IF Bancorp, Inc.
Form 10-Q
February 09, 2018
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2017

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to __________

Commission File No. 001-35226

IF Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**45-1834449**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
201 East Cherry Street, Watseka, Illinois	**60970**
(Address of Principal Executive Offices)	**Zip Code**

(815) 432-2476

(Registrant s telephone number)

N/A

(Former name or former address, if changed since last report)

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

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

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

Large Accelerated Filer		Accelerated Filer
Non-accelerated Filer	(Do not check if a smaller reporting company)	Smaller Reporting Company
Emerging Growth Company		

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

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

The Registrant had 3,940,408 shares of common stock, par value $0.01 per share, issued and outstanding as of February 2, 2018.

Table of Contents

IF Bancorp, Inc.

Form 10-Q

Index

		Page
	Part I. Financial Information	
Item 1.	Condensed Consolidated Financial Statements	1
	Condensed Consolidated Balance Sheets as of December 31, 2017 (unaudited) and June 30, 2017	1
	Condensed Consolidated Statements of Income for the Three Months and Six Months Ended December 31, 2017 and 2016 (unaudited)	2
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months and Six Months Ended December 31, 2017 and 2016 (unaudited)	3
	Condensed Consolidated Statements of Stockholders Equity for the Six Months Ended December 31, 2017 and 2016 (unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2017 and 2016 (unaudited)	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	38
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	54
Item 4.	Controls and Procedures	54
	Part II. Other Information	
Item 1.	Legal Proceedings	55
Item 1A.	Risk Factors	55
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3.	Defaults upon Senior Securities	55
Item 4.	Mine Safety Disclosures	55
Item 5.	Other Information	56
Item 6.	Exhibits	56
	Signature Page	57

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

IF Bancorp, Inc.

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amount)

	December 31, 2017 (Unaudited)	June 30, 2017
Assets		
Cash and due from banks	$ 6,175	$ 7,252
Interest-bearing demand deposits	519	514
Cash and cash equivalents	6,694	7,766
Interest-bearing time deposits in banks	1,750	1,750
Available-for-sale securities	116,975	111,611
Loans, net of allowance for loan losses of $7,122 and $6,835 at December 31, 2017 and June 30, 2017, respectively	458,430	440,322
Premises and equipment, net of accumulated depreciation of $6,493 and $6,249 at December 31, 2017 and June 30, 2017, respectively	9,413	5,840
Federal Home Loan Bank stock, at cost	2,790	2,543
Foreclosed assets held for sale	491	429
Accrued interest receivable	1,752	1,539
Bank-owned life insurance	8,672	8,823
Mortgage servicing rights	730	710
Deferred income taxes	3,244	3,721
Other	552	420
Total assets	$ 611,493	$ 585,474
Liabilities and Equity		
Liabilities		
Deposits		
Demand	$ 21,550	$ 20,140
Savings, NOW and money market	184,321	171,213
Certificates of deposit	216,916	209,020
Brokered certificates of deposit	38,788	38,773
Total deposits	461,575	439,146

Repurchase agreements	2,964	2,183
Federal Home Loan Bank advances	57,000	53,500
Advances from borrowers for taxes and insurance	1,014	754
Accrued post-retirement benefit obligation	2,886	2,874
Accrued interest payable	116	55
Other	2,462	2,993
Total liabilities	528,017	501,505
Commitments and Contingencies		
Stockholders Equity		
Common stock, $.01 par value per share, 100,000,000 shares authorized, 3,940,408 shares issued and outstanding at both December 31, 2017 and June 30, 2017	39	39
Additional paid-in capital	48,146	47,940
Unearned ESOP shares, at cost, 259,808 and 269,430 shares at December 31, 2017 and June 30, 2017, respectively	(2,598)	(2,694)
Retained earnings	38,932	39,051
Accumulated other comprehensive income (loss), net of tax	(1,043)	(367)
Total stockholders equity	83,476	83,969
Total liabilities and stockholders equity	$ 611,493	$ 585,474

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

IF Bancorp, Inc.

Condensed Consolidated Statements of Income (Unaudited)

(Dollars in thousands except per share amounts)

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
Interest and Dividend Income				
Interest and fees on loans	$ 4,923	$ 4,659	$ 9,663	$ 9,327
Securities:				
Taxable	650	603	1,296	1,286
Tax-exempt	35	36	70	72
Federal Home Loan Bank dividends	23	27	45	52
Deposits with other financial institutions	39	13	64	19
Total interest and dividend income	5,670	5,338	11,138	10,756
Interest Expense				
Deposits	1,027	697	1,912	1,379
Federal Home Loan Bank advances	196	180	368	405
Total interest expense	1,223	877	2,280	1,784
Net Interest Income	4,447	4,461	8,858	8,972
Provision for Loan Losses	(50)	(46)	358	33
Net Interest Income After Provision for Loan Losses	4,497	4,507	8,500	8,939
Noninterest Income				
Customer service fees	100	137	221	278
Other service charges and fees	94	62	200	122
Insurance commissions	170	177	343	350
Brokerage commissions	228	147	405	293
Net realized gains on sales of available-for-sale securities			13	117
Mortgage banking income, net	65	154	135	284
Gain on sale of loans	50	90	150	175
Bank-owned life insurance income, net	69	69	246	136
Other	201	182	432	384
Total noninterest income	977	1,018	2,145	2,139
Noninterest Expense				

Compensation and benefits		2,556		2,427		4,895		4,643
Office occupancy		194		149		363		298
Equipment		348		301		658		594
Federal deposit insurance		42		10		85		92
Stationary, printing and office		26		44		66		84
Advertising		130		87		214		156
Professional services		188		115		267		241
Supervisory examinations		40		40		80		81
Audit and accounting services		24		23		88		74
Organizational dues and subscriptions		29		27		46		50
Insurance bond premiums		37		43		72		75
Telephone and postage		72		47		139		91
Loss (gain) on foreclosed assets, net								(7)
Other		837		351		1,208		670
Total noninterest expense		4,523		3,664		8,181		7,142
Income Before Income Tax		951		1,861		2,464		3,936
Provision for Income Tax		1,679		691		2,217		1,463
Net Income (Loss)	$	(728)	$	1,170	$	247	$	2,473
Earnings (Loss) Per Share:								
Basic	$	(0.20)	$	0.32	$	0.07	$	0.67
Diluted	$	(0.20)	$	0.32	$	0.07	$	0.66
Dividends declared per common share	$		$		$	0.10	$	0.08

See accompanying notes to the unaudited condensed consolidated financial statements.

2

Table of Contents

IF Bancorp, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Dollars in thousands)

	Three Months Ended December 31,	
	2017	**2016**
Net Income (Loss)	$ (728)	$ 1,170
Other Comprehensive Loss		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $(484) and $(1,506), for 2017 and 2016, respectively	(718)	(2,343)
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of $1 and $(1) for 2017 and 2016, respectively	2	(2)
Other comprehensive loss, net of tax	(716)	(2,345)
Comprehensive Loss	$ (1,444)	$ (1,175)

	Six Months Ended December 31,	
	2017	**2016**
Net Income	$ 247	$ 2,473
Other Comprehensive Income (Loss)		
Unrealized depreciation on available-for-sale securities, net of taxes of $(462) and $(1,731), for 2017 and 2016, respectively	(663)	(2,695)
Less: reclassification adjustment for realized gains included in net income, net of taxes of $4 and $46, for 2017 and 2016, respectively	9	71
	(672)	(2,766)
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of $(2) and $(2) for 2017 and 2016, respectively	(4)	(4)
Other comprehensive loss, net of tax	(676)	(2,770)
Comprehensive Loss	$ (429)	$ (297)

See accompanying notes to the unaudited condensed consolidated financial statements.

3

Table of Contents

IF Bancorp, Inc.

Condensed Consolidated Statement of Stockholders Equity (Unaudited)

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
For the six months ended December 31, 2017						
Balance, July 1, 2017	$ 39	$ 47,940	$ (2,694)	$ 39,051	$ (367)	$ 83,969
Net income				247		247
Other comprehensive loss					(676)	(676)
Dividends on common stock, $0.10 per share				(366)		(366)
Stock equity plan		112				112
ESOP shares earned, 9,622 shares		94	96			190
Balance, December 31, 2017	$ 39	$ 48,146	$ (2,598)	$ 38,932	$ (1,043)	$ 83,476
For the six months ended December 31, 2016						
Balance, July 1, 2016	$ 40	$ 47,535	$ (2,887)	$ 37,095	$ 2,189	$ 83,972
Net income				2,473		2,473
Other comprehensive loss					(2,770)	(2,770)
Dividends on common stock, $0.08 per share				(297)		(297)
Stock equity plan		112				112
Stock repurchase, 63,653 shares, average price $18.66 each				(1,188)		(1,188)
ESOP shares earned, 9,622 shares		86	96			182
Balance, December 31, 2016	$ 40	$ 47,733	$ (2,791)	$ 38,083	$ (581)	$ 82,484

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

IF Bancorp, Inc.

Condensed Consolidated Statement of Cash Flows (Unaudited)

(Dollars in thousands)

	Six Months Ended December 31, 2017	2016
Operating Activities		
Net income	$ 247	$ 2,473
Items not requiring (providing) cash		
Depreciation	244	210
Provision for loan losses	358	33
Amortization of premiums and discounts on securities	92	150
Deferred income taxes	944	257
Net realized gains on loan sales	(150)	(175)
Net realized gains on sales of available-for-sale securities	(13)	(117)
Loss (gain) on foreclosed assets held for sale		(7)
Bank-owned life insurance income, net	(246)	(136)
Originations of loans held for sale	(10,155)	(12,003)
Proceeds from sales of loans held for sale	10,471	11,975
ESOP compensation expense	190	182
Stock equity plan expense	112	112
Changes in		
Accrued interest receivable	(213)	139
Other assets	(132)	399
Accrued interest payable	61	
Post-retirement benefit obligation	6	17
Other liabilities	(531)	(562)
Net cash provided by operating activities	1,285	2,947
Investing Activities		
Net change in interest bearing time deposits		2
Purchases of available-for-sale securities	(23,607)	(20,704)
Proceeds from the sales of available-for-sale securities	5,966	
Proceeds from maturities and pay-downs of available-for-sale securities	11,061	25,203
Net change in loans	(18,723)	6,719
Purchase of premises and equipment	(3,817)	(571)
Proceeds from sale of foreclosed assets	9	168
Redemption of Federal Home Loan Bank stock owned	788	
Purchase of Federal Home Loan Bank stock	(1,035)	
Proceeds from settlement of bank-owned life insurance policies	397	
Net cash provided by (used in) investing activities	(28,961)	10,817

Financing Activities				
Net increase in demand deposits, money market, NOW and savings accounts		14,518		3,087
Net increase (decrease) in certificates of deposit, including brokered certificates		7,911		(9,932)
Net increase (decrease) in advances from borrowers for taxes and insurance		260		(128)
Proceeds from Federal Home Loan Bank advances		66,500		55,500
Repayments of Federal Home Loan Bank advances		(63,000)		(60,000)
Net increase (decrease) in repurchase agreements		781		(1,715)
Dividends paid		(366)		(297)
Stock purchase per stock repurchase plan				(1,188)
Net cash provided by (used in) financing activities		26,604		(14,673)
Net Decrease in Cash and Cash Equivalents		(1,072)		(909)
Cash and Cash Equivalents, Beginning of Period		7,766		6,449
Cash and Cash Equivalents, End of Period	$	6,694	$	5,540
Supplemental Cash Flows Information				
Interest paid	$	2,219	$	1,784
Income taxes paid, net of refunds	$	1,849	$	1,552
Foreclosed assets acquired in settlement of loans	$	71	$	355

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Form 10-Q (Unaudited)

(Table dollar amounts in thousands)

Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Financial Statement Presentation

IF Bancorp, Inc., a Maryland corporation (the Company), became the holding company for Iroquois Federal Savings and Loan Association (the Association) upon completion of the Association s conversion on July 7, 2011. At the time of the conversion, the Company sold shares of its common stock to the public and also established an employee stock ownership plan that purchased 384,900 shares of Company stock, and a charitable foundation, Iroquois Federal Foundation, to which the Company donated 314,755 shares of Company stock and $450,000 cash. IF Bancorp, Inc. s common stock trades on the NASDAQ Capital Market under the symbol IROQ .

In December 2017, the Tax Cuts and Jobs Act was enacted, which will lower our federal income tax rate to 21% effective for tax periods after December 31, 2017. As a result, the Company is required to revalue its deferred tax assets and deferred tax liabilities to account for the future impact of the lower corporate rate on these deferred amounts. The effect of the change in tax rates on our deferred tax assets and liabilities is recognized as an expense in the period that includes the enactment date, which is the quarter ended December 31, 2017. The one-time adjustment of deferred taxes for this tax change negatively impacts the Company s current earnings and is reflected in our December 31, 2017 financials as a $1.3 million tax expense.

The unaudited condensed consolidated financial statements include the accounts of the Company, the Association, and the Association s wholly owned subsidiary, L.C.I. Service Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with instructions for Form 10 Q and Regulation S X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ from these estimates. In the opinion of management, the preceding unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial condition of the Company as of December 31, 2017 and June 30, 2017, and the results of its operations for the three month and six month periods ended December 31, 2017 and 2016. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended June 30, 2017. The results of operations for the three month and six month periods ended December 31, 2017 are not necessarily indicative of the results that may be expected for the entire year.

