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Citizens Community Bancorp Inc.  
Form 10-KT  
March 08, 2019

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended \_\_\_\_\_

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF

1934

For the transition period from October 1, 2018 to December 31, 2018

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 (IRS Employer  
incorporation or organization) 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 Each Exchange on Which Registered
Common Stock, \$.01 par value per share	NASDAQ Global Market <sup>SM</sup>

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No



Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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

The aggregate market value of common stock held by non-affiliates of the registrant, computed by reference to the closing price as of June 30, 2018, was approximately \$79.0 million.

#### APPLICABLE ONLY TO CORPORATE REGISTRANTS

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

At March 8, 2019 there were 10,990,991 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 2019 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III of this report.

CITIZENS COMMUNITY BANCORP, INC.  
 FORM 10-K  
 December 31, 2018  
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As used in this report, the terms “we,” “us,” “our,” “Citizens Community Bancorp” and the “Company” mean Citizens Community Bancorp, Inc. and its wholly owned subsidiary, Citizens Community Federal N.A., unless the context indicates another meaning. As used in this report, the term “Bank” means our wholly owned subsidiary, Citizens Community Federal N.A.

#### Explanatory Note Regarding this Transition Report

On September 25, 2018, the Board of Directors of the Company adopted a resolution to change the Company’s fiscal year end from September 30 to December 31, commencing December 31, 2018. In addition, on September 25, 2018, the Board of Directors of the Bank, also adopted resolutions to amend the Bank’s bylaws to change the Bank’s fiscal year end from September 30 to December 31, commencing December 31, 2018. The transition period for this Transition Report on Form 10-K is for the three months ended December 31, 2018 (which we sometimes refer to in this Transition Report as the “transition period”).

In this Transition Report, our fiscal years are identified according to the calendar year in which they historically ended (e.g., the fiscal years ended September 30, 2018 is referred to as “fiscal 2018,” September 30, 2017 is referred to as “fiscal 2017”, as if we had not changed our fiscal year to a calendar year on September 25, 2018 (effective December 31, 2018).

#### Forward-Looking Statements

Certain matters discussed in this Transition Report on Form 10-K contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and the Company intends that these forward-looking statements be covered by the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as “anticipate,” “believe,” “could,” “expect,” “intend,” “may,” “planned,” “potential,” “should,” “will,” “would,” or the negative or other words of similar meaning. Similarly, statements that describe the Company’s future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are inherently subject to many uncertainties in the Company’s operations and business environment.

Factors that could affect actual results or outcomes include the matters described under the caption “Risk Factors” in Item 1A of this report and the following:

- conditions in the financial markets and economic conditions generally;
- the possibility of a deterioration in the residential real estate markets;
- interest rate risk;
- lending risk;
- the sufficiency of loan allowances;
- changes in the fair value or ratings downgrades of our securities;
- competitive pressures among depository and other financial institutions;
- our ability to realize the benefits of net deferred tax assets;
- our ability to maintain or increase our market share;
- acts of terrorism and political or military actions by the United States or other governments;
  - legislative or regulatory changes or actions, or significant litigation, adversely affecting the Company or Bank;
- increases in FDIC insurance premiums or special assessments by the FDIC;
- disintermediation risk;
- our inability to obtain needed liquidity;
- risks related to the success of the F&M Merger and integration of F&M into the Company’s operations;
- the risk that the F&M Merger may be more difficult, costly or time consuming or that the expected benefits are not realized;
- the risk that the combined company may be unable to retain the Company and/or F&M personnel successfully after the F&M Merger is completed;
- the risk that regulatory approvals needed effect the F&M Merger may not be received, may take longer than expected or may impose unanticipated conditions;

- the possibility that the F&M Merger Agreement may be terminated in accordance with its terms and may not be completed in the anticipated timeframe or at all;
- the risk that if the F&M Merger were not completed it could negatively impact the stock price and the future business and financial results of the Company;
- the transaction and merger-related costs in connection with the F&M Merger;
- litigation relating to the F&M Merger, which could require the Company and F&M to incur significant costs and suffer management distraction, as well as delay and/or enjoin the F&M Merger;
- our ability to successfully execute our acquisition growth strategy;

- risks posed by acquisitions and other expansion opportunities, including difficulties and delays in integrating the acquired business operations or fully realizing the cost savings and other benefits;
- our ability to raise capital needed to fund growth or meet regulatory requirements;
- the possibility that our internal controls and procedures could fail or be circumvented;
- our ability to attract and retain key personnel;
- our ability to keep pace with technological change;
- cybersecurity risks;
- changes in federal or state tax laws;
- changes in accounting principles, policies or guidelines and their impact on financial performance;
- restrictions on our ability to pay dividends; and
- the potential volatility of our stock price.

