
2007 ANNUAL REPORT

[LOGO]

**CITIZENS COMMUNITY
BANCORP, INC.**

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FROM YOUR BOARD OF DIRECTORS

Dear Fellow Stockholders,

Despite challenges facing many banks, we're pleased to report that the fundamental strength of Citizens Community Bancorp Inc.'s business model, employees and dedication to superior service, drove improved performance in 2007.

For Citizens, fiscal 2007 was unique. We successfully raised almost \$53 million through our October 2006 public offering - helping support the Company's future. With the financial flexibility to grow and prosper, our more than 47,000 customers and 161 employees can be assured that we're well positioned for continued selective growth. In addition, we ended the year on a high note, delivering strong loan and income growth.

For the year ended September 30, 2007, Citizens Community Bancorp Inc.'s total assets increased by \$102.1 million, or 36 percent, to \$386.2 million. This growth was primarily due to a \$61.7 million increase in loans receivable and a \$38.8 million increase in investments, which consist of AAA-rated mortgage-backed securities.

In fiscal 2007 net income was \$743,000, or \$0.11 per diluted share, up 67 percent from net income of \$446,000, or \$0.06 per diluted share, for the prior year. The year-over-year gain was primarily due to an increase in net interest income.

Looking ahead, our strong capital position and history of organic growth, and expansion growth, bode well for the future. For fiscal 2008, our growth strategy will focus on three primary areas:

- Expansion in select locations that we believe offer excellent growth potential;
- A continued emphasis on increasing core deposits; and
- Rigorous management of our lending portfolio to minimize risk and maximize income.

Thank you for your belief in our vision and continued support.

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Richard McHugh
Chairman

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James G. Cooley
President, Chief Executive Officer
and Director

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The summary information presented below under "Selected Financial Condition Data" and "Selected Operations Data" for, and as of the end of, each of the years ended September 30 is derived from our audited financial statements. The following information is only a summary and you should read it in conjunction with our financial statements and notes beginning on page 23.

	September 30,				
	2007	2006	2005	2004	2003
	(In Thousands)				
<u>Selected Financial Condition Data:</u>					
Total assets.....	\$386,113	\$283,990	\$245,707	\$161,980	\$130,400
Loans receivable, net	320,027	258,467	217,931	152,376	123,107
Other interest-bearing deposits.....	371	959	1,444	---	---
Securities available for sale	39,592	782	2,088	---	---
Deposits.....	207,734	186,711	177,469	127,976	114,963
Total borrowings.....	96,446	61,200	36,200	13,500	3,700
Stockholders' equity(1).....	78,149	30,082	29,553	19,606	10,991

	Year Ended September 30,				
	2007	2006	2005	2004	2003
	(In Thousands)				
<u>Selected Operations Data:</u>					
Total interest income	\$19,346	\$15,311	\$11,926	\$9,619	\$8,880
Total interest expense	8,889	7,221	3,992	2,889	3,178
Net interest income.....	10,457	8,090	7,934	6,730	5,702
Provision for loan losses.....	470	251	414	396	406
Net interest income after provision for loan losses.....	9,987	7,839	7,520	6,334	5,296
Fees and service charges.....	1,262	1,243	1,160	1,038	1,009
Gain (loss) on sales of loans, mortgage-backed securities and investment securities.....	---	27	---	---	---
Other non-interest income.....	464	387	861	331	323
Total non-interest income	1,726	1,657	2,021	1,369	1,332
Total non-interest expense	10,522	8,741	7,806	6,323	5,641
Income before taxes.....	1,191	755	1,735	1,380	987
Income tax provision	448	309	684	543	390
Net income	\$ 743	\$ 446	\$ 1,051	\$ 837	\$ 597
Basic and diluted earnings per share	0.11	0.06 ⁽²⁾	\$0.18 ⁽²⁾	\$0.14 ⁽²⁾	N/A(1)

(Footnotes on following page)

Selected Financial Ratios and Other Data

	September 30,				
	2007	2006	2005	2004	2003
Performance Ratios					
Return on assets (ratio of net income to average total assets).....	0.22%	0.17%	0.56%	0.57%	0.49%
Return on equity (ratio of net income to average equity).....	1.09%	1.50%	4.87%	5.47%	5.59%
Interest rate spread in formation					
Average during period	3.07%	3.28%	4.28%	4.50%	4.82%
End of period	3.05%	3.11%	3.92%	4.59%	4.80%
Net interest margin.....	3.77%	3.54%	4.19%	4.70%	4.90%
Ratio of operating expense to average total assets.....	3.14%	3.30%	4.12%	4.33%	4.59%
Ratio of average interest-bearing assets to average interest-bearing liabilities.....	1.24%	1.09%	1.11%	1.10%	1.05%
Quality Ratios					
Non-performing assets to total assets at end					
of period	0.43%	0.63%	0.29%	0.43%	0.43%
Allowance for loan losses to non-performing loans	60.92%	60.07%	118.26%	79.51%	82.92%
Allowance for loan losses to net loans.....	0.29%	0.32%	0.37%	0.36%	0.38%
Capital Ratios					
Equity to total assets at end of period	20.24%	10.59%	12.03%	12.10%	8.43%
Average equity to average assets	21.42%	11.26%	11.40%	10.46%	8.70%
Other Data					
Number of full-service offices	12	12	12	9	8

(1) Prior to March 29, 2004, Citizens Community Federal was a mutual institution whose equity was retained earnings, therefore, per share earnings prior to that date are not meaningful.

(2) The formation of the Company was completed March 29, 2004, the date of closing of the initial public offering. The basic and diluted EPS are presented for the period March 29, 2004, through September 30, 2004. The weighted average number of shares outstanding for this period was 3,038,769 for basic and diluted EPS. Earnings per share were restated to reflect the impact of the second-step conversion and reorganization of the Company, which occurred October 31, 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and interest-bearing deposits with other financial institutions, and the interest we pay on our interest-bearing liabilities, consisting primarily of savings accounts, money market accounts, time deposits and borrowings. Our results of operations are also affected by our provision for loan losses, non-interest income and non-interest expense. Non-interest income consists primarily of service charges on deposit accounts, insurance commissions and loan fees. Just prior to the start of fiscal 2007, we initiated a mortgage banking operation. Loans originated in this operation are sold with servicing released. This generates fee income on sales of loans. Non-interest expense includes salaries and employee benefits, occupancy, equipment, data processing costs and deposit insurance premiums. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Evolution of Business Strategy

Citizens Community Bancorp, Inc. ("CCBI") is a Maryland chartered corporation established June 27, 2006, for the purpose of being the stock holding company of Citizens Community Federal upon the conversion of Citizens Community MHC from a mutual to a stock form of organization. Today, public stockholders own 100% of Citizens Community Bancorp, Inc. Citizens Community Federal is a wholly owned subsidiary of Citizens Community Bancorp, Inc.