Note 2: New Accounting Pronouncements

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides a five-step revenue

recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* which clarifies the implementation guidance related to principal versus agent

considerations and adds illustrative examples to assist in the application of the guidance. The amendments in ASU 2016-08 affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements in ASU 2016-08 are the same as the effective date and transition requirements of ASU 2014-09. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and must be applied either retrospectively or using the modified retrospective approach. Early adoption is not permitted. Since the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other GAAP, the Company does not expect the new guidance to have a material impact on revenue most closely associated with financial instruments, including interest income. The Company is currently performing an overall assessment of revenue streams potentially affected by the ASU including deposit related fees and interchange fees to determine the potential impact the new guidance is expected to have on the Company s consolidated financial statements. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company is currently planning to use the modified retrospective transition method which requires application of ASU 2014-09 to uncompleted contracts at the date of adoption. Periods prior to the date of adoption are not retrospectively revised, but a cumulative effect of adoption is recognized for the impact of the ASU on uncompleted contracts at the date of adoption. The Company plans to adopt ASU 2014-09 on July 1, 2018.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which amends the existing standards for lease accounting effectively bringing most leases onto the balance sheets of the related lessees by requiring them to recognize a right-of-use asset and a corresponding lease liability, while leaving lessor accounting largely unchanged with only targeted changes incorporated into the update. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods with early adoption permitted. The Company is currently reviewing the amendments to ensure it is fully compliant by the adoption date. As permitted by the amendments, the Company is anticipating electing an accounting policy to not recognize lease assets and lease liabilities for leases with a term of twelve months or less. The impact is not expected to have a material effect on the Company s financial position or results of operations since the Company does not have a material amount of lease agreements. The Company continues to evaluate the amendments and does not expect to early adopt.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. As we prepare for the adoption of ASU-2016-13, we have established a team to review the requirements as published, monitor developments and new guidance, and review and collect data that will be required to calculate and report the allowance when ASU 2016-13 becomes effective. The Corporation has not yet determined the impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

In August, 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230),* which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASC 230 lacks consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. This

has led to diversity in practice and, in certain circumstances, financial statement restatements. Therefore, the FASB issued the ASU with the intent of reducing diversity in practice with respect to eight types of cash flows. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the pending adoption of ASU-2016-15 and its impact on the Company s consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification* was issued to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation. ASU 2017-09 includes guidance on determining which changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 is effective for the annual period, and interim periods within the annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for: (a) public business entities for reporting periods for which financial statements have not yet been issued, and (b) all other entities for reporting periods for which financial statements have not yet been made available for issuance. ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The Company is currently in the process of evaluating the impact of ASU 2017-09 on its consolidated financial statements, but does not expect the adoption of ASU 2017-09 to have material impact on it consolidated financial statements.

Note 3: Stock-based Compensation

In connection with the conversion to stock form, the Association established an ESOP for the exclusive benefit of eligible employees (all salaried employees who have completed at least 1,000 hours of service in a twelve-month period and have attained the age of 21). The ESOP borrowed funds from the Company in an amount sufficient to purchase 384,900 shares (approximately 8% of the common stock issued in the stock offering). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Association and dividends received by the ESOP, with funds from any contributions on ESOP assets. Contributions will be applied to repay interest on the loan first, then the remainder will be applied to principal. The loan is expected to be repaid over a period of up to 20 years. Shares purchased with the loan proceeds are held in a suspense account for allocation among participants as the loan is repaid. Contributions to the ESOP and shares released from the suspense account are allocated among participants in proportion to their compensation, relative to total compensation of all active participants. Participants will vest 100% in their accrued benefits under the employee stock ownership plan after six vesting years, with prorated vesting in years two through five. Vesting is accelerated upon retirement, death or disability of the participant or a change in control of the Association. Forfeitures will be reallocated to remaining plan participants. Benefits may be payable upon retirement, death, disability, separation from service, or termination of the ESOP. Since the Association s annual contributions are discretionary, benefits payable under the ESOP cannot be estimated. Participants receive the shares at the end of employment.

The Company is accounting for its ESOP in accordance with ASC Topic 718, *Employers Accounting for Employee Stock Ownership Plans*. Accordingly, the debt of the ESOP is eliminated in consolidation and the shares pledged as collateral are reported as unearned ESOP shares in the consolidated balance sheets. Contributions to the ESOP shall be sufficient to pay principal and interest currently due under the loan agreement. As shares are committed to be released from collateral, the Company reports compensation expense equal to the average market price of the shares for the respective period, and the shares become outstanding for earnings per share computations. Dividends, if any, on unallocated ESOP shares are recorded as a reduction of debt and accrued interest.

A summary of ESOP shares at December 31, 2017 and June 30, 2017 are as follows (dollars in thousands):

	December 31, 2017	June 30, 2017
Allocated shares	96,133	83,004
Shares committed for release	9,622	19,245
Unearned shares	259,808	269,430
Total ESOP shares	365,563	371,679
Fair value of unearned ESOP shares (1)	$ 5,108	$ 5,294

(1) Based on closing price of $19.66 and $19.50 per share on December 31, 2017, and June 30, 2017, respectively.

Table of Contents

During the six months ended December 31, 2017, 6,116 ESOP shares were paid to ESOP participants due to separation from service. During the six months ended December 31, 2016, 7,360 ESOP shares were paid to ESOP participants due to separation from service.

At the annual meeting on November 19, 2012, the IF Bancorp, Inc. 2012 Equity Incentive Plan (the Equity Incentive Plan) was approved by stockholders. The purpose of the Equity Incentive Plan is to promote the long-term financial success of the Company and its Subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interests with those of the Company s stockholders. The Equity Incentive Plan authorizes the issuance or delivery to participants of up to 673,575 shares of the Company common stock pursuant to grants of incentive and non-qualified stock options, restricted stock awards and restricted stock unit awards, provided that the maximum number of shares of Company common stock that may be delivered pursuant to the exercise of stock options (all of which may be granted as incentive stock options) is 481,125 and the maximum number of shares of Company stock that may be issued as restricted stock awards or restricted stock units is 192,450.

On December 10, 2013, the Board of Directors approved grants of 85,500 shares of restricted stock and 167,000 in stock options to senior officers and directors of the Association. The restricted stock vests in equal installments over 10 years and the stock options vest in equal installments over 7 years. Vesting of both the restricted stock and options started in December 2014. On December 10, 2015, the Board of Directors approved grants of 16,900 shares of restricted stock to be awarded to senior officers and directors of the Association. The restricted stock vests in equal installments over 8 years, starting in December 2016. As of December 31, 2016, there were 90,050 shares of restricted stock and 314,125 stock option shares available for future grants under this plan.

The following table summarizes stock option activity for the six months ended December 31, 2017 (dollars in thousands):

	Options	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding, June 30, 2017	153,143	$ 16.63		
Granted				
Exercised				
Forfeited				
Outstanding, December 31, 2017	153,143	$ 16.63	5.9	$ 464 (1)
Exercisable, December 31, 2017	86,285	$ 16.63	5.9	$ 261 (1)

(1) Based on closing price of $19.66 per share on December 31, 2017.

Intrinsic value for stock options is defined as the difference between the current market value and the exercise price. There were no stock options granted during the six months ended December 31, 2017.

There were 22,285 stock options that vested during the six months ended December 31, 2017 and 22,286 stock options that vested during the six months ended December 31, 2016. Stock-based compensation expense and related tax benefit was considered nominal for stock options for the six months ended December 31, 2017 and 2016. Total unrecognized compensation cost related to non-vested stock options was $165,000 at December 31, 2017 and is expected to be recognized over a weighted-average period of 2.9 years.

Table of Contents

The following table summarizes non-vested restricted stock activity for the six months ended December 31, 2017:

	Shares	Weighted-Average Grant-Date Fair Value	
Balance, June 30, 2017	70,438	$	16.79
Granted			
Forfeited			
Earned and issued	10,063		16.79
Balance, December 31, 2017	60,375	$	16.79

The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (ten years) and is based on the market price of the Company s common stock at the date of grant multiplied by the number of shares granted that are expected to vest. At the date of grant the par value of the shares granted was recorded in equity as a credit to common stock and a debit to paid-in capital. Stock-based compensation expense and related tax benefit for restricted stock, which was recognized in non-interest expense, was $85,000 and $29,000, respectively, for both the six months ended December 31, 2017 and the six months ended December 31, 2016. Unrecognized compensation expense for non-vested restricted stock awards was $1.0 million at December 31, 2017, and is expected to be recognized over 5.9 years with a corresponding credit to paid-in capital.

Note 4: Earnings Per Common Share (EPS)

Basic and diluted earnings per common share are presented for the three month and six month periods ended December 31, 2017 and 2016. The factors used in the earnings per common share computation follow:

	Three Months Ended December 31, 2017		Three Months Ended December 31, 2016		Six Months Ended December 31, 2017		Six Months Ended December 31, 2016	
Net income (loss)	$	(728)	$	1,170	$	247	$	2,473
Basic weighted average shares outstanding		3,940,408		3,954,095		3,940,408		3,982,271
Less: Average unallocated ESOP shares		(262,213)		(281,458)		(264,619)		(283,864)
Basic average shares outstanding		3,678,195		3,672,637		3,675,789		3,698,407
Diluted effect of restricted stock awards and stock options		34,058		25,299		34,612		24,514
Diluted average shares outstanding		3,712,253		3,697,936		3,710,401		3,722,921

Basic earnings (loss) per common share	$	(0.20)	$	0.32	$	0.07	$	0.67
Diluted earnings (loss) per common share	$	(0.20)	$	0.32	$	0.07	$	0.66

The Company announced a stock repurchase plan on February 5, 2016, which allowed the Company to repurchase up to 200,703 shares of its common stock, or approximately 5% of its then current outstanding shares. As of December 31, 2017, 73,653 shares were repurchased at an average price of $18.65.

On December 10, 2013, the Company awarded 85,500 shares of restricted stock and 167,000 in stock options to officers and directors of the Association as part of the IF Bancorp, Inc. 2012 Equity Incentive Plan. The restricted stock vests over

10

Table of Contents

10 years and the stock options vest over 7 years, both starting in December 2014. On December 10, 2015, the Company awarded 16,900 shares of restricted stock to officers and directors of the Association as part of this plan. This restricted stock will vest over 8 years, starting in December 2016.

Note 5: Securities

The amortized cost and approximate fair value of securities, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
December 31, 2017:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 16,134	$ 1	$ (197)	$ 15,938
Mortgage-backed:				
GSE residential	97,018	202	(1,387)	95,833
Small Business Administration	2,009		(25)	1,984
State and political subdivisions	2,981	239		3,220
	$ 118,142	$ 442	$ (1,609)	$ 116,975
June 30, 2017:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 25,230	$ 39	$ (234)	$ 25,035
Mortgage-backed:				
GSE residential	81,088	372	(498)	80,962
Small Business Administration	2,048		(16)	2,032
State and political subdivisions	3,274	308		3,582
	$ 111,640	$ 719	$ (748)	$ 111,611

With the exception of U.S. Government, federal agency and GSE securities and GSE residential mortgage-backed securities with a book value of approximately $16,134,000 and $97,018,000, respectively, and a market value of approximately $15,938,000 and $95,833,000, respectively, at December 31, 2017, the Company held no securities at December 31, 2017 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at December 31, 2017 and June 30, 2017 were issued by GSEs.

The amortized cost and fair value of available-for-sale securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

11

	Available-for-sale Securities	
	Amortized Cost	Fair Value
Within one year	$ 136	$ 138
One to five years	1,928	2,012
Five to ten years	17,427	17,217
After ten years	1,633	1,775
	21,124	21,142
Mortgage-backed securities	97,018	95,833
Totals	$ 118,142	$ 116,975

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $65,689,000 and $59,262,000 as of December 31, 2017 and June 30, 2017, respectively.

The carrying value of securities sold under agreement to repurchase amounted to $3.0 million at December 31, 2017 and $2.2 million at June 30, 2017. At December 31, 2017, approximately $1.2 million of our repurchase agreements had an overnight maturity, while the remaining $1.8 million in repurchase agreements had a term of 30 to 90 days. All of our repurchase agreements were secured by U.S. Government, federal agency and GSE securities. The right of offset for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default. The collateral is held by the Company in a segregated custodial account. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained.

Gross gains of $20,000 and $117,000, and gross losses of $7,000 and $0, resulting from sales of available-for-sale securities were realized for the six month periods ended December 31, 2017 and 2016, respectively. The tax provision applicable to these net realized gains amounted to approximately $4,000 and $46,000, respectively. No gross gains or gross losses resulting from sales of available-for-sale securities were realized for the three month periods ended December 31, 2017 and 2016.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2017 and June 30, 2017, was $101,790,000 and $75,046,000, respectively, which is approximately 87% and 67% of the Company s available-for-sale investment portfolio. These declines in fair value at June 30, 2017, resulted from increases in market interest rates and were temporary.

