of risk as the Bank doesn't have a long history in these business lines. However, we believe our current ALL is adequate to cover probable losses in our current loan portfolio.

For fiscal 2015, net real estate loan charge-offs represented 51% of the total net charge-offs and consumer and other loan charge-offs represented 49% of the total net-charge-offs. Net loan charge-offs were at lower levels in 2015 compared to 2014. Due to lower net charge offs, management believes that it is prudent to provide for loan losses at the same level as net loan charge offs. Certain external factors may result in higher future losses but are not readily determinable at this time, including, but not limited to: unemployment rates, increased taxes and continuing increased regulatory expectations with respect to ALL levels. As a result, our analysis may show a need to increase our ALL as a percentage of total loans and nonperforming loans for the near future. Loans charged-off are subject to periodic review and specific efforts are taken to achieve maximum recovery of principal, accrued interest and related expenses on the loans charged off.

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 Loans, including Agricultural and C&I loans, past due 90 days or more;
• Closed end consumer loans past due 120 days or more; and
• Real estate loans and open ended consumer loans past due 180 days or more.

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

Non-performing loans decreased $364 (29.8%) during the year ended September 30, 2015 from their balances at 2014 fiscal year end. These non-performing loan relationships are secured primarily by collateral including residential real estate or the consumer assets financed by the loans.

Non-performing assets include non-performing loans, other real estate owned and other collateral owned. Our non-performing assets were $2,123 at September 30, 2015, or 0.37% of total assets. This represented a decrease from $2,635, or 0.46% of total assets, at September 30, 2014. The decrease since September 30, 2014 was primarily due to a decrease in non-performing loans as a result of overall credit quality improvement within our loan portfolio.

Other real estate owned and other collateral owned is comprised of foreclosed collateral assets held by the Bank until sold. Other real estate owned (OREO) decreased by $187 and other collateral owned increased by $39 during the year ended September 30, 2015 from their balances as of September 30, 2014. We continue to aggressively liquidate our OREO and other collateral owned as part of our overall credit risk strategy.

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

Securities held to maturity were $8,012 at September 30, 2015, compared with $8,785 at September 30, 2014. Securities available for sale, which represent the majority of our investment portfolio, were $79,921 at September 30, 2015, compared with $62,189 at September 30, 2014.

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
September 30, 2015		
U.S. government agency obligations	$15,240	$15,020
Obligations of states and political subdivisions	27,573	27,407
Mortgage-backed securities	37,451	37,440
Federal Agricultural Mortgage Corporation	71	54
Total available for sale securities	$80,335	$79,921
September 30, 2014		
U.S. government agency obligations	$23,076	$22,103
Obligations of states and political subdivisions	11,432	11,194
Mortgage-backed securities	29,058	28,827
Non-agency mortgage-backed securities	71	65
Total available for sale securities	$63,637	$62,189

Held to maturity securities	Amortized Cost	Fair Value
September 30, 2015		
Obligations of states and political subdivisions	$1,319	$1,318
Mortgage-backed securities	6,693	6,901
Total held to maturity securities	$8,012	$8,219
September 30, 2014		
Obligations of states and political subdivisions	$1,465	$1,464
Mortgage-backed securities	7,320	7,344
Total held to maturity securities	$8,785	$8,808

The following tables show the fair value and gross unrealized losses of securities with unrealized losses at September 30, 2015 and 2014, respectively, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position:

Available for sale securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
September 30, 2015:						
U.S. government agency obligations	$4,960	$14	$10,060	$206	$15,020	$220
Obligations of states and political subdivisions	13,864	156	2,234	92	16,098	248
Mortgage-backed securities	22,018	93	3,590	51	25,608	144
Federal Agricultural Mortgage Corporation	—	—	54	17	54	17
Total available for sale securities	$40,842	$263	$15,938	$366	$56,780	$629
September 30, 2014:						
U.S. government agency obligations	$—	$—	$22,103	$973	$22,103	$973
Obligations of states and political subdivisions	574	1	8,817	254	9,391	255
Mortgage-backed securities	8,167	66	12,518	303	20,685	369
Federal Agricultural Mortgage Corporation	65	6	—	—	65	6
Total available for sale securities	$8,806	$73	$43,438	$1,530	$52,244	$1,603

Held to maturity securities	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
September 30, 2015:						
Obligations of states and political subdivisions	$904	$4	$—	$—	$904	$4
Mortgage-backed securities	—	—	—	—	—	—
Total held to maturity securities	$904	$4	$—	$—	$904	$4
September 30, 2014:						
Obligations of states and political subdivisions	$345	$5	$—	$—	$345	$5
Mortgage-backed securities	3,364	9	—	—	3,364	9
Total held to maturity securities	$3,709	$14	$—	$—	$3,709	$14

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

Available for sale securities	September 30, 2015 Amortized Cost	Fair Value	2014 Amortized Cost	Fair Value
Agency	$52,692	$52,460	$52,134	$50,930
AAA	734	735	602	586
AA	22,228	22,057	9,553	9,343
A	2,970	2,959	919	905
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	1,711	1,710	429	425
Total available for sale securities	$80,335	$79,921	$63,637	$62,189

Held to maturity securities	September 30, 2015 Amortized Cost	Fair Value	2014 Amortized Cost	Fair Value
Agency	$6,693	$6,901	$7,320	$7,344
AAA	—	—	—	—
AA	—	—	880	882
A	969	968	235	237
BBB	—	—	—	—
Below investment grade	—	—	—	—
Non-rated	350	350	350	345
Total held to maturity securities	$8,012	$8,219	$8,785	$8,808

At September 30, 2015, securities in the amount of $4,340 were pledged against a line of credit with the Federal Reserve Bank of Minneapolis. As of September 30, 2015, this line of credit had a zero balance. The Bank has also pledged certain of its U.S. Government Agency securities as collateral against specific municipal deposits.

Intangible Assets. We have other intangibles of $104, comprised of core deposit intangible assets arising from various acquisitions from 2002 through 2008. Amortization expense, calculated on a straight line basis, was $57 for both of the years ended September 30, 2015 and 2014. Annually, we assess the reasonableness of the remaining useful life assumptions assigned to each core deposit intangible asset. No changes were made during 2015 in the remaining useful lives of our core deposit intangibles, which originally ranged from approximately 7 to 15 years.

Deposits. Deposits are our largest source of funds. Average total deposits for 2015 were $435,701, a decrease of 1.03% from the level of average total deposits for 2014. Deposits increased to $456,298 at September 30, 2015, from $449,767 at September 30, 2014, due primarily to an increase in consumer checking, commercial and municipal deposits, partially offset by deposit runoff in the markets where our branch closures took place.

During the quarter ended June 30, 2013, we began offering money market accounts as an alternative deposit opportunity for municipalities within our branch network. Through the municipal deposit account relationships, we believe the Bank has become more visible within the communities we serve, while allowing a low cost funding opportunity and deposit portfolio diversification. As of September 30, 2015, the balance in the municipal money market accounts was approximately $36,350 and the balance in municipal certificate of deposit accounts was approximately $19,674.

Our objective is to grow core deposits and build customer relationships with convenience, customer service, and by expanding our deposit product offerings with competitive pricing. Management expects to continue to place emphasis on both retaining and generating additional core deposits in 2016 through competitive pricing of deposit products and through the branch delivery systems that we have already established, as well as through online and mobile banking options.

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Institutional certificates of deposit as a funding source decreased $2,174 from their balance as of September 30, 2014. Institutional certificates of deposit remain an important part of our deposit mix, as we continue to pursue funding sources to lower the Bank's cost of funds.

Brokered deposits were $22,773 and $11,960 at September 30, 2015 and September 30, 2014. Brokered deposit levels are within all regulatory directives thereon.

Federal Home Loan Bank (FHLB) advances (borrowings). FHLB advances were $58,891 at both September 30, 2015 and September 30, 2014, as we continue to utilize these advances, as necessary, to supplement core deposits to meet our funding and liquidity needs, and as we evaluate all options to lower the Bank's cost of funds.

Stockholders' Equity. Total stockholders' equity was $60,535 at September 30, 2015, versus $57,293 at September 30, 2014. The increase resulted primarily from net income of $2,614 for the year ended September 30, 2015.

Liquidity and Asset / Liability Management. Liquidity management refers to our ability to ensure cash is available in a timely manner to meet loan demand and depositors' needs, and meet other financial obligations as they become due without undue cost, risk or disruption to normal operating activities. We manage and monitor our short-term and long-term liquidity positions and needs through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. A key metric we monitor is our liquidity ratio, calculated as cash and investments with maturities less than one-year divided by deposits with maturities less than or equal to one-year. At September 30, 2015, our liquidity ratio was 13.34 percent, which was above our targeted liquidity ratio of 10 percent. Our primary sources of funds are: deposits; amortization, prepayments and maturities of outstanding loans; other short-term investments; and funds provided from operations. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, and to fund loan commitments. While scheduled payments from the amortization of loans and maturing short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Although $94,508 of our $238,801 (39.6%) 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, our retention rate may decrease in the future due to our philosophy of building customer relationships – not just deposit accounts. Through new deposit product offerings to our branch and commercial customers, we are currently attempting to strengthen customer relationships while lengthening deposit maturities. In our present interest rate environment, and based on maturing yields, this should also improve our cost of funds.