On October 31, 2006, Citizens Community MHC (the "MHC") completed its reorganization into stock form and Citizens Community Bancorp, Inc. (the "Company") succeeded to the business of Citizens Community Bancorp, the MHC's former stock holding company subsidiary. The outstanding shares of common stock of the former mid-tier stock holding company (other than shares held by the MHC which were canceled) were converted into 1,826,380 shares of common stock of the Company. As part of the second-step mutual to stock conversion transaction, the Company sold a total of 5,290,000 shares to eligible depositors of the Bank in a subscription offering at \$10.00 per share, including 341,501 shares purchased by the Bank's employee stock ownership plan with funds borrowed from the Company.

On March 29, 2004, Citizens Community Bancorp ("CCB") was formed as a federally chartered holding company for the purpose of acquiring all of the common stock of Citizens Community Federal concurrent with its reorganization and stock issuance plan. In doing so, CCB became the majority-owned subsidiary of Citizens Community MHC, a federally chartered mutual holding company.

On July 1, 2005, Community Plus Savings Bank, Rochester Hills, Michigan, was acquired through a merger with and into Citizens Community Federal. At June 30, 2005, Community Plus Savings Bank had total assets of \$46.0 million and deposits and other liabilities of \$41.8 million, prior to purchase accounting adjustments.

Historically, we were a federal credit union. We accepted deposits and made loans to members, who lived, worked or worshiped in the Wisconsin counties of Chippewa and Eau Claire, and parts of Pepin, Buffalo and Trempealeau. In addition, this included businesses and other entities located in these counties, and members and employees of the Hocak Nation. In December 2001, we converted to a federal mutual savings bank in order to better serve our customers and the local community through the broader lending ability of a federal savings bank, and to expand our customer base beyond the limited field of membership permitted for credit unions. As a federal savings bank, we have expanded authority in structuring residential mortgage and consumer loans, and the ability to make commercial loans, although Citizens Community Federal does not currently have any immediate plans to commence making commercial loans.

We have utilized this expanded lending authority to significantly increase our ability to market one- to four-family residential lending. Most of these loans are originated through our internal marketing efforts, and our existing and walk-in customers. We typically do not rely on real estate brokers and builders to help us generate loan originations.

In order to differentiate ourselves from our competitors, we have stressed the use of personalized branch-oriented customer service. In addition to building additional electronic means for our customers to conduct banking, we have structured operations around a branch system that is staffed with knowledgeable and well-equipped employees. A key to ensuring a high level of quality customer service is our ongoing commitment to training all levels of our staff.

Our current business strategy is to operate Citizens Community Federal as a well-capitalized, profitable and community-oriented savings bank dedicated to providing quality customer service. We intend to make primarily one- to four-family residential and consumer loans. Subject to capital requirements and our ability to continue to grow in a reasonable and prudent manner, we may open or acquire additional branches as opportunities arise. One element of our business plan is to open branches in select locations that we believe offer growth potential. There can be no assurances that we will successfully implement our strategy.

Comparison of Operating Results for the Year Ended September 30, 2007, and September 30, 2006

Overview. Our results of operations depend primarily on the level of our net interest margin, our provision for loan losses, our non-interest income and our operating expenses. Net interest income depends on the volume and rate associated with interest-earning assets and interest-bearing liabilities which result in net interest margin. Net income increased by 66.6% to \$743,000 for the year ended September 30, 2007, from \$446,000 for the year ended September 30, 2006. The increase was primarily due to an increase in net interest income, partially offset by an increase in operating expenses. Fiscal 2007 included a one-time, after-tax charge of \$370,000 (\$610,000 pre-tax) taken in the first quarter of fiscal 2007 related to agreements with two Citizens Community Federal executives who resigned. Excluding the charge, the Company would have reported fiscal 2007 net income of \$1,113,000, a 149.6% increase from the prior year.

Interest Income. Total interest income increased by \$4.0 million, or 26.1%, to \$19.3 million for the year ended September 30, 2007, from \$15.3 million for the year ended September

30, 2006. The primary reason for the increase in interest income was the \$48.1 million increase in the average outstanding balance of loans receivable from \$237.6 million for the year ended September 30, 2006, to \$285.7 million for the year ended September 30, 2007. The increase was the result of loan originations exceeding repayments due to strong loan demand. The yield in average loans receivable increased to 6.54% from 6.30%, reflecting higher yielding new loans replacing payoffs on loans with lower interest rates. In addition, interest and dividend income increased as a result of an increase in investments. These increases resulted in a fiscal year-to-date increase in interest income of \$306,000, or 86.7% as interest income at September 30, 2007 was \$659,000 compared to \$353,000 for fiscal 2006.

Interest Expense. Total interest expense increased \$1.7 million, or 23.6%, to \$8.9 million for the year ended September 30, 2007, from \$7.2 million for the year ended September 30, 2006. The increase in interest expense resulted from an increase in cost of both deposits and notes payable as a result of an increase in average deposits outstanding and an increase in advances from the Federal Home Loan Bank of Chicago. Management used the FHLB advances as it sought the most cost-effective source to fund loan demand. The use of borrowed funds helped to keep deposit yields lower than would have been necessary to attract the additional funding for loan demand through additional deposit growth. In addition, mortgage-backed security investments ("MBS") were purchased with FHLB advances. The average cost of interest-bearing liabilities increased from 3.16% for the year ended September 30, 2006, to 3.61% for the year ended September 30, 2007, reflecting generally higher market rates of interest in fiscal 2007, combined with maturing CDs with lower rates of interest renewing into higher current rates and the additional FHLB advances used to fund the MBS investments.

Net Interest Income. Net interest income increased 29.6% to \$10.5 million for the year ended September 30, 2007, from \$8.1 million for the year ended September 30, 2006. The average net interest spread for fiscal 2007 was 3.07%, a decrease of 21 basis points from the average interest spread for 2006 of 3.28%. The average interest rate margin increased 23 basis points to 3.77% from 3.54%. The net interest spread performance was a result of the cost of interest-bearing liabilities increasing at a faster pace than the increase in the yield on earning assets. Contributing to the decrease in net interest spread was the MBS portfolio being funded through FHLB advances. The spreads produced from leveraged investments result in consistently lower interest margins than the loans receivable portfolio, and as a result, the overall net interest spread was affected. The increase in net margin was a result of the use of proceeds from the second step offering to initially pay down FHLB advances and was also used to pay down advances with higher rates.