The following table shows the Company s gross unrealized investment losses and the fair value of the Company s investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and June 30, 2017:

	Less Than 12 Months	12 Months or More	Total
Description of	Fair Value	Fair Value	Fair Value

Securities		Unrealized Losses		Unrealized Losses		Unrealized Losses
December 31, 2017:						
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 6,055	$ (21)	$ 8,602	$ (176)	$ 14,657	$ (197)
Mortgage-backed:						
GSE residential	65,875	(958)	19,274	(429)	85,149	(1,387)
Small Business Administration	1,984	(25)			1,984	(25)
Total temporarily impaired securities	$ 73,914	$ (1,004)	$ 27,876	$ (605)	$ 101,790	$ (1,609)

Description of Securities	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2017:						
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 16,717	$ (234)	$	$	$ 16,717	$ (234)
Mortgage-backed:						
GSE residential	56,297	(498)			56,297	(498)
Small Business Administration	2,032	(16)			2,032	(16)
Total temporarily impaired securities	$ 75,046	$ (748)	$	$	$ 75,046	$ (748)

The unrealized losses on the Company s investment in residential mortgage-backed securities and U.S. Government and federal agency and Government sponsored enterprises at December 31, 2017 and June 30, 2017, are mostly the result of a decline in market value that is attributable to changes in interest rates and not credit quality, and the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2017 and June 30, 2017.

Note 6: Loans and Allowance for Loan Losses

Classes of loans include:

	December 31, 2017	June 30, 2017
Real estate loans:		
One- to four-family, including home equity loans	$ 140,950	$ 140,647
Multi-family	95,231	87,228
Commercial	135,645	133,841
Home equity lines of credit	7,844	7,520
Construction	11,446	7,421
Commercial	66,160	62,392
Consumer	8,102	7,905
Total loans	465,378	446,954
Less:		
Unearned fees and discounts, net	(174)	(203)
Allowance for loan losses	7,122	6,835
Loans, net	$ 458,430	$ 440,322

The Company believes that sound loans are a necessary and desirable means of employing funds available for investment. Recognizing the Company s obligations to its depositors and to the communities it serves, authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Company maintains lending policies and procedures designed to focus our lending efforts on the types,

locations, and duration of loans most appropriate for our business model and markets. The Company s principal lending activity is the origination of one- to four-family residential mortgage loans but also includes multi-family loans, commercial real estate loans, home equity lines of credits, commercial business loans, consumer loans (consisting primarily of automobile loans),

and, to a much lesser extent, construction loans and land loans. The primary lending market includes the Illinois counties of Vermilion, Iroquois, Champaign and Kankakee, as well as the adjacent counties in Illinois and Indiana. The Company also has a loan production and wealth management office in Osage Beach, Missouri, which serves the Missouri counties of Camden, Miller, and Morgan. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid from cash flows of the borrowers or from proceeds from the sale of selected assets of the borrowers.

Management reviews and approves the Company s lending policies and procedures on a routine basis. Management routinely (at least quarterly) reviews our allowance for loan losses and reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Our underwriting standards are designed to encourage relationship banking rather than transactional banking. Relationship banking implies a primary banking relationship with the borrower that includes, at minimum, an active deposit banking relationship in addition to the lending relationship. The integrity and character of the borrower are significant factors in our loan underwriting. As a part of underwriting, tangible positive or negative evidence of the borrower s integrity and character are sought out. Additional significant underwriting factors beyond location, duration, the sound and profitable cash flow basis underlying the loan and the borrower s character are the quality of the borrower s financial history, the liquidity of the underlying collateral and the reliability of the valuation of the underlying collateral.

The Company s policies and loan approval limits are established by the Board of Directors. The loan officers generally have authority to approve one- to four-family residential mortgage loans up to $100,000, other secured loans up to $50,000, and unsecured loans up to $10,000. Managing Officers (those with designated loan approval authority), generally have authority to approve one- to four-family residential mortgage loans up to $300,000, other secured loans up to $300,000, and unsecured loans up to $100,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to $1,000,000 in aggregate loans, and unsecured loans up to $300,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman and up to four other Board members. At no time is a borrower s total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Company s directors, are reviewed for compliance with regulatory guidelines and the Board of Directors at least annually.

The Company conducts internal loan reviews that validate the loans against the Company s loan policy quarterly for mortgage, consumer, and small commercial loans on a sample basis, and all larger commercial loans on an annual basis. The Company also receives independent loan reviews performed by a third party on larger commercial loans to be performed annually. In addition to compliance with our policy, the third party loan review process reviews the risk assessments made by our credit department, lenders and loan committees. Results of these reviews are presented to management and the Board of Directors.

The Company s lending can be summarized into six primary areas: one- to four-family residential mortgage loans, commercial real estate and multi-family real estate loans, home equity lines of credits, real estate construction, commercial business loans, and consumer loans.

One- to four-family Residential Mortgage Loans

The Company offers one- to four-family residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. In recent years there has been an increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, the Company has sold a substantial portion of the fixed-rate one- to four-family residential mortgage loans with

terms of 15 years or greater. Generally, the Company retains fixed-rate one- to four-family residential mortgage loans with terms of less than 15 years, although this has represented a small percentage of the fixed-rate loans originated in recent years due to the favorable long-term rates for borrower.

The Company offers USDA Rural Development loans and sells the servicing.

In addition, the Company also offers home equity loans that are secured by a second mortgage on the borrower s primary or secondary residence. Home equity loans are generally underwritten using the same criteria used to underwrite one- to four-family residential mortgage loans.

As one- to four-family residential mortgage and home equity loan underwriting are subject to specific regulations, the Company typically underwrites its one- to four-family residential mortgage and home equity loans to conform to widely accepted standards. Several factors are considered in underwriting including the value of the underlying real estate and the debt to income ratio and credit history of the borrower.

Commercial Real Estate and Multi-Family Real Estate Loans

Commercial real estate mortgage loans are primarily secured by office buildings, owner-occupied businesses, strip mall centers, churches and farm loans secured by real estate. In underwriting commercial real estate and multi-family real estate loans, the Company considers a number of factors, which include the projected net cash flow to the loan s debt service requirement, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower s experience in owning or managing similar properties. Personal guarantees are typically obtained from commercial real estate and multi-family real estate borrowers. In addition, the borrower s financial information on such loans is monitored on an ongoing basis by requiring periodic financial statement updates. The repayment of these loans is primarily dependent on the cash flows of the underlying property. However, the commercial real estate loan generally must be supported by an adequate underlying collateral value. The performance and the value of the underlying property may be adversely affected by economic factors or geographical and/or industry specific factors. These loans are subject to other industry guidelines that are closely monitored by the Company.

Home Equity Lines of Credit

In addition to traditional one- to four-family residential mortgage loans and home equity loans, the Company offers home equity lines of credit that are secured by the borrower s primary or secondary residence. Home equity lines of credit are generally underwritten using the same criteria used to underwrite one- to four-family residential mortgage loans. As home equity lines of credit underwriting is subject to specific regulations, the Company typically underwrites its home equity lines of credit to conform to widely accepted standards. Several factors are considered in underwriting including the value of the underlying real estate and the debt to income ratio and credit history of the borrower.

Commercial Business Loans

The Company originates commercial non-mortgage business (term) loans and lines of credit. These loans are generally originated to small- and medium-sized companies in the Company s primary market area. Commercial business loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture, and are primarily secured by business assets other than real estate, such as business equipment and inventory, accounts receivable or stock. The Company also offers agriculture loans that are not secured by real estate.

The commercial business loan portfolio consists primarily of secured loans. When making commercial business loans, the Company considers the financial statements, lending history and debt service capabilities of the borrower, the projected cash flows of the business and the value of any collateral. The cash flows of the underlying borrower, however, may not perform consistently with historical or projected information. Further, the collateral securing loans may fluctuate in value due to individual economic or other factors. Loans are typically guaranteed by the principals of the borrower. The Company has established minimum standards and underwriting guidelines for all commercial loan

types.

Real Estate Construction Loans

The Company originates construction loans for one- to four-family residential properties and commercial real estate properties, including multi-family properties. The Company generally requires that a commitment for permanent financing be in place prior to closing the construction loan. The repayment of these loans is typically through permanent financing following completion of the construction. Real estate construction loans are inherently more risky than loans on completed properties as the unimproved nature and the financial risks of construction significantly enhance the risks of commercial real estate loans. These loans are closely monitored and subject to other industry guidelines.

Consumer Loans

Consumer loans consist of installment loans to individuals, primarily automotive loans. These loans are underwritten utilizing the borrower s financial history, including the Fair Isaac Corporation (FICO) credit scoring and information as to the underlying collateral. Repayment is expected from the cash flow of the borrower. Consumer loans may be underwritten with terms up to seven years, fully amortized. Unsecured loans are limited to twelve months. Loan-to-value ratios vary based on the type of collateral. The Company has established minimum standards and underwriting guidelines for all consumer loan collateral types.

Loan Concentration

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to $240,106,000 and $227,359,000 as of December 31, 2017 and June 30, 2017, respectively. Generally, these loans are collateralized by multi-family and nonresidential properties. The loans are expected to be repaid from cash flows or from proceeds from the sale of the properties of the borrower.

Purchased Loans and Loan Participations

The Company s loans receivable included purchased loans of $6,508,000 and $7,599,000 at December 31, 2017 and June 30, 2017, respectively. All of these purchased loans are secured by single family homes located out of our primary market area, but still primarily in the Midwest. The Company s loans receivable also include commercial loan participations of $32,501,000 and $38,531,000 at December 31, 2017 and June 30, 2017, respectively, of which $9,082,000 and $10,322,000, at December 31, 2017 and June 30, 2017 were outside our primary market area.

Allowance for Loan Losses

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of the three month and six month periods ended December 31, 2017 and 2016 and the year ended June 30, 2017:

	Three Months Ended December 31, 2017			
	Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 2,534	$ 1,521	$ 1,573	$ 78
Provision charged to expense	28	(61)	(38)	24
Losses charged off	(45)			(24)
Recoveries				
Balance, end of period	$ 2,517	$ 1,460	$ 1,535	$ 78
Ending balance: individually evaluated for impairment	$ 1,527	$	$ 5	$

Ending balance: collectively evaluated for impairment	$ 990	$ 1,460	$ 1,530	$ 78
Loans:				
Ending balance	$ 140,950	$ 95,231	$ 135,645	$ 7,844
Ending balance: individually evaluated for impairment	$ 9,782	$ 1,360	$ 21	$ 31
Ending balance: collectively evaluated for impairment	$ 131,168	$ 93,871	$ 135,624	$ 7,813

Table of Contents

	Three Months Ended December 31, 2017 (Continued)			
	Construction	Commercial	Consumer	Total
Allowance for loan losses:				
Balance, beginning of period	$ 94	$ 1,372	$ 68	$ 7,240
Provision charged to expense	30	(31)	(2)	(50)
Losses charged off			(4)	(73)
Recoveries			5	5
Balance, end of period	$ 124	$ 1,341	$ 67	$ 7,122
Ending balance: individually evaluated for impairment	$	$	$	$ 1,532
Ending balance: collectively evaluated for impairment	$ 124	$ 1,341	$ 67	$ 5,590
Loans:				
Ending balance	$ 11,446	$ 66,160	$ 8,102	$ 465,378
Ending balance: individually evaluated for impairment	$	$ 61	$ 4	$ 11,259
Ending balance: collectively evaluated for impairment	$ 11,446	$ 66,099	$ 8,098	$ 454,119

	Six Months Ended December 31, 2017 Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 2,519	$ 1,336	$ 1,520	$ 76
Provision charged to expense	43	124	15	26
Losses charged off	(45)			(24)
Recoveries				
Balance, end of period	$ 2,517	$ 1,460	$ 1,535	$ 78
Ending balance: individually evaluated for impairment	$ 1,527	$	$ 5	$
Ending balance: collectively evaluated for impairment	$ 990	$ 1,460	$ 1,530	$ 78

Loans:				
Ending balance	$ 140,950	$ 95,231	$ 135,645	$ 7,844
Ending balance: individually evaluated for impairment	$ 9,782	$ 1,360	$ 21	$ 31
Ending balance: collectively evaluated for impairment	$ 131,168	$ 93,871	$ 135,624	$ 7,813

	Six Months Ended December 31, 2017			
	Construction	**Commercial**	**Consumer**	**Total**
Allowance for loan losses:				
Balance, beginning of period	$ 75	$ 1,242	$ 67	$ 6,835
Provision charged to expense	49	99	2	358
Losses charged off			(8)	(77)
Recoveries			6	6
Balance, end of period	$ 124	$ 1,341	$ 67	$ 7,122
Ending balance: individually evaluated for impairment	$	$	$	$ 1,532
Ending balance: collectively evaluated for impairment	$ 124	$ 1,341	$ 67	$ 5,590
Loans:				
Ending balance	$ 11,446	$ 66,160	$ 8,102	$ 465,378
Ending balance: individually evaluated for impairment	$	$ 61	$ 4	$ 11,259
Ending balance: collectively evaluated for impairment	$ 11,446	$ 66,099	$ 8,098	$ 454,119

Table of Contents

	Year Ended June 30, 2017 Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of year	$ 1,198	$ 1,202	$ 1,399	$ 94
Provision charged to expense	1,521	134	129	(18)
Losses charged off	(232)		(8)	
Recoveries	32			
Balance, end of year	$ 2,519	$ 1,336	$ 1,520	$ 76
Ending balance: individually evaluated for impairment	$ 1,527	$	$ 6	$
Ending balance: collectively evaluated for impairment	$ 992	$ 1,336	$ 1,514	$ 76
Loans:				
Ending balance	$ 140,647	$ 87,228	$ 133,841	$ 7,520
Ending balance: individually evaluated for impairment	$ 10,034	$ 1,390	$ 25	$ 57
Ending balance: collectively evaluated for impairment	$ 130,613	$ 85,838	$ 133,816	$ 7,463