We maintain access to additional sources of funds including FHLB borrowings and lines of credit with the Federal Reserve Bank, US Bank and Bankers' Bank. 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 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 $66,000 available under this arrangement. We also maintain lines of credit of $3,500 with the Federal Reserve Bank, $5,000 with US Bank and $13,500 with Bankers' Bank as part of our contingency funding plan.

In reviewing our adequacy of 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 Liabilities. Some of our financial instruments have off-balance sheet risk. 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 September 30, 2015, the Company had approximately $24,097 in unused commitments, compared to approximately $16,119 in unused commitments as of September 30, 2014.

Capital Resources. As of September 30, 2015, our Tier 1 and Risk-based capital levels exceeded levels necessary to be considered "Well Capitalized" under Prompt Corrective Action provisions. Below are the amounts and ratios for our capital levels as of the dates noted below.

	Actual			For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio		Amount		Ratio		Amount		Ratio	
As of September 30, 2015											
Total capital (to risk weighted assets)	$64,930,000	16.5	%	$31,443,000	>=	8.0	%	$39,304,000	>=	10.0	%
Tier 1 capital (to risk weighted assets)	59,997,000	15.3	%	23,583,000	>=	6.0	%	31,443,000	>=	8.0	%
Common equity tier 1 capital (to risk weighted assets)	59,997,000	15.3	%	17,687,000	>=	4.5	%	25,548,000	>=	6.5	%
Tier 1 leverage ratio (to adjusted total assets)	59,997,000	10.4	%	23,031,000	>=	4.0	%	28,788,000	>=	5.0	%
As of September 30, 2014											
Total capital (to risk weighted assets)	$62,116,000	16.1	%	$30,793,000	>=	8.0	%	$38,491,000	>=	10.0	%
Tier 1 capital (to risk weighted assets)	57,283,000	14.9	%	15,396,000	>=	4.0	%	23,095,000	>=	6.0	%
Tier 1 capital (to adjusted total assets)	57,283,000	10.0	%	22,991,000	>=	4.0	%	28,739,000	>=	5.0	%

At September 30, 2015, the Bank was categorized as "Well Capitalized" under Prompt Corrective Action Provisions, as determined by the OCC, our primary regulator.

Selected Quarterly Financial Data
The following is selected financial data summarizing the results of operations for each quarter in the years ended September 30, 2015 and 2014:
Year ended September 30, 2015:

	December 31,	March 31,	June 30,	September 30,
Interest income	$5,960	$5,692	$5,621	$5,731
Interest expense	1,119	1,107	1,095	1,117
Net interest income	4,841	4,585	4,526	4,614
Provision for loan losses	235	150	150	121
Net interest income after provision for loan losses	4,606	4,435	4,376	4,493
Non-interest income	1,034	924	931	1,024
Non-interest expense	4,492	4,421	4,358	4,448
Income before income tax expense	1,148	938	949	1,069
Provision for income tax	433	342	337	378
Net income	$715	$596	$612	$691
Basic earnings per share	$0.14	$0.11	$0.12	$0.13
Diluted earnings per share	$0.14	$0.11	$0.12	$0.13
Dividends paid	$—	$0.08	$—	$—

Year ended September 30, 2014:

	December 31,	March 31,	June 30,	September 30,
Interest income	$6,083	$5,874	$5,970	$6,106
Interest expense	1,103	1,042	1,046	1,084
Net interest income	4,980	4,832	4,924	5,022
Provision for loan losses	600	480	455	375
Net interest income after provision for loan losses	4,380	4,352	4,469	4,647
Non-interest income	876	632	921	987
Non-interest expense	4,781	4,479	4,498	4,676
Income before income tax expense	475	505	892	958
Provision for income tax	172	184	334	357
Net income	$303	$321	$558	$601
Basic earnings per share	$0.06	$0.06	$0.11	$0.12
Diluted earnings per share	$0.06	$0.06	$0.11	$0.11
Dividends paid	$—	$0.04	$—	$—

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.

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

- originating shorter-term secured consumer, commercial and agriculture loan maturities;
- managing our funding needs by utilizing core deposits, institutional certificates of deposits and borrowings as appropriate to extend terms and lock in fixed interest rates;
- reducing non-interest expense and managing our efficiency ratio by implementing technologies to enhance customer service and increase employee productivity;
- realigning supervision and control of our branch network by modifying their configuration, staffing, locations and reporting structure to focus resources on our most productive markets;
- managing our exposure to changes in interest rates, including, but not limited to the sale of longer term fixed rate consumer loans. In September 2014, the Bank sold approximately $7.6 million in fixed rate longer term consumer real estate loans to lessen our exposure to changes in interest rates. During our fiscal 2015 first and fourth quarters, fixed rate residential mortgage loans were sold in the amount of $8.1 million and $8.7 million, respectively. Additional loan sales may occur in the future if the analysis proves advantageous to the Bank; and
- originating balloon mortgage loans with a term of 7 years or less to minimize the impact of sudden rate changes.

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 September 30, 2015 (the most recent date available), an analysis of our interest rate risk as measured by the estimated changes in Economic Value of Equity (EVE) resulting from an immediate and permanent shift in the yield curve (up 300 basis points and down 100 basis points). As of September 30, 2015, due to the current level of interest rates, EVE estimates for decreases in interest rates greater than 100 basis points are not meaningful.

Change in Interest Rates in Basis Points (“bp”) Rate Shock in Rates (1)	Economic Value of Equity (EVE)			EVE Ratio (EVE as a % of Assets)	
	Amount	Change	% Change	EVE Ratio	Change
	(Dollars in thousands)				
+300 bp	$36,916	$(41,454)	(53)%	7.10%	(505) bp
+200 bp	54,752	(23,618)	(30)%	10.06%	(209)
+100 bp	68,836	(9,534)	(12)%	12.15%	(121)
0 bp	78,370	—	—%	13.36%	—
-100 bp	80,768	2,398	3%	13.45%	9

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

The following table sets forth, at September 30, 2014, an analysis of our interest rate risk as measured by the estimated changes in Economic Value of Equity (EVE) resulting from an immediate and permanent shift in the yield curve (up 300 basis points and down 100 basis points).

Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	Economic Value of Equity (EVE)			EVE Ratio (EVE as a % of Assets)	
	Amount	Change	% Change	EVE Ratio	Change
	(Dollars in thousands)				
+300 bp	$22,109	$(50,199)	(69)%	4.37%	(812) bp
+200 bp	42,829	(29,479)	(41)%	8.04%	(445)
+100 bp	59,966	(12,342)	(17)%	10.75%	(174)
0 bp	72,308	—	—	12.49%	—
-100 bp	78,457	6,149	9%	13.19%	70

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

Our overall interest rate sensitivity is demonstrated by net interest income shock analysis which measures the change in net interest income in the event of hypothetical changes in interest rates. This analysis assesses the risk of change in our net interest income over the next 12 months in the event of an immediate and parallel shift in the yield curve (up 300 basis points and down 100 basis points). The table below presents our projected change in net interest income for the various rate shock levels at September 30, 2015 (the most recent date available) and September 30, 2014.

	Change in Net Interest Income Over One Year Horizon			
	At September 30, 2015		At September 30, 2014	
Change in Interest Rates in Basis Points ("bp") Rate Shock in Rates (1)	Dollar Change in Net Interest Income (in thousands)	Percentage Change	Dollar Change in Net Interest Income (in thousands)	Percentage Change
+300 bp	$(1,921)	(9.53)%	$(2,183)	(10.06)%
+200 bp	(909)	(4.50)%	(1,050)	(4.84)%
+100 bp	(368)	(1.83)%	(476)	(2.19)%
0 bp	(221)	(1.09)%	(291)	(1.34)%
-100 bp	(309)	(1.53)%	(380)	(1.75)%

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT BY CITIZENS COMMUNITY BANCORP, INC.'S MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining an effective system of internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's system of internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. There are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and circumvention or overriding of controls. Accordingly, even an effective system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the polices or procedures may deteriorate.

Management assessed the Company's systems of internal control over financial reporting as of September 30, 2015. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework Issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that as of September 30, 2015, the Company maintained effective internal control over financial reporting based on those criteria.

CITIZENS COMMUNITY BANCORP, INC.

