

CRAZY WOMAN

Creek Bancorp



2021 ANNUAL REPORT

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CRAZY WOMAN

Creek Bancorp



December 22, 2021

To our Customers and Shareholders,

Demonstrating our continuing commitment to provide returns to our shareholders with balancing internal growth requirements, we have declared an annual cash dividend of \$0.31 per share to be paid in January 2022.

We continue to build our franchise as Crazy Woman Creek Bancorp (CRZY) and Buffalo Federal Bank, known as The Banks of Buffalo, Sheridan, Gillette and BFSB Mortgage of Evanston. Headquartered in Buffalo, Wyoming our bank remains a vital business and community partner since founding in 1936. We take great pride in meeting the banking needs of communities throughout Central Wyoming with a passion for local decision-making and personal involvement in our communities. Our vision remains to be the premier community bank serving the needs of individuals, families and businesses throughout Central Wyoming.

Crazy Woman Creek Bancorp easily posted the best performance in our 85-year history; at September 30, 2021 the fiscal year net income of \$1,888,446 corresponded to an annualized return on equity (ROE) of 13.45% and an annualized return on assets (ROA) of 1.24%.

Our foundation continues to be the successful management of our cost of funds and loan yields. We are especially proud that our net interest margin at September 30, 2021 of 4.05% places us far above the Wyoming average of 3.21%. Our annual loan growth of 7.10% continued to be strong and far above the statewide average growth of .60%. We maintain ample capital ratios and at September 30, 2021, our Tier 1 Leverage Ratio was 10.24%. This ratio greatly exceeds the current definition for “well-capitalized” institutions and allows for continued balance sheet growth and flexibility to explore strategic initiatives in coming years.

Our continuing commitment to asset quality is clear. Nonperforming assets were only 0.26% at September 30, 2021; far under the Wyoming average of 0.46%. During this fiscal year, we achieved an over 30-day past-due monthly loan delinquency average of 0.67% and at September 30, 2021, the balance held in foreclosed and repossessed assets was zero. Our loan loss reserve at September 30, 2021 was 1.95% increased from 1.82% in 2020 and 1.76% in 2019 at the same points in time. We are confident that our reserve position is solid and accurately reflects the identifiable risks presented by COVID-19 inherent in our loan portfolio.

More than ever, this year’s outstanding results demonstrate the focused efforts of a strong management team, our commitment to delivering diversified financial services and products, high levels of customer service, convenience and professionalism. In the years ahead, we will focus on maintaining conservative lending protocols, improving operating efficiencies and building long-term value for our shareholders. Our employees and board members are hard-working and dedicated and we could not ask for a better team. I truly appreciate our customers for their continuing partnership and our shareholders for entrusting us with their capital. We continue to build upon the accomplishments of the past and look forward to another prosperous year.



106 Fort Street P.O. Box 1020 Buffalo, Wyoming 82834
Phone (307) 684 - 5591 Fax (307) 684 - 7854

CRAZY WOMAN

Creek Bancorp



Our annual meeting is scheduled at 3:00MDT on January 26th, 2022 at our corporate office located at 106 Fort Street in Buffalo, WY.



Paul M. Brunkhorst
President and CEO



Richard Reimann
Chairman



106 Fort Street P.O. Box 1020 Buffalo, Wyoming 82834
Phone (307) 684 - 5591 Fax (307) 684 - 7854

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Crazy Woman Creek Bancorp
Buffalo, Wyoming

We have audited the accompanying consolidated financial statements of Crazy Woman Creek Bancorp and Subsidiary (the Company), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crazy Woman Creek Bancorp and Subsidiary as of September 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Letter to Stockholders on pages 1 and 2, and the Corporate Information on page 52 are the responsibility of management and are of a non-accounting nature and have not been subjected to the auditing procedures applied in the audit of the consolidated financial statements. Accordingly, we do not express an opinion or provide any assurance on them.

Anderson ZurMuehlen + Co., P.C.

Helena, Montana
December 10, 2021

FINANCIAL STATEMENTS

CRAZY WOMAN CREEK BANCORP
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands Except Share and Per Share)
September 30, 2021 and 2020

ASSETS	<u>2021</u>	<u>2020</u>
Cash and due from banks	\$ 1,134	\$ 1,101
Federal funds	16,986	8,007
Interest-bearing due from banks	<u>2,738</u>	<u>2,593</u>
Cash and cash equivalents	20,858	11,701
Investment and mortgage-backed securities		
available-for-sale	23,743	22,368
Stock in Federal Reserve Bank of Kansas City, at cost	196	196
Stock in Federal Home Loan Bank of Seattle, at cost	405	380
Loans held-for-sale	1,076	2,288
Loans receivable, net	107,033	98,846
Bank-owned life insurance	1,800	1,759
Accrued interest receivable	714	710
Premises and equipment, net	3,407	3,410
Deferred income tax	478	294
Goodwill	132	132
Other assets	<u>210</u>	<u>160</u>
Total assets	<u>\$ 160,052</u>	<u>\$ 142,244</u>

The Notes to Financial Statements are an integral part of these statements.

CRAZY WOMAN CREEK BANCORP
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Dollars in Thousands Except Share and Per Share)
September 30, 2021 and 2020

LIABILITIES AND STOCKHOLDERS' EQUITY	<u>2021</u>	<u>2020</u>
Liabilities:		
Deposits	\$ 134,114	\$ 115,905
Advances from Federal Home Loan Bank	5,753	5,800
Other borrowed money	4,766	6,509
Advance payments by borrowers for taxes and insurance	107	111
Income taxes payable	97	20
Accrued expenses and other liabilities	467	409
Total liabilities	145,304	128,754
Stockholders' equity:		
Common stock, par value \$.10 per share, 5,000,000 shares authorized; 1,058,000 issued, 530,014 and 530,014 outstanding at September 30, 2021 and September 30, 2020, respectively.	106	106
Additional paid-in capital	10,303	10,303
Retained earnings	13,302	11,573
Accumulated other comprehensive income (loss), net	(495)	(24)
Treasury stock at cost, 527,986 and 527,986 shares at September 30, 2021 and September 30, 2020, respectively	(8,468)	(8,468)
Total stockholders' equity	14,748	13,490
Total liabilities and stockholders' equity	\$ 160,052	\$ 142,244

The Notes to Financial Statements are an integral part of these statements.

CRAZY WOMAN CREEK BANCORP
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE
INCOME

(Dollars in Thousands Except Share and Per Share Data)
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
INTEREST INCOME:		
Loans receivable	\$ 5,443	\$ 4,869
Mortgage-backed securities	3	5
Investment securities	439	553
Other interest-earning assets	<u>64</u>	<u>102</u>
Total interest income	<u>5,949</u>	<u>5,529</u>
INTEREST EXPENSE:		
Deposits	408	722
Advances from Federal Home Loan Bank	161	185
Other interest expense	<u>114</u>	<u>20</u>
Total interest expense	<u>683</u>	<u>927</u>
Net interest income	5,266	4,602
Provision for loan losses	<u>383</u>	<u>494</u>
Net interest income after provision for loan losses	<u>4,883</u>	<u>4,108</u>
NON-INTEREST INCOME:		
Customer service charges	136	135
Gain (loss) on sale of securities	1	3
Gain on sale of loans	1,220	801
Other operating income	<u>646</u>	<u>526</u>
Total non-interest income	<u>2,003</u>	<u>1,465</u>
NON-INTEREST EXPENSE:		
Compensation and benefits	2,357	2,378
Occupancy and equipment	405	406
FDIC/SAIF deposit insurance premiums	39	24
Advertising	182	189
Data processing services	691	648
Professional fees	217	215
Other	621	565
Loss on disposal of obsolete equipment	-	1
Loss (Gain) on other repossessed assets	<u>-</u>	<u>(1)</u>
Total non-interest expense	<u>4,512</u>	<u>4,425</u>
Income before income taxes	2,374	1,148
Income tax expense (benefit)	<u>486</u>	<u>228</u>
Net income	<u>\$ 1,888</u>	<u>\$ 920</u>

The Notes to Financial Statements are an integral part of these statements.

CRAZY WOMAN CREEK BANCORP
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE
INCOME (CONTINUED)

(Dollars in Thousands Except Share and Per Share Data)
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OTHER COMPREHENSIVE LOSS		
Unrealized gain/loss on securities available-for-sale, net of reclassification adjustment	<u>(471)</u>	<u>(57)</u>
Comprehensive income	<u>\$ 1,417</u>	<u>\$ 863</u>
 Net income	 <u>1,888</u>	 <u>920</u>
Net income available to common stockholders	<u>\$ 1,888</u>	<u>\$ 920</u>
 Dividends declared per common share	 <u>\$ 0.30</u>	 <u>\$ 0.33</u>
Basic earnings per share	<u>\$ 3.56</u>	<u>\$ 1.73</u>
 Diluted earnings per share	 <u>\$ 3.56</u>	 <u>\$ 1.73</u>

The Notes to Financial Statements are an integral part of these statements.