	Year Ended June 30, 2017			
	Construction	Commercial	Consumer	Total
Allowance for loan losses:				
Balance, beginning of year	$ 227	$ 1,140	$ 91	$ 5,351
Provision charged to expense	(152)	102	5	1,721
Losses charged off			(35)	(275)
Recoveries			6	38
Balance, end of year	$ 75	$ 1,242	$ 67	$ 6,835
Ending balance: individually evaluated for impairment	$	$	$	$ 1,533
Ending balance: collectively evaluated for impairment	$ 75	$ 1,242	$ 67	$ 5,302
Loans:				
Ending balance	$ 7,421	$ 62,392	$ 7,905	$ 446,954

Ending balance: individually evaluated for impairment	$	$ 89	$	$ 11,595
Ending balance: collectively evaluated for impairment	$ 7,421	$ 62,303	$ 7,905	$ 435,359

	Three Months Ended December 31, 2016			
	Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 1,176	$ 1,253	$ 1,499	$ 92
Provision charged to expense	20	31	(105)	(1)
Losses charged off			(8)	
Recoveries	9			
Balance, end of period	$ 1,205	$ 1,284	$ 1,386	$ 91
Ending balance: individually evaluated for impairment	$ 47	$	$ 9	$
Ending balance: collectively evaluated for impairment	$ 1,158	$ 1,284	$ 1,377	$ 91
Loans:				
Ending balance	$ 146,490	$ 83,968	$ 118,762	$ 7,585
Ending balance: individually evaluated for impairment	$ 2,443	$ 1,423	$ 30	$ 10
Ending balance: collectively evaluated for impairment	$ 144,047	$ 82,545	$ 118,732	$ 7,575

Table of Contents

	Three Months Ended December 31, 2016 (Continued)			
	Construction	Commercial	Consumer	Total
Allowance for loan losses:				
Balance, beginning of period	$ 274	$ 1,068	$ 83	$ 5,445
Provision charged to expense	10	(8)	7	(46)
Losses charged off			(16)	(24)
Recoveries			3	12
Balance, end of period	$ 284	$ 1,060	$ 77	$ 5,387
Ending balance: individually evaluated for impairment	$	$	$ 8	$ 64
Ending balance: collectively evaluated for impairment	$ 284	$ 1,060	$ 69	$ 5,323
Loans:				
Ending balance	$ 23,501	$ 53,404	$ 8,190	$ 441,900
Ending balance: individually evaluated for impairment	$	$ 101	$ 8	$ 4,015
Ending balance: collectively evaluated for impairment	$ 23,501	$ 53,303	$ 8,182	$ 437,885

	Six Months Ended December 31, 2016 Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 1,198	$ 1,202	$ 1,399	$ 94
Provision charged to expense	(20)	82	(5)	(3)
Losses charged off			(8)	
Recoveries	27			
Balance, end of period	$ 1,205	$ 1,284	$ 1,386	$ 91
Ending balance: individually evaluated for impairment	$ 47	$	$ 9	$
Ending balance: collectively evaluated for impairment	$ 1,158	$ 1,284	$ 1,377	$ 91

Loans:				
Ending balance	$ 146,490	$ 83,968	$ 118,762	$ 7,585
Ending balance: individually evaluated for impairment	$ 2,443	$ 1,423	$ 30	$ 10
Ending balance: collectively evaluated for impairment	$ 144,047	$ 82,545	$ 118,732	$ 7,575

	Six Months Ended December 31, 2016			
	Construction	**Commercial**	**Consumer**	**Total**
Allowance for loan losses:				
Balance, beginning of period	$ 227	$ 1,140	$ 91	$ 5,351
Provision charged to expense	57	(80)	2	33
Losses charged off			(20)	(28)
Recoveries			4	31
Balance, end of period	$ 284	$ 1,060	$ 77	$ 5,387
Ending balance: individually evaluated for impairment	$	$	$ 8	$ 64
Ending balance: collectively evaluated for impairment	$ 284	$ 1,060	$ 69	$ 5,323
Loans:				
Ending balance	$ 23,501	$ 53,404	$ 8,190	$ 441,900
Ending balance: individually evaluated for impairment	$	$ 101	$ 8	$ 4,015
Ending balance: collectively evaluated for impairment	$ 23,501	$ 53,303	$ 8,182	$ 437,885

Management s opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

The allowance for loan losses represents an estimate of the amount of losses believed inherent in our loan portfolio at the balance sheet date. The allowance calculation involves a high degree of estimation that management attempts to mitigate through the use of objective historical data where available. Loan losses are charged against the allowance for loan losses when management believes the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Overall, we believe the reserve to be consistent with prior periods and adequate to cover the estimated losses in our loan portfolio.

The Company s methodology for assessing the appropriateness of the allowance for loan losses consists of two key elements: (1) specific allowances for estimated credit losses on individual loans that are determined to be impaired through the Company s review for identified problem loans; and (2) a general allowance based on estimated credit losses inherent in the remainder of the loan portfolio.

The specific allowance is measured by determining the present value of expected cash flows, the loan s observable market value, or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expense. Factors used in identifying a specific problem loan include: (1) the strength of the customer s personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of the collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower s effort to cure the delinquency. In addition for loans secured by real estate, the Company also considers the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

The Company establishes a general allowance for loans that are not deemed impaired to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. The general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on the Company s historical loss experience and management s evaluation of the collectability of the loan portfolio. The allowance is then adjusted for qualitative factors that, in management s judgment, affect the collectability of the portfolio as of the evaluation date. These qualitative factors may include: (1) Management s assumptions regarding the minimal level of risk for a given loan category; (2) changes in lending policies and procedures, including changes in underwriting standards, and charge-off and recovery practices not considered elsewhere in estimating credit losses; (3) changes in international, national, regional and local economics and business conditions and developments that affect the collectability of the portfolio, including the conditions of various market segments; (4) changes in the nature and volume of the portfolio and in the terms of loans; (5) changes in the experience, ability, and depth of the lending officers and other relevant staff; (6) changes in the volume and severity of past due loans, the volume of non-accrual loans, the volume of troubled debt restructured and other loan modifications, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependent loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.

Although the Company s policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, the Company has historically evaluated every loan classified as substandard, regardless of size, for impairment as part of the review for establishing specific allowances. The Company s policy also allows for general valuation allowance on certain smaller-balance, homogenous pools of loans which are loans

criticized as special mention or watch. A separate general allowance calculation is made on these loans based on historical measured weakness, and which is no less than twice the amount of the general allowance calculated on the non-classified loans.

There have been no changes to the Company s accounting policies or methodology from the prior periods.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. All loans are graded at inception of the loan. Subsequently, analyses are performed on an annual basis and grade changes are made as necessary. Interim grade reviews may take place if circumstances of the borrower warrant a more timely review. The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company s risk rating system, the Company classifies problem and potential problem loans as Watch, Substandard, Doubtful, and Loss. The Company uses the following definitions for risk ratings:

Pass Loans classified as pass are well protected by the ability of the borrower to pay or by the value of the asset or underlying collateral.

Watch Loans classified as watch have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company s credit position at some future date.

Substandard Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of any pledged collateral. Loans so classified 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.

Doubtful Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss Loans classified as loss are the portion of the loan that is considered uncollectible so that its continuance as an asset is not warranted. The amount of the loss determined will be charged-off.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Residential One- to Four-Family and Equity Lines of Credit Real Estate: The residential one- to four-family real estate loans are generally secured by owner-occupied one- to four-family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company s market areas that might impact either property values or a borrower s personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial and Multi-family Real Estate: Commercial and multi-family real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company s market areas.

Construction Real Estate: Construction real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property,

or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company s market areas.

Table of Contents

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower s principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Consumer: The consumer loan portfolio consists of various term loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower s income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company s market area) and the creditworthiness of a borrower.

The following tables present the credit risk profile of the Company s loan portfolio based on rating category and payment activity:

	Real Estate Loans							
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction	Commercial	Consumer	Total
December 31, 2017:								
Pass	$ 130,607	$ 95,101	$ 135,148	$ 7,820	$ 11,446	$ 63,003	$ 8,060	$ 451,185
Watch	972		476			2,145	38	3,631
Substandard	9,371	130	21	24		1,012	4	10,562
Doubtful								
Loss								
Total	$ 140,950	$ 95,231	$ 135,645	$ 7,844	$ 11,446	$ 66,160	$ 8,102	$ 465,378

	Real Estate Loans							
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction	Commercial	Consumer	Total
June 30, 2017:								
Pass	$ 129,814	$ 86,900	$ 133,058	$ 7,471	$ 7,421	$ 59,667	$ 7,842	$ 432,173
Watch	1,146		485			2,630	62	4,323
Substandard	9,687	328	298	49		95	1	10,458
Doubtful								
Loss								
Total	$ 140,647	$ 87,228	$ 133,841	$ 7,520	$ 7,421	$ 62,392	$ 7,905	$ 446,954

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all instances, loans are placed on non-accrual or are charged-off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off are reversed against interest income. The interest on these loans is accounted for on a cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Table of Contents

The following tables present the Company s loan portfolio aging analysis:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Total Loans 90 Days Past Due & Accruing
December 31, 2017:							
Real estate loans:							
One- to four-family	$ 1,826	$ 250	$ 8,430	$ 10,506	$ 130,444	$ 140,950	$ 242
Multi-family	5			5	95,226	95,231	
Commercial	676	3		679	134,966	135,645	
Home equity lines of credit	88	2		90	7,754	7,844	
Construction	542			542	10,904	11,446	
Commercial	27			27	66,133	66,160	
Consumer	78	46		124	7,978	8,102	
Total	$ 3,242	$ 301	$ 8,430	$ 11,973	$ 453,405	$ 465,378	$ 242

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Total Loans 90 Days Past Due & Accruing
June 30, 2017:							
Real estate loans:							
One- to four-family	$ 1,016	$ 158	$ 540	$ 1,714	$ 138,933	$ 140,647	$ 155
Multi-family					87,228	87,228	
Commercial	4	84		88	133,753	133,841	
Home equity lines of credit	2		24	26	7,494	7,520	
Construction					7,421	7,421	
Commercial					62,392	62,392	
Consumer	59	6		65	7,840	7,905	
Total	$ 1,081	$ 248	$ 564	$ 1,893	$ 445,061	$ 446,954	$ 155

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis by either the present value of the expected future cash flows, the loan s observable market value, or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. Significantly restructured loans are considered impaired in determining the adequacy of the allowance for loan losses.

The Company actively seeks to reduce its investment in impaired loans. The primary tools to work through impaired loans are settlements with the borrowers or guarantors, foreclosure of the underlying collateral, or restructuring. Included in certain loan categories in the impaired loans are $3.0 million in troubled debt restructurings that were classified as impaired.

Table of Contents

The following tables present impaired loans:

				Three Months Ended December 31, 2017			Six Months Ended December 31, 2017		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest on Cash Basis	Average Investment in Impaired Loans	Interest Income Recognized	Interest on Cash Basis
December 31, 2017:									
Loans without a specific valuation allowance									
Real estate loans:									
One- to-four family	$ 1,968	$ 1,968	$	$ 2,003	$ 12	$ 12	$ 1,992	$ 24	$ 25
Multi-family	1,360	1,360		1,382	22	21	1,375	43	43
Commercial	16	16		18			18		
Home equity line of credit	31	31		32	1	1	32	1	1
Construction									
Commercial	61	61		81			72		
Consumer									
Loans with a specific valuation allowance									
Real estate loans:									
One- to-four family	7,814	7,814	1,527	7,814			7,814		
Multi-family									
Commercial	5	5	5	5			5		
Home equity line of credit									
Construction									
Commercial									
Consumer	4	4		5			5		
Total:									
Real estate loans:									
One- to-four family	9,782	9,782	1,527	9,817	12	12	9,806	24	25
Multi-family	1,360	1,360		1,382	22	21	1,375	43	43
Commercial	21	21	5	23			23		
Home equity line of credit	31	31		32	1	1	32	1	1
Construction									
Commercial	61	61		81			72		
Consumer	4	4		5			5		
	$ 11,259	$ 11,259	$ 1,532	$ 11,340	$ 35	$ 34	$ 11,313	$ 68	$ 69

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Year Ended June 30, 2017 Interest Income Recognized	Interest on Cash Basis
June 30, 2017:						
Loans without a specific valuation allowance						
Real estate loans:						
One- to four-family	$ 2,220	$ 2,220	$	$ 2,276	$ 38	$ 51
Multi-family	1,390	1,390		1,421	67	90
Commercial	19	19		23		
Home equity line of credit	57	57		61	2	3
Construction						
Commercial	89	89		87		
Consumer						
Loans with a specific allowance						
Real estate loans:						
One- to four-family	7,814	7,814	1,527	3,907	185	185
Multi-family						
Commercial	6	6	6	7		
Home equity line of credit						
Construction						
Commercial						
Consumer						
Total:						
Real estate loans:						
One- to four-family	10,034	10,034	1,527	6,183	223	236
Multi-family	1,390	1,390		1,421	67	90
Commercial	25	25	6	30		
Home equity line of credit	57	57		61	2	3
Construction						
Commercial	89	89		87		
Consumer						
	$ 11,595	$ 11,595	$ 1,533	$ 7,782	$ 292	$ 329

Table of Contents

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Three Months Ended December 31, 2016 Average Investment in Impaired Loans	Three Months Ended December 31, 2016 Interest Income Recognized	Three Months Ended December 31, 2016 Interest on Cash Basis	Six Months Ended December 31, 2016 Average Investment in Impaired Loans	Six Months Ended December 31, 2016 Interest Income Recognized	Six Months Ended December 31, 2016 Interest on Cash Basis
December 31, 2016:									
Loans without a specific valuation allowance									
Real estate loans:									
One- to-four family	$ 2,282	$ 2,282	$	$ 2,293	$ 12	$ 12	$ 2,304	$ 19	$ 24
Multi-family	1,423	1,423		1,432	22	22	1,438	38	46
Commercial									
Home equity line of credit	10	10		10			10	1	
Construction									
Commercial	101	101		106			93	(1)	
Consumer									
Loans with a specific valuation allowance									
Real estate loans:									
One- to-four family	161	161	47	161	(1)		162		1
Multi-family									
Commercial	30	30	9	32			32		
Home equity line of credit									
Construction									
Commercial									
Consumer	8	8	8	8			8		
Total:									
Real estate loans:									
One- to-four family	2,443	2,443	47	2,454	11	12	2,466	19	25
Multi-family	1,423	1,423		1,432	22	22	1,438	38	46
Commercial	30	30	9	32			32		
Home equity line of credit	10	10		10			10	1	
Construction									
Commercial	101	101		106			93	(1)	
Consumer	8	8	8	8			8		
	$ 4,015	$ 4,015	$ 64	$ 4,042	$ 33	$ 34	$ 4,047	$ 57	$ 71

Interest income recognized on impaired loans includes interest accrued and collected on the outstanding balances of accruing impaired loans as well as interest cash collections on non-accruing impaired loans for which the ultimate collectability of principal is not uncertain.