Provision for Loan Losses. Management establishes provisions for loan losses, which are charged to operations, at a level we believe reflects probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers the types of loans and the amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions.

In fiscal 2007, we recorded a provision for loan losses of \$470,000, compared to \$251,000 in fiscal 2006. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available, or as future events change. The allowance for loan losses as a percentage of loans receivable decreased to 0.29% at September 30, 2007, from 0.32% at September 30, 2006. The level of the allowance is based on

estimates and the ultimate losses may vary from the estimates. Non-performing assets were approximately \$1.7 million at September 30, 2007, as compared to \$1.8 million at September 30, 2006.

Non-performing assets at September 30, 2007, were 0.43% of total assets, compared to 0.63% of total assets at September 30, 2006. Net charged-off loans were \$378,000 for the year ended September 30, 2007, compared to \$219,000 for the year ended September 30, 2006. The allowance for loan losses as a percentage of non-performing loans was 60.9% at September 30, 2007, compared to 60.1% at September 30, 2006. While net charged-off loans increased in fiscal 2007 from fiscal 2006, non-performing loans decreased during the same period. Charge-offs and delinquencies remain low when compared to thrift industry averages.

Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of September 30, 2007, was maintained at a level that represents management's best estimate of probable losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

Non-Interest Income. Total non-interest income remained unchanged at \$1.7 million in fiscal 2007 and fiscal 2006 as all categories stayed relatively constant.

Non-Interest Expense. Total non-interest expense for the year ended September 30, 2007, increased 20.7% to \$10.5 million from \$8.7 million for the year ended September 30, 2006. The increase was primarily due to costs associated with the Company's growth, including salary and benefits, the one-time charge detailed earlier, occupancy and professional services, and higher employee stock ownership plan (ESOP) expenses related to the second step conversion.

Income Tax Expense. Income tax expense increased to \$448,000, or 37.6% of income before income taxes, for the year ended September 30, 2007, from \$309,000, or 40.9% of income before income taxes, for the year ended September 30, 2006. The increase was a result of increased earnings.

Comparison of Operating Results for the Year Ended September 30, 2006, and September 30, 2005

Overview. Our results of operations depend primarily on the level of our net interest margin, provision for loan losses, non-interest income and operating expenses. Net interest income depends on the volume and rate associated with interest-earning assets and interest-bearing liabilities which result in net interest margin. Net income decreased by 57.6% to \$446,000 for the year ended September 30, 2006, from \$1,051,000 for the year ended September 30, 2005. The decrease was primarily a result of income generated in the prior year from the January 12, 2005, merger of PULSE-EFT and Discover Financial Services, and an increase in operating costs associated with the two Michigan offices acquired July 1, 2005, in Rochester

Hills and Lake Orion. We were a stockholder and member of PULSE-EFT. As a result of the merger, we received \$448,000 in combined pre-tax income in fiscal 2005 from this one-time event.

Interest Income. Total interest and dividend income increased by \$3.4 million, or 28.6%, to \$15.3 million for the year ended September 30, 2006, from \$11.9 million for the year ended September 30, 2005. The primary reason for the increase in interest income was the \$60.8 million increase in the average outstanding balance of loans receivable from \$176.8 million for the year ended September 30, 2005, to \$237.6 million for the year ended September 30, 2006. The increase was the result of loan originations exceeding repayments due to strong loan demand. The yield in average loans receivable decreased to 6.30% from 6.62%, reflecting both the lower-yielding loan portfolio from the Michigan office acquired July 2005 and payoffs on higher-yielding loans being replaced by new loans with lower interest rates, primarily earlier in the fiscal year, and the result of longer-term rates used for pricing loan products lagging the increasing rates on deposits.

Interest Expense. Total interest expense increased \$3.2 million, or 80.0%, to \$7.2 million for the year ended September 30, 2006, from \$4.0 million for the year ended September 30, 2005. The increase in interest expense resulted from an increase in cost of both deposits and notes payable as a result of an increase in average deposits outstanding and an increase in advances from the Federal Home Loan Bank of Chicago. Management used the advances as it sought the most cost-effective source of funds. The use of borrowed funds helped to keep deposit yields lower than would have been necessary to attract the additional funding for loan demand. The average cost of interest-bearing liabilities increased from 2.40% for the year ended September 30, 2005, to 3.16% for the year ended September 30, 2006, reflecting generally higher market rates of interest in fiscal 2006.

Net Interest Income. Net interest income increased 2.5% to \$8.1 million for the year ended September 30, 2006, from \$7.9 million for the year ended September 30, 2005. The average net interest spread for fiscal 2006 was 3.28%, a decrease of 82 basis points from the average interest spread for 2005 of 4.10%. The average interest rate margin decreased 79 basis points to 3.54% from 4.33%. The net interest spread and net interest margin performance was a result of an increase in the average outstanding balance of loans receivable offset by a reduction in loan yield and an increase in interest expense.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations, at a level management believes will reflect probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers the types of loans and the amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions.

In fiscal 2006, we recorded a provision for loan losses of \$251,000, compared to \$414,000 in fiscal 2005. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available, or as future events change. The allowance for loan losses as a percentage of loans receivable decreased to 0.32% at September 30, 2006, from 0.37% at September 30, 2005. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates. Non-performing assets were

approximately \$1.4 million at September 30, 2006, as compared to \$701,000 at September 30, 2005.

Non-performing loans at September 30, 2006, were 0.49% of total assets, compared to 0.27% of total assets at September 30, 2005. Net charged-off loans were \$219,000 for the year ended September 30, 2006, compared to \$205,000 for the year ended September 30, 2005. The allowance for loan losses as a percentage of non-performing loans was 60.1% at September 30, 2006, compared to 120.0% at September 30, 2005. Non-performing loans increased during fiscal 2006 compared to fiscal 2005, however charge-offs and delinquencies remained favorable when compared to thrift industry peer averages.

Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of September 30, 2006, was maintained at a level that represented management's best estimate of probable losses inherent in the loan portfolio, and such losses were both probable and reasonably estimable.

Non-Interest Income. Total non-interest income decreased \$300,000 from \$2.0 million in fiscal 2005 to \$1.7 million in fiscal 2006, as a result of income generated from the January 12, 2005, merger of PULSE-EFT and Discover Financial Services, with no similar income generated in fiscal 2006. We were a stockholder and member of PULSE-EFT. As a result of the merger, we received \$448,000 in pre-tax income in fiscal 2005. Excluding the one-time gain from PULSE-EFT transaction, non-interest income increased \$84,000 from the prior year as a result of increased service charges on deposit accounts.