CRAZY WOMAN CREEK BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in Thousands Except Share and Per Share Data)
Years Ended September 30, 2021 and 2020

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Treasury stock</u>	<u>Total stockholders' equity</u>
Balance at October 1, 2019	\$ 106	\$ 10,303	\$ 10,859	\$ 33	\$ (7,086)	\$ 14,215
Net income	-	-	920	-	-	920
Unrealized loss on securities available-for-sale, net of reclassification adjustment	-	-	-	(57)	-	(57)
Treasury Shares Purchased	-	-	-	-	(1,382)	(1,382)
Cash dividends declared- common stock	-	-	(206)	-	-	(206)
Balance at September 30, 2020	106	10,303	11,573	(24)	(8,468)	13,490
Net income	-	-	1,888	-	-	1,888
Unrealized gain on securities available-for-sale, net of reclassification adjustment	-	-	-	(471)	-	(471)
Cash dividends declared- common stock	-	-	(159)	-	-	(159)
Balance at September 30, 2021	<u>\$ 106</u>	<u>\$ 10,303</u>	<u>\$ 13,302</u>	<u>\$ (495)</u>	<u>\$ (8,468)</u>	<u>\$ 14,748</u>

The Notes to Financial Statements are an integral part of these statements.

CRAZY WOMAN CREEK BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands Except Share and Per Share Data)
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 1,888	\$ 920
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	383	494
Provision for EDP/EPO	11	3
Loans originated for sale	(44,678)	(29,735)
Proceeds from sales of loans held-for-sale	45,879	28,623
Amortization of premiums and discounts on investment securities	5	6
Deferred income tax (benefit) expense	(59)	(77)
Depreciation	185	178
Mutual fund dividends reinvested	(6)	(23)
Deferred loan origination fees, net	53	55
Gain on bank-owned life insurance	(41)	(42)
Loss/(Gain) on repossessed/foreclosed assets	-	(1)
Loss/(Gain) on sale of securities	(1)	(3)
Loss on disposal of equipment	-	1
Change in:		
Accrued interest receivable	(4)	55
Other assets	(50)	(22)
Income taxes payable	77	16
Accrued expenses and other liabilities	58	137
Net cash from operating activities	3,700	585

The Notes to Financial Statements are an integral part of these statements.

CRAZY WOMAN CREEK BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from investing activities:		
Purchases of securities available-for-sale	(13,497)	(27,861)
Proceeds from maturities, calls and prepayments of securities available-for-sale	11,528	29,601
Purchases from FHLB stock	(27)	(3)
Proceeds from FHLB stock	2	2
Proceeds from sale of repossessed/foreclosed assets	-	570
Change in loans receivable	(8,623)	(16,973)
Purchases of premises and equipment	(182)	(71)
Net cash from investing activities	(10,799)	(14,735)
	<u>2021</u>	<u>2020</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	18,209	12,118
Advances from Federal Home Loan Bank	2,000	-
Repayment of advances from Federal Home Loan Bank	(2,047)	(46)
Advances on other borrowed money	-	6,515
Repayment on other borrowed money	(1,743)	-
Net increase (decrease) in advances from borrowers for taxes and insurance	(4)	(2)
Acquisition of treasury stock, at cost	-	(1,382)
Dividends paid to stockholders-common	(159)	(206)
Net cash from financing activities	16,256	16,997
Net increase (decrease) in cash and cash equivalents	9,157	2,847
Cash and cash equivalents at beginning of year	11,701	8,854
Cash and cash equivalents at end of year	\$ 20,858	\$ 11,701
Cash paid during the year for:		
Interest	\$ 683	\$ 934
Income taxes	\$ 467	\$ 289

The Notes to Financial Statements are an integral part of these statements.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Buffalo Federal Bank (BFB or the Bank) provides services to individual and corporate customers through its Branch offices operating under the name of “The Bank” in Buffalo, Gillette and Sheridan, Wyoming. BFB has mortgage operations in Evanston, Wyoming. BFB offers a variety of deposit products to its customers while concentrating its lending activities on real estate loans. These real estate lending activities focus on the origination of loans secured by one-to-four family residential real estate, multi-family, commercial real estate and home equity loans. BFB is subject to competition from other financial service providers, subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Crazy Woman Creek Bancorp Incorporated (the Holding Company) and its wholly-owned subsidiary, Buffalo Federal Bank (BFB). The Holding Company and BFB are herein referred to collectively as “the Company.” All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and income and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term related to the determination of the allowance for loan losses (ALLL). Management believes that the allowance for loan losses is adequate; however, future additions to the allowance may be necessary based on changes in factors affecting the borrowers’ ability to repay and growth of the loan portfolio. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require BFB to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all cash, daily interest demand deposits, amounts due from banks and interest-bearing deposits with banks with original maturities of three months or less to be cash equivalents.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities Available-for-Sale

Investment securities available-for-sale include securities that management intends to use as part of its overall asset/liability management strategy and that may be sold in response to changes in interest rates and resultant prepayment risk and other related factors. Securities available-for-sale are carried at fair value and unrealized gains and losses (net of related tax effects) are excluded from earnings and reported as a separate component of comprehensive income.

The carrying value of securities is adjusted for amortization of premiums and accretion of discounts using the level-yield method over the estimated lives of the securities. Upon realization, gains and losses from the sale of securities are included in earnings using the specific identification method. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

The mortgage division of the Company closes mortgage loans for the purpose of selling them to the secondary market. These loans are classified as held for sale. The gains on the sale of the loans are recorded as income when the loan is paid off by the investor.

EDP/EPO Reserve

Early default and early payoff (EDP/EPO) reserve is established to estimate the repurchase of sold loans. The Bank may have to repurchase sold loans due to either borrower early defaults or early payoffs. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The balance of the reserve as of September 30, 2021 and 2020 was \$13,500 and \$13,200, respectively.

Stock in Federal Home Loan Bank

The Bank holds stock in the Federal Home Loan Bank (FHLB). The Bank's investment in FHLB stock is carried at par value, which approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of the Bank's outstanding mortgages, total assets or FHLB advances.

At September 30, 2021 and 2020 the Bank's minimum required investment was approximately \$405 and \$380 respectively. Amounts in excess of the required minimum for FHLB membership may be redeemed at par at FHLB's discretion, which is subject to their capital plan, bank policies, and regulatory requirements, which may be amended or revised periodically. Management periodically evaluates FHLB stock for other-than-temporary or permanent impairment.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock in Federal Home Loan Bank (Continued)

Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as 1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, 2) commitments by the FLHB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, 3) the impact of legislative and regulatory changes on institutions, and accordingly, the customer base of the FHLB, and 4) the liquidity position of the FHLB.

Stock in Federal Reserve Bank of Kansas City

The Company holds stock in the Federal Reserve Bank of Kansas City (FRB). The Bank's investment in FRB stock is carried at par value, which approximates its fair value. As a member of the FRB system, the Bank is required to maintain a minimum level of investment in FRB stock based on capital levels reported on the call report. This amount was \$196 as of September 30, 2021 and 2020.

Foreclosed Real Estate and Other Assets Owned

Real estate and other assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at the lower of fair value less estimated selling costs or the loan balance on the date of foreclosure. Losses arising from the initial acquisition of property, in full or partial satisfaction of loans, are charged to the allowance for loan losses.

Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the initial carrying value or fair value less costs to sell. Any decline in value subsequent to foreclosure is reported as a loss on foreclosed assets and included in non-interest income or expense. Operating expenses relative to foreclosed assets are expensed as incurred, while certain improvements and other costs may be capitalized if the expenditures are likely to be recaptured upon disposition of the asset. Gain or loss on the sale of foreclosed assets, if any, is recognized at the time of sale. Repossessed other assets include foreclosed real estate. At September 30, 2021 and 2020, foreclosed real estate was \$-0-. Other repossessed other assets at September 30, 2021 and 2020, was \$-0-.

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided using straight-line and accelerated methods over the estimated useful lives of 39 or 40 years for the buildings and 5 to 10 years for furniture, fixtures and equipment.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bank Owned Life Insurance

During the first quarter of fiscal year 2010 the Bank made a \$1,250 investment in bank owned life insurance (BOLI). These policies insure the lives of officers of the Bank and name the Bank as beneficiary. Noninterest income is generated tax-free from the increase in the policies' underlying investments made by the insurance company.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired and is tested for impairment annually or more often if an event occurs or circumstances change that would indicate impairment may exist. There was no goodwill impairment in 2021 or 2020.

Other Assets

Other assets, including core deposit intangibles, are reviewed for impairment whenever events or circumstances indicate the carrying amount of the asset may not be recoverable. An impairment loss is recognized if the sum of the expected future cash flows is less than the carrying amount of the asset. If impaired, an impairment loss is recognized to reduce the carrying value of the asset to its fair value. No other assets were identified as impaired as of September 30, 2021 or 2020.

Federal Income Taxes

The Company files a consolidated federal income tax return. There are no state income taxes in the locations the Company operates. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized.

GAAP prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes (Continued)

threshold is no longer met. GAAP also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties.