26

Table of Contents

The following table presents the Company s nonaccrual loans at December 31, 2017 and June 30, 2017:

	December 31, 2017		June 30, 2017	
Mortgages on real estate:				
One- to four-family	$	9,013	$	9,105
Multi-family		130		146
Commercial		21		25
Home equity lines of credit				24
Construction				
Commercial		61		84
Consumer				
Total	$	9,225	$	9,384

At December 31, 2017 and June 30, 2017, the Company had a number of loans that were modified in troubled debt restructurings (TDR s) and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following table presents the recorded balance, at original cost, of troubled debt restructurings, all of which were performing according to the terms of the restructuring except for one one- to four-family real estate loan for $148,000, as of December 31, 2017. As of December 31, 2017, all loans listed were on nonaccrual except for twelve one- to four-family residential loans totaling $768,000, one multi-family loan for $1.2 million, three home equity lines of credit totaling $31,000, and one consumer loan for $4,000. All loans listed as of June 30, 2017 were on nonaccrual except for fourteen one- to four-family residential loans totaling $929,000, one multi-family loan for $1.2 million, three home equity lines of credit for $33,000, and one consumer loan for $5,000.

	December 31, 2017		June 30, 2017	
Real estate loans				
One- to four-family	$	1,637	$	1,759
Multi-family		1,230		1,244
Commercial		5		6
Home equity lines of credit		31		33
Total real estate loans		2,903		3,042
Construction				
Commercial		61		84
Consumer		4		5
Total	$	2,968	$	3,131

TDR Modifications

During the six month period ended December 31, 2017, one one- to four-family loan for $61,000, was modified.

During the year ended June 30, 2017, the Company modified three one- to four-family loans totaling $830,000, one home equity line of credit for $24,000, one commercial business loan for $84,000, and one consumer loan for $5,000.

During the six month period ended December 31, 2016, the Company modified three one- to four-family loans totaling $112,000, and one commercial business loan for $99,000.

Table of Contents

TDR s with Defaults

The Company had one TDR, a one- to four-family residential loan for $148,000 that was in default as of December 31, 2017, and was restructured in prior periods. No loans were in foreclosure at December 31, 2017. The Company had one TDR, a one- to four-family residential loan totaling $155,000 that was in default as of June 30, 2017, and was restructured in the prior years. No loans were in foreclosure at June 30, 2017. The Company defines a default as any loan that becomes 90 days or more past due.

Specific loss allowances are included in the calculation of estimated future loss ratios, which are applied to the various loan portfolios for purposes of estimating future losses.

Management considers the level of defaults within the various portfolios, as well as the current adverse economic environment and negative outlook in the real estate and collateral markets when evaluating qualitative adjustments used to determine the adequacy of the allowance for loan losses. We believe the qualitative adjustments more accurately reflect collateral values in light of the sales and economic conditions that we have recently observed.

We may obtain physical possession of real estate collateralizing a residential mortgage loan or home equity loan via foreclosure or in-substance repossession. As of December 31, 2017, the carrying value of foreclosed residential real estate properties as a result of obtaining physical possession was $272,000. In addition, as of December 31, 2017, we had residential mortgage loans and home equity loans with a carrying value of $321,000 collateralized by residential real estate property for which formal foreclosure proceedings were in process.

Note 7: Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. The Company owned $2,790,000 and $2,543,000 of Federal Home Loan Bank stock as of December 31, 2017 and June 30, 2017. The FHLB provides liquidity and funding through advances.

Note 8: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income, included in stockholders equity, were as follows at the dates specified:

	December 31, 2017	June 30, 2017
Net unrealized gains (losses) on securities available-for-sale	$ (1,167)	$ (29)
Net unrealized postretirement health benefit plan obligations	(580)	(574)
	(1,747)	(603)
Tax effect	704	236
Total	$ (1,043)	$ (367)

28

Table of Contents

Note 9: Changes in Accumulated Other Comprehensive Income (AOCI) by Component

Amounts reclassified from AOCI and the affected line items in the statements of income during the three and six month periods ended December 31, 2017 and 2016, were as follows:

	Amounts Reclassified from AOCI				Affected Line Item in the Condensed Consolidated Statements of Income
	Three Months Ended December 31,		Six Months Ended December 31,		
	2017	2016	2017	2016	
Realized gains (losses) on available-for-sale securities	$	$	$ 13	$ 117	Net realized gains on sale of available-for-sale securities
Amortization of defined benefit pension items:					Components are included in computation of net periodic pension cost
Actuarial losses	12	9	23	18	
Prior service costs	(9)	(12)	(17)	(24)	
Total reclassified amount before tax	3	(3)	19	111	
Tax expense (benefit)	1	(1)	6	43	Provision for Income Tax
Total reclassification out of AOCI	$ 2	$ (2)	$ 13	$ 68	Net Income

Note 10: Income Taxes

A reconciliation of income tax expense at the statutory rate to the Company s actual income tax expense is shown below:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Computed at the statutory rate (34%)	$ 323	$ 633	$ 838	$ 1,338
Decrease resulting from				
Tax exempt interest	(12)	(12)	(24)	(24)
Cash surrender value of life insurance	(23)	(23)	(84)	(46)
State income taxes	56	79	135	165
Adjustment of deferred tax asset for enacted changes in tax laws	1,318		1,318	
Other	17	14	34	30
Actual expense	$ 1,679	$ 691	$ 2,217	$ 1,463

Table of Contents

Note 11: Regulatory Capital

The federal banking agencies have adopted regulations that substantially amend the capital regulations currently applicable to us. These regulations implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Association became subject to new capital requirements adopted by the OCC. These new requirements create a new required ratio for common equity Tier 1 (CETI) capital, increase the leverage and Tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios, and change what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer would limit the ability of the Association to pay dividends, repurchase shares, or pay discretionary bonuses. The Company is exempt from consolidated capital requirements as those requirements do not apply to certain small savings and loan holding companies with assets under $1 billion.

Under the new capital regulations, the minimum capital ratios are: (1) CETI capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (3) a total capital ratio of 8.0% of risk-weighted assets; and (4) a leverage ratio of 4.0%. CETI generally consists of common stock and retained earnings, subject to applicable regulatory adjustments and deductions.

There are a number of changes in what constitutes regulatory capital, some of which are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Association does not use any of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CETI will be deducted from capital. The Association has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on our regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (increased from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in non-accrual status; a 20% (increased from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (increased from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk weights (0% to 600%) for equity exposures.

In addition to the minimum CETI, Tier 1 and total capital ratios, the Association will have to maintain a capital conservation buffer consisting of additional CETI capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement began in January 2016, at the 0.625% level, is now 1.875% and will be fully implemented in January 2019.

Note 12: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets

30

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and June 30, 2017:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017:				
Available-for-sale securities:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 15,938	$	$ 15,938	$
Mortgage-backed: GSE residential	95,833		95,833	
Small Business Administration	1,984		1,984	
State and political subdivisions	3,220		3,220	
Mortgage servicing rights	730			730

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017:				
Available-for-sale securities:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 25,035	$	$ 25,035	$
Mortgage-backed: GSE residential	80,962		80,962	
Small Business Administration	2,032		2,032	
State and political subdivisions	3,582		3,582	
Mortgage servicing rights	710			710

Table of Contents

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended December 31, 2017. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. There were no Level 1 securities as of December 31, 2017 or June 30, 2017. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Government and federal agency, mortgage-backed securities (GSE - residential) and state and political subdivisions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities as of December 31, 2017 or June 30, 2017.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs:

	Mortgage Servicing Rights	
Balance, July 1, 2017	$	710
Total realized and unrealized gains and losses included in net income		(2)
Servicing rights that result from asset transfers		85
Payments received and loans refinanced		(63)
Balance, December 31, 2017	$	730
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$	(2)

Realized and unrealized gains and losses for items reflected in the table above are included in net income in the consolidated statements of income as noninterest income.

Table of Contents

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and June 30, 2017:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017:				
Impaired loans (collateral-dependent)	$	$	$	$
June 30, 2017:				
Impaired loans (collateral-dependent)	$ 6,287	$	$	$ 6,287

The following table presents (losses)/recoveries recognized on assets measured on a non-recurring basis for the three months and six months ended December 31, 2017 and 2016:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Impaired loans (collateral-dependent)	$ 2	$ (47)	$ 1	$ (44)

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-dependent Impaired Loans, Net of the Allowance for Loan Losses

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the senior lending officer. Appraisals are reviewed for accuracy and consistency by the senior lending officer. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the senior lending officer by comparison to historical results.

33

Table of Contents

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2017 and June 30, 2017.

	Fair Value at December 31, 2017	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 730	Discounted cash flow	Discount rate	9.5% 10.5% (9.5%)
			Constant prepayment rate	9.4% - 29.9% (9.8%)
			Probability of default	0.00% - 0.32% (0.31%)

	Fair Value at June 30, 2017	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 710	Discounted cash flow	Discount rate	9.5% 10.5% (9.5%)
			Constant prepayment rate	9.5% - 31.1% (9.6%)
			Probability of default	0.00% - 0.32% (0.31%)
Impaired loans (collateral-dependent)	6,287	Market comparable properties	Marketability discount	7.0% (7.0%)

Table of Contents

Fair Value of Financial Instruments

The following tables present estimated fair values of the Company s financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and June 30, 2017.

	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017:				
Financial assets				
Cash and cash equivalents	$ 6,694	$ 6,694	$	$
Interest-bearing time deposits in banks	1,750	1,750		
Loans, net of allowance for loan losses	458,430			453,247
Federal Home Loan Bank stock	2,790		2,790	
Accrued interest receivable	1,752		1,752	
Financial liabilities				
Deposits	461,575		205,871	254,288
Repurchase agreements	2,964		2,964	
Federal Home Loan Bank advances	57,000		56,860	
Advances from borrowers for taxes and insurance	1,014		1,014	
Accrued interest payable	116		116	
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans				
Lines of credit				

35

Table of Contents

	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017:				
Financial assets				
Cash and cash equivalents	$ 7,766	$ 7,766	$	$
Interest-bearing time deposits in banks	1,750	1,750		
Loans, net of allowance for loan losses	440,322			435,103
Federal Home Loan Bank stock	2,543		2,543	
Accrued interest receivable	1,539		1,539	
Financial liabilities				
Deposits	439,146		191,353	247,098
Repurchase agreements	2,183		2,183	
Federal Home Loan Bank advances	53,500		53,440	
Advances from borrowers for taxes and insurance	754		754	
Accrued interest payable	55		55	
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans				
Lines of credit				

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-Bearing Time Deposits in Banks, Federal Home Loan Bank Stock, Accrued Interest Receivable, Repurchase Agreements, Accrued Interest Payable and Advances from Borrowers for Taxes and Insurance

The carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount of these types of deposits approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank Advances

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Commitments to Originate Loans and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of lines of credit are based on fees currently charged for similar agreements, or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

Note 13: Commitments

Commitments to Originate Loans

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer s creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management s credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer s creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

37

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report may contain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts, but rather are statements based on management s current expectations regarding its business strategies and their intended results and IF Bancorp, Inc. s (the Company) future performance. Forward-looking statements are preceded by terms such as expects, believes, anticipates, intends and similar expressions.

Management s ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on our actual results include, but are not limited to, general economic conditions, changes in the interest rate environment, legislative or regulatory changes that may adversely affect our business, changes in accounting policies and practices, changes in competition and demand for financial services, adverse changes in the securities markets and changes in the quality or composition of the Association s loan or investment portfolios. Additional factors that may affect our results are discussed under Item 1A. - Risk Factors , in the Company s Annual Report on Form 10-K for the year ended June 30, 2017, and the Company s other filings with the SEC. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. IF Bancorp, Inc. assumes no obligation to update any forward-looking statement, except as may be required by law.

Overview

On July 7, 2011 we completed our initial public offering of common stock in connection with the Association s mutual-to-stock conversion, selling 4,496,500 shares of common stock at $10.00 per share, including 384,900 shares sold to the Association s employee stock ownership plan, and raising approximately $45.0 million of gross proceeds. In addition, we issued 314,755 shares of our common stock to the Iroquois Federal Foundation.