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

Citizens Community Bancorp, Inc. (the "Company") is a Maryland corporation organized in 2004. The Company is a bank holding company and is subject to regulation by the Office of the Comptroller of the Currency ("OCC") and by the Federal Reserve Bank. Our primary activities consist of holding the stock of our wholly-owned subsidiary bank, Citizens Community Federal N.A. (the "Bank"), and providing commercial, agricultural and consumer banking activities through the Bank. At December 31, 2018, we had approximately \$1.3 billion in total assets, \$1.0 billion in deposits, and \$138 million in equity. Unless otherwise noted herein, all monetary amounts in this report, other than share, per share and capital ratio amounts, are stated in thousands.

Citizens Community Federal N.A.

The Bank is a federally chartered National Bank serving customers in Wisconsin and Minnesota through 26 full-service branch locations, along with one branch in Michigan for which the Company has a signed agreement to sell, as of December 31, 2018. Its primary markets include the Chippewa Valley Region in Wisconsin, the Twin Cities and Mankato markets in Minnesota, and various rural communities around these areas. The Bank offers traditional community banking services to businesses, Agricultural operators and consumers, including one-to-four family residential mortgages, as well as expanded services through Wells Insurance Agency, Inc..

Acquisitions

On January 21, 2019, the Company and F&M Merger Sub, Inc., a newly formed Minnesota corporation and wholly-owned subsidiary of the Company ("Merger Sub"), entered into an Agreement and Plan of Merger (the "F&M Merger Agreement") with F. & M. Bancorp. of Tomah, Inc., a Wisconsin corporation ("F&M"), whereby the Company will acquire F&M and its wholly owned subsidiary, Farmers & Merchants Bank ("F&M Bank"), in a cash and stock transaction. Under the F&M Merger Agreement, Merger Sub will merge with and into F&M, with F&M continuing as the surviving entity (the "F&M Merger"), and, immediately thereafter, F&M will merge with and into the Company, with the Company continuing as the surviving entity. Immediately following the closing of the F&M Merger, F&M Bank will merge with and into the Bank, with the Bank surviving the bank merger. In the F&M Merger, F&M shareholders will receive for each share of F&M common stock consideration of (i) a pro rata portion of the aggregate cash consideration of approximately \$18.2 million based on the number of shares of F&M common stock, subject to adjustment as provided in the F&M Merger Agreement, and (ii) 1.335 shares of the Company's common stock, subject to a pricing collar adjustment in certain circumstances based on the price of the Company's common stock at the effective time as provided in the F&M Merger Agreement. The transaction is subject to approval by F&M shareholders, regulatory approval and satisfaction of other customary closing conditions and is expected to be completed in the second quarter of 2019. See Note 19, "Subsequent Events" for additional information.

On December 3, 2018, the Bank entered into a Purchase and Assumption Agreement with Lake Michigan Credit Union providing for the sale of the Bank's one branch located in Rochester Hills, MI. The purchase of the branch is subject to regulatory approval and satisfaction of customary closing conditions and is expected to be completed in the second quarter of 2019.

On October 19, 2018, the Company completed its previously announced acquisition (the "Acquisition") of United Bank for a total cash consideration of approximately \$51.1 million, subject to certain post-closing purchase price adjustments and future indemnity claims. In connection with the acquisition, the Company merged United Bank with and into the Bank, with the Bank surviving the merger.