December 7, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors
Citizens Community Bancorp, Inc. and Subsidiary
Eau Claire, WI

We have audited the accompanying consolidated balance sheets of Citizens Community Bancorp, Inc. and Subsidiary (the "Company") as of September 30, 2015 and 2014, and the related consolidated statements of operations, other comprehensive income (loss), changes in stockholders’ equity and cash flows for the years ended September 30, 2015, 2014 and 2013. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Community Bancorp, Inc. and Subsidiary as of September 30, 2015 and 2014 and the results of their operations and cash flows for the years ended September 30, 2015, 2014 and 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP
Milwaukee, Wisconsin
December 7, 2015

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
September 30, 2015 and September 30, 2014
(in thousands, except share data)

	September 30, 2015	September 30, 2014
Assets		
Cash and cash equivalents	$23,872	$11,434
Other interest bearing deposits	2,992	245
Investment securities (available for sale securities at fair value of $79,921 and $62,189, and held to maturity securities at cost of $8,012 and $8,785 at September 30, 2015 and 2014, respectively)	87,933	70,974
Non-marketable equity securities, at cost	4,626	5,515
Loans receivable	450,510	470,366
Allowance for loan losses	(6,496)	(6,506)
Loans receivable, net	444,014	463,860
Office properties and equipment, net	2,669	3,725
Accrued interest receivable	1,574	1,478
Intangible assets	104	161
Foreclosed and repossessed assets, net	902	1,050
Other assets	11,462	11,373
TOTAL ASSETS	$580,148	$569,815
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$456,298	$449,767
Federal Home Loan Bank advances	58,891	58,891
Other liabilities	4,424	3,864
Total liabilities	519,613	512,522
Stockholders' equity:		
Common stock—$0.01 par value, authorized 30,000,000; 5,232,579 and 5,167,061 shares issued and outstanding, respectively	52	52
Additional paid-in capital	54,740	54,257
Retained earnings	6,245	4,049
Unearned deferred compensation	(288)	(223)
Accumulated other comprehensive loss	(214)	(842)
Total stockholders' equity	60,535	57,293
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$580,148	$569,815

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations
Years Ended September 30, 2015, 2014 and 2013
(in thousands, except per share data)

	2015	2014	2013
Interest and dividend income:			
Interest and fees on loans	$21,641	$22,612	$23,201
Interest and dividends on investments	1,363	1,421	1,374
Total interest and dividend income	23,004	24,033	24,575
Interest expense:			
Interest on deposits	3,808	3,615	4,791
Interest on borrowed funds	630	660	521
Total interest expense	4,438	4,275	5,312
Net interest income before provision for loan losses	18,566	19,758	19,263
Provision for loan losses	656	1,910	3,143
Net interest income after provision for loan losses	17,910	17,848	16,120
Non-interest income:			
Total fair value adjustments and other-than-temporary impairment	—	(78)	(1,412)
Portion of loss recognized in other comprehensive loss (before tax)	—	—	615
Net gains (losses) on sale of available for sale securities	60	(168)	552
Net gains (losses) on available for sale securities	60	(246)	(245)
Service charges on deposit accounts	1,715	1,964	1,820
Loan fees and service charges	1,291	904	768
Other	847	794	708
Total non-interest income	3,913	3,416	3,051
Non-interest expense:			
Salaries and related benefits	8,643	9,287	9,068
Occupancy	2,872	2,631	2,493
Office	1,105	1,499	1,223
Data processing	1,590	1,531	1,657
Amortization of core deposit intangible	57	57	56
Advertising, marketing and public relations	570	370	233
FDIC premium assessment	390	409	522
Professional services	1,088	552	707
Other	1,404	2,098	1,530
Total non-interest expense	17,719	18,434	17,489
Income before provision for income tax	4,104	2,830	1,682
Provision for income taxes	1,490	1,047	635
Net income attributable to common stockholders	$2,614	$1,783	$1,047
Per share information:			
Basic earnings	$0.50	$0.35	$0.20
Diluted earnings	$0.50	$0.34	$0.20
Cash dividends paid	$0.08	$0.04	$0.02

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Other Comprehensive Income (Loss)
Years ended September 30, 2015, 2014 and 2013
(in thousands, except per share data)

	2015	2014	2013
Net income attributable to common stockholders	$2,614	$1,783	$1,047
Other comprehensive income (loss), net of tax:			
Securities available for sale			
Net unrealized gains (losses) arising during period	584	1,509	(2,793)
Reclassification adjustment for gains (losses) included in net income	36	(101)	332
Change for realized losses on securities available for sale for other-than-temporary impairment (OTTI) write-down	—	47	478
Unrealized gains (losses) on securities	620	1,455	(1,983)
Defined benefit plans:			
Amortization of unrecognized prior service costs and net gains (losses)	8	(11)	49
Total other comprehensive income (loss), net of tax	628	1,444	(1,934)
Comprehensive income (loss)	$3,242	$3,227	$(887)

Reclassifications out of accumulated other comprehensive income (loss) for the twelve months ended September 30, 2015 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	$60	Net gain on sale of available for sale securities
	(24)	Provision for income taxes
Total reclassifications for the period	$36	Net income attributable to common shareholders

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

See accompanying notes to audited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Changes in Stockholders' Equity
Years Ended September 30, 2015, 2014 and 2013
(in thousands, except Shares)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
Balance, October 1, 2012	5,135,550	$51	$53,969	$1,529	$ (94)	$ (352)	$ 55,103
Net income				1,047			1,047
Other comprehensive loss, net of tax						(1,934)	(1,934)
Forfeiture of unvested shares	(503)						—
Surrender of vested shares	(639)		(4)				(4)
Common stock awarded under recognition and retention plan	20,483		120		(120)		—
Stock option expense			31				31
Amortization of restricted stock					45		45
Cash dividends ($0.02 per share)				(103)			(103)
Balance, September 30, 2013	5,154,891	$51	$54,116	$2,473	$ (169)	$ (2,286)	$ 54,185
Net income				1,783			1,783
Other comprehensive income, net of tax						1,444	1,444
Surrender of vested shares	(2,830)		(22)				(22)
Common stock awarded under the equity incentive plan	15,000	1	120		(120)		1
Stock option expense			43				43
Amortization of restricted stock					66		66
Cash dividends ($0.04 per share)				(207)			(207)
Balance, September 30, 2014	5,167,061	$52	$54,257	$4,049	$ (223)	$ (842)	$ 57,293
Net income				2,614			2,614
Other comprehensive income, net of tax						628	628
Surrender of vested shares	(3,937)		(36)				(36)
Common stock awarded under the equity	17,500		161		(161)		—

incentive plan							
Common stock options exercised	51,955		299				299
Stock option expense			59				59
Amortization of restricted stock					96		96
Cash dividends ($0.08 per share)				(418)			(418)
Balance, September 30, 2015	5,232,579	$52	$54,740	$6,245	$ (288)	$ (214)	$ 60,535

See accompanying notes to audited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows
Years Ended September 30, 2015, 2014 and 2013
(in thousands, except per share data)

	2015	2014	2013
Cash flows from operating activities:			
Net income attributable to common stockholders	$2,614	$1,783	$1,047
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premium/discount on securities	910	1,024	1,008
Depreciation	1,382	1,116	1,079
Provision for loan losses	656	1,910	3,143
Net realized (gain) loss on sale of securities	(60)	168	(552)
Other-than-temporary impairment on mortgage-backed securities	—	78	797
Amortization of core deposit intangible	57	57	56
Amortization of restricted stock	96	66	45
Stock based compensation expense	59	43	31
Loss on sale of office properties	8	323	168
(Benefit) provision for deferred income taxes	(471)	943	182
Net loss (gains) from disposals of foreclosed and repossessed assets	31	(71)	(102)
Provision for valuation allowance on foreclosed properties	57	74	76
(Increase) decrease in accrued interest receivable and other assets	(130)	(604)	599
Increase (decrease) in other liabilities	568	926	(834)
Total adjustments	3,163	6,053	5,696
Net cash provided by operating activities	5,777	7,836	6,743
Cash flows from investing activities:			
Purchase of investment securities	(54,232)	(20,506)	(71,544)
Purchase of bank owned life insurance	—	(3,000)	(3,000)
Net (increase) decrease in interest-bearing deposits	(2,747)	1,743	(1,988)
Proceeds from sale of securities available for sale	29,285	23,491	44,780
Principal payments on investment securities	8,171	6,892	9,621
Proceeds from sale of non-marketable equity securities	889	—	500
Purchase of non-marketable equity securities	—	(2,215)	—
Proceeds from sale of foreclosed and repossessed assets	1,323	2,342	2,553
Net decrease (increase) in loans	17,927	(33,455)	(18,757)
Net capital expenditures	(331)	(485)	(549)
Net cash received from sale of office properties	—	159	—
Net cash provided by (used in) investing activities	285	(25,034)	(38,384)
Cash flows from financing activities:			
Net increase in Federal Home Loan Bank advances	—	8,891	750
Net increase in deposits	6,531	2,369	25,340
Surrender of restricted shares of common stock	(36)	(22)	(4)
Exercise of common stock options	299	—	—
Cash dividends paid	(418)	(207)	(103)
Net cash provided by financing activities	6,376	11,031	25,983
Net increase (decrease) in cash and cash equivalents	12,438	(6,167)	(5,658)
Cash and cash equivalents at beginning of period	11,434	17,601	23,259
Cash and cash equivalents at end of period	$23,872	$11,434	$17,601
Supplemental cash flow information:			

Cash paid during the year for:			
Interest on deposits	$2,852	$3,612	$3,667
Interest on borrowings	$466	$646	$543
Income taxes	$1,214	$86	$790
Supplemental noncash disclosure:			
Transfers from loans receivable to foreclosed and repossessed assets	$1,263	$2,368	$3,013

See accompanying notes to audited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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”).