The Company is a savings and loan holding company and is subject to regulation by the Board of Governors of the Federal Reserve System. The Company s business activities are limited to oversight of its investment in the Association.

The Association is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers within a 100-mile radius of its locations in Watseka, Danville, Clifton, Hoopeston, Savoy, and Bourbonnais, Illinois, and Osage Beach, Missouri. We have received regulatory clearance to open a new branch at 2411 Village Green Place, Champaign, Illinois, which we expect to open by the end of June, 2018. The principal activity of the Association s wholly-owned subsidiary, L.C.I. Service Corporation, is the sale of property and casualty insurance. The Association is subject to regulation by the Office of the Controller of the Currency and the Federal Deposit Insurance Corporation.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets, and the interest paid on our interest-bearing liabilities, consisting primarily of savings and transaction accounts, certificates of deposit, and Federal Home Loan Bank of Chicago advances. Our results of operations also are affected by our provision for loan losses, noninterest income and noninterest expense. Noninterest income consists primarily of customer service fees, brokerage commission income, insurance commission income, net realized gains on loan sales, mortgage banking income, and income on bank-owned life insurance. Noninterest expense consists primarily of compensation and benefits, occupancy and equipment, data processing, professional fees, marketing, office supplies, federal deposit insurance premiums, and foreclosed assets. Our results of operations

also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

Our net interest rate spread (the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities) was 2.87% and 3.06% for the six months ended December 31, 2017 and 2016, respectively. Net interest income decreased to $8.9 million, or $17.7 million on an annualized basis, for the six months ended December 31, 2017 from $9.0 million, or $17.9 million on an annualized basis, for the six months ended December 31, 2016.

Table of Contents

Our emphasis on conservative loan underwriting has resulted in relatively low levels of non-performing assets. However, in June 2017, one large credit in the amount of $7.8 million, secured by 45 one- to four-family properties, was moved to non-performing when the borrower became involved in litigation, and subsequently filed for bankruptcy protection. The properties securing this loan are all existing homes that were acquired by the borrower to be renovated and resold. Our non-performing loans totaled $9.5 million, or 2.0% of total loans at December 31, 2017 and $9.5 million, or 2.1% of total loans at June 30, 2017. Our non-performing assets totaled $10.0 million or 1.6% of total assets at December 31, 2017, and $10.0 million, or 1.7% of total assets at June 30, 2017.

At December 31, 2017, the Association was categorized as well capitalized under regulatory capital requirements.

Our net income for the six months ended December 31, 2017 was $247,000, compared to a net income of $2.5 million for the six months ended December 31, 2016. The quarter ended December 31, 2017 included an additional $1.3 million income tax expense due to a downward adjustment to our net deferred tax asset (DTA) related to the Tax Cuts and Jobs Act (the Tax Act) enacted on December 22, 2017. The Tax Act provides for a reduction in the corporate income tax rate from 35% to 21% effective January 1, 2018, which resulted in the downward adjustment to our DTA. The decrease in net income for the six months ended December 31, 2017 was also impacted by a $1.0 million increase in noninterest expense, a $325,000 increase in the provision for loan losses and a $114,000 decrease in net interest income, partially offset by a $6,000 increase in noninterest income. Excluding the $1.3 million impact of the adjustment to the DTA, the Company s net income for the six months ended December 31, 2017 would have been $1.6 million, or a decrease of $908,000 from the six months ended December 31, 2016. Management believes that presenting net income on a non-GAAP basis excluding the impact of the adjustment to the DTA in the 2017 period provides useful information for evaluating the Company s operating results and any related trends that may be affecting the Company s business. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP.

Management s discussion and analysis of the financial condition and results of operations at and for the three and six months ended December 31, 2017 and 2016 is intended to assist in understanding the financial condition and results of operations of the Association. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto, appearing in Part I, Item 1 of this quarterly report on Form 10-Q.

Critical Accounting Policies

We define critical accounting policies as those policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income. We consider the following to be our critical accounting policies.

Allowance for Loan Losses. We believe that the allowance for loan losses and related provision for loan losses are particularly susceptible to change in the near term due to changes in credit quality which are evidenced by trends in charge-offs and in the volume and severity of past due loans. In addition, our portfolio is comprised of a substantial amount of commercial real estate loans which generally have greater credit risk than one- to four-family residential mortgage and consumer loans because these loans generally have larger principal balances and are non-homogenous.

The allowance for loan losses is maintained at a level to provide for probable credit losses inherent in the loan portfolio at the balance sheet date. Based on our estimate of the level of allowance for loan losses required, we record a provision for loan losses as a charge to earnings to maintain the allowance for loan losses at an appropriate level. The estimate of our credit losses is applied to two general categories of loans:

loans that we evaluate individually for impairment under ASC 310-10, Receivables; and

groups of loans with similar risk characteristics that we evaluate collectively for impairment under ASC 450-20, Loss Contingencies.

The allowance for loan losses is evaluated on a regular basis by management and reflects consideration of all significant factors that affect the collectability of the loan portfolio. The factors used to evaluate the collectability of the loan portfolio include, but are not limited to, current economic conditions, our historical loss experience, the nature and volume of the loan portfolio, the financial strength of the borrower, and the estimated value of any underlying collateral. This evaluation is inherently subjective as it requires estimates that are subject to significant revision as more information becomes available. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

Income Tax Accounting. The provision for income taxes is based upon income in our consolidated financial statements, rather than amounts reported on our income tax return. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on our deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date. Under U.S. GAAP, a valuation allowance is required to be recognized if it is more likely than not that a deferred tax asset will not be realized. The determination as to whether we will be able to realize the deferred tax assets is highly subjective and dependent upon judgment concerning our evaluation of both positive and negative evidence, our forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. Positive evidence includes the existence of taxes paid in available carryback years as well as the probability that taxable income will be generated in future periods, while negative evidence includes any cumulative losses in the current year and prior two years and general business and economic trends. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. Any required valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings. Positions taken in our tax returns may be subject to challenge by the taxing authorities upon examination. The benefit of an uncertain tax position is initially recognized in the financial statements only when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Differences between our position and the position of tax authorities could result in a reduction of a tax benefit or an increase to a tax liability, which could adversely affect our future income tax expense.

There are no material changes to the critical accounting policies disclosed in IF Bancorp, Inc. s Form 10-K for fiscal year ended June 30, 2017.

Comparison of Financial Condition at December 31, 2017 and June 30, 2017

Total assets increased $26.0 million, or 4.4%, to $611.5 million at December 31, 2017 from $585.5 million at June 30, 2017. The increase was primarily due to an $18.1 million increase in net loans receivable, a $5.4 million increase in investment securities, and a $3.6 million increase in premises and equipment, partially offset by a $1.1 million decrease in cash and cash equivalents, and a $477,000 decrease in deferred income taxes.

Net loans receivable, including loans held for sale, increased by $18.1 million, or 4.1%, to $458.4 million at December 31, 2017 from $440.3 million at June 30, 2017. The increase in net loans receivable during this period was due primarily to an $8.0 million, or 9.2%, increase in multi-family loans, a $4.0 million, or 54.2%, increase in construction loans, a $3.8 million, or 6.0%, increase in commercial business loans, a $1.8 million, or 1.3%, increase in commercial real estate loans, a $303,000, or 0.2% increase in one- to four-family loans, a $324,000, or 4.3%, increase in home equity lines of credit, and a $197,000, or 2.5% increase in consumer loans.

Investment securities, consisting entirely of securities available for sale, increased $5.4 million, or 4.8%, to $117.0 million at December 31, 2017 from $111.6 million at June 30, 2017. Purchased investment securities consisted primarily of agency debt obligations with terms of four to seven years and fixed-rate mortgage-backed securities with terms of 15 to 30 years. We had no securities classified as held to maturity at December 31, 2017 or June 30, 2017.

Table of Contents

Between June 30, 2017 and December 31, 2017, foreclosed assets held for sale increased $62,000 to $491,000, premises and equipment increased $3.6 million to $9.4 million, interest receivable increased $213,000 to $1.8 million, and Federal Home Loan Bank stock increased $247,000 to $2.8 million, while deferred income taxes decreased $477,000 to $3.2 million. The increase in foreclosed assets held for sale was due to the addition of residential real estate property, the increase in premises and equipment was due to the purchase of a building in Champaign, Illinois, with the intent to open a branch office, the increase in interest receivable was due to an increase in the average balance of loans, and the increase in Federal Home Loan Bank stock was due to stock purchases to support loan growth and the increase in Federal Home Loan Bank advances. The decrease in deferred income taxes was mostly due to a decrease in the tax rate under the Tax Act, partially offset by an increase in deferred tax assets.

At December 31, 2017, our investment in bank-owned life insurance was $8.7 million, a decrease of $151,000 from $8.8 million at June 30, 2017. This decrease in bank-owned life insurance was due to a decrease in the cash surrender value of the bank-owned life insurance as a result of a benefit claim. We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses, which resulted in a limit of $19.5 million at December 31, 2017.

Deposits increased $22.4 million, or 5.1%, to $461.6 million at December 31, 2017 from $439.1 million at June 30, 2017. Certificates of deposit, excluding brokered certificates of deposit, increased $7.9 million, or 3.8%, to $216.9 million, while brokered certificates of deposit were $38.8 million at both December 30, 2017 and June 30, 2017. Savings, NOW, and money market accounts increased $13.1 million, or 7.7%, to $184.3 million, and noninterest bearing demand accounts increased $1.4 million, or 7.0%, to $21.6 million. Repurchase agreements increased $781,000, or 35.8%, to $3.0 million at December 31, 2017, from $2.2 million at June 30, 2017. Borrowings, which consisted solely of advances from the Federal Home Loan Bank of Chicago, increased $3.5 million, or 6.5%, to $57.0 million at December 31, 2017 from $53.5 million at June 30, 2017.

Advances from borrowers for taxes and insurance increased $260,000, or 34.5%, to $1.0 million at December 31, 2017, from $754,000 at June 30, 2017. Interest payable increased $61,000, or 110.9%, to $116,000 at December 31, 2017, from $55,000 at June 30, 2017. Other liabilities decreased $531,000, or 17.7%, to $2.5 million at December 31, 2017 from $3.0 million on June 30, 2017. The increase in advances from borrowers for taxes and insurance was attributable to the timing of the payment of real estate taxes and insurance, and the increase in interest payable resulted from increases in both the average balance and average cost of interest-bearing liabilities. The decrease in other liabilities was due to a general decrease in accounts payable and accrued expenses payable due to timing of payments.

Total equity decreased $493,000, or 0.6%, to $83.5 million at December 31, 2017 from $84.0 million at June 30, 2017. Equity decreased due to a decrease of $676,000 in accumulated other comprehensive income, net of tax, and the payment of approximately $366,000 in dividends to our shareholders, partially offset by net income of $247,000, and ESOP and stock equity plan activity of $302,000. The decrease in other accumulated comprehensive income was primarily due to unrealized depreciation on available-for-sale securities, net of taxes. The Company announced a stock repurchase plan on February 5, 2016, whereby the Company could repurchase up to 200,703 shares of its common stock, or approximately 5% of the then current outstanding shares. As of December 31, 2017, 73,653 shares had been repurchased under this plan at an average price of $18.65 per share.

Comparison of Operating Results for the Six Months Ended December 31, 2017 and 2016

General. Net income decreased $2.2 million to $247,000 for the six months ended December 31, 2017 from $2.5 million for the six months ended December 31, 2016. The decrease in net income was largely due to the adjustment to the DTA, as discussed above under Overview . The decrease in net income was also due to an increase in interest expense, noninterest expense, provision for loan losses and provision for income taxes, partially offset by an increase in interest and dividend income and an increase in noninterest income.

Net Interest Income. Net interest income decreased $114,000, or 1.3%, to $8.9 million for the six months ended December 31, 2017 from $9.0 million for the six months ended December 31, 2016. This was a result of an increase of

$496,000 in interest expense, partially offset by an increase of $382,000 in interest and dividend income. A $22.6 million, or 4.0%, increase in the average balance of interest earning assets was partially offset by an $18.2 million, or 3.8%, increase in average balance of interest bearing liabilities. However, our interest rate spread decreased by 19 basis points to 2.87% for the six months ended December 31, 2017 compared to 3.06% for the six months ended December 31, 2016, and our net interest margin decreased by 16 basis points to 3.02% for the six months ended December 31, 2017 compared to 3.18% for the six months ended December 31, 2016.

Interest and Dividend Income. Interest and dividend income increased $382,000, or 3.6%, to $11.1 million for the six months ended December 31, 2017 from $10.8 million for the six months ended December 31, 2016. The increase in interest and dividend income was due to a $336,000 increase in interest income on loans, an $8,000 increase in interest on securities, and a $38,000 increase in other interest income. The increase in interest income on loans for the 2017 period resulted from a $20.6 million, or 4.6%, increase in the average balance of loans to $466.3 million from $445.7 million, partially offset by a 5 basis point, or 1.2%, decrease in the average yield on loans to 4.14% from 4.19%. The increase in interest income on securities was due to a $3.1 million increase in the average balance of securities to $111.9 million, partially offset by a 5 basis point decrease in the average yield on securities to 2.44% from 2.49%. The increase in other interest income was a result of a 99 basis point increase in the average yield in other investments, including Federal Home Loan Bank dividends and deposits with other financial institutions, to 2.37% from 1.38%, partially offset by a $1.1 million decrease in the average balance of other investments.