The Company files a consolidated income tax return with the Bank; however, income tax expense is allocated to the entities on a separate return basis.

Earnings per Share

Basic earnings per share (EPS) is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period less unvested management stock bonus plan, treasury stock and unallocated ESOP shares. Diluted earnings per share is calculated by dividing such net income by the weighted average number of common shares used to compute basic EPS plus the incremental amount of potential common stock determined by the treasury stock method.

Fiscal Year

The Company's fiscal year ends on September 30. Unless otherwise noted, references to a fiscal year refer to the year in which such fiscal year ends.

Comprehensive Income

Comprehensive income includes net income, as well as other changes in stockholders' equity that result from transactions and economic events other than those with stockholders. The Company's only significant element of other comprehensive income is unrealized gains and losses on securities available-for-sale.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising costs in 2021 and 2020 were \$182 and \$189, respectively.

Compensated Absences

Full-time employees of the Bank are entitled to paid vacation and sick days, depending upon length of service. Upon termination of employment, employees are entitled to be paid for unused vacation.

Accrued compensated absences were \$65 and \$53 as of September 30, 2021 and 2020, respectively.

Subsequent Event Evaluation

Management has evaluated subsequent events through December 10, 2021, the date which the financial statements were available for issue.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 2. INVESTMENT AND MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE

The amortized cost, gross unrealized gains and losses, and estimated fair values of investment securities available-for-sale at September 30 are as follows:

2021:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency/treasury obligations	\$ 23,497	\$ -	\$ (675)	\$ 22,822
Municipal securities	485	2	-	487
Mutual funds	309	43	-	352
Mortgage-backed securities:				
FHLMC certificates	7	-	-	7
FNMA certificates	71	4	-	75
Total MBS	<u>78</u>	<u>4</u>	<u>-</u>	<u>82</u>
	<u>\$ 24,369</u>	<u>\$ 49</u>	<u>\$ (675)</u>	<u>\$ 23,743</u>
2020:				
U.S. agency/treasury obligations	\$ 21,503	\$ 53	\$ (107)	\$ 21,449
Municipal securities	485	3	-	488
Mutual funds	303	16	-	319
Mortgage-backed securities:				
FHLMC certificates	8	-	-	8
FNMA certificates	99	5	-	104
Total MBS	<u>107</u>	<u>5</u>	<u>-</u>	<u>112</u>
	<u>\$ 22,398</u>	<u>\$ 77</u>	<u>\$ (107)</u>	<u>\$ 22,368</u>

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 2. INVESTMENT AND MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE (CONTINUED)

Information pertaining to securities with gross unrealized losses at September 30, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Gross Unrealized Fair Value</u>	<u>Losses</u>	<u>Gross Unrealized Fair Value</u>	<u>Losses</u>	<u>Gross Unrealized Fair Value</u>	<u>Losses</u>
<u>September 30, 2021:</u>						
U.S. agency/treasury obligations	\$ 20,885	\$ (612)	\$ 1,937	\$ (63)	\$ 22,822	\$ (675)
Municipal securities	-	-	-	-	-	-
Mutual funds	-	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-	-
Total	\$ 20,885	\$ (612)	\$ 1,937	\$ (63)	\$ 22,822	\$ (675)
<u>September 30, 2020:</u>						
U.S. agency/treasury obligations	\$ 10,894	\$ (107)	\$ -	\$ -	\$ 10,894	\$ (107)
Municipal securities	-	-	-	-	-	-
Mutual funds	-	-	-	-	-	-
Mortgage-backed securities	-	-	-	-	-	-
Total	\$ 10,894	\$ (107)	\$ -	\$ -	\$ 10,894	\$ (107)

As of September 30, 2021, and 2020, eleven and five securities were in an unrealized loss position, respectively. Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis. The Company must consider whether it intends to sell a security or if it is likely that they would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if the Company intends to sell the security or it is likely that they will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the Company does not intend to sell the security and it is not likely that it will be required to sell the security, but the Company does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized costs basis and the present value of the cash flows expected to be collected.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 2. INVESTMENT AND MORTGAGE-BACKED SECURITIES AVAILABLE-FOR-SALE (CONTINUED)

Maturities based on the average life of securities available-for-sale (other than mutual funds) at September 30, 2021, are shown below. Mortgage-backed securities are included in this maturity schedule based on contractual maturity.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ 4,485	\$ 4,427
Due after one year through five years	19,575	18,964
Due after five years through ten years	-	-
Due after ten years	-	-
	<u>\$ 24,060</u>	<u>\$ 23,391</u>

At September 30, 2021 and 2020, the Company had investment securities with amortized costs of approximately \$10,772 and \$9,876 pledged as security for public funds or other funds on deposit. For the years ended September 30, 2021 and 2020, there were \$1 and \$-0- sales of investment securities available for sale, respectively.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The loan portfolio composition, based upon the purpose and primary source of repayment of the loans, net at September 30 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Real estate mortgage loans, including commercial real estate	\$ 79,008	\$ 68,024
Real estate construction loans, including commercial real estate	3,792	4,028
Consumer loans	5,283	5,247
Home equity loans	4,290	4,529
Commercial and agricultural loans	18,479	19,206
Savings account and other loans	272	245
Overdraft deposit accounts	16	35
	<u>111,140</u>	<u>101,314</u>
Less:		
Loans in process	1,732	528
Loan loss reserves	2,212	1,830
Deferred loan fees	163	110
	<u>\$ 107,033</u>	<u>\$ 98,846</u>

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loans that the Bank originates and for which the Bank has the intent and the ability to hold for the foreseeable future or until either maturity or earlier prepayment are measured at the outstanding principal amount net of the allowance for loan losses and net of any deferred loan fees or costs. The Bank's views regarding the foreseeable future and, consequently, its intent with respect to holding these loans may change due to changes in business strategies, the economic environments of the markets in which the Bank operates, general market conditions, and the availability of various government programs in which the Bank participates.

Interest on performing loans is accrued based on the outstanding principal balance. The recorded investment in loans is adjusted for any applicable unearned income. Interest income is recognized over the contractual life of the loan using the interest method, which results in a constant effective yield over the contractual life of the loan.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Age and Interest Accrual Status

The following tables present informative data by class of financing receivable regarding their age and interest accrual status at September 30, 2021 and 2020:

	Past due					Total Loans Receivable	Status of Interest Accruals	
	Current	30-59 days	60-89 days	over 90 days	Total Past Due		Total Financing Receivables on Nonaccrual Status	Financing Receivables Past Due ≥ 90 Days and Still Accruing Interest
<u>2021</u>								
Commercial and agriculture	\$ 18,479	\$ -	\$ -	\$ -	\$ -	\$ 18,479	\$ -	\$ -
Residential Mortgage Loans								
Construction	3,792	-	-	-	-	3,792	-	-
Other	20,197	-	-	-	-	20,197	-	-
Commercial Real Estate	47,698	1,183	-	-	1,183	48,881	-	-
Agricultural Real Estate	9,105	573	-	252	825	9,930	252	-
Consumer	5,263	13	1	6	20	5,283	6	-
Home equity loans	4,125	-	-	165	165	4,290	165	-
Savings account and other	272	-	-	-	-	272	-	-
Overdraft deposit accounts	16	-	-	-	-	16	-	-
	<u>\$ 108,947</u>	<u>\$ 1,769</u>	<u>\$ 1</u>	<u>\$ 423</u>	<u>\$ 2,193</u>	<u>\$ 111,140</u>	<u>\$ 423</u>	<u>\$ -</u>
 <u>2020</u>								
Commercial and agriculture	\$ 19,189	\$ 17	\$ -	\$ -	\$ 17	\$ 19,206	\$ 141	\$ -
Residential Mortgage Loans								
Construction	4,028	-	-	-	-	4,028	-	-
Other	16,111	-	-	-	-	16,111	-	-
Commercial Real Estate	44,537	-	-	-	-	44,537	-	-
Agricultural Real Estate	7,376	-	-	-	-	7,376	-	-
Consumer	5,222	16	9	-	25	5,247	-	-
Home equity loans	4,529	-	-	-	-	4,529	-	-
Savings account and other	243	2	-	-	2	245	-	-
Overdraft deposit accounts	35	-	-	-	-	35	-	-
	<u>\$ 101,270</u>	<u>\$ 35</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 44</u>	<u>\$ 101,314</u>	<u>\$ 141</u>	<u>\$ -</u>

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The Bank considers a loan past due when the borrower defaults on making one or more interest or principal payments contractually required under the terms of the loan.

If repayment of a loan is expected to be obtained solely from the proceeds of selling or operating the assets that are collateral for the loan, the loan is designated as being collateral dependent. When a collateral-dependent loan is between 90 and 120 days past due, the Bank initiates a fair value assessment of the property that is pledged as collateral for the loan. The Bank considers the sufficiency of a loan's collateral by comparing the estimated fair value of the collateral less 6% to cover potential expenses of foreclosure to the recorded investment in the loan adjusted for any superior liens to which the collateral is subject. If the estimated fair value of the collateral, net of estimated foreclosure-related expenses equals or exceeds the adjusted recorded investment in the loan, the loan is judged to be sufficiently collateralized.