On April 16, 2014, the U.S. Office of the Comptroller of the Currency (the "OCC"), the primary federal regulator for Citizens Community Bancorp, Inc. and Citizens Community Federal, provided written notice to the Bank of the OCC's approval for the Bank to convert to a national banking association (a "National Bank") and operate under the title of Citizens Community Federal National Association ("Citizens Community Federal N.A."). The consummation of the conversion to a National Bank was effective as of May 31, 2014.

On April 18, 2014, Citizens Community Bancorp, Inc. received written notice from the Federal Reserve Bank of Minneapolis (the "FRB") notifying the Company of the FRB's approval of the Company becoming a bank holding company as
a result of the conversion of the Bank from a federally-chartered savings bank to a National Bank, which approval was also effective as of May 31, 2014.

The consolidated income of the Company is principally derived from the income of the Bank, the Company’s wholly owned subsidiary. The Bank originates residential, commercial, agricultural, consumer and commercial and industrial (C&I) loans and accepts deposits from customers, primarily in Wisconsin, Minnesota and Michigan. The Bank operates 18 full-service offices; seven stand-alone locations and 11 branches. In October 2015, we relocated our Mankato, Minnesota branch to a new full-service traditional branch in Mankato, MN. In October 2015, we entered into a purchase agreement with Central Bank of Golden Valley, Minnesota, to purchase approximately $14,000 in loans from, and assume $30,000 in deposit liabilities of Central Bank’s Rice Lake and Barron branch banking operations pending regulatory approval. The transaction is expected to be finalized in our second fiscal quarter of 2016.

In November 2015, we announced the closing of three in-store branches, effective December 2015 and January 2016. We intend to continue to review our branch network to deploy assets and capital in growth markets and exit markets where we believe have limited growth opportunities. Through all of our branch locations in Wisconsin, Minnesota and Michigan, we provide a variety of commercial and consumer banking products and services to customers, including online and mobile banking options.

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 that occurred through December 7, 2015, the date on which the financial statements were available to be issued. As of December 7, 2015, there were no subsequent events which required recognition or disclosure.

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

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

Use of Estimates—Preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, fair value of financial instruments, the allowance for loan losses, foreclosed and repossessed assets, valuation of acquired intangible assets, useful lives for depreciation and amortization, indefinite-lived intangible assets and long-lived assets, 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 September 30, 2015 and external market factors such as market interest rates and employment rates, changes to operating policies and procedures, and changes in applicable banking

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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.

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 deemed other than temporarily impaired due to non-credit issues being reported in other comprehensive income (loss), net of tax. Unrealized losses deemed other-than-temporary due to credit issues are reported in the Company's net income in the period in which the losses arise. Interest income includes amortization of purchase premium or accretion of purchase discount. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

In estimating other-than-temporary impairment (OTTI), management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of OTTI that is recognized in operations and is a reduction to the cost basis of the security. The portion of other-than-temporary impairment related to all other factors is included in other comprehensive income (loss), net of the related tax effect.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, and net of deferred loan fees and costs. 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 without anticipating prepayments.

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

- Commercial loans, including Agricultural and C&I loans, past due 90 days or more;
- Closed end consumer loans past due 120 days or more; and
- Real estate loans and open ended consumer 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 6 month payment history has been established. Interest on impaired loans considered troubled debt restructurings ("TDRs") or substandard, 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. Substandard loans, as defined by the OCC, our primary banking regulator, are loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Real estate loans and open ended consumer loans are charged off to estimated net realizable value less estimated selling costs at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 180 days or more. Closed end consumer loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 120 days or more. Commercial loans, including Agricultural and C&I loans, are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 90 days or more.

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

component covers non-impaired loans and is based on historical loss experience adjusted for certain qualitative factors. The entire ALL balance is available for any loan that, in management’s judgment, should be charged off.
A loan is impaired when full payment under the loan terms is not expected. Impaired loans consist of all TDRs, as well as individual substandard loans not considered a TDR, when full payment under the loan terms is not expected. All TDRs are individually evaluated for impairment. See Note 3, “Loans, Allowance for Loan Losses and Impaired Loans” for more information on what we consider to be a TDR. For TDR's or substandard loans deemed to be impaired, a specific ALL allocation may be established so that the loan is reported, net, at the lower of (a) its outstanding principal balance; (b) the present value of the loan's estimated future cash flows using the loan’s existing rate; or (c) at the fair value of any loan collateral, less estimated disposal costs, if repayment is expected solely from the underlying collateral of the loan. For TDRs less than 90+ days past due, and certain substandard loans that are less than 90+ days delinquent, the likelihood of the loan migrating to over 90 days past due is also taken into account when determining the specific ALL allocation for these particular loans. Large groups of smaller balance homogeneous loans, such as non-TDR commercial, consumer and residential real estate loans, are collectively evaluated for ALLL purposes, and accordingly, are not separately identified for ALLL disclosures.
Non-marketable Equity Securities — Non-marketable equity securities are comprised of Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank (FRB) stock, and are carried at cost.
The Bank is a member of the FHLB system. Members are required to own a certain amount of FHLB stock based on the Bank’s level of borrowings from the FHLB and other factors, and may invest in additional amounts of FHLB stock. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) the impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Both cash and stock dividends are reported as income.
FHLB stock is evaluated quarterly for impairment. Quarterly cash dividends are paid on FHLB stock owned by members as a condition for required membership and also on stock owned based on activity. Membership stock quarterly cash dividends were paid at an annualized dividend rate of 0.50% in all quarters. Activity stock quarterly cash dividends were paid in November 2014 at an annualized dividend rate of 2.00%. Activity stock quarterly cash dividends were paid in February 2015, May 2015 and in August 2015 at an annualized dividend rate of 2.25% per share. Based on management’s quarterly evaluation, no impairment has been recorded on these securities.
As a National Banking Association, the Bank must be a member of the Federal Reserve system. Each member bank is required to subscribe to Federal Reserve Stock in an amount equal to 6 percent of its capital and surplus. Although the par value of the stock is $100 per share, banks (including the Bank) pay only $50 per share at the time of purchase, with the understanding that the other half of the subscription amount is subject to call at any time. Dividends are paid at the statutory rate of 6 percent per annum, or $1.50 per share semi-annually on the last business day of June and December.
Foreclosed and Repossessed Assets, net – Assets acquired through foreclosure or repossession are initially recorded at fair value, less estimated costs to sell, which establishes a new cost basis. If the fair value declines subsequent to foreclosure or repossession, a valuation allowance is recorded through expense. Costs incurred after acquisition are expensed and are included in non-interest expense, other on our Consolidated Statements of Operations.
Office Properties and Equipment—Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. 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.
Intangible Assets—Intangible assets consist of core deposit intangible assets arising from branch acquisitions. They were initially measured at fair value and amortized over their estimated useful lives, ranging from 7 to 15 years. The balances of core deposit intangible assets were $104 and $161 at September 30, 2015 and 2014, respectively.

Amortization expense related to these core deposit intangible assets was $57, $57 and $56 for the years ended September 30, 2015, 2014 and 2013, respectively. Accumulated amortization on core deposit intangible assets was $2,416 and $2,359, at September 30, 2015 and 2014, respectively.

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 and mature within three to seven years. Balances over $250 in those institutions are not insured by the FDIC and therefore pose a potential risk in the event the institution were to fail. As of September 30, 2015 and 2014, there were no uninsured deposits.

Advertising, Marketing and Public Relations Expense—The Company expenses all advertising, marketing and public relations costs as they are incurred. Total costs for the years ended September 30, 2015, 2014, and 2013 were $570, $370, and $233, respectively.

Income Taxes – The Company accounts for income taxes in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification ("ASC") Topic 740, "Income Taxes." Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. See Note 13, "Income Taxes" for details on the Company's income taxes.

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

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.

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

Operating Segments—While our chief decision makers 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.

Adoption of New Accounting Standards - In August, 2014, the FASB issued Accounting Standards Update ("ASU") 2014-14 - "Receivables; Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". ASU 2014-14 is intended to improve accounting and disclosure consistency related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. For public entities, ASU 2014-09 is effective on a prospective basis for the annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company expects the adoption of ASU 2014-14 to have no material effect on the Company's consolidated results of operations, financial position or cash flows.