Interest Expense. Interest expense increased $496,000, or 27.8%, to $2.3 million for the six months ended December 31, 2017, from $1.8 million for the six months ended December 31, 2016. The increase was primarily due to an increase in the average balance of interest bearing liabilities and higher market interest rates during the period.

Interest expense on interest-bearing deposits increased by $533,000, or 38.7%, to $1.9 million for the six months ended December 31, 2017 from $1.4 million for the six months ended December 31, 2016. This increase was due to an increase of $25.4 million in the average balance of interest-bearing deposits to $433.1 million for the six months ended December 31, 2017 from $407.6 million for the six months ended December 31, 2016, as well as a 20 basis point increase in the average cost of interest bearing deposits to 0.88% for the six months ended December 31, 2017 from 0.68% for the six months ended December 31, 2016.

Interest expense on borrowings decreased $37,000, or 9.1%, to $368,000 for the six months ended December 31, 2017 from $405,000 for the six months ended December 31, 2016. This decrease was due to a decrease in the average balance of borrowings to $64.8 million for the six months ended December 31, 2017 from $72.0 million for the six months ended December 31, 2016, partially offset by a 1 basis point increase in the average cost of such borrowings to 1.14% for the six months ended December 31, 2017 from 1.13% for the six months ended December 31, 2016.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb probable credit losses inherent in our loan portfolio. We recorded a provision for loan losses of $358,000 for the six months ended December 31, 2017, compared to a provision for loan losses of $33,000 for the six months ended December 31, 2016. The allowance for loan losses was $7.1 million, or 1.53% of total loans, at December 31, 2017, compared to $5.4 million, or 1.22% of total loans, at December 31, 2016 and $6.8 million, or 1.53% of total loans, at June 30, 2017. Non-performing loans decreased to $9.5 million during the six month period ended December 31, 2017. During the six months ended December 31, 2017, a net charge-off of $71,000 was recorded while during the six months ended December 31, 2016, a net recovery of $3,000 was recorded.

42

The following table sets forth information regarding the allowance for loan losses and nonperforming assets at the dates indicated:

	At or for the Six Months Ended December 31, 2017	At or for the Year Ended June 30, 2017
Allowance to non-performing loans at the end of the period	75.22%	71.66%
Allowance to total loans outstanding at the end of the period	1.53%	1.53%
Net charge-offs to average total loans outstanding during the period, annualized	0.03%	0.05%
Total non-performing loans to total loans at the end of the period	2.03%	2.13%
Total non-performing assets to total assets at the end of the period	1.63%	1.70%

Noninterest Income. Noninterest income increased $6,000, or 0.3%, and was $2.1 million for both the six months ended December 31, 2017 and the six months ended December 31, 2016. The increase was primarily due to an increase in bank-owned life insurance, net, an increase in other service charges and fees, and an increase in brokerage commissions, mostly offset by a decrease in net realized gains on the sale of securities available for sale, a decrease in mortgage banking income, net, and a decrease in customer service fees. For the six months ended December 31, 2017, bank-owned life insurance, net increased $110,000 to $246,000, brokerage commissions increased $112,000 to $405,000, and other service charges and fees increased $78,000 to $200,000, while net realized gains on the sale of securities available for sale decreased $104,000 to $13,000, mortgage banking income, net decreased $149,000 to $135,000, and customer service fees decreased $57,000 to $221,000. The increase in bank-owned life insurance, net, was due to a benefit claim, the increase in other service charges and fees was due to an increase in the number of loan fees, and the increase in brokerage commissions was due to a change in the timing of commission payments. The decrease in net realized gains on the sale of available-for-sale securities was a result of a larger amount of securities sold at a gain in the six months ended December 31, 2016, than in the six months ended December 31, 2017, and the decrease in mortgage banking income, net, was a result of a higher valuation of mortgage servicing rights in the six months ended December 31, 2016, than in the six months ended December 31, 2017. The decrease in customer service fees was the result of waiving customer fees during the month of our core system conversion which occurred in the six months ended December 31, 2017.

Noninterest Expense. Noninterest expense increased $1.0 million, or 14.5%, to $8.2 million for the six months ended December 31, 2017 from $7.1 million for the six months ended December 31, 2016. The largest components of this increase were other expenses, which increased $538,000, or 80.3%, compensation and benefits, which increased $252,000, or 5.4%, office occupancy, which increased $65,000, or 21.8%, equipment expense, which increased $64,000, or 10.8%, advertising expense, which increased $58,000, or 37.2% and telephone and postage expense which increased $48,000, or 52.7%. The other expenses increased as a result of the accrual of real estate taxes on a large credit in bankruptcy. Compensation and benefits increased due to increased staffing changes including additional staff for the Bourbonnais office that opened in June 2017, normal salary increases and increased medical costs. Office occupancy, equipment expense, advertising, and telephone and postage expense all increased as a result of the addition of the new Bourbonnais office. Equipment and postage also increased as a result of our core system

conversion which occurred in the six months ended December 31, 2017.

Income Tax Expense. We recorded a provision for income tax of $2.2 million for the six months ended December 31, 2017, compared to a provision for income tax of $1.5 million for the six months ended December 31, 2016, reflecting effective tax rates of 90.0% and 37.2%, respectively. The effective tax rate for the six months ended December 31, 2017, reflects the impact of the adjustment to the DTA, as discussed above under Overview .

Comparison of Operating Results for the Three Months Ended December 31, 2017 and 2016

General. Net income decreased $1.9 million to a $728,000 net loss for the three months ended December 31, 2017 from $1.2 million net income for the three months ended December 31, 2016. The decrease was primarily due to an increase in the provision for income tax due to the downward adjustment to our DTA. Net income was also impacted by an increase in interest expense, an increase in noninterest expense, and a decrease in noninterest income, partially offset by an increase in interest and dividend income and a decrease in the provision for loan losses.

Net Interest Income. Net interest income decreased $14,000 to $4.4 million for the three months ended December 31, 2017 from $4.5 million for the three months ended December 31, 2016. The decrease was a result of a $346,000 increase in interest expense, partially offset by a $332,000 increase in interest and dividend income. Our interest rate spread decreased 23 basis points to 2.86% for the three months ended December 31, 2017 compared to 3.09% for the three months ended December 31, 2016, and our net interest margin decreased by 19 basis points to 3.01% for the three months ended December 31, 2017 compared to 3.20% for the three months ended December 31, 2016. A $33.0 million, or 5.9%, increase in the average balance of interest earning assets was partially offset by a $26.1 million, or 5.5% increase in average balance of interest bearing liabilities.

Interest and Dividend Income. Interest and dividend income increased $332,000, or 6.2%, to $5.7 million for the three months ended December 31, 2017 from $5.3 million for the three months ended December 31, 2016. The increase in interest and dividend income was primarily due to a $264,000 increase in interest income on loans for the 2017 period, which resulted from a $27.1 million, or 6.1%, increase in the average balance of loans to $469.1 million from $442.0 million, partially offset by a 2 basis point, or 0.4%, decrease in the average yield on loans to 4.20% from 4.22%. Interest on securities increased $46,000, or 7.2%, as the average balance increased by $7.2 million, or 6.9%, to $112.4 million from $105.2 million and the average yield increased 1 basis point to 2.44% from 2.43%.

Interest Expense. Interest expense increased $346,000, or 39.5%, to $1.2 million for the three months ended December 31, 2017 from $877,000 for the three months ended December 31, 2016. This increase was due to a $26.1 million increase in the average balance of interest-bearing liabilities and a 23 basis point increase in average cost of interest-bearing liabilities.

Interest expense on interest-bearing deposits increased by $330,000, or 47.4%, to $1.0 million for the three months ended December 31, 2017 from $697,000 for the three months ended December 31, 2016. This increase was due to a $29.5 million, or 7.2%, increase in the average balance of interest-bearing deposits to $438.8 million for the three months ended December 30, 2017 from $409.3 million for the three months ended December 31, 2016, as well as an increase in the average cost of interest-bearing deposits to 0.94% for the three months ended December 31, 2017 from 0.68% for the three months ended December 31, 2016.

Interest expense on borrowings increased $16,000, or 8.9%, to $196,000 for the three months ended December 31, 2017, from $180,000 for the three months ended December 31, 2016. This increase was due to a 16 basis point increase in the average cost of such borrowings to 1.24% for the three months ended December 31, 2017 from 1.08% for the three months ended December 31, 2016, partially offset by a decrease in the average balance of borrowings to $63.5 million for the three months ended December 31, 2017, from $66.9 million for the three months ended December 31, 2016.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb probable credit losses inherent in our loan portfolio. We reduced our provision for loan losses to a credit of $50,000 for the three months ended December 31, 2017, compared to a credit of $46,000 for the three months ended December 31, 2016. During the three

months ended December 31, 2017 and 2016, we recorded $69,000 and $12,000, respectively, in net charge-offs.

Noninterest Income. Noninterest income decreased $41,000, or 4.0%, to $977,000 for the three months ended December 31, 2017 from $1.0 million for the three months ended December 31, 2016. The decrease was primarily due to a decrease in mortgage banking income, net, a decrease in net gain on sale of loans, and a decrease in customer service fees, partially offset by an increase in brokerage commissions and an increase in other service charges and fees. For the three months ended December 31, 2017, mortgage banking income, net decreased $89,000 to $65,000, the net gain on the sale of loans

decreased $40,000 to $50,000, customer service fees decreased $37,000 to $100,000, while brokerage commissions increased $81,000 to $228,000, and other service charges and fees increased $32,000 to $94,000. The decrease in mortgage banking income, net, was a result of a higher valuation of mortgage servicing rights in the three months ended December 31, 2016, than in the three months ended December 31, 2017, and the decrease in net gain on sale of loans was primarily due to a larger number of loans sold to the Federal Home Loan Bank of Chicago in the three months ending December 31, 2016, than in the three months ended December 31, 2017, while the decrease in customer service fees was the result of waiving customer fees during the month of our core system conversion which occurred in the three months ended December 31, 2017. The increase in brokerage commissions was due to a change in the timing of commission payments, and the increase in other service charges and fees was due to an increase in the number of loan fees.

Noninterest Expense. Noninterest expense increased $859,000, or 23.4%, to $4.5 million for the three months ended December 31, 2017 from $3.7 million for the three months ended December 31, 2016. The largest components of this increase were other expenses, which increased $486,000, or 138.5%, compensation and benefits, which increased $129,000, or 5.3%, office occupancy, which increased $45,000, or 30.2%, equipment expense, which increased $47,000, or 15.6%, advertising expense, which increased $43,000, or 49.4%, professional services, which increased $73,000, or 63.5%, and telephone and postage expense which increased $25,000, or 53.2%. The other expenses increased as a result of the accrual of real estate taxes on a large credit in bankruptcy. Compensation and benefits increased due to increased staffing changes including additional staff for the Bourbonnais office that opened in June 2017, normal salary increases and increased medical costs. Office occupancy, equipment expense, advertising, and telephone and postage expense all increased as a result of the addition of the new Bourbonnais office. Equipment and postage also increased as a result of our core system conversion which occurred in the three months ended December 31, 2017. The increase in professional services was due to additional services received during the three months ended December 31, 2017, compared to the three months ended December 31, 2016.

Income Tax Expense. We recorded a provision for income tax of $1.7 million for the three months ended December 31, 2017, compared to a provision for income tax of $691,000 for the three months ended December 31, 2016, reflecting effective tax rates of 176.6% and 37.1%, respectively. The effective tax rate for the three months ended December 31, 2017, reflects the impact of the adjustment to the DTA, as discussed above under Overview .

Asset Quality

At December 31, 2017, our non-accrual loans totaled $9.2 million, including $9.0 million in one- to four-family loans, $130,000 in multi-family loans, $21,000 in commercial real estate loans, and $61,000 in commercial business loans. The commercial real estate loans are secured by commercial rental properties. At December 31, 2017, we had four one- to four family loans totaling $242,000, which were delinquent 90 days or greater and still accruing interest.

At December 31, 2017, loans classified as substandard equaled $10.6 million. Loans classified as substandard consisted of $9.4 million in one- to four-family loans, $130,000 in multi-family loans, $21,000 in commercial real estate loans, $24,000 in home equity lines of credit, $1.0 million in commercial business loans and $4,000 in consumer loans. At December 31, 2017, no loans were classified as doubtful or loss.

At December 31, 2017, watch assets consisted of $972,000 in one- to four-family loans, $476,000 in commercial real estate loans, $2.1 million in commercial business loans, and $38,000 in consumer loans.

Troubled Debt Restructuring. Troubled debt restructurings include loans for which economic concessions have been granted to borrowers with financial difficulties. We periodically modify loans to extend the term or make other concessions to help borrowers stay current on their loans and to avoid foreclosure. At December 31, 2017 and

June 30, 2017, we had $3.0 million and $3.1 million, respectively, of troubled debt restructurings. At December 31, 2017 our troubled debt restructurings consisted of $1.6 million in one- to four-family loans, $1.2 million in multi-family loans, $5,000 in commercial real estate loans, $31,000 in home equity lines of credit, $61,000 in commercial business loans, and $4,000 in consumer loans.

Foreclosed Assets. At December 31 2017, we had $491,000 in foreclosed assets compared to $429,000 as of June 30, 2017. Foreclosed assets at December 31, 2017 consisted of $272,000 in residential real estate properties and $219,000 in commercial non-occupied property, while foreclosed assets at June 30, 2017 consisted of $210,000 in residential real estate properties and $219,000 in commercial non-occupied property.