The Bank's policies for placing loans on nonaccrual status and for writing them off against the allowance for loan losses differ based on the loan's portfolio segment. Upon classifying a loan as being on nonaccrual status, the Bank discontinues the accrual of interest and reverses any accrued but previously uncollected interest that has previously been recognized as interest income.

Credit Risk Policies

The following table summarizes, by portfolio segment, the policies with respect to placing loans on nonaccrual status and writing them off as partially or fully uncollectible:

Commercial loans, including commercial real estate loans	When determined that principal or interest collection is doubtful or when a default of interest or principal has existed for 90 days or more and the loan is either under-collateralized or in the process of collection.	The Bank generally writes off commercial loans when: <ul style="list-style-type: none"> • Management judges the loan to be uncollectible; • The asset has been classified as a loss by either our internal loan review process or by external examiners • The borrower has filed bankruptcy and the loss is evident due to a lack of assets If the loan is collateral-dependent, the Bank generally writes it down to the fair value of the collateral less estimated liquidation costs.
Consumer loans	Classified as nonaccrual when at 90 days past due	Generally when the loans are between 120 to 180 days past due
Residential real estate loans	Classified as nonaccrual when at 90 days past due.	Home equity installment loans and lines of credit and residential real estate loans that are insufficiently collateralized but are in the process of collection are written down at 90 days past due to the lower of cost or fair value less liquidation costs. The unsecured portion of these loans is written off in accordance with regulatory guidelines. The remaining portion of these loans continues to be classified as being on nonaccrual status.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Policies (Continued)

The Bank recognizes an allowance for loan losses in an amount believed to be sufficient to absorb losses inherent in the loan portfolio, including those losses not yet specifically identifiable. In consultation with the Board of Directors, the allowance for loan losses is reviewed by the Chief Executive Officer and the Chief Financial Officer on a monthly basis. Determination of the amount of the allowance is complex and requires the exercise of judgment regarding matters that are inherently uncertain.

The following discussion is intended to provide insight into how the Bank manages and identifies risks associated with financing receivables separately for each distinct portfolio segment.

Commercial and commercial real estate loans	<ul style="list-style-type: none">• Historical loss trends and changes to those trends by lending product and by borrower industry sector• Statistical data obtained from independent third-party sources regarding industry, regional, and national economic conditions, both historical and projected• Favorable and unfavorable changes in our internally assigned risk ratings with respect to individual loans• Specific borrower credit quality trends• For commercial real estate loans, market data regarding the commercial real estate market for the geographic location and type of property that serves the collateral
Consumer loans	<ul style="list-style-type: none">• Changes in the overall economic environment including, but not limited to unemployment rates• Delinquency status• Borrower behavior
Residential real estate loans	<ul style="list-style-type: none">• Delinquency rates• Trends in housing prices and their effects on the estimated realizable value of loan collateral and on experienced loan loss severities; especially for high loan-to-value home equity and mortgage loans• Unemployment rates and the outlook for changes in those rates

There was one change to what is included in the excellent risk profile. See last sentence in that category's definition. No other changes were implemented in the accounting policies or methodologies during the years ended September 30, 2021 and 2020.

Among the factors that are susceptible to significant change are estimates of:

- Default probability and loss experience on defaulted loans
- Magnitude of exposure at date of default
- Amounts and timing of expected cash flows on impaired loans
- Fair value of loan collateral
- Historical loss exposure, and
- Qualitative factors including adjustments to estimates based on changes in economic conditions that may not have been reflected in historical results

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Policies (Continued)

While the allowance methodologies strive to reflect all relevant risk factors, there continues to be an element of uncertainty associated with, but not limited to potential imprecision in the estimation process due to the inherent time lag of obtaining information. The Bank provides additional allowances designed to cover losses attributable to these risks.

The qualitative information considered in exercising this judgment includes:

- Credit quality trends
- Recent loss experience in each specific portfolio segment
- The ability and depth of lending management and,
- Changes in risk monitoring and underwriting standards

It is reasonably possible that subsequent evaluations of the loan portfolio in the near term based on then-prevailing factors may result in significant changes in the allowance.

The allowance for credit losses consists of three distinct components:

1. Asset-specific component
2. Formulaic component
3. Cash flow impairment

The asset-specific component relates to loans specifically identified as being impaired. A loan is considered impaired when, based on currently available information, it is probable that the Bank will not collect all of the principal and interest contractually required by the loan agreement. Impaired loans include loans that have been modified in a troubled debt restructuring and loans that have been placed on nonaccrual status. The Bank recognizes an allowance for loan losses for this component when the recorded investment in the loan exceeds the estimate of the cash flows expected to be received from the borrower. Cash flow estimates are made using internal calculations incorporating the best estimate of key assumptions such as default rates, loss severity, and payment speeds. If repayment of a loan is expected to be obtained solely from the proceeds of selling or operating the assets that are collateral for the loan, the loan is designated as being collateral dependent. For collateral-dependent loans where foreclosure is probable, the Bank uses the current fair value of the collateral, less estimated selling costs in the cash flow estimates. When foreclosure is not probable and repayment is expected to be received from the continued operation of the collateral, the Bank uses the expected cash flows from operating the collateral in the cash flow estimates.

Subsequent changes in measured impairment due to the impact of discounting are recognized as an adjustment of the credit loss and do not affect reported interest income.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Credit Risk Policies (Continued)

The formula-based component of the allowance for credit losses is applied to performing loans that have been risk-rated and consumer loans excluding loans that were either impaired loans or subject to troubled debt restructuring. For risk-rated loans, the formula uses the product of the estimated default probability and the estimated percentage of loss should a default occur. Different factors are used in the formula depending on the risk rating of the loans.

Risk rating assessments consider factors that include the borrower's debt capacity and financial flexibility, the level of the borrower's earnings, the amounts and sources of cash flows available to the borrower for repayment, the nature, likelihood, and magnitude of contingencies, the strength of borrower management, and the industry and geography in which the borrower operates. The factors used in the formula are determined considering both current and historical data derived from actual credit losses. Using these factors involves an element of subjective assessment and interpretation. Emphasis of one factor over another or the consideration of additional factors substantially influences the risk rating assigned to a particular loan.

The cash flow impairment component of the allowance for credit losses is determined based on the Bank's quarterly portfolio review. That review process considers whether there have been changes in the cash flows expected to be received of loan principal and interest. Factors considered in this process include assumptions regarding default rates, loss severities, the amounts and timing of prepayments, and other factors that reflect market conditions at the time of the review.

Probable decreases in expected principal cash flows trigger the recognition of impairment. Impairment is measured at the present value of the expected principal loss plus any related foregone interest, discounted at the effective interest rate of the loans being reviewed.

Troubled debt restructurings generally result from the loss mitigation activities and occur when the Bank grants a concession to a borrower that is experiencing financial difficulty in order to minimize the financial loss and avoid foreclosure or repossession of collateral. Once modified in a troubled debt restructuring, a loan is generally considered impaired until its contractual maturity, regardless of borrower performance under the modified terms. While the modified loan may return to accrual status if it meets our criteria to do so, nevertheless, the loan will continue to be evaluated for an asset-specific allowance for credit losses and the loan will continue to be reported as being impaired in the accompanying consolidated financial statements.

Impaired loans are classified as nonperforming and, consequently, interest income is not recognized until the loan can be put back on accrual status. Partial payments of contractual amounts due on impaired loans are treated as reduction of the loan book balance until such time as the loan is restored to performing status.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables present informative data regarding credit losses, and changes in those allowances as of September 30, 2021 and 2020 and for the years then ended:

	Commercial and		Real Estate			Unidentified	Total
	Agricultural	Consumer	Commercial	Consumer	Agricultural		
2021							
Allowance for Credit Losses							
Beginning Balance	\$ 190	\$ 47	\$ 1,168	\$ 285	\$ 150	\$ (13)	\$ 1,827
Written off	(7)	-	-	-	-	-	(7)
Recovered	6	-	-	-	-	-	6
Provision	80	4	189	7	5	79	364
Ending Balance	<u>\$ 269</u>	<u>\$ 51</u>	<u>\$ 1,357</u>	<u>\$ 292</u>	<u>\$ 155</u>	<u>\$ 66</u>	<u>\$ 2,190</u>
Ending balance evaluated for impairment							
Beginning Balance							
Individually	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3
Collectively	-	-	-	-	-	-	-
Provision	2	17	-	-	-	-	19
Ending Balance							
Individually	5	-	-	-	-	-	5
Collectively	-	17	-	-	-	-	17
Ending balance	<u>\$ 274</u>	<u>\$ 68</u>	<u>\$ 1,357</u>	<u>\$ 292</u>	<u>\$ 155</u>	<u>\$ 66</u>	<u>\$ 2,212</u>
2020							
Allowance for Credit Losses							
Beginning Balance	\$ 151	\$ 42	\$ 915	\$ 206	\$ 144	\$ 21	\$ 1,479
Written off	(157)	-	-	(1)	-	-	(158)
Recovered	9	-	-	-	-	-	9
Provision	187	5	253	80	6	(34)	497
Ending Balance	<u>\$ 190</u>	<u>\$ 47</u>	<u>\$ 1,168</u>	<u>\$ 285</u>	<u>\$ 150</u>	<u>\$ (13)</u>	<u>\$ 1,827</u>
Ending balance evaluated for impairment							
Beginning Balance							
Individually	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6
Collectively	-	-	-	-	-	-	-
Provision	(3)	-	-	-	-	-	(3)
Ending Balance							
Individually	3	-	-	-	-	-	3
Collectively	-	-	-	-	-	-	-
Ending balance	<u>\$ 193</u>	<u>\$ 47</u>	<u>\$ 1,168</u>	<u>\$ 285</u>	<u>\$ 150</u>	<u>\$ (13)</u>	<u>\$ 1,830</u>

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Impaired Loans

Impaired loans are classified as nonperforming and, consequently, interest income is only recognized on these loans when the principal balance is paid in full or such time as the loan is restored to a performing status.