In May, 2014, the FASB issued ASU 2014-09 - "Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is intended to clarify and simplify revenue recognition principles, develop a common revenue standard across industries and accounting frameworks, and improve the usefulness and consistency of revenue reporting. The effective dates for ASU 2014-09 were deferred one year when the FASB issued ASU 2015-14 - "Revenue from Contracts with Customers (Topic (606) Deferral of the Effective Date", in August 2015. For public entities, ASU 2014-09 is effective on a retrospective basis for the annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted. The Company expects the adoption of ASU 2014-09 to have no material effect on the Company's consolidated results of operations, financial position or cash flows.

In January, 2014, the FASB issued ASU 2014-04 - "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)". ASU 2014-04 is intended to improve consistency among reporting entities by clarifying when an in substance foreclosure occurs, that is, when a creditor should derecognize a loan and recognize the corresponding real estate collateral as a separate asset. For public entities, ASU 2014 is effective for the annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company expects the adoption of ASU 2014-04 to have no material effect on the Company's results of operations, financial position or cash flows.

NOTE 2 – 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 September 30, 2015 and 2014.

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015				
Investment securities:				
U.S. government agency obligations	$15,020	$—	$15,020	$—
Obligations of states and political subdivisions	27,407	—	27,407	—
Mortgage-backed securities	37,440	—	37,440	—
Federal Agricultural Mortgage Corporation	54	—	54	—
Total	$79,921	$—	$79,921	$—
September 30, 2014				
Investment securities:				
U.S. government agency obligations	$22,103	$—	$22,103	$—
Obligations of states and political subdivisions	11,194	—	11,194	—
Mortgage-backed securities	28,827	—	28,827	—
Federal Agricultural Mortgage Corporation	65	—	65	—
Total	$62,189	$—	$62,189	$—

The following table presents a reconciliation of non-agency mortgage-backed securities held by the Bank measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for each of the twelve months ended September 30, 2015 and 2014:

	Twelve Months Ended	
	September 30, 2015	September 30, 2014
Balance beginning of period	$—	$1,226
Total gains or losses (realized/unrealized):		
Included in earnings	—	(274)
Included in other comprehensive income (loss)	—	615
Sales	—	(1,321)
Payments, accretion and amortization	—	(246)
Balance end of period	$—	$—

Assets Measured on a Nonrecurring Basis

The following tables present the financial instruments measured at fair value on a nonrecurring basis as of September 30, 2015 and 2014:

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015				
Foreclosed and repossessed assets, net	$902	$ —	$—	$902
Impaired loans with allocated allowances	2,349	—	—	2,349
Total	$3,251	$ —	$—	$3,251
September 30, 2014				
Foreclosed and repossessed assets, net	$1,050	$ —	$—	$1,050
Impaired loans with allocated allowances	2,929	—	—	2,929
Total	$3,979	$ —	$—	$3,979

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

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

Fair Values of Financial Instruments

ASC 825-10 and ASC 270-10, Interim Disclosures about Fair Value Financial Instruments, require disclosures about fair value financial instruments and significant assumptions used to estimate fair value. The estimated fair values of financial instruments not previously disclosed are determined as follows:

Cash and Cash Equivalents

Due to their short-term nature, the carrying amounts of cash and cash equivalents are considered to be a reasonable estimate of fair value.

Other Interest Bearing Deposits

Fair value of interest bearing deposits is estimated using a discounted cash flow analysis based on current interest rates being offered by instruments with similar terms.

Non-marketable Equity Securities, at cost

Non-marketable equity securities are comprised of Federal Home Loan Bank stock and Federal Reserve Bank stock carried at cost, which are their redeemable fair value since the market for each category of this stock is restricted.

Loans Receivable, net

Fair value is estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as real estate, C&I and consumer. The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity date using market discount rates reflecting the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Bank's repayment schedules for each loan classification.

Accrued Interest Receivable and Payable

Due to their short-term nature, the carrying amounts of accrued interest receivable and payable are considered to be a reasonable estimate of fair value.

Deposits

The fair value of deposits with no stated maturity, such as demand deposits, savings accounts, and money market accounts, is the amount payable on demand at the reporting date. The fair value of fixed rate certificate accounts is calculated by using discounted cash flows applying interest rates currently being offered on similar certificates.

Federal Home Loan Bank Advances

The fair value of long-term borrowed funds is estimated using discounted cash flows based on the Bank's current incremental borrowing rates for similar borrowing arrangements. The carrying value of short-term borrowed funds approximates their fair value.

Off-Balance-Sheet Instruments

The fair value of off-balance sheet commitments would be estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the current interest rates, and the present creditworthiness of the customers. Since this amount is immaterial to the Company's consolidated financial statements, no amounts for fair value are presented.

The carrying amount and estimated fair value of the Company's financial instruments as of the dates indicated below were as follows:

	September 30, 2015		September 30, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$23,872	$23,872	$11,434	$11,434
Interest-bearing deposits	2,992	3,022	245	245
Investment securities	87,933	88,140	70,974	70,997
Non-marketable equity securities, at cost	4,626	4,626	5,515	5,515
Loans receivable, net	444,014	462,227	463,860	479,961
Accrued interest receivable	1,574	1,574	1,478	1,478
Financial liabilities:				
Deposits	$456,298	$460,450	$449,767	$454,170
FHLB advances	58,891	59,357	58,891	59,331
Accrued interest payable	4,098	4,098	13	13

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

Major classifications of loans as of September 30, 2015 and 2014, respectively, were as follows:

	September 30, 2015	September 30, 2014
Real estate loans:		
Consumer	$ 181,206	$ 223,025
Commercial/Agricultural	63,266	39,061
Total real estate loans	244,472	262,086
Consumer and other loans:		
Automobile	14,113	12,810
Other secured personal loans	186,591	188,911
Unsecured personal loans	2,904	3,512
Total consumer and other loans	203,608	205,233
Gross loans	448,080	467,319
Less:		
Net deferred loan costs (fees)	2,430	3,047
Allowance for loan losses	(6,496)	(6,506)
Loans receivable, net	$ 444,014	$ 463,860

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 is 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. The condition of the borrower and the performance of the loan is satisfactory or better.

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

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

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

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

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

Below is a breakdown of loans by risk rating as of September 30, 2015:

	1 to 5	6	7	8	9	TOTAL
Real estate loans:						
Consumer	$ 179,946	$ —	$ 1,260	$ —	$ —	$ 181,206
Commercial/Agricultural	63,266	—	—	—	—	63,266
Total real estate loans	243,212	—	1,260	—	—	244,472
Consumer and other loans:	203,054	—	547	—	7	203,608
Gross loans	$ 446,266	$ —	$ 1,807	$ —	$ 7	$ 448,080
Net deferred loan costs (fees)						2,430
Allowance for loan losses						(6,496)
Loans receivable, net						$ 444,014

Below is a breakdown of loans by risk rating as of September 30, 2014:

	1 to 5	6	7	8	9	TOTAL
Real estate loans:						
Consumer	$ 220,579	$ —	$ 2,343	$ —	$ 103	$ 223,025
Commercial/Agricultural	39,061	—	—	—	—	39,061
Total real estate loans	259,640	—	2,343	—	103	262,086
Consumer and other loans:	204,688	—	525	—	20	205,233
Gross loans	$ 464,328	$ —	$ 2,868	$ —	$ 123	$ 467,319
Net deferred loan costs (fees)						3,047
Allowance for loan losses						(6,506)
Loans receivable, net						$ 463,860

Certain directors and executive officers of the Company and the Bank 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 2015 and 2014. A summary of the changes in those loans during the last two fiscal years is as follows:

	September 30,	
	2015	2014
Balance—beginning of year	$ 129	$ 131
New loan originations	137	17
Repayments	(34)	(19)
Balance—end of year	$ 232	$ 129
Available and unused lines of credit	$ 18	$ 18

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

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

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

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

	Consumer Real Estate	Commercial/Agriculture Real Estate	Consumer and Other	Unallocated	Total
Year Ended September 30, 2015:					
Allowance for Loan Losses:					
Beginning balance, October 1, 2014	$2,759	$ —	$3,747	$—	$6,506
Charge-offs	(405)	—	(601)	—	(1,006)
Recoveries	69	—	271	—	340
Provision	382	16	258	—	656
Allowance allocation adjustment	(441)	1,601	(1,412)	252	—
Ending balance, September 30, 2015	$2,364	$ 1,617	$2,263	$ 252	$6,496
Allowance for Loan Losses at September 30, 2015:					
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$463	—	$119	—	$582
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$1,901	$ 1,617	$2,144	$ 252	$5,914
Loans Receivable as of September 30, 2015:					
Ending balance	$180,693	$ 63,266	$206,551	$—	$450,510
Ending balance: individually evaluated for impairment	$4,466	$ —	$848	$—	$5,314
Ending balance: collectively evaluated for impairment	$176,227	$ 63,266	$205,703	$—	$445,196

	Consumer Real Estate	Commercial/Agriculture Real Estate	Consumer and Other	Unallocated	Total
Year ended September 30, 2014					
Allowance for Loan Losses:					
Beginning balance, October 1, 2013	$2,541	$ —	$3,639	$—	$6,180
Charge-offs	(1,238)	—	(689)	—	(1,927)
Recoveries	94	—	249	—	343
Provision	1,362	—	548	—	1,910
Ending balance, September 30, 2014	$2,759	$ —	$3,747	$—	$6,506
Allowance for Loan Losses at September 30, 2014:					
Amount of allowance for loan losses arising from loans individually evaluated for impairment	$525	$ —	$207	$—	$732
Amount of allowance for loan losses arising from loans collectively evaluated for impairment	$2,234	$ —	$3,540	$—	$5,774
Loans Receivable as of September 30, 2014:					
Ending balance	$222,254	$ 39,061	$209,051	$—	$470,366
Ending balance: individually evaluated for impairment	$6,542	$ —	$1,267	$—	$7,809

Ending balance: collectively evaluated for impairment	$215,712	$ 39,061	$207,784	$ —	$462,557

The Bank has originated substantially all loans currently recorded on the Company's consolidated balance sheet, except as noted below.