Non-Interest Expense. Total non-interest expense for the year ended September 30, 2006, increased 11.5% to \$8.7 million from \$7.8 million for the year ended September 30, 2005. The increase was primarily due to the additional operating cost associated with the two Michigan offices acquired July 1, 2005.

Income Tax Expense. Income tax expense decreased to \$309,000, or 40.9% of income before income taxes, for the year ended September 30, 2006, from \$684,000, or 39.4% of income before income taxes, for the year ended September 30, 2005. The decrease was due to the decrease in income.

Comparison of Financial Condition at September 30, 2007, and September 30, 2006

Total Assets. Our total assets as of September 30, 2007, were \$386.1 million, compared to \$284.0 million as of September 30, 2006. The 2007 fiscal year increase of 36.0% was primarily due to a \$61.7 million increase in loans receivable and a \$38.8 million increase in investments.

Securities Available for Sale. Securities available for sale increased from \$782,000 on September 30, 2006, to \$39.6 million on September 30, 2007. We selectively purchased non-

agency MBS that either met or exceeded our underwriting guidelines. This strategy was employed to complement consumer loan underwriting. Strong demand in consumer lending required managing the balance sheet's structure to comply with the consumer lending limit imposed on federally chartered savings banks. Management chose to increase the asset base by purchasing AAA-rated MBS funded by FHLB advances. This strategy allowed us to continue making consumer loans within our regulatory limits. The securities purchased are AAA-rated Jumbo Prime MBS, with an average loan-to-value ratio of 68.98% and an average FICO score of 741. We have stayed within the Jumbo Prime sector, purchasing no Sub-Prime or Alt-A MBS. Furthermore, while the Bank has purchased hybrid ARM securities, we have refrained from purchasing any negative amortization loans or option ARM securities. Finally, the MBS portfolio consists only of those securities that are in one of the two highest-rating categories and are first-lien mortgages only.

FHLB Stock. Federal Home Loan Bank stock increased from \$3.1 million on September 30, 2006, to \$4.8 million on September 30, 2007. The increase was a result of required stock purchases to access additional FHLB borrowings.

Loans Receivable. Loans increased by \$61.5 million, or 23.7%, from \$259.2 million as of September 30, 2006, to \$320.7 million as of September 30, 2007. At September 30, 2007, the loan portfolio was comprised of \$188.0 million of loans secured by real estate, or 58.6% of total loans, and \$132.7 million of consumer loans, or 41.4% of total loans.

At September 30, 2006, the loan portfolio mix included real estate loans of \$165.6 million, or 63.9% of total loans, and consumer loans of \$93.6 million, or 36.1% of total loans. Loan production was strong throughout the Branch system. A significant contributing factor to the loans receivable increase were the indirect consumer loans generated from our established dealer network, especially in our Michigan and Minnesota markets. At September 30, 2007, indirect loans from our Minnesota and Michigan branches totaled \$34.4 million and \$24.4 million, respectively, compared with \$11.1 million and \$3.6 million at September 30, 2006.

Allowance for Loan Losses. The following table is an analysis of the activity in the allowance for loan losses for the years ended September 30, 2007, and September 30, 2006.

	Year Ended September 30,	
	2007	2006
Balance at Beginning	\$ 835	\$ 803
Provisions Charged to Operating Expense	470	251
Loans Charged Off	(413)	(247)
Recoveries on Loans	34	28
Balance at End	<u>\$ 926</u>	<u>\$ 835</u>

Office Properties and Equipment. Total investment in office properties and equipment was \$3.7 million on September 30, 2006, and \$3.5 million on September 30, 2007, a decrease of \$200,000, or 5.4%. The decrease was a result of the depreciation of current equipment and properties, partially offset by modest additions to property and equipment.

Deposits. Deposits as of September 30, 2007, were \$207.7 million, compared to \$186.7 million as of September 30, 2006, an increase of \$21.0 million, or 11.2%. The fiscal 2007 growth came primarily from new certificates of deposit, money market accounts and checking accounts. A deposit campaign was initiated in 2007 that generated 1,587 new checking accounts. Management expects this program to continue in fiscal 2008.

Borrowed Funds. Federal Home Loan Bank advances increased from \$61.2 million on September 30, 2006, to \$96.4 million on September 30, 2007, as a result of the need to utilize a funding source other than deposits to fund MBS investments and strong loan demand.

Stockholders' Equity. Stockholders' equity increased \$48.0 million to \$78.1 million at September 30, 2007, from \$30.1 million at September 30, 2006. The increase for the period was primarily a result of the proceeds received from the second step conversion and reorganization and retained earnings.

Comparison of Financial Condition at September 30, 2006, and September 30, 2005

Total Assets. Our total assets as of September 30, 2006, were \$284.0 million, compared to \$245.7 million as of September 30, 2005, an increase of 15.6%. Assets increased primarily as a result of an increase in loans receivable. Contributing to the increase in loans was the continued growth of the Mankato and Oakdale, Minn. branches.

Cash and Cash Equivalents. Cash and cash equivalents decreased from \$9.3 million on September 30, 2005, to \$6.2 million on September 30, 2006. The decrease was a result of using cash to fund loan growth in the period.

Loans Receivable. Loans increased by \$40.6 million, or 18.6%, from \$218.7 million as of September 30, 2005, to \$259.3 million as of September 30, 2006. At September 30, 2006, the loan portfolio was comprised of \$165.6 million of loans secured by real estate, or 63.9% of total loans, and \$93.6 million of consumer loans, or 36.1% of total loans.

At September 30, 2005, the loan portfolio mix included real estate loans of \$144.5 million, or 66.1% of total loans, and consumer loans of \$74.2 million, or 33.9% of total loans. As noted above, a contributing factor to the loans receivable increase was the loan production at the Mankato and Oakdale, Minn. branches. At September 30, 2006, loans receivable in our portfolio generated from our Mankato and Oakdale branches totaled \$19.0 million and \$20.5 million, respectively, compared to \$11.2 million at Mankato and \$11.6 million at Oakdale at September 30, 2005.

Allowance for Loan Losses. The following table is an analysis of the activity in the allowance for loan losses for the years ended September 30, 2006, and September 30, 2005.