The following tables present informative data regarding financing receivables, credit losses, and changes in those allowances as of September 30, 2021 and 2020 and for the years then ended:

<u>2021</u>	<u>Recorded</u> <u>Investment</u>	<u>Unpaid</u> <u>Principal</u>	<u>Allowance for</u> <u>Credit Losses</u>	<u>Average Recorded</u> <u>Investment</u>	<u>Interest Income</u> <u>Recognized</u>
Impaired loans for which an allowance for credit losses is recognized					
Commercial	\$ -	\$ -	\$ -	\$ 64	\$ 1
Consumer	<u>6</u>	<u>6</u>	<u>1</u>	<u>7</u>	<u>-</u>
	<u>6</u>	<u>6</u>	<u>1</u>	<u>71</u>	<u>1</u>
Impaired loans for which no allowance for credit losses is recognized					
Commercial real estate					
Other	252	252	5	252	7
Residential mortgage loans	<u>165</u>	<u>165</u>	<u>16</u>	<u>165</u>	<u>-</u>
	<u>417</u>	<u>417</u>	<u>21</u>	<u>417</u>	<u>7</u>
Total impaired loans					
Commercial	-	-	-	64	1
Consumer	6	6	1	7	-
Real estate and construction					
Commercial	252	252	5	252	7
Residential	<u>165</u>	<u>165</u>	<u>16</u>	<u>165</u>	<u>-</u>
	<u>\$ 423</u>	<u>\$ 423</u>	<u>\$ 22</u>	<u>\$ 488</u>	<u>\$ 8</u>
<u>2020</u>					
Impaired loans for which an allowance for credit losses is recognized					
Commercial	\$ 141	\$ 152	\$ 3	\$ 163	\$ -
Consumer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>141</u>	<u>152</u>	<u>3</u>	<u>163</u>	<u>-</u>
Impaired loans for which no allowance for credit losses is recognized					
Commercial real estate					
Other	-	-	-	-	-
Residential mortgage loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total impaired loans					
Commercial	141	152	3	163	-
Consumer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 141</u>	<u>\$ 152</u>	<u>\$ 3</u>	<u>\$ 163</u>	<u>\$ -</u>

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
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NOTE 4. CREDIT QUALITY OF LOANS RECEIVABLE

The following explanations present informative data regarding the credit quality of financing receivables at September 30, 2021 and September 30, 2020:

Credit Risk Profile for Loans

The following classifications used are based on available information regarding the repayment performance of individual borrowers in servicing their debt, such as current financial information, historical payment experience, credit documentation, publicly available information, and current trends:

EXCELLENT. A credit assigned in this category presents the highest degree of confidence in the borrower's financial condition and management capability based upon verified historical data. Balance sheets are conservative, displaying a high level of liquidity with historic proven cashflows providing ample protection to all business activities. Business is likely a large regional firm and a minimum 10 years of demonstrated success. Also included in this area are Paycheck Protection Program (PPP) loans that are 100% backed by the SBA.

GOOD. A credit in this category presents a sound primary and secondary source of repayment and credits in this category pose nominal risk of loss. Borrower has demonstrated the ability to perform under the terms of the credit with any deviation limited and temporary. Well established borrower with minimum 5 successful years in business as a regional or major local firm with sound operations in a specific line of business. Well known professionals may be included in this category.

PASS. Assets classified, as Pass are those loans delineated as acceptable risk per the loan policy of this Bank. Credits in this category are standard to the portfolio. Risk factors may include stability of margins and cashflows, liquidity, limited product or industry, competitive market, cyclical trends, dept. of management. Adverse events could be significant and present extended recovery time. Management is satisfactory and recognized as a well-established local or regional firm with minimum three-year operational period supported by sound business and track record, debt service at or above policy minimums, satisfactory present and historical sales, and profitability trends.

WATCH. Assets classified Watch are those credits identified by management as warranting special attention for a variety of reasons bearing on ultimate collectability. A watch loan is an informal "early detection" process identifying loans prior to self-criticism. A "watch" designation is intended to be temporary in nature pending receipt of additional information to determine the true classification of the relationships.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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NOTE 4. CREDIT QUALITY OF LOANS RECEIVABLE (CONTINUED)

SPECIAL MENTION. A special mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. All consumer and consumer real estate loans over 60 days delinquent shall be considered in their aggregate as risk rated special mention.

SUBSTANDARD. A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. All consumer and consumer real estate loans over 90 days delinquent shall be considered in their aggregate as risk rated substandard. Loans reported as trouble debt restructures will initially be classified as substandard for a minimum of 6 months until they may be considered for an upgrade.

A table of the risk-ratings of the loan portfolio as of September 30, 2021 and 2020 is as follows:

	Residential Mortgage Loans	Consumer	Commercial and Agricultural loans	Commercial Real Estate and Construction Loans	Residential Mortgage Construction	Agriculture Mortgage
2021						
Excellent	\$ -	\$ -	\$ 2,766	\$ -	\$ -	\$ -
Good	-	-	-	-	-	-
Pass	22,821	5,417	11,597	44,199	3,792	9,582
Watch	938	16	2,236	784	-	250
Special Mention	-	1	-	-	-	-
Substandard	728	137	1,880	3,898	-	98
Total	<u>\$ 24,487</u>	<u>\$ 5,571</u>	<u>\$ 18,479</u>	<u>\$ 48,881</u>	<u>\$ 3,792</u>	<u>\$ 9,930</u>
2020						
Excellent	\$ -	\$ -	\$ 4,509	\$ -	\$ -	\$ -
Good	-	-	-	-	-	-
Pass	20,067	5,491	14,078	39,109	4,028	6,658
Watch	211	-	404	2,445	-	578
Special Mention	-	9	21	558	-	140
Substandard	362	27	194	2,425	-	-
Total	<u>\$ 20,640</u>	<u>\$ 5,527</u>	<u>\$ 19,206</u>	<u>\$ 44,537</u>	<u>\$ 4,028</u>	<u>\$ 7,376</u>

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NOTE 5. FORECLOSED/REPOSSESSED ASSETS

Foreclosed/repossessed assets represent properties acquired through customer loan default. The real estate and other tangible assets acquired through foreclosure/repossession are carried as foreclosed/repossessed assets on the accompanying consolidated balance sheet at fair value, net of estimated costs to sell, not to exceed the cost of property acquired through foreclosure. A summary of activity in foreclosed/repossessed assets is as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ -	\$ -
Transfers from loans and cash payments to redeem senior lien holders	-	569
Dispositions	-	(570)
Gain (Loss) on dispositions	-	1
Balance at end of year	<u>\$ -</u>	<u>\$ -</u>

Net losses from foreclosed/repossessed assets included in other non-interest expenses are as follows:

	<u>2021</u>	<u>2020</u>
Income from foreclosed/repossessed assets	\$ -	\$ -
Operating expenses	<u>1</u>	<u>33</u>
Net losses from foreclosed/repossessed assets	<u>\$ (1)</u>	<u>\$ (33)</u>

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NOTE 6. ACCRUED INTEREST RECEIVABLE

Accrued interest receivable at September 30 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Investment securities	\$ 87	\$ 92
Investment in CD's	2	2
Loans receivable	<u>625</u>	<u>616</u>
	<u>\$ 714</u>	<u>\$ 710</u>

NOTE 7. PREMISES AND EQUIPMENT

Premises and equipment at September 30 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Land and buildings	\$ 5,237	\$ 5,135
Furniture, fixtures and equipment	<u>1,344</u>	<u>1,301</u>
	6,581	6,436
Less accumulated depreciation	<u>3,174</u>	<u>3,026</u>
	<u>\$ 3,407</u>	<u>\$ 3,410</u>

NOTE 8. LEASED PROPERTY

Net rental expense approximated \$11 and \$10 for the years ended September 30, 2021 and 2020, respectively. BFB leases office buildings for the mortgage department.

The Company has no obligations for minimum rentals under non-cancelable leases.