During October 2012, the Bank entered into an agreement to purchase short term consumer loans from a third party on an ongoing basis. As part of the servicer agreement entered into in connection with this purchase agreement, the third party seller agreed to purchase or substitute performing consumer loans for all contracts that become 120 days past due. Pursuant to the

ongoing loan purchase agreement, a Board of Director determinant was originally established to limit the purchase of these consumer loans under this arrangement to a maximum of $40,000 and a restricted reserve account was established at 3% of the outstanding consumer loan balances purchased up to a maximum of $1,000, with such percentage amount of the loans being deposited into a segregated reserve account. The funds in the reserve account are to be released to compensate the Bank for any purchased loans that are not purchased back by the seller or substituted with performing loans and are ultimately charged off by the Bank. During the first quarter of fiscal 2015, the Board of Directors increased the limit of these purchased consumer loans to a maximum of $50,000. As of September 30, 2015, the balance of the consumer loans purchased was $39,705. The balance in the cash reserve account has reached the maximum allowed balance of $1,000, which is included in Deposits on the accompanying Consolidated Balance Sheet. To date, none of the purchased loans have been charged off or have experienced losses.
Loans receivable by loan type as of the end of the periods shown below were as follows:

	Consumer Real Estate Loans		Commercial/Agriculture Real Estate Loans		Consumer and Other Loans		Total Loans	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Performing loans								
Performing TDR loans	$3,206	$4,535	—	—	$472	$797	$3,678	$5,332
Performing loans other	176,650	216,503	63,266	39,061	205,695	207,885	445,611	463,449
Total performing loans	179,856	221,038	63,266	39,061	206,167	208,682	449,289	468,781
Nonperforming loans (1)								
Nonperforming TDR loans	273	202	—	—	59	47	332	249
Nonperforming loans other	564	1,014	—	—	325	322	889	1,336
Total nonperforming loans	$837	$1,216	—	—	$384	$369	$1,221	$1,585
Total loans	$180,693	$222,254	63,266	39,061	$206,551	$209,051	$450,510	$470,366

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

An aging analysis of the Company’s consumer real estate, commercial/agriculture real estate, consumer and other loans and purchased third party loans as of September 30, 2015 and 2014, respectively, was as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total Loans	Recorded Investment > 89 Days and Accruing
September 30, 2015							
Consumer real estate	$555	$500	$387	$1,442	$179,251	$180,693	$ 244
Commercial/Agriculture real estate	—	—	—	—	63,266	63,266	—
Consumer and other loans	386	65	135	586	166,260	166,846	52
Purchased third party loans	238	189	177	604	39,101	39,705	177
Total	$1,179	$754	$699	$2,632	$447,878	$450,510	$ 473
September 30, 2014							
Real estate loans	$678	$80	$989	$1,747	$220,507	$222,254	$ 228
Commercial/Agriculture real estate	—	—	—	—	39,061	39,061	—
Consumer and other loans	354	73	177	604	175,635	176,239	99
Purchased third party loans	190	136	74	400	32,412	32,812	74
Total	$1,222	$289	$1,240	$2,751	$467,615	$470,366	$ 401

At September 30, 2015, the Company has identified $4,010 of TDR loans and $1,304 of substandard loans as impaired, totaling $5,314, which includes $3,678 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 impaired loans as of September 30, 2015 and September 30, 2014 was as follows:

	With No Related Allowance Recorded				With An Allowance Recorded				Totals			
	Consumer Real Estate	Commercial/Agricultural Real Estate	Consumer and Other	Total	Consumer Real Estate	Commercial/Agricultural Real Estate	Consumer and Other	Total	Consumer Real Estate	Commercial/Agricultural Real Estate	Consumer and Other	Total
Recorded investment at September 30, 2015	$2,494	$ —	$ 471	$2,965	$1,972	$ —	$ 377	$2,349	$4,466	$ —	$ 848	$5,314
Unpaid balance at September 30, 2015	2,494	—	471	2,965	1,972	—	377	2,349	4,466	—	848	5,314
Recorded investment at September 30, 2014	4,345	—	535	4,880	2,197	—	732	2,929	6,542	—	1,267	7,809
Unpaid balance at September 30, 2014	4,345	—	535	4,880	2,197	—	732	2,929	6,542	—	1,267	7,809
Average recorded	3,178	—	485	3,663	2,220	—	556	2,776	5,398	—	1,041	6,439

investment; twelve months ended September 30, 2015												
Average recorded investment; twelve months ended September 30, 2014	4,722	—	614	5,336	3,137	—	823	3,960	7,859	—	1,437	9,296
Interest income received; twelve months ended September 30, 2015	136	—	35	171	61	—	23	84	197	—	58	255
Interest income received; twelve months ended September 30, 2014	149	—	32	181	68	—	24	92	217	—	56	273

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 include an extension of loan terms, 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 were 5 delinquent TDRs, greater than 60 days past due, with a recorded investment of $75 at September 30, 2015, compared to 4 such loans with a recorded investment of $191 at September 30, 2014. A summary of loans by loan type modified in a troubled debt restructuring as of September 30, 2015 and September 30, 2014, and during each of the twelve months then ended, was as follows:

	Consumer Real Estate	Commercial/Agricultural Real Estate	Consumer and Other	Total
September 30, 2015 and Twelve Months then Ended:				
Accruing / Performing:				
Beginning balance	$4,535	$ —	$797	$5,332
Principal payments	(945)	—	(301)	(1,246)
Charge-offs	—	—	(8)	(8)
Advances	12	—	1	13
New restructured (1)	17	—	52	69
Class transfers out (2)	(181)	—	—	(181)
Transfers between accrual/non-accrual	(232)	—	(69)	(301)
Ending balance	$3,206	$ —	$472	$3,678
Non-accrual / Non-performing:				
Beginning balance	$202	$ —	$47	$249
Principal payments	(120)	—	(11)	(131)
Charge-offs	(41)	—	(46)	(87)
Advances	—	—	—	—
New restructured (1)	—	—	—	—
Class transfers out (2)	—	—	—	—
Transfers between accrual/non-accrual	232	—	69	301
Ending balance	$273	$ —	$59	$332
Totals:				
Beginning balance	$4,737	$ —	$844	$5,581
Principal payments	(1,065)	—	(312)	(1,377)
Charge-offs	(41)	—	(54)	(95)
Advances	12	—	1	13
New restructured (1)	17	—	52	69
Class transfers out (2)	(181)	—	—	(181)
Transfers between accrual/non-accrual	—	—	—	—
Ending balance	$3,479	$ —	$531	$4,010

(1) "New restructured" represent loans restructured during the applicable period that met TDR criteria in accordance with the Bank's policy at the time of the restructuring.

(2) "Class transfers out" represent previously restructured loans that are in compliance with the modified terms for a minimum of one year, are yielding a market rate and conform to normal underwriting standards.