On August 18, 2017, the Company completed its merger with Wells Financial Corporation ("WFC"), pursuant to the merger agreement, dated March 17, 2017. At that time, the separate corporate existence of WFC ceased, and the Company survived the merger. In connection with the merger, the Company caused Wells Federal Bank to merge with and into the Bank, with the Bank surviving the merger. The merger expanded the Bank's market share in Mankato and southern Minnesota, and added seven branch locations along with expanded services through Wells Insurance Agency, Inc..

Capital Raising Transactions

On June 20, 2018, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with each of a limited number of institutional and other accredited investors, including certain officers and directors of



the Company (collectively the “Purchasers”), pursuant to which the Company sold an aggregate of 500,000 shares of the Company’s 8.00% Series A Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, par value \$0.01 per share, (the “Series A Preferred Stock”), in a private placement (the “Private Placement”) at \$130.00 per share, for aggregate gross proceeds of \$65 million.

On September 28, 2018, each share of Series A Preferred Stock was mandatorily converted into 10 shares of common

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stock following receipt of stockholder approval of the issuance of the 5,000,000 shares of common stock.  
Internet Website

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

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#### Yields Earned and Rates Paid

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

#### Rate/Volume Analysis

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

#### Average Balance, Interest and Average Yields and Rates

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

#### Lending Activities

We offer a variety of loan products including commercial real estate loans, commercial and industrial (C&I) loans, agricultural real estate loans, agricultural non-real estate loans, residential mortgages, home equity lines-of-credit and consumer loans. We make real estate, consumer, commercial and agricultural loans in accordance with the basic lending policies established by Bank management and approved by our Board of Directors. We focus our lending activities on individual consumers and small commercial borrowers within our market areas. Our lending has been historically concentrated primarily within Wisconsin, 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 and unamortized discounts on acquired loans, as of December 31, 2018, were \$999,433, consisting of \$536,065 in commercial agricultural real estate loans, \$148,754 in commercial/agricultural non-real estate loans, \$222,809 in residential real estate loans and \$91,805 in consumer non-real estate loans. See Item 7; “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, under the heading “Balance Sheet Analysis” for further analysis of our loan portfolio.

#### Investment Activities

We maintain a portfolio of investments, consisting primarily of mortgage-backed securities, U.S. Government sponsored agency securities, bonds and other obligations issued by states and their political subdivisions, corporate debt securities and corporate asset based securities. We attempt to balance our portfolio to manage interest rate risk, regulatory requirements, and liquidity needs while providing an appropriate rate of return commensurate with the risk of the investment. See Item 7; “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, under the heading “Balance Sheet Analysis Investment Securities” for further analysis of our investment portfolio.

#### Deposits and Other Sources of Funds

General. The Company's primary sources of funds are deposits; amortization, prepayments and maturities of outstanding loans; other short- term investments; and funds provided from operations.

Deposits. We offer a broad range of deposit products through our branches, including demand deposits, various savings and money-market accounts and certificates of deposit. Deposits are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. At December 31, 2018, our total deposits were \$1,007,512 including interest bearing deposits of \$852,107 and non-interest bearing deposits of \$155,405.

Borrowings. In addition to our primary sources of funds, we maintain access to additional sources of funds through borrowing, including FHLB borrowings, lines of credit with the Federal Reserve Bank, our Revolving Loan and our Note. See Item 7; “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, under the heading “Balance Sheet Analysis Federal Home Loan Bank (FHLB) advances and other borrowings” for further analysis of our borrowings.

#### Competition

We compete with other financial institutions and businesses both in attracting and retaining deposits and making loans in all of our principal markets. We believe the primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, technology, convenient locations and office hours, and alternative delivery systems. One such delivery system is remote deposit capture for those commercial customers

that are not conveniently located near one of our branches or mobile banking for retail customers. Competition for deposit products comes primarily from other banks, credit unions and non-bank competitors, including insurance companies, money market and mutual funds, and other investment

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alternatives. We believe the primary factors in competing for loans are interest rates, loan origination fees, and the quality and the range of lending services. Successful loan originations tend to depend not only on interest rate and terms of the loan but also on being responsive and flexible to the customer's needs. Competition for loans comes primarily from other banks, mortgage banking firms, credit unions, finance companies, leasing companies and other financial intermediaries. Some of our competitors are not subject to the same degree of regulation as that imposed on national banks or federally insured institutions, and these other institutions may be able to price loans and deposits more aggressively. We also face direct competition from other banks and their holding companies that have greater assets and resources than ours. However, we have been able to compete effectively with other financial institutions by building customer relationships with a focus on small-business solutions, including internet and mobile banking, electronic bill pay and remote deposit capture.