	Year Ended September 30,	
	2006	2005
Balance at Beginning	\$ 803	\$ 554
Other - Obtained through Merger		40
Provisions Charged to Operating Expense	251	414
Loans Charged Off	(247)	(236)
Recoveries on Loans	28	31
Balance at End	<u>\$ 835</u>	<u>\$ 803</u>

Office Properties and Equipment. Total investment in office properties and equipment was \$2.9 million on September 30, 2005, and \$3.7 million on September 30, 2006, an increase of \$800,000, or 27.6%. The increase came primarily from the purchase of computer equipment and software totaling \$800,000. On September 9, 2005, we entered into a series of purchase agreements and software user agreements with Information Technology, Inc. for computer equipment and software. The purchase was completed in March 2006.

Deposits. Deposits as of September 30, 2006, were \$186.7 million, compared to \$177.5 million as of September 30, 2005, an increase of \$9.2 million, or 5.2%. The majority of the deposit growth came from the two Minnesota branch offices, as management sought the most cost-effective markets to attract deposits.

Borrowed Funds. Federal Home Loan Bank advances increased from \$36.2 million on September 30, 2005, to \$61.2 million on September 30, 2006, as the need to fund strong loan demand increased.

Stockholders' Equity. Stockholders' equity increased \$529,000 to \$30.1 million at September 30, 2006, from \$29.6 million at September 30, 2005. The increase was a result of net earnings for the period, partially offset by the payment of dividends and increases related to the accounting for the employee stock ownership, and management recognition and retention stock plans.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both 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. No tax equivalent adjustments were made. Non-accruing loans have been included in the table as loans carrying a zero yield.

	Year ended September 30,								
	2007			2006			2005		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(In Thousands)								
Interest-Earning Assets:									
Cash equivalents.....	\$ 5,953	\$ 167	2.81%	\$ 6,135	\$ 184	3.00%	\$ 5,489	\$ 134	2.44%
Loans receivable ⁽¹⁾	285,668	19,713	6.90	237,553	15,664	6.59	176,802	11,763	6.65
Other interest-bearing deposits.....	567	30	5.29	1,153	46	3.99	215	8	3.72
Securities available for sale.....	9,487	379	3.99	1,478	58	3.92	522	21	4.02
Federal Home Loan Bank stock.....	<u>3,115</u>	<u>83</u>	2.66	<u>2,280</u>	<u>65</u>	2.85	<u>1,345</u>	<u>54</u>	4.01
Total interest-earning assets.....	<u>\$304,790</u>	<u>20,372</u>	6.68	<u>\$248,599</u>	<u>16,017</u>	6.44	<u>\$184,373</u>	<u>11,980</u>	6.50
Interest-Bearing Liabilities:									
Savings accounts.....	\$ 22,858	218	0.95	\$ 24,703	167	0.68	\$ 15,877	122	0.77
Demand accounts ⁽²⁾	19,283	28	0.15	19,622	28	0.14	13,346	30	0.22
Money market accounts.....	24,323	588	2.42	26,623	500	1.88	24,527	433	1.77
CDs.....	120,148	5,707	4.75	104,536	4,126	3.95	78,052	2,370	3.04
IRAs.....	10,876	453	4.17	10,252	361	3.52	9,316	308	3.31
Federal Home Loan Bank advances.....	<u>48,643</u>	<u>1,895</u>	3.90	<u>42,500</u>	<u>2,039</u>	4.80	<u>25,140</u>	<u>729</u>	2.90
Total interest-bearing liabilities.....	<u>\$246,130</u>	<u>8,889</u>	3.61	<u>\$228,237</u>	<u>7,221</u>	3.16	<u>\$166,258</u>	<u>3,992</u>	2.40
Net interest income.....		<u>\$11,483</u>			<u>\$ 8,796</u>			<u>\$ 7,988</u>	
Net interest rate spread.....			3.07%			3.28%			4.10%
Net interest margin ⁽³⁾			3.77%			3.54%			4.33%
Average interest-earning assets to average interest-bearing liabilities.....		<u>1.24x</u>			<u>1.09x</u>			<u>1.11x</u>	

(1) Calculated net of loan fees of \$(1,026,000) in 2007, \$(706,000) in 2006 and \$(54,000) in 2005, loan discounts, loans in process and allowance for losses on loans.

(2) Includes \$13.8 million, \$13.8 million and \$14.4 million of non-interest-bearing demand deposits during the years ended September 30, 2007, 2006 and 2005, respectively.

(3) Net interest income divided by interest-earning assets.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. 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 volume multiplied by the old rate; and (2) changes in rate, which are changes in rate multiplied by the old volume. Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended September 30, 2007 vs. 2006			Year Ended September 30, 2006 vs. 2005		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In Thousands)					
Interest-Earning Assets:						
Loans receivable ⁽¹⁾	\$3,293	\$ 756	\$4,049	\$4,007	\$ (106)	\$3,901
Other.....	318	(12)	306	132	4	136
Total interest-earning assets.....	<u>\$3,611</u>	<u>\$ 744</u>	<u>\$4,355</u>	<u>\$4,139</u>	<u>\$ (102)</u>	<u>4,037</u>
Interest-Bearing Liabilities:						
Savings accounts.....	\$ (12)	63	51	\$ 62	\$ (17)	45
Demand accounts.....	---	---	---	11	(13)	(2)
Money market account.....	(46)	134	88	38	29	67
IRA accounts.....	23	69	92	32	21	53
Certificates of deposit.....	669	912	1,581	932	824	1,756
Federal Home Loan Bank advances.....	271	(415)	(144)	673	637	1,310
Total interest-bearing liabilities.....	<u>\$ 905</u>	<u>\$ 763</u>	<u>1,668</u>	<u>\$1,748</u>	<u>\$1,481</u>	<u>3,229</u>
Net interest income.....			<u>\$2,687</u>			<u>\$ 808</u>

(1) Calculated net of loan fees of \$(1,026,000) in 2007, \$(706,000) in 2006 and \$(54,000) in 2005.

Liquidity and Commitments

We are required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe and sound operation. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Historically, we have maintained liquid assets above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained. At September 30, 2007, our liquidity ratio, which is our liquid assets as a percentage of net withdrawable savings deposits with a maturity of one year or less and current borrowings was 3.85%.

Citizens Community Federal's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. Citizens Community Federal's primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans, and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and maturing short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. In addition, Citizens Community

Federal invests excess funds in short-term, interest-earning assets, which provide liquidity to meet lending requirements. Citizens Community Federal also generates cash through borrowings. Citizens Community Federal utilizes Federal Home Loan Bank advances to leverage its capital base, and provide funds for its lending and investment activities, and to enhance its interest rate risk management.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits or certificates of deposit in other financial institutions. On a longer-term basis, Citizens Community Federal maintains a strategy of investing in various lending products as described in greater detail under "Evolving Business Strategies." Citizens Community Federal uses its sources of funds primarily to meet its ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, and to fund loan commitments.