	Consumer Real Estate	Commercial/Agriculture Real Estate	Consumer and Other	Total
September 30, 2014 and Twelve Months then Ended:				
Accruing / Performing:				
Beginning balance	$6,254	—	$1,101	$7,355
Principal payments	(757)	—	(258)	(1,015)
Charge-offs	(11)	—	(30)	(41)
Advances	7	—	—	7
New restructured (1)	40	—	24	64
Class transfers out (2)	(60)	—	—	(60)
Transfers between accrual/non-accrual	(938)	—	(40)	(978)
Ending balance	$4,535	$ —	$797	$5,332
Non-accrual / Non-performing:				
Beginning balance	$1,187	—	$76	$1,263
Principal payments	(1,515)	—	(38)	(1,553)
Charge-offs	(426)	—	(52)	(478)
Advances	3	—	—	3
New restructured (1)	—	—	16	16
Class transfers out (2)	15	—	5	20
Transfers between accrual/non-accrual	938	—	40	978
Ending balance	$202	$ —	$47	$249
Totals:				
Beginning balance	$7,441	—	$1,177	$8,618
Principal payments	(2,272)	—	(296)	(2,568)
Charge-offs	(437)	—	(82)	(519)
Advances	10	—	—	10
New restructured (1)	40	—	40	80
Class transfers out (2)	(45)	—	5	(40)
Transfers between accrual/non-accrual	—	—	—	—
Ending balance	$4,737	$ —	$844	$5,581

(1) "New restructured" represent loans restructured during the current period that met TDR criteria in accordance with the Bank's policy at the time of the restructuring.

(2) "Class transfers out" represent previously restructured loans that are in compliance with the modified terms for a minimum of one year, are yielding a market rate and conform to normal underwriting standards.

	September 30, 2015		September 30, 2014	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Troubled debt restructurings:				
Consumer Real Estate	34	$3,479	47	$4,737
Commercial/Agriculture Real Estate	—	—	—	—
Consumer and other	39	531	53	844
	73	$4,010	100	$5,581

NOTE 4 – INVESTMENT SECURITIES

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The amortized cost, estimated fair value and related unrealized gains and losses on securities available for sale and held to maturity as of September 30, 2015 and September 30, 2014, respectively, were as follows:

Available for sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2015				
U.S. government agency obligations	$15,240	$—	$220	$15,020
Obligations of states and political subdivisions	27,573	81	247	27,407
Mortgage-backed securities	37,451	133	144	37,440
Federal Agricultural Mortgage Corporation	71	—	17	54
Total available for sale securities	$80,335	$214	$628	$79,921
September 30, 2014				
U.S. government agency obligations	$23,076	$—	$973	$22,103
Obligations of states and political subdivisions	11,432	17	255	11,194
Mortgage-backed securities	29,058	138	369	28,827
Federal Agricultural Mortgage Corporation	71	—	6	65
Total available for sale securities	$63,637	$155	$1,603	$62,189

Held to maturity securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2015				
Obligations of states and political subdivisions	$1,319	$3	$4	$1,318
Mortgage-backed securities	6,693	208	—	6,901
Total held to maturity securities	$8,012	$211	$4	$8,219
September 30, 2014				
Obligations of states and political subdivisions	$1,465	$4	$5	$1,464
Mortgage-backed securities	7,320	33	9	7,344
Total held to maturity securities	$8,785	$37	$14	$8,808

The estimated fair value of securities at September 30, 2015, 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 municipal securities due to the call feature.

Available for sale securities	Amortized Cost	Estimated Fair Value
Due after one year through five years	$6,451	$6,437
Due after five years through ten years	22,667	22,457
Due after ten years	51,217	51,027
Total available for sale securities	$80,335	$79,921

Held to maturity securities	Amortized Cost	Estimated Fair Value
Due after one year through five years	$1,144	$1,143
Due after five years through ten years	175	175
Due after ten years	6,693	6,901
Total held to maturity securities	$8,012	$8,219

Securities with unrealized losses at September 30, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

Available for sale securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2015						
U.S. government agency obligations	$4,960	$14	$10,060	$206	$15,020	$220
Obligations of states and political subdivisions	13,864	155	2,234	92	16,098	247
Mortgage-backed securities	22,018	93	3,590	51	25,608	144
Federal Agricultural Mortgage Corporation	—	—	54	17	54	17
Total temporarily impaired	$40,842	$262	$15,938	$366	$56,780	$628
2014						
U.S. government agency obligations	$—	$—	$22,103	$973	$22,103	$973
Obligations of states and political subdivisions	574	1	8,817	254	9,391	255
Mortgage-backed securities	8,167	66	12,518	303	20,685	369
Federal Agricultural Mortgage Corporation	65	6	—	—	65	6
Total temporarily impaired	$8,806	$73	$43,438	$1,530	$52,244	$1,603

Held to maturity securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
2015						
Obligations of states and political subdivisions	$904	$4	$—	$—	$904	$4
Mortgage-backed securities	—	—	—	—	—	—
Total temporarily impaired	$904	$4	$—	$—	$904	$4
2014						
Obligations of states and political subdivisions	$345	$5	$—	$—	$345	$5
Mortgage-backed securities	3,364	9	—	—	3,364	9
Total temporarily impaired	$3,709	$14	$—	$—	$3,709	$14

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

therefore recovery of cost will occur.

A summary of the amount of other-than-temporary impairment related to credit losses on available for sale securities that have been recognized in net income for the years ended September 30, 2015 and 2014 follows:

	2015	2014
Beginning balance of the amount of OTTI related to credit losses	$—	$1,250
Credit portion of OTTI on securities for which OTTI was not previously recognized		91
Cash payments received on a security in excess of the security's book value adjusted for the previously recognized credit portion of OTTI	—	(13)
Credit portion of OTTI on securities in default for which OTTI was previously recognized	—	—
Credit portion of OTTI previously recognized on securities sold during the period	—	(1,328)
Ending balance of the amount of OTTI related to credit losses	$—	$—

The Bank has pledged certain of its U.S. Government Agency securities as collateral against a borrowing line of credit with the Federal Reserve Bank. However, as of September 30, 2015, there were no borrowings outstanding on this Federal Reserve Bank line of credit. The Bank has pledged certain of its U.S. Government Agency securities as collateral against specific municipal deposits.

NOTE 5—OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment at September 30 for each of the years shown below consisted of the following:

	2015	2014
Land	$510	$510
Buildings	2,338	2,284
Furniture, equipment, and vehicles	6,872	7,672
Subtotals	9,720	10,466
Less—Accumulated depreciation	(7,051)	(6,741)
Office properties and equipment—net	$2,669	$3,725

Depreciation expense was $1,382, $1,116 and $1,079 for the years ended September 30, 2015, 2014 and 2013, respectively.

NOTE 6—INTANGIBLE ASSETS

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

	2015	2014
Balance at beginning of year	$161	$218
Capitalized	—	—
Amortization	(57)	(57)
Balance at end of year	$104	$161

At September 30, 2015, the estimated future aggregate amortization expense for the core deposit intangibles is as follows:

2016	57
2017	31
2018	15
After 2018	1
Total	$104

NOTE 7—DEPOSITS
The following is a summary of deposits by type at September 30, 2015 and 2014, respectively:

	2015	2014
Non-interest bearing demand deposits	$19,354	$19,669
Interest bearing demand deposits	22,547	17,696
Savings accounts	29,395	29,277
Money market accounts	146,201	136,666
Certificate accounts	238,801	246,459
Total deposits	$456,298	$449,767
Brokered deposits included above:	$22,773	$11,960

At September 30, 2015, the scheduled maturities of time deposits were as follows:

2016	$94,508
2017	72,703
2018	42,112
2019	19,058
2020	10,420
After 2020	—
Total	$238,801

Deposits from the Company’s directors, executive officers, principal stockholders and their affiliates held by the Bank at September 30, 2015 and 2014 amounted to $537 and $696, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES

A summary of Federal Home Loan Bank advances at September 30, 2015 and 2014 is as follows:

Maturing during the fiscal year Ended September 30,	2015	Weighted Average Rate		2014	Weighted Average Rate	
2016	$33,600	0.67	%	$31,100	0.78	%
2017	15,461	1.46	%	12,961	1.57	%
2018	6,100	2.24	%	6,100	2.24	%
2019	3,730	1.87	%	3,730	1.87	%
2020	—	—	%	—	—	%
Total fixed maturity	$58,891			$53,891		
Advances with amortizing principal	—	—	%	5,000	0.30	%
Total advances	$58,891			$58,891		
Irrevocable standby letters of credit	$24,040			$23,100		
Total credit outstanding	$82,931			$81,991		

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.

At September 30, 2015, the Bank’s available and unused portion of this borrowing arrangement was approximately $66,459.

Maximum month-end amounts outstanding under this borrowing agreement were $58,891 and $75,891 during the twelve months ended September 30, 2015 and 2014, respectively.

Each Federal Home Loan Bank advance is payable at the maturity date, with a prepayment penalty for fixed rate advances. These advances are secured by $198,657 of real estate mortgage loans.

NOTE 9—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. Effective January 31, 2015, regulatory capital rules and ratios were revised according to the Basel III Risk Based Capital guidelines. At September 30, 2015, the Bank was categorized as “Well Capitalized”, under Prompt Corrective Action Provisions, as determined by the OCC, our primary regulator.