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NOTE 9. DEPOSITS

Deposits at September 30 are summarized as follows:

	Weighted Average Rate	2021		2020	
		Amount	Percent	Amount	Percent
Demand, NOW and MMDA accounts	0.14, 0.27	\$ 84,692	63.15	\$ 69,857	60.27
Passbook savings	0.10, 0.25	24,327	18.14	18,174	15.68
Certificates of deposit by interest rate	0.01 to 1.00	20,095	14.99	8,028	6.93
	1.01 to 2.00	1,313	0.98	9,181	7.92
	2.01 to 3.00	3,353	2.50	9,545	8.24
	3.01 to 4.00	334	0.24	1,120	0.96
Total certificates of deposit		25,095	18.71	27,874	24.05
Total		\$134,114	100.00	\$ 115,905	100.00

Certificates of deposit of \$250 or greater were approximately \$5,106 and \$5,292 at September 30, 2021 and 2020, respectively.

Certificates of deposit at September 30, 2021, are scheduled to mature as follows:

September 30	Amount
2021	\$ 16,861
2022	5,018
2023	2,809
2024	407
	\$25,095

Interest expense on deposits for the years ended September 30 is summarized as follows:

	2021	2020
NOW accounts and MMDA	\$ 104	\$ 130
Certificates of deposit and savings	304	592
	\$ 408	\$ 722

Accrued interest payable on deposits (included in accrued expenses and other liabilities) was \$6 and \$6 at September 30, 2021 and 2020, respectively.

Related party deposits as of September 30, 2021 and 2020 were \$1,305 and \$1,474, respectively.

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NOTE 10. ADVANCES FROM FEDERAL HOME LOAN BANK

Federal Home Loan Bank (FHLB) borrowings at September 30 are summarized as follows:

	<u>2021</u>	<u>2020</u>
5.46% Fixed Advance, principal and interest payable monthly	\$ 521	\$ 546
2.66% Fixed Advance, principal and interest payable monthly	232	254
2.68% Fixed Advance, interest payable monthly	2,000	2,000
3.06% Fixed Advance, interest payable monthly	<u>3,000</u>	<u>3,000</u>
	<u>\$ 5,753</u>	<u>\$ 5,800</u>

Contractual principal payments on advances from Federal Home Loan Bank subsequent to September 30, 2021, are as follows:

<u>September 30</u>	<u>Amount</u>
2022	\$ 49
2023	3,515
2024	22
2025	22
2026	2,021
Thereafter	<u>124</u>
	<u>\$ 5,753</u>

The weighted average interest rate on these advances was 2.51% and 3.14% at September 30, 2021 and 2020, respectively.

The advances are secured by pledges of FHLB demand accounts, FHLB stock, securities and a blanket assignment of unpledged, qualifying mortgage loans. At September 30, 2021 and 2020, the total additional amount available to BFB for advances, subject to collateral availability, was \$64,830 and \$56,236.

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NOTE 11. OTHER BORROWED MONEY

Included in other borrowed money is matched funding from the Federal Reserve Bank for the Paycheck Protection Program Liquidity Facility (PPPLF) and also subordinated debt. Other borrowed money at September 30 are summarized as follows:

	<u>2021</u>	<u>2020</u>
PPPLF, Federal Reserve Bank, payments due as principal reductions are made on PPP loans, 0.35% fixed, maturity dates match PPP loans in 2026 and 2022 respectively.	\$ 2,766	\$ 4,509
Subordinated debt, Big Horn Federal Savings Bank, unsecured, quarterly payments of interest only, interest rate of 5% fixed until 2025, maturity August 14, 2030.	<u>2,000</u>	<u>2,000</u>
	<u>\$ 4,766</u>	<u>\$ 6,509</u>

The PPPLF is secured by pledges of the Paycheck Protection Program loans that the bank originated.

NOTE 12. COMPREHENSIVE INCOME

A summary of the reclassification amounts and related tax effects for comprehensive income follows:

	<u>Year Ended September 30,</u>	
Disclosure of reclassification amount:	<u>2021</u>	<u>2020</u>
Reclassification adjustment, net of income tax benefit (expense) of \$0 and \$0 in 2021 and 2020, respectively	\$ 1	\$ 3
Change in unrealized gain on securities available-for-sale	<u>(472)</u>	<u>(60)</u>
Total change in other comprehensive income	<u>\$ (471)</u>	<u>\$ (57)</u>

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NOTE 13. FEDERAL INCOME TAXES

Federal income tax expense (benefit) for the years ended September 30 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Current federal tax expense	\$ 545	\$ 304
Deferred federal tax expense (benefit)	<u>(59)</u>	<u>(76)</u>
	<u>\$ 486</u>	<u>\$ 228</u>

Income tax (benefit) expense for the years ended September 30 differs from “expected” income tax expense (computed by applying the federal corporate income tax rate of 21% to income before income taxes) as follows:

	<u>2021</u>	<u>2020</u>
Computed "expected" tax expense	\$ 499	\$ 241
Increase (decrease) resulting from:		
Tax-exempt interest	(5)	(5)
BOLI value adjustments	(9)	(9)
Other	<u>1</u>	<u>1</u>
	<u>\$ 486</u>	<u>\$ 228</u>

Temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities that give rise to significant portions of deferred tax assets and liabilities at September 30 are as follows:

	<u>2021</u>	<u>2020</u>
Deferred Tax Assets		
Allowance for loan losses	\$ 464	\$ 384
EDP/EPO Reserve	3	3
Unrealized loss on securities available-for-sale net	<u>132</u>	<u>6</u>
Gross deferred tax assets	\$ 599	\$ 393
Deferred Tax Liabilities		
Depreciation	(93)	(72)
Goodwill and other intangible assets	<u>(28)</u>	<u>(27)</u>
Gross deferred tax liabilities	<u>(121)</u>	<u>(99)</u>
Net deferred tax asset	<u>\$ 478</u>	<u>\$ 294</u>

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NOTE 13. FEDERAL INCOME TAXES (CONTINUED)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the existence of, or generation of, taxable income in the periods for which those temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in carry-back years, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and estimates of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

Retained earnings includes approximately \$398 which is essentially income offset by percentage of income bad debt deductions for income tax purposes prior to 1988 (the "Base Year Reserve"). This amount is treated as a permanent difference and deferred taxes of approximately \$83 are not recognized unless it appears that the amount will be reduced and thereby result in taxable income in the foreseeable future.

Under current tax regulations, management does not foresee any changes in its business or operations, which would result in a recapture of the Base Year Reserve into taxable income.

NOTE 14. EMPLOYEE BENEFIT PLANS

401k Retirement Plan

Effective January 1, 2009, the Company's Board of Directors approved the Buffalo Federal Bank 401k Plan. This is a contributory defined contribution retirement plan for all eligible employees. The retirement plan provides for a 100% employer matching contribution for the first 3% of salary deferrals and 50% employer matching contribution for the next 2% of salary deferrals. Contributions to the retirement plan made by BFB during the years ended September 30, 2021 and 2020 were \$84 and \$68, respectively.

At the discretion of the Board of Directors, an annual profit-sharing contribution may be made to eligible employees. Profit sharing contributions vest over a five-year period. There were no contributions under the profit-sharing portion of the plan for the years presented.

Management Stock Bonus Plan (MSBP)

On October 2, 1996, the Company's Board of Directors approved the MSBP. The terms of the MSBP provide for the award of up to 42,320 shares of common stock to certain officers and directors. Unearned deferred compensation is recorded at the date of the stock award based on the fair value of the shares granted. Vesting in the grant occurs in five equal, annual installments and the related deferred compensation is expensed over the same period. For financial reporting purposes the unearned deferred compensation balance is classified as a reduction of consolidated

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NOTE 14. EMPLOYEE BENEFIT PLANS (CONTINUED)

stockholders' equity. Officers, directors and employees awarded shares retain voting rights and, if dividends are paid, dividend privileges during the vesting period. At September 30, 2021 and 2020, there were -0- of awarded but unvested shares. At September 30, 2021, there were -0- shares available for future awards.

Stock Option Plan

On October 2, 1996, the Company's Board of Directors approved the Stock Option Plan ("Stock Option Plan"). The terms of the Stock Option Plan provide for the granting of up to 105,800 shares of common stock to certain officers and directors. The Stock Option Plan provides for the granting of both incentive and non-incentive stock options. The terms of the options may not exceed 10 years from the date the options are granted. Incentive stock options granted to stockholders with 10% or less of the total combined voting power of all classes of stock of the Company shall be granted at an option price of not less than 100% of the fair market value at the grant date, and the term of the option may not exceed 10 years from the date of grant. Incentive stock options granted to stockholders with more than 10% of the total combined voting power of all classes of stock of the Company shall be granted at an option price of not less than 110% of the fair market value at the grant date, and the term of the option may not exceed 5 years from the date of the grant. Non-incentive stock options shall be granted at an option price of not less than the fair market value at the grant date. At September 30, 2007, the plan expired for future option grants under the Stock Option Plan.

There are -0- stock options outstanding at September 30, 2021 and 2020.