At September 30, 2007, the total approved loan origination commitments outstanding amounted to \$428,000. At the same date, unused approved lines of credit to our customers were \$2.7 million and certificates of deposit scheduled to mature in one year or less, totaled \$106.0 million.

The average cost of deposits increased throughout fiscal 2006 and fiscal 2007. Management's policy is to maintain deposit rates at levels that are competitive with other local financial institutions. Based on the competitive rates and on historical experience, management believes that a significant portion of maturing deposits will remain with Citizens Community Federal. In addition, Citizens Community Federal had the ability as of September 30, 2007, to borrow an additional \$38.6 million from the Federal Home Loan Bank of Chicago as a funding source to meet commitments and for liquidity purposes.

Capital

Consistent with its goals to operate a sound and profitable financial organization, Citizens Community Federal actively seeks to maintain a "well-capitalized" institution in accordance with regulatory standards. Total equity of Citizens Community Federal was \$43.7 million at September 30, 2007, or 11.5% of total assets. As of September 30, 2007, Citizens Community Federal exceeded all capital requirements of the Office of Thrift Supervision (OTS). Citizens Community Federal's regulatory capital ratios at September 30, 2007, were as follows: core capital 11.5%; Tier 1 risk-based capital, 17.7%; and total risk-based capital, 18.0%. The regulatory capital requirements to be considered well capitalized are core capital of 5.0%, Tier 1 risk-based capital of 6.0% and risk-based capital of 10.0%, respectively.

Impact of Inflation

The consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation.

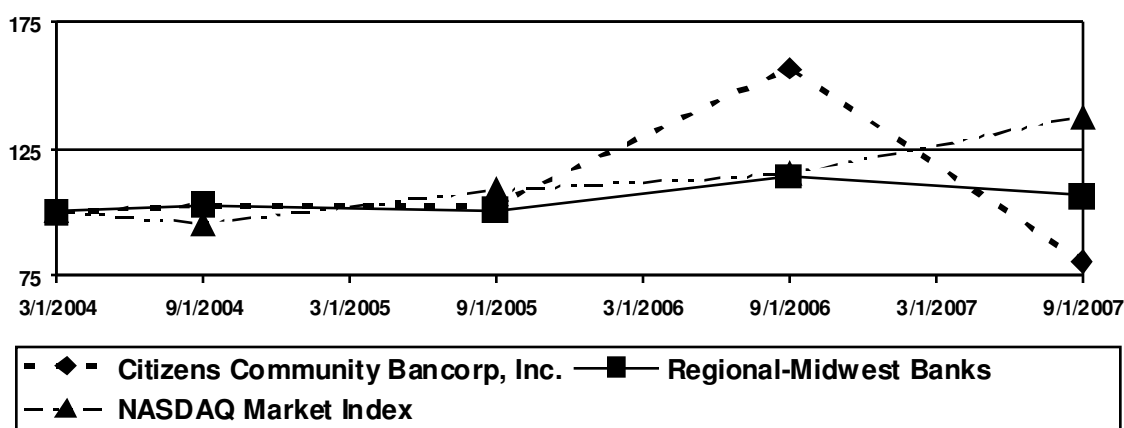
Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturity structures of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of non-interest expense. Such expense items as employee compensation, employee benefits, and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

Stockholder Performance Presentation

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Company's Common Shares against the cumulative total return of the NASDAQ Market Index and a Peer Group Index for the period since the Company's (and its predecessor's, Citizens Community Bancorp) common stock began trading. The issuers in the Peer Group Index were selected on a line-of-business basis by reference to SIC Code 414 - Regional-Midwest Banks, which is composed of sixty-one banks. The presentation assumes \$100 was invested on March 30, 2004, the first day of trading of Citizens Community Bancorp common stock, which succeeded to Citizens Community Bancorp, Inc. stock after the Reorganization. The chart assumes reinvestment of all dividends. Historical stock price is not necessarily indicative of future stock performance.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG
CITIZENS COMMUNITY BANCORP, INC., NASDAQ MARKET INDEX AND PEER GROUP INDEX**



	<u>03/30/2004</u>	<u>09/30/2004</u>	<u>09/30/2005</u>	<u>09/30/2006</u>	<u>09/30/2007</u>
Citizens Community Bancorp, Inc.	\$100.00	102.69	103.03	156.68	80.41
Peer Group Index	100.00	103.02	100.86	114.09	106.47
NASDAQ Market Index	100.00	95.54	108.69	115.14	137.59

Recent Accounting Pronouncements

Future Accounting Changes

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company believes the adoption of this statement will not have a significant effect on the financial statements of the Company.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement amends SFAS No. 87, *Employers' Accounting for Pensions*; SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*; SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*; and SFAS No. 132 (revised 2003), *Employers' Disclosures About Pensions and Other Postretirement Benefits*. SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position. It also requires an employer to recognize gains or losses and prior service costs or credits that arise during the year but are not recognized as components of net periodic benefit cost under SFAS No. 87 as a component of other comprehensive income. Additionally, it requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for public companies as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company adopted this statement which resulted in an increase in liabilities and a decrease in equity of approximately \$621 for the underfunded status of the plan, net of tax.

In September 2006, the Securities and Exchange Commission's office (SEC) announced *Staff Accounting Bulletin No. 108* (SAB 108). SAB 108 addresses how to quantify financial statement errors that arose in prior periods for purposes of assessing their materiality in the current period. It requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality. It clarifies that immaterial financial statement errors in a prior SEC filing can be corrected in subsequent filings without the need to amend the prior filing. In addition, SAB 108 provides transitional relief for correcting errors that would have been considered immaterial before its issuance. The adoption of SAB 108 will not have an impact on our consolidated financial position, results of operations, or cash flows.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribed a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, for public companies. The Company believes the adoption of this interpretation will not have a significant effect on the financial statements of the Company.

Quantitative and Qualitative Disclosures About Market Risk

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. 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 and is our most significant market risk.

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

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

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

- originating first mortgage loans, with a clause allowing for payment on demand after a stated period of time;
- originating shorter-term consumer loans;
- originating prime-based home equity lines of credit;
- managing our deposits to establish stable deposit relationships;
- using Federal Home Loan Bank advances to align maturities and repricing terms; and
- attempting to limit the percentage of long-term, fixed-rate loans in our portfolio which do not contain a payable-on-demand clause.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the asset and liability management committee may determine to increase Citizens Community Federal's interest rate risk position somewhat in order to maintain its net-interest margin.