The Bank’s Tier 1 (leverage) and risk-based capital ratios at September 30, 2015 and 2014, respectively, are presented below:

	Actual		For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
As of September 30, 2015								
Total capital (to risk weighted assets)	$64,930,000	16.5 %	$31,443,000	>=	8.0 %	$39,304,000	>=	10.0 %
Tier 1 capital (to risk weighted assets)	59,997,000	15.3 %	23,583,000	>=	6.0 %	31,443,000	>=	8.0 %
Common equity tier 1 capital (to risk weighted assets)	59,997,000	15.3 %	17,687,000	>=	4.5 %	$25,548,000	>=	6.5 %
Tier 1 leverage ratio (to adjusted total assets)	59,997,000	10.4 %	23,031,000	>=	4.0 %	28,788,000	>=	5.0 %
As of September 30, 2014								
Total capital (to risk weighted assets)	$62,116,000	16.1 %	$30,793,000	>=	8.0 %	$38,491,000	>=	10.0 %
Tier 1 capital (to risk weighted assets)	57,283,000	14.9 %	15,396,000	>=	4.0 %	23,095,000	>=	6.0 %
Tier 1 capital (to adjusted total assets)	57,283,000	10.0 %	22,991,000	>=	4.0 %	28,739,000	>=	5.0 %

NOTE 10—COMMITMENTS AND CONTINGENCIES

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Set forth below are the balances of the Company's off-balance-sheet credit instruments consisting of commitments to make loans as of September 30, 2015 and 2014, respectively.

	Contract or Notional Amount at September 30,	
	2015	2014
Commitments to extend credit:		
Consumer - fixed rate 3.74% - 8.74% in 2015, and 3.30% - 11.99% in 2014	$2,816	$2,820
Commercial - Fixed rate 3.88% - 5.75% in 2015, and 3.25% - 5.50% in 2014	11,018	7,172
Commercial standby letter of credit	—	20
Unused lines of credit:		
Home equity lines of credit	1,873	1,622
Kwik cash and lines of credit	1,196	1,227
Consumer construction	—	119
Commercial construction	3,301	947
Commercial lines of credit	3,893	2,192
Totals	$24,097	$16,119

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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.

Leases—The Company leases certain branch facilities and its administrative offices under operating leases. Rent expense under these operating leases was $1,146, $1,186, and $1,138 for the years ended September 30, 2015, 2014 and 2013, respectively. None of the Company's leases contain contingent rental payments, purchase options, escalation or any other significant terms, conditions or restrictions that would affect the future minimum lease payments disclosed below.

Future minimum lease payments by year and in the aggregate under the original terms of the non-cancellable operating leases consist of the following:

2016	$1,268
2017	991
2018	836
2019	404
2020	311
After 2020	980
Total	$4,790

NOTE 11—RETIREMENT PLANS

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 $198, $193, and $189 for 2015, 2014 and 2013, respectively.

Supplemental Executive Retirement Plan—The Company maintained an unfunded Supplemental Executive Retirement Plan (SERP) providing retirement benefits for key employees designated by the Board of Directors. Benefits under the SERP generally were based on the key employees' years of service and compensation during the years preceding retirement. In May 2009, any additional accrual of benefits under the SERP was suspended. The remaining SERP liability relates to former Executive Management.

Director Retirement Plan—The Company also maintains an unfunded Directors' Retirement Plan. The benefit amounts are determined by individual director agreements. The remaining Director Retirement Plan liability relates to current and former Directors.

The components of the SERP and Directors' Retirement plans' cost at September 30, 2015, 2014 and 2013, respectively, are summarized as follows:

	2015	2014	2013
Beginning accrued benefit cost	$1,154	$1,181	$2,363
Service cost	—	—	—
Interest cost	46	51	45
Amortization of prior service costs	1	1	1
Net periodic benefit cost	47	52	46
Benefits paid	(81)	(79)	(1,228)
Curtailment and settlement	—	—	—
Ending accrued benefit cost	$1,120	$1,154	$1,181

The following table sets forth the SERP and Directors' Retirement plans, change in projected benefit obligation, the change in plan assets, the funded status of the plans, and the net liability recognized in the Company's consolidated balance sheet at September 30, 2015, 2014 and 2013, respectively:

	2015	2014	2013
Change in benefit obligation:			
Projected benefit obligation, beginning of year	$1,109	$1,117	$2,381
Service cost	—	—	—
Interest cost	46	51	45
Curtailment and settlement	—	—	—
Actuarial loss (gain)	(12)	20	(81)
Benefits paid	(81)	(79)	(1,228)
Projected benefit obligation, end of year	$1,062	$1,109	$1,117
Change in plan assets:			
Plan assets at fair value, beginning of year	$—	$—	$—
Actual return on plan assets	—	—	—
Company contributions	81	79	1,228
Benefits paid	(81)	(79)	(1,228)
Plan assets at fair value, end of year	$—	$—	$—

Weighted average assumptions used in determining the benefit obligation and net pension costs as of September 30, 2015, 2014 and 2013, (in actual dollars) were as follows:

	2015	2014	2013
Benefit obligation actuarial assumptions:			
Discount Rate	4.25 %	4.25 %	4.75 %
Rate of compensation increase	N/A	N/A	N/A
Net pension cost actuarial assumption			
Discount rate	4.25 %	4.25 %	4.75 %
Expected long-term rate of return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A

Estimated future benefit payments as of September 30, 2015, which reflect expected future service, as appropriate, are as follows:

2016	$78
2017	$111
2018	$118
2019	$110
2020	$120
2021-2025	$583

Amounts recognized in consolidated balance sheets as of September 30:

	2015	2014
Pension obligation	$1,062	$1,109
Prior service cost	$4	$4
Net loss (gain)	(61)	(49)
Total accumulated other comprehensive income, before tax	$(57)	$(45)

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NOTE 12 - STOCK-BASED COMPENSATION

In February 2005, the Company’s stockholders approved the Company’s 2004 Recognition and Retention Plan. This plan provides for the grant of up to 113,910 shares of the Company’s common stock to eligible participants under this plan. As of September 30, 2015, 113,910 restricted shares under this plan were granted. In February 2005, the Company’s stockholders also approved the Company’s 2004 Stock Option and Incentive Plan. This plan provides for the grant of nonqualified and incentive stock options and stock appreciation rights to eligible participants under the plan. The plan provides for the grant of awards for up to 284,778 shares of the Company’s common stock. As of September 30, 2015, 284,778 options had been granted to eligible participants.

In February 2008, the Company’s stockholders approved the Company’s 2008 Equity Incentive Plan. The aggregate number of shares of common stock reserved and available for issuance under the 2008 Equity Incentive Plan is 597,605 shares. Under the Plan, the Compensation Committee may grant stock options and stock appreciation rights that, upon exercise, result in the issuance of 426,860 shares of the Company’s common stock. The Committee may also grant shares of restricted stock and restricted stock units for an aggregate of 170,745 shares of Company common stock under this plan. As of September 30, 2015, 32,500 restricted shares under this plan were granted. As of September 30, 2015, 95,000 options had been granted to eligible participants.

Restricted shares granted to date under these plans were awarded at no cost to the employee and vest pro rata over a five-year period from the grant date. Options granted to date under these plans vest pro rata over a five-year period from the grant date. Unexercised, nonqualified stock options expire within 15 years of the grant date and unexercised incentive stock options expire within 10 years of the grant date.

Compensation expense related to restricted stock awards from both the 2004 Recognition and Retention Plan and the 2008 Equity Incentive Plan were $96, $66 and $45 for the years ended September 30, 2015, 2014 and 2013, respectively.

Restricted Common Stock Awards

	2015		2014	
	Number of Shares	Weighted Average Grant Price	Number of Shares	Weighted Average Grant Price
Restricted Shares				
Unvested and outstanding at beginning of year	41,014	$ 6.51	34,671	$ 5.62
Granted	17,500	9.20	15,000	8.00
Vested	(11,657)	6.18	(8,657)	5.55
Forfeited	—	—	—	—
Unvested and outstanding at end of year	46,857	$ 7.59	41,014	$ 6.51

The Company accounts for stock-based employee compensation related to the Company’s 2004 Stock Option and Incentive Plan and the 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-based employee compensation from both plans for the years ended September 30, 2015, 2014 and 2013 was $59, $43 and $31, respectively.

Common Stock Option Awards

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
2015				
Outstanding at beginning of year	179,192	$6.52		
Granted	50,000	9.20		
Exercised	(51,955)			
Forfeited or expired	(5,500)			
Outstanding at end of year	171,737	$7.46	7.58	$—
Exercisable at end of year	63,764	$6.79	5.33	
Fully vested and expected to vest	171,737	$7.46	7.58	
2014				
Outstanding at beginning of year	150,932	$6.15		
Granted	45,000	8.00		
Exercised	—			
Forfeited or expired	(16,740)			
Outstanding at end of year	179,192	$6.52	6.96	$—
Exercisable at end of year	91,203	$6.35	5.52	
Fully vested and expected to vest	179,192	$6.52	6.96	
2013				
Outstanding at beginning of year	124,789	$6.26		
Granted	26,143	5.62		
Exercised	—			
Forfeited or expired	—			