#### Regulation and Supervision

The banking industry is highly regulated, and the Company and the Bank are subject to numerous laws and regulations. As a bank holding company, the Company is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the "FRB"). The Bank is also subject to regulation, supervision and examination by the OCC. The Bank is a member of the Federal Reserve System and the Federal Home Loan Bank System. In addition, the Bank's deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over the Bank.

The following is a brief summary of material statutes and regulations that affect the Company and the Bank. The following summary is not a complete discussion or analysis and is qualified in its entirety by reference to the statutes and regulations summarized below. Changes in statutes, regulations and policies applicable to the Company or the Bank cannot be predicted with certainty, but they may have a material effect on the business and earnings of the Company.

#### Securities Regulation and Listing

Our common stock is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is listed on the NASDAQ Global Market under the symbol "CZWI." We are subject to the information, proxy solicitation, insider trading, corporate governance, and other disclosure requirements and restrictions of the Exchange Act, as well as the Securities Act of 1933 (the "Securities Act"), both administered by the SEC. As a company listed on the NASDAQ Global Market, we are subject to NASDAQ standards for listed companies.

The Company is currently a "smaller reporting company" which allows us to provide certain simplified and scaled disclosures in our filings with the SEC. In June 2018, the SEC adopted amendments that raised the thresholds for a company to be eligible to provide scaled disclosures as a smaller reporting company to \$250 million of public float. As such, we will remain a smaller reporting company for so long as the market value of the Company's common stock held by non-affiliates as of the end of its most recently completed second fiscal quarter is less than \$250 million. Although we remain a smaller reporting company, we have become an "accelerated filer" because our public float exceeds \$75 million.

#### Sarbanes-Oxley Act.

The Sarbanes-Oxley Act of 2002 (SOX) was enacted to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. SOX and the SEC's implementing regulations include provisions addressing, among other matters, the duties, functions and qualifications of audit committees for all public companies; certification of financial statements by the chief executive officer and the chief financial officer; the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; disclosure of off-balance sheet transactions; a prohibition on personal loans to directors and officers, except (in the case of banking companies) loans in the normal course of business; expedited filing requirements for reports of beneficial ownership of company stock by insiders; disclosure of a code of ethics for senior officers, and of any change or waiver of such code; the formation of a public accounting oversight board; auditor independence; disclosure of fees paid to the company's auditors for non-audit services and limitations on the provision of such services; attestation requirements for company management and external auditors,

relating to internal controls and procedures; and various increased criminal penalties for violations of federal securities laws.

Section 404 of SOX requires management of the Company to undertake a periodic assessment of the adequacy and effectiveness of the Company's internal control over financial reporting. Since the Company has become an "accelerated filer," we have become subject to the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that an independent registered public accounting firm provide an attestation report on the Company's internal control over financial reporting and the operating effectiveness of these controls, making the public reporting process more costly. The Company has incurred, and expects to continue to incur, costs in connection with its on-going compliance with Section 404.

### The Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) significantly changed the regulatory structure for financial institutions and their holding companies, including with respect to lending, deposit, investment, trading and operating activities. Among other provisions, the Dodd-Frank Act:

- permanently increased the FDIC's standard maximum deposit insurance amount to \$250,000, changed the FDIC insurance assessment base to assets rather than deposits and increased the reserve ratio for the deposit insurance fund to ensure the future strength of the fund;
  - repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
  - created and centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (the "CFPB"). Smaller institutions are subject to rules promulgated by the CFPB and are also examined and supervised by their federal banking regulators for consumer compliance purposes;
  - imposed limits for debit card interchange fees for issuers that have assets greater than \$10 billion, which also could affect the amount of interchange fees collected by financial institutions with less than \$10 billion in assets;
  - restricted the preemption of state law by federal law and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption;
  - imposed comprehensive regulation of the over-the-counter derivatives market subject to significant rulemaking processes, to include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself;
  - established new requirements related to mortgage lending, including prohibitions against payment of steering incentives and provisions relating to underwriting standards, disclosures, appraisals and escrows;
  - prohibited banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (the Volcker Rule); and
  - implemented corporate governance revisions that apply to all public companies, not just financial institutions.
- Federal banking regulators and other agencies including, among others, the FRB, the OCC and the CFPB, have been engaged in extensive rule-making efforts under the Dodd-Frank Act. Some of the rules that have been adopted or proposed to comply with Dodd-Frank Act mandates are discussed in more detail below.

### 2018 Regulatory Reform

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

The EGRRCPA, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than \$10 billion by instructing the federal banking regulators to establish a single "Community Bank Leverage Ratio" of between 8 and 10 percent. Any qualifying depository institution or its holding company that exceeds the "community bank leverage ratio" will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying depository institution that exceeds the new ratio will be considered to be "well capitalized" under the prompt corrective action rules. The EGRRCPA also expands the category of holding companies that may rely on the "Small Bank Holding Company and Savings and Loan Holding Company Policy Statement" (the "HC Policy Statement") by raising the maximum amount of assets a qualifying holding company may have from \$1 billion to \$3 billion. This expansion also excludes such holding companies from the minimum capital requirements of the Dodd-Frank Act. In addition, the EGRRCPA includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Section 201 of the EGRRCPA requires the Federal banking agencies to promulgate a rule establishing a new "Community Bank Leverage Ratio" of 8%-10% for depository institutions and depository institution holding companies, including banks and bank holding companies, with less than \$10 billion in total consolidated assets. If such a

depository institution or holding company maintains tangible equity in excess of this leverage ratio, it would be deemed to be in compliance with (1) the leverage and risk-based capital requirements promulgated by the Federal banking agencies; (2) in the case of a depository

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institution, the capital ratio requirements to be considered “well capitalized” under the Federal banking agencies’ “prompt corrective action” regime; and (3) “any other capital or leverage requirements” to which the depository institution or holding company is subject, in each case unless the appropriate Federal banking agency determines otherwise based on the particular institution’s risk profile. In carrying out these requirements, the Federal banking agencies are required to consult with State banking regulators and notify the applicable State banking regulator of any qualifying community bank that exceeds or no longer exceeds the Community Bank Leverage Ratio.

It is difficult at this time to predict when or how any new standards under the EGRRCPA will ultimately be applied to us or what specific impact the EGRRCPA and the yet-to-be-written implementing rules and regulations will have on community banks.

#### Capital Adequacy

Banks and bank holding companies, as regulated institutions, are required to maintain minimum levels of capital. The FRB and the OCC have adopted minimum risk-based capital requirements (Tier 1 capital, common equity Tier 1 capital (“CET1”) and total capital) and leverage capital requirements, as well as guidelines that define components of the calculation of capital and the level of risk associated with various types of assets. Financial institutions are expected

to maintain a level of capital commensurate with the risk profile assigned to their assets in accordance with the guidelines.

In addition to the minimum risk-based capital and leverage ratios, banking organizations must maintain a “capital conservation buffer” consisting of CET1 in an amount equal to 2.5% of risk-weighted assets in order to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. In order to avoid those restrictions, the capital conservation buffer effectively increases the minimum CET1 capital, Tier 1 capital, and

total capital ratios for U.S. banking organizations to 7.0%, 8.5%, and 10.5%, respectively. Banking organizations with capital levels that fall within the buffer will be required to limit dividends, share repurchases or redemptions (unless replaced within the same calendar quarter by capital instruments of equal or higher quality), and discretionary bonus payments. The capital conservation buffer will be fully phased in on January 1, 2019.

The Bank’s capital categories are determined solely for the purpose of applying the “prompt corrective action” rules described below and they are not necessarily an accurate representation of its overall financial condition or prospects for other purposes. Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting

brokered deposits, and certain other restrictions on its business. See “Bank Regulation - Prompt Corrective Action” below.

#### Bank Holding Company Regulation

As a bank holding company, the