In light of our performance in fiscal 2006 and fiscal 2007, management believes our strategies have proven to be effective. Credit quality continued to be strong with delinquency and charge-off ratios remaining low. Interest rate risk, defined by net portfolio value (NPV), continued to show minimal risk. By continuing to include our payment-on-demand clauses on our first mortgage loan originations, less than 10% of the Citizen Community Federal assets were represented by traditional fixed-rate mortgage loans with amortizations of 15 years or greater.

As of September 30, 2007, \$144.5 million of our loans in portfolio included a payable-on-demand clause. We have not utilized the demand clause since fiscal 2000 because, in management's view, it has not been appropriate. Therefore, the clause has had no impact on our liquidity and overall financial performance for the periods presented.

As part of its procedures, the asset and liability management committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity. Market value of portfolio equity is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the board of directors of Citizens Community Federal.

The following table sets forth, at September 30, 2007, an analysis of Citizen Community Federal's interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (up 300 basis points and down 200 basis points, measured in 100 basis point increments). As of September 30, 2007, due to the current level of interest rates, the OTS no longer provides NPV estimates for decreases in interest rates greater than 200 basis points.

Change in Interest Rates in Basis Points ("bp") (Rate Shock in Rates) ⁽¹⁾	Net Portfolio Value			Net Portfolio Value as % of Present Value of Assets	
	Amount	Change	Change	NPV Ratio	Change
	(Dollars in thousands)				
+300 bp	\$36,641	\$(7,080)	(16)%	10.01%	(148) bp
+200 bp	39,118	(4,603)	(11)	10.55	(95)
+100 bp	41,514	(2,207)	(5)	11.05	(44)
0 bp	43,721	---	---	11.50	---
-100 bp	45,442	1,721	4	11.81	32
-200 bp	46,445	2,724	6	11.96	46

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

For comparative purposes, the table below sets forth, at September 30, 2006, an analysis of Citizen Community Federal's interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (up 300 basis points and down 200 basis points, measured in 100 basis point increments). As of September 30, 2006, due to the current level of interest rates, the OTS no longer provides NPV estimates for decreases in interest rates greater than 200 basis points.

Change in Interest Rates in Basis Points ("bp") (Rate Shock in Rates) ⁽¹⁾	Net Portfolio Value			Net Portfolio Value as % of Present Value of Assets	
	Amount	Change	Change	NPV Ratio	Change
	(Dollars in thousands)				
+300 bp	\$14,290	\$(6,749)	(32)%	5.41%	(226) bp
+200 bp	16,590	(4,449)	(21)	6.20	(147)
+100 bp	18,862	(2,177)	(10)	6.96	(71)
0 bp	21,039	---	---	7.66	---
-100 bp	23,005	1,966	9	8.29	62
-200 bp	24,778	3,738	18	8.83	116

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

The OTS uses certain assumptions in assessing the interest rate risk of savings associations. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under differing interest rate scenarios, among others.

The assumptions used by management to evaluate the vulnerability of Citizens Community Federal's operations to changes in interest rates in the table above are utilized in, and set forth under, the gap table below. Although management finds these assumptions reasonable, the interest rate sensitivity of Citizens Community Federal's assets and liabilities and the estimated effects of changes in interest rates on Citizens Community Federal's net interest income and market value of portfolio equity indicated in the above table could vary substantially if different assumptions were used or actual experience differs from such assumptions.

The following table summarizes the anticipated maturities or repricing of Citizens Community Federal's interest-earning assets and interest-bearing liabilities at September 30, 2007, based on the information and assumptions set forth below.

	Six Months or Less	Over Six Months to One Year	Over One to Three Years	Over Three to Five Years	Over Five Years	Total
	(Dollars in Thousands)					
Real estate mortgage loans.....	\$34,208	\$27,724	\$68,816	\$31,665	\$25,544	\$187,957
Consumer loans.....	56,968	37,716	32,881	3,190	1,989	132,744
Securities available for sale.....	2,646	2,721	11,552	10,814	11,859	39,592
Other interest-bearing deposits.....	---	---	371	---	---	371
Federal Home Loan Bank stock.....	---	---	---	4,822	---	4,822
Cash equivalents ⁽¹⁾	6,354	---	---	---	---	6,354
Total interest-earning assets.....	<u>\$100,176</u>	<u>\$68,161</u>	<u>\$113,620</u>	<u>\$50,491</u>	<u>\$39,392</u>	<u>\$371,840</u>
Savings accounts.....	2,286	2,286	17,553	702	28	22,855
Demand and money market.....	6,780	6,780	10,170	2,543	19,505	45,778
Certificates of deposit.....	59,997	46,042	30,612	2,450	---	139,101
Federal Home Loan Bank advances.....	48,434	5,492	24,620	15,050	2,850	96,446
Total interest-bearing liabilities.....	<u>\$117,497</u>	<u>\$60,600</u>	<u>\$82,955</u>	<u>\$20,745</u>	<u>\$22,383</u>	<u>304,180</u>
Interest-earning assets less interest-bearing liabilities.....	<u>\$(17,321)</u>	<u>\$7,561</u>	<u>\$30,665</u>	<u>\$29,746</u>	<u>\$17,009</u>	<u>\$67,660</u>
Cumulative interest rate sensitivity gap.....	<u>\$(17,321)</u>	<u>\$(9,760)</u>	<u>\$20,905</u>	<u>\$50,651</u>	<u>\$67,660</u>	
Cumulative interest rate gap as a percentage of assets at September 30, 2007.....	(4.49)%	(2.53)%	5.41%	13.12%	17.52%	
Cumulative interest rate gap as a percentage of interest-earning assets at September 30, 2007.....	(4.66)%	(2.62)%	5.62%	13.62%	18.20%	

(1) Net of corporate checks issued of \$4,612.

The difference between repricing assets and liabilities for a specific period is referred to as the gap. An excess of repriceable assets over liabilities is referred to as a positive gap. An excess of repriceable liabilities over assets is referred to as a negative gap. The cumulative gap is the summation of the gap for all periods to the end of the period for which the cumulative gap is being measured.

Assets and liabilities scheduled to reprice are included in the period in which the rate is next scheduled to adjust rather than in the period in which the assets or liabilities are due. Fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization, as adjusted to take into account estimated prepayments based on OTS prepayment tables. No effect is given to the payable-on-demand clause in certain mortgage loans originated by Citizens Community Federal.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on

other types may lag behind changes in market rates. Additionally, a limited amount of our assets have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table.

