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℠

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.

CITIZENS COMMUNITY BANCORP, INC.
FORM 10-K
September 30, 2015
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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”.

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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 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.

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, 2015	2014	2013	Change: 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, 2015	2014	2013	Change: 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		2014		2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
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 %						