Severance Agreements

BFB has three severance agreements with its executive officers. The agreements provide for payments equal to 2.99 times average annual salary for the previous five years in the event BFB experiences a change in control. A change in control is defined as (1) a sale of more than 25% of the assets of BFB or the Holding Company; (2) any merger or recapitalization whereby BFB or the Holding Company is not the surviving entity; (3) a change in control as determined by the OCC; or (4) acquisition directly or indirectly of 25% or more of the voting stock of BFB or the Holding Company by an individual, entity or group.

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NOTE 15. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years ended September 30:

	<u>2021</u>	<u>2020</u>
Number of shares on which basic earnings per share is calculated		
Average outstanding common shares during the fiscal year	530,014	530,014
Add: Incremental shares under employment plans	-	-
Number of shares on which diluted earnings per share is calculated	<u>530,014</u>	<u>530,014</u>
Net income applicable to common stockholders	<u>\$ 1,888</u>	<u>\$ 920</u>
Basic earnings per share	<u>\$ 3.56</u>	<u>\$ 1.73</u>
Diluted earnings per share	<u>\$ 3.56</u>	<u>\$ 1.73</u>

NOTE 16. REGULATORY CAPITAL

The Company is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Reserve Bank of Kansas City. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a material effect of the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, BFB must meet specific capital guidelines involving quantitative measures of BFB's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. BFB's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

On January 1, 2020 the Company elected into the Community Bank Leverage Ratio Framework. This election changes the requirements the Bank is required to calculate and monitor. The Bank is now required to calculate and disclose their Tier 1 leverage ratio and no longer required to calculate their Total capital ratio, Tier 1 capital ratio, or Common equity tier 1 capital ratio.

Quantitative measures established by regulation to ensure capital adequacy require BFB to maintain minimum amounts of Tier 1 Leverage Ratio (as defined in the regulations). Management believes, as of September 30, 2021, that BFB meets all the capital adequacy requirements to which it is subject.

As of September 30, 2021, the most recent filing with the Federal Reserve Bank of Kansas City, BFB was categorized as well capitalized under the community bank leverage ratio framework for prompt corrective action. To remain categorized as adequately capitalized, BFB will have to

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NOTE 16. REGULATORY CAPITAL (CONTINUED)

maintain minimum Tier 1 Leverage Ratio as disclosed in the table below. There are no conditions or events since the most recent filing that management believes have adversely changed BFB's prompt corrective action category.

BFB's actual and required capital amounts and ratios at September 30, 2021 and 2020, are as follows:

	Actual		Minimum CBLR framework	
	Amount	Ratio	Amount	Ratio
<u>As of September 30, 2021</u>				
Tier 1 leverage ratio	\$ 15,924	10.24%	\$ 14,002	9.00%
<u>As of September 30, 2020</u>				
Tier 1 leverage ratio	\$ 14,076	10.44%	\$ 12,134	9.00%

In accordance with regulations, at the time of conversion from a mutual savings and loan, BFB restricted a portion of retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible holders who continue to maintain their accounts in BFB after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation of BFB, and only in such an event, each account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held.

In addition, banks that before and after proposed dividend distributions meet or exceed their fully phased-in capital requirements, may make capital distributions without prior notice to the Federal Reserve during any calendar year up to 100% of year-to-date net income plus the preceding two years accumulated profits. However, the Federal Reserve Bank may impose greater restrictions if an institution is deemed to be in need of more than normal supervision. BFB exceeds its fully phased-in capital requirements and has been assessed as "well-capitalized" under the regulatory guidelines as of September 30, 2021.

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NOTE 17. COMMITMENTS AND CONTINGENCIES

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit risk in excess of amounts recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments outstanding at September 30, 2021, whose contract amounts represent credit risk include:

Unfunded loans in process	\$	1,732
Commitments to extend credit at fixed rates		1,191
Commitments to extend credit at adjustable rates		2,971
Unfunded lines and letters of credit		13,150

From time to time, the Bank is subject to litigation in the normal course of business. Management believes any outcome would not have a significant impact on the financial condition of the Bank.

NOTE 18. RISKS AND UNCERTAINTIES

In early 2020, the global economy was disrupted by the novel coronavirus (COVID-19) pandemic, including the industry in which the Company operates. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Company's customers and employees, all of which are uncertain and cannot be predicted. These economic events have also had a significant impact on investment portfolios. Because of the uncertainty of future market conditions, management is carefully monitoring the situation as it continues to evolve.

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NOTE 19. RELATED PARTY TRANSACTIONS

Certain officers and directors of the Holding Company and BFB and certain corporations and individuals related to such persons, as well as certain stockholders of the Holding Company, have loans from the BFB. These loans were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other customers and did not involve more than normal risk of collectability. The following table details the loan activity of related party transactions.

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 1,583	\$ 1,630
Additions	124	1,528
Payments	(191)	(1,575)
Loans to retired/terminated officers/directors	<u>(1,366)</u>	<u>-</u>
Ending balance	<u>\$ 150</u>	<u>\$ 1,583</u>

NOTE 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures about Fair Value of Financial Instruments requires disclosure of fair value of information about financial instruments, whether or not recognized in the statement of financial condition. Quoted market prices are used for fair value when available, but do not exist for some of the Company's financial instruments, primarily loans, time deposits and FHLB advances.

The fair value of these instruments has been derived from the FTN Model. The FTN Model primarily employs the static discounted cash flow method which estimates the fair value of loans, time deposits and FHLB advances by discounting the cash flows the instruments are expected to generate by the yields currently available to investors on instruments of comparable risk and duration. Therefore, to calculate present value, the Bank makes assumptions about the size and timing of expected cash flows and appropriate discount rates. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Disclosures about Fair Value of Financial Instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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NOTE 20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Financial Assets - Due to the liquid nature of the instruments, the carrying value of cash and cash equivalents and interest-bearing deposits approximates fair value. For all investment and mortgage-backed securities, the fair value is based upon quoted market prices. The fair value of loans receivable was derived from the FTN Model. The fair value of accrued interest receivable approximates book value as the Company expects contractual receipt in the short-term. The fair value of FHLB stock and Federal Reserve Bank stock approximate their carrying value.

Financial Liabilities - The fair value of NOW and demand accounts and non-term savings deposits approximates book values as these deposits are payable on demand. The fair value of time deposits and FHLB advances was derived from the FTN Model. The fair value of other borrowings approximates book value. The fair value of other liabilities approximates book value as the Company expects to settle these liabilities in the short-term.

Off-Balance Sheet - No fair value adjustment is necessary for commitments made to extend credit which represents commitments for loan originations. These commitments are at variable rates or are for loans with terms of less than one year and have interest rates which approximate prevailing market rates.

Limitations - Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding comparable market interest rates, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred tax assets and liabilities, premises and equipment, goodwill and other intangible assets. In addition, the tax effect of the difference between the fair value and carrying value of financial instruments can have a significant effect on fair value estimates and have not been considered in the estimates presented herein.

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NOTE 20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The approximate book value and fair value of the Company's financial instruments as of September 30 are as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<u>Assets:</u>				
Cash and cash equivalents	\$ 20,858	\$ 20,858	\$ 11,701	\$ 11,701
Investment and mortgage-backed securities, available for sale	23,743	23,743	22,368	22,368
Stock in Federal Reserve	196	196	196	196
Stock in FHLB	405	405	380	380
Loans held for sale	1,076	1,076	2,288	2,288
Loans receivable, net	107,033	108,178	98,846	99,341
Banked-owned life insurance	1,800	1,800	1,759	1,759
Accrued interest receivable	714	714	710	710
<u>Liabilities:</u>				
Deposits	\$134,114	\$125,919	\$ 115,905	\$ 115,315
Advances from FHLB	5,753	5,977	5,800	6,096
Other borrowed money	4,766	4,766	6,509	6,509
Accrued expenses and other liabilities	467	467	409	409

For financial instruments carried at fair value on the balance sheet, GAAP provides a framework for measuring their fair value. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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NOTE 20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

As required by GAAP, investments are classified within the level of the lowest significant input considered in determining fair value. Investments classified within Level 3 whose fair value measurements consider several inputs may include Level 1 or Level 2 inputs as components of the overall fair value measurement.

There are three general valuation techniques that may be used to measure fair value. The following is a description of the valuation methodologies used for financial assets measured at fair value on a recurring basis.

- A. Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;
- B. Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C. Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

There have been no significant changes in the valuation techniques during the period. The fair value of available-for-sale securities is estimated by obtaining quoted market prices for identical assets, where available. If such prices are not available, fair value is based on independent asset pricing services.