Critical Accounting Policies

There are certain accounting policies that we have established which require us to use our judgment. The only critical accounting policy, in addition to the policies included in Note 1, "Summary of Significant Accounting Policies," to the Consolidated Financial Statements, is as follows:

Allowance for Loan Losses. Establishing the amount of the allowance for loan losses requires the use of our judgment. We evaluate our assets at least quarterly, and review their risk components as part of that evaluation. If we misjudge a major component and experience a loss, it will likely affect our earnings. In addition, by the very nature of the determination of the allowance, developments as to particular loans can affect year-to-year provision amounts. We consistently challenge ourselves in the review of the risk components to identify any changes in trends and their cause.

[REPORT OF INDEPENDENT AUDITORS]

**CITIZENS COMMUNITY BANCORP, INC.
STOCKHOLDER INFORMATION**

ANNUAL MEETING

The annual meeting of stockholders of Citizens Community Bancorp, Inc. will be held at our branch office in Chippewa Falls, located at 427 West Prairie View Road, Chippewa Falls, Wisconsin, 54729, on February 21, 2008, at 4:00 p.m. local time.

STOCK LISTING

Citizens Community Bancorp, Inc. common stock is traded on the Nasdaq Global Market under the symbol "CZWI."

PRICE RANGE OF COMMON STOCK

	HIGH	LOW	DIVIDENDS
<u>Fiscal 2007</u>			
First Quarter	\$20.00	\$ 9.65	\$0.05
Second Quarter.....	\$ 9.78	\$ 9.33	\$0.05
Third Quarter.....	\$ 9.55	\$ 8.75	\$0.05
Fourth Quarter	\$ 9.54	\$ 8.04	\$0.05
<u>Fiscal 2006</u>			
First Quarter	\$13.20	\$10.30	\$0.05
Second Quarter.....	\$14.25	\$12.90	\$0.05
Third Quarter.....	\$18.39	\$13.75	\$0.05
Fourth Quarter	\$21.15	\$17.65	\$0.05
<u>Fiscal 2005</u>			
First Quarter	\$15.50	\$12.90	\$0.05
Second Quarter.....	\$15.50	\$13.00	\$0.05
Third Quarter.....	\$14.75	\$12.75	\$0.05
Fourth Quarter	\$13.00	\$12.50	\$0.05

The stock price information set forth in the table above was provided by the Yahoo Finance System. This information relates to Citizens Community Bancorp Inc.'s predecessor, Citizens Community Bancorp, whose common stock began trading on March 29, 2004. This information does not reflect the 1.91067 exchange of Citizens Community Bancorp shares into shares of Citizens Community Bancorp, Inc. The closing price of Citizens Community Bancorp, Inc. common stock on December 20, 2007 was \$8.70.

At December 20, 2007, there were 7,118,205 shares of Citizens Community Bancorp, Inc. common stock outstanding (including unallocated ESOP shares) and there were 461 holders of record.

Our cash dividend payout policy is continually reviewed by management and the board of directors. We intend to continue our policy of paying quarterly dividends; however, these payments will depend on a number of factors, including capital requirements, regulatory limitations, our financial condition, results of operations and the Bank's ability to pay dividends.

We rely significantly upon dividends from the Bank to accumulate earnings for payment of cash dividends to the stockholders.

STOCKHOLDERS AND GENERAL INQUIRIES

Citizens Community Bancorp, Inc. files an annual report with the Securities and Exchange Commission on Form 10-K and three quarterly reports on Form 10-Q. Copies of these forms are available by request. Requests, as well as inquiries from stockholders, analysts and others seeking information about Citizens Community Bancorp, Inc. should be directed to John D. Zettler, Senior Vice President and Chief Financial Officer, at 2174 EastRidge Center, Eau Claire, WI 54701, telephone (715) 836-9994.

www.citizenscommunityfederal.net

TRANSFER AGENT

Stockholders should direct inquiries concerning their stock, change of name, address or ownership; report lost certificates or consolidate accounts to our transfer agent at 1-800-368-5948 or write:

Registrar and Transfer Co.
10 Commerce Drive
Cranford, NJ 07016
1-(800) 368-5948

ANNUAL AND OTHER REPORTS

A copy of our Annual Report on Form 10-K for the year ended September 30, 2007, as filed with the Securities and Exchange Commission, may be obtained without charge by contacting John D. Zettler, Citizens Community Bancorp, 2174 EastRidge Center, Eau Claire, Wisconsin 54701.

**CITIZENS COMMUNITY BANCORP, INC.
CORPORATE INFORMATION**

**Citizens Community Bancorp, Inc.
Board of Directors**

Richard McHugh, *Chairman*
Thomas C. Kempen, *Vice Chairman*
Brian R. Schilling
Donna E. Talmage
David B. Westrate
James G. Cooley

**Citizens Community Federal
Officers**

James G. Cooley, *President and Chief Executive Officer*
John D. Zettler, *Senior Vice President and
Chief Financial Officer*
Timothy J. Cruciani, *Executive Vice President*
Rebecca Johnson, *Senior Vice President,
MIC/Accounting*

Citizens Community Federal Locations:

Administrative Offices
2174 EastRidge Center
Eau Claire, WI 54701

Branch Offices:
Westside Branch
2125 Cameron Street
Eau Claire, WI 54703

East Branch
1028 N. Hillcrest Parkway
Altoona, WI 54720

Fairfax Branch
219 Fairfax Street
Altoona, WI 54720

Independent Auditors

Wipfli, LLP
3703 Oakwood Hills Pkwy
Eau Claire, WI 54703

Special Counsel

Silver, Freedman & Taff, L.L.P.
3299 K Street, N.W.
Suite 100
Washington, D.C. 20007

Mondovi Branch
695 E. Main Street
Mondovi, WI 54755

Rice Lake Branch
2462 S. Main Street
Rice Lake, WI 54868

Chippewa Falls Branch
427 W. Prairie View Road
Chippewa Falls, WI 54729

Baraboo Branch
S2423 Highway 12
Baraboo, WI 53913

Black River Falls Branch
W9036 Highway 54 E.
Black River Falls, WI 54615

Michigan Offices:
Rochester Hills Branch
310 W. Tienken Road
Rochester Hills, MI 48306

Lake Orion Branch
688 S. Lapeer Road
Lake Orion, MI 48362

Minnesota Offices:
Mankato Branch
1410 Madison Avenue
Mankato, MN 56001

Oakdale Branch
7035 10th Street North
Oakdale, MN 55128