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NOTE 20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of assets and liabilities measured on a recurring basis at September 30, 2021 and 2020 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>September 30, 2021:</u>				
US Agency/Treasury	\$ 22,822	\$ 22,822	\$ -	\$ -
Municipal Securities	487	487	-	-
Mortgage Backed Securities	352	352	-	-
Mutual Funds:				
Conservative Funds	82	82	-	-
Total	<u>\$ 23,743</u>	<u>\$ 23,743</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>September 30, 2020:</u>				
US Agency/Treasury	\$ 21,449	\$ 21,449	\$ -	\$ -
Municipal Securities	488	488	-	-
Mortgage Backed Securities	319	319	-	-
Mutual Funds:				
Conservative Funds	112	112	-	-
Total	<u>\$ 22,368</u>	<u>\$ 22,368</u>	<u>\$ -</u>	<u>\$ -</u>

Certain financial assets or liabilities are not measured at fair value on a recurring basis but are subject to fair value measurement in certain circumstances, for example upon acquisition or when there is evidence of impairment.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following are the assets measured at fair value on a nonrecurring basis at September 30, 2021 and 2020:

	Carrying Value of Assets/Liabilities	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Inputs Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>September 30, 2021:</u>					
Financial assets:					
Impaired loans, net of allowance for loan and lease losses					
	\$ 423	\$ 423	\$ -	\$ -	\$ 423
Goodwill	<u>132</u>	<u>132</u>	<u>-</u>	<u>-</u>	<u>132</u>
Total	<u>\$ 555</u>	<u>\$ 555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 555</u>

September 30, 2020:

Financial assets:

Impaired loans, net

of allowance for loan and

lease losses

Goodwill

Total

\$ 141	\$ 141	\$ -	\$ -	\$ 141
<u>132</u>	<u>132</u>	<u>-</u>	<u>-</u>	<u>132</u>
<u>\$ 273</u>	<u>\$ 273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 273</u>

The following is a description of the valuation methodologies used for financial assets measured at fair value on a nonrecurring basis. There have been no significant changes in the valuation techniques during the period.

Impaired Loans, net of ALLL

Loans included in the Company's financials for which it is probable that the Company will not collect all principal and interest due according to contractual terms are considered impaired in accordance with GAAP. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method. Impaired loans are primarily collateral-dependent, and the estimated fair value is based on the fair value of the collateral. Impaired loans are classified within Level 3 of the fair value hierarchy.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired and is tested for impairment annually or more often if an event occurs or circumstances change that would indicate impairment may exist. Goodwill is classified within Level 3 of the fair value hierarchy.

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 21. HOLDING COMPANY INFORMATION (CONDENSED)

The summarized financial information for Crazy Woman Creek Bancorp Incorporated is presented below. Intercompany balances and transactions are noted parenthetically.

Condensed Balance Sheet

	September 30,	
	2021	2020
ASSETS		
Cash (demand account with BFB \$476 and \$639 respectively)	\$ 476	\$ 639
Investment in subsidiary	15,527	14,171
Investment securities available-for-sale – mutual funds	352	319
Income taxes receivable	394	362
Other liabilities	15	17
Total assets	\$ 16,764	\$ 15,508
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deferred tax liability	\$ 9	\$ 3
Other borrowed money	2,000	2,000
Other liabilities	7	15
Total liabilities	2,016	2,018
Stockholders' equity		
Common stock	106	106
Additional paid-in capital	10,303	10,303
Retained earnings	13,302	11,573
Accumulated other comprehensive income, net	(495)	(24)
Treasury stock	(8,468)	(8,468)
Total stockholders' equity	14,748	13,490
Total liabilities and stockholders' equity	\$ 16,764	\$ 15,508

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 21. HOLDING COMPANY INFORMATION (CONDENSED) (CONTINUED)

Condensed Statements of Income

	Years Ended September 30,	
	2021	2020
Dividends from BFB	\$ 159	\$ 279
Dividends and capital gain distributions on mutual funds	6	23
Interest expense	(100)	-
Management fee to BFB	(24)	(24)
Other operating expenses	(33)	(38)
Income before equity in undistributed earnings of subsidiary and income taxes	8	240
Equity in undistributed earnings of subsidiary	1,848	672
Income before income taxes	1,856	912
Income tax benefit	32	8
Net Income	\$ 1,888	\$ 920

Condensed Statements of Cash Flows

	Years Ended September 30,	
	2021	2020
Net income	\$ 1,888	\$ 920
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(1,848)	(672)
Mutual fund earnings reinvested	(6)	(23)
Increase in income taxes receivable	(32)	(8)
Decrease (increase) in other assets	(8)	(13)
Increase (decrease) in other liabilities	2	13
Net cash from operating activities	(4)	217
Cash flows from financing activities:		
Acquisition of treasury stock	-	(1,382)
Advances from other borrowed money	-	2,000
Cash dividends paid	(159)	(206)
Net cash from financing activities	(159)	412

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 21. HOLDING COMPANY INFORMATION (CONDENSED) (CONTINUED)

Condensed Statements of Cash Flows (Continued)

	Years Ended September 30,	
	<u>2021</u>	<u>2020</u>
Net change in cash	(163)	629
Cash at beginning of year	<u>639</u>	<u>10</u>
Cash at end of year	<u>\$ 476</u>	<u>\$ 639</u>

NOTE 22. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	YEAR ENDED SEPTEMBER 30, 2021			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	\$ 1,463	\$ 1,440	\$ 1,519	\$ 1,527
Interest expense	<u>195</u>	<u>170</u>	<u>162</u>	<u>156</u>
Net interest income	1,268	1,270	1,357	1,371
Provision for loan losses	<u>89</u>	<u>230</u>	<u>49</u>	<u>15</u>
Net interest income after provision for loan losses	1,179	1,040	1,308	1,356
Non interest income	622	539	401	441
Non interest expense	<u>1,132</u>	<u>1,036</u>	<u>1,144</u>	<u>1,200</u>
Income before provision for income taxes	669	543	565	597
Provision for income taxes	<u>137</u>	<u>112</u>	<u>115</u>	<u>122</u>
Net income before preferred dividends	532	431	450	475
Preferred dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income available to common shareholders	<u>\$ 532</u>	<u>\$ 431</u>	<u>\$ 450</u>	<u>\$ 475</u>
Basic earnings per share	\$ 1.00	\$ 0.81	\$ 0.85	\$ 0.90
Diluted earnings per share	\$ 1.00	\$ 0.81	\$ 0.85	\$ 0.90
Dividends declared per common share	\$ 0.30	\$ -	\$ -	\$ -

CRAZY WOMAN CREEK BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Dollars in Thousands Except Share and Per Share Data)
September 30, 2021 and 2020

NOTE 22. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)
(CONTINUED)

	YEAR ENDED SEPTEMBER 30, 2020			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest income	\$ 1,393	\$ 1,345	\$ 1,372	\$ 1,419
Interest expense	<u>244</u>	<u>235</u>	<u>228</u>	<u>220</u>
Net interest income	1,149	1,110	1,144	1,199
Provision for loan losses	<u>-</u>	<u>220</u>	<u>124</u>	<u>150</u>
Net interest income after provision for loan losses	1,149	890	1,020	1,049
Non interest income	371	287	297	510
Non interest expense	<u>1,101</u>	<u>1,124</u>	<u>1,052</u>	<u>1,148</u>
Income before provision for income taxes	419	53	265	411
Provision for income taxes	<u>85</u>	<u>8</u>	<u>52</u>	<u>83</u>
Net income before preferred dividends	334	45	213	328
Preferred dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income available to common shareholders	<u><u>\$ 334</u></u>	<u><u>\$ 45</u></u>	<u><u>\$ 213</u></u>	<u><u>\$ 328</u></u>
Basic earnings per share	\$ 0.54	\$ 0.07	\$ 0.34	\$ 0.56
Diluted earnings per share	\$ 0.54	\$ 0.07	\$ 0.34	\$ 0.56
Dividends declared per common share	\$ 0.33	\$ -	\$ -	\$ -

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Corporate Office
Crazy Woman Creek Bancorp, Incorporated and Buffalo Federal Bank

106 Fort Street, P.O. Box 1020
Buffalo, Wyoming 82834-1020
www.buffalofed.com
(307) 684-5591

Board of Directors of Crazy Woman Creek Bancorp, Incorporated

Richard Reimann
Chairman of the Board

Chanda Rule
Secretary

Sandra K. Todd
Treasurer

Deane D. Bjerke

Thomas J. Berry

Joseph F. Helmer

Paul M. Brunkhorst

Executive Officers

Paul M. Brunkhorst
President and
Chief Executive Officer

Carolyn S. Kaiser
Senior Vice President and
Chief Financial Officer

Richard B. Griffith
Senior Vice President and
Senior Loan Officer

Professional Advisors

Corporate Counsel

Kirven and Kirven
104 Fort Street
Buffalo, WY 82834

Transfer Agent and Registrar

Computershare Trust Company, N.A.
250 Royall St.
Canton, MA 02021

Independent Auditors

Anderson ZurMuehlen & Co., P.C.
PO Box 1040
Helena, MT 59624-1040

Special Counsel

Jones Walker LLP
1227 25th Street, N.W.
Suite 200 West
Washington, D.C. 20037

Annual Meeting

The Annual Meeting of Stockholders will be held on January 26, 2022, at 3:00 p.m. at the Company's main office located at 106 Fort Street, Buffalo, Wyoming.