Allowance for Loan Loss Activity

The Company regularly reviews its allowance for loan losses and makes adjustments to its balance based on management s analysis of the loan portfolio, the amount of non-performing and classified loans, as well as general economic conditions. Although the Company maintains its allowance for loan losses at a level that it considers sufficient to provide for losses, there can be no assurance that future losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies, which can order the establishment of additional loss provisions. The following table summarizes changes in the allowance for loan losses over the six-month periods ended December 31, 2017 and 2016:

	Six months ended December 31,	
	2017	2016
Balance, beginning of period	$ 6,835	$ 5,351
Loans charged off		
Real estate loans		
One- to four-family	(45)	
Multi-family		
Commercial		(8)
HELOC	(24)	
Construction		
Commercial business		
Consumer	(8)	(20)
Gross charged off loans	(77)	(28)
Recoveries of loans previously charged off		
Real estate loans		
One- to four-family		27
Multi-family		
Commercial		
HELOC		
Construction		
Commercial business		
Consumer	6	4
Gross recoveries of charged off loans	6	31
Net charge offs	(71)	3

Provision charged to expense	358	33
Balance, end of period	$ 7,122	$ 5,387

The allowance for loan losses has been calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Company s loans. Management considers such factors as the repayment status of a loan, the estimated net fair value of the underlying collateral, the borrower s intent and ability to repay the loan, local economic conditions, and the Company s historical loss ratios. We maintain the allowance for loan losses through the provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. The allowance for loan losses increased $287,000 to $7.1 million at December 31, 2017, from $6.8 million at June 30, 2017. This increase was primarily the result of an increase in total loans, and was necessary in order to bring the allowance for loan losses to a level that reflects management s estimate of the probable loan loss in the Company s loan portfolio at December 31, 2017.

In its quarterly evaluation of the adequacy of its allowance for loan losses, the Company employs historical data including past due percentages, charge offs, and recoveries. The Company s allowance methodology weights the most recent twelve-quarter period s net charge offs and uses this information as one of the primary factors for evaluation of allowance

Table of Contents

adequacy. The most recent four-quarter net charge offs are given a higher weight of 50%, while quarters 5-8 are given a 30% weight and quarters 9-12 are given only a 20% weight. The average net charge offs in each period are calculated as net charge offs by portfolio type for the period as a percentage of the quarter end balance of respective portfolio type over the same period. As the Company and the industry have seen increases in loan defaults in the past several years, the Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation. The following table sets forth the Company s weighted average historical net charge offs as of December 31 and June 30, 2017:

Portfolio segment	**December 31, 2017 Net charge-offs 12 quarter weighted historical**	**June 30, 2017 Net charge-offs 12 quarter weighted historical**
Real Estate:		
One- to four-family	0.13%	0.12%
Multi-family	0.00%	0.00%
Commercial	0.00%	0.00%
HELOC	0.26%	0.17%
Construction	0.00%	0.00%
Commercial business	0.00%	0.00%
Consumer	0.04%	0.05%
Entire portfolio total	0.05%	0.05%

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in financial conditions of individual borrowers; changes in local, regional, and national economic conditions; the Company s historical loss experience; and changes in market conditions for property pledged to the Company as collateral. The Company has identified specific qualitative factors that address these issues and subjectively assigns a percentage to each factor. At December 31, 2016, these qualitative factors included: (1) management s assumptions regarding the minimal level of risk for a given loan category; (2) changes in lending policies and procedures, including changes in underwriting standards, and charge-off and recovery practices not considered elsewhere in estimating credit losses; (3) changes in international, national, regional and local economics and business conditions and developments that affect the collectability of the portfolio, including the conditions of various market segments; (4) changes in the nature and volume of the portfolio and in the terms of loans; (5) changes in the experience, ability, and depth of the lending officers and other relevant staff; (6) changes in the volume and severity of past due loans, the volume of non-accrual loans, the volume of troubled debt restructured and other loan modifications, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependent loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.

The qualitative factors are applied to the allowance for loan losses based upon the following percentages by loan type:

Portfolio segment	Qualitative factor applied at December 31, 2017	Qualitative factor applied at June 30, 2017
Real Estate:		
One- to four-family	0.62%	0.64%
Multi-family	1.56%	1.56%
Commercial	1.20%	1.20%
HELOC	0.74%	0.84%
Construction	1.08%	1.01%
Commercial business	2.03%	1.99%
Consumer	0.73%	0.76%
Entire portfolio total	1.18%	1.17%

At December 31, 2017, the amount of our allowance for loan losses attributable to these qualitative factors was approximately $5.5 million, as compared to $5.2 million at June 30, 2017. The general increase in qualitative factors was attributable primarily to a change in the portfolio mix which resulted in higher balances in loans with slightly higher qualitative factors at December 31, 2017.

While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio, the increase in troubled debt restructurings and the potential changes in market conditions, our level of nonperforming assets and resulting charge-offs may fluctuate. Higher levels of net charge-offs requiring additional provisions for loan losses could result. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan sales and repayments, advances from the Federal Home Loan Bank of Chicago, and maturities of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers, as well as unanticipated contingencies. For the three months ended December 31, 2017 and the year ended June 30, 2017, our liquidity ratio averaged 18.9% and 19.0% of our total assets, respectively. We believe that we had enough sources of liquidity to satisfy our short- and long-term liquidity needs as of December 31, 2017.

We regularly monitor and adjust our investments in liquid assets based upon our assessment of: (i) expected loan demand; (ii) expected deposit flows; (iii) yields available on interest-earning deposits and securities; and (iv) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and medium-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are affected by our operating, financing, lending and investing activities during any given period. At December 31, 2017, cash and cash equivalents

totaled $6.7 million. Interest-earning time deposits which can offer additional sources of liquidity, totaled $1.8 million at December 31, 2017.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Condensed Consolidated Statement of Cash Flows included in our financial statements. Net cash provided by operating activities were $1.3 million and $2.9 million for the six months ended December 31, 2017 and 2016, respectively. Net cash used in investing activities consisted primarily of disbursements for loan originations and the purchase of securities, offset by net cash provided by principal collections on loans, and proceeds from maturing securities, the sale of securities and pay-downs on mortgage-backed securities. Net cash provided by (used in) investing activities was $(29.0) million and $10.8 million for the six months ended December 31, 2017 and 2016, respectively. Net cash provided by (used in) financing activities consisted primarily of the activity in deposit accounts and FHLB Advances. The net cash provided by (used in) financing activities was $26.6 million and $(14.7) million for the six months ended December 31, 2017 and 2016, respectively.

The Company must also maintain adequate levels of liquidity to ensure the availability of funds to satisfy loan commitments. The Company anticipates that it will have sufficient funds available to meet its current commitments principally through the use of current liquid assets and through its borrowing capacity discussed above. The following table summarizes these commitments at December 31, 2017 and June 30, 2017.

	December 31, 2017	June 30, 2017
	(Dollars in thousands)	
Commitments to fund loans	$ 17,975	$ 25,353
Lines of credit	57,750	42,682

At December 31, 2017, certificates of deposit due within one year of December 31, 2017 totaled $130.5 million, or 28.3% of total deposits. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2018. Moreover, it is our intention as we continue to grow our commercial real estate portfolio, to emphasize lower cost deposit relationships with these commercial loan customers and thereby replace the higher cost certificates with lower cost deposits. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Chicago, which provides an additional source of funds. Federal Home Loan Bank advances were $57.0 million at December 31, 2017. At December 31, 2017 we had the ability to borrow up to an additional $163.5 million from the Federal Home Loan Bank of Chicago and also had the ability to borrow $24.4 million from the Federal Reserve based on current collateral pledged.

During the six months ended December 31, 2017, no shares were repurchased as part of the stock repurchase program that was announced by the Company on February 5, 2016, which allowed the Company to repurchase up to 200,703 shares of its common stock, or approximately 5% of the then current outstanding shares. Repurchases are made at management s discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company s financial performance. The repurchase plan may be suspended, terminated, or modified at any time for any reason, including market conditions, the cost of purchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. The repurchase program does not obligate the Company to purchase any particular number of shares. As of December 31, 2017, the Company had repurchased 73,653 shares, and the maximum number of shares that may yet be purchased under the plan was 127,050.

The Association is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. The OCC s prompt corrective action standards changed effective January 1, 2015. Under the new standards, in order to be considered well-capitalized, the Association must have a Tier 1 capital to total assets ratio of 5.0% (unchanged), a common equity Tier 1 to risk-weighted assets ratio (CETI) of 6.5% (new ratio), a Tier 1 capital to risk-weighted assets ratio of 8.0% (increased from 6.0%), and a total capital to risk-weighted assets ratio of 10.0% (unchanged). The Association exceeds all these new regulatory capital requirements. The Association is considered well capitalized under regulatory guidelines.

49

	December 31, 2017 Actual	June 30, 2017 Actual	Minimum to Be Well Capitalized
Tier 1 capital to total assets			
Association	11.5%	12.0%	5.0%
Company	13.7%	14.3%	N/A
Common equity tier 1 to risk-weighted assets			
Association	14.9%	15.7%	6.5%
Company	17.7%	18.8%	N/A
Tier 1 capital to risk-weighted assets			
Association	14.9%	15.7%	8.0%
Company	17.7%	18.8%	N/A
Total capital to risk-weighted assets			
Association	16.1%	16.9%	10.0%
Company	19.0%	20.1%	N/A

Average Balances and Yields

The following tables set forth average balance sheets, average yields and costs, and certain other information at and for the periods indicated. Yields and costs are presented on an annualized basis. Tax-equivalent yield adjustments have not been made for tax-exempt securities. All average balances are based on month-end balances, which management deems to be representative of the operations of the Company. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

Table of Contents

	For the Three Months Ended December 31,					
	2017			2016		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Assets						
Loans	$ 469,126	$ 4,923	4.20%	$ 442,040	$ 4,659	4.22%
Securities:						
U.S. government, federal agency and government-sponsored enterprises	16,831	100	2.38%	70,374	430	2.44%
U.S. government-sponsored enterprise MBS	92,377	568	2.46%	31,402	190	2.42%
State and political subdivisions	3,176	17	2.14%	3,378	19	2.25%
Total securities	112,384	685	2.44%	105,154	639	2.43%
Other interest-earning assets	9,921	62	2.50%	11,278	40	1.42%
Total interest-earning assets	591,431	5,670	3.83%	558,472	5,338	3.82%
Non-interest earning assets	21,521			24,335		
Total assets	$ 612,952			$ 582,807		
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Interest-bearing checking or NOW	$ 47,568	11	0.09%	$ 43,479	10	0.09%
Savings accounts	42,569	16	0.15%	39,637	12	0.12%
Money market accounts	95,302	184	0.77%	73,614	35	0.19%
Certificates of deposit	253,396	816	1.29%	252,563	640	1.01%
Total interest-bearing deposits	438,835	1,027	0.94%	409,293	697	0.68%
Federal Home Loan Bank Advances	63,460	196	1.24%	66,877	180	1.08%
Total interest-bearing liabilities	502,295	1,223	0.97%	476,170	877	0.74%
Noninterest-bearing liabilities	26,311			23,854		
Total liabilities	528,606			500,024		
Stockholders equity	84,346			82,783		
Total liabilities and stockholders equity	$ 612,952			$ 582,807		
Net interest income		$ 4,447			$ 4,461	
Interest rate spread (1)			2.86%			3.09%
Net interest margin (2)			3.01%			3.20%
Net interest-earning assets (3)	$ 89,136			$ 82,302		
	118%			117%		

Average interest-earning assets to interest-bearing liabilities

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(2) Net interest margin represents net interest income divided by average total interest-earning assets.
(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(4) Tax exempt income is not recorded on a tax equivalent basis.

	For the Six Months Ended December 31,					
	2017			2016		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Assets						
Loans	$ 466,277	$ 9,663	4.14%	$ 445,669	$ 9,327	4.19%
Securities: U.S. government, federal agency and government-sponsored enterprises	20,557	247	2.40%	76,113	962	2.53%
U.S. government-sponsored enterprise MBS	88,155	1,085	2.46%	29,344	359	2.45%
State and political subdivisions	3,225	34	2.11%	3,404	37	2.17%
Total securities	111,937	1,366	2.44%	108,861	1,358	2.49%
Other interest-earning assets	9,208	109	2.37%	10,320	71	1.38%
Total interest-earning assets	587,422	11,138	3.79%	564,850	10,756	3.81%
Non-interest earning assets	20,181			22,419		
Total assets	$ 607,603			$ 587,269		
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Interest-bearing checking or NOW	$ 46,283	21	0.09%	$ 41,981	19	0.09%
Savings accounts	41,880	29	0.14%	39,422	24	0.12%
Money market accounts	93,400	308	0.66%	73,475	69	0.19%
Certificates of deposit	251,500	1,554	1.24%	252,761	1,267	1.00%
Total interest-bearing deposits	433,063	1,912	0.88%	407,639	1,379	0.68%
Federal Home Loan Bank Advances	64,788	368	1.14%	71,991	405	1.13%
Total interest-bearing liabilities	497,851	2,280	0.92%	479,630	1,784	0.74%
Noninterest-bearing liabilities	25,234			24,183		
Total liabilities	523,085			503,813		
Stockholders equity	84,518			83,456		
Total liabilities and stockholders equity	$ 607,603			$ 587,269		
Net interest income		$ 8,858			$ 8,972	
Interest rate spread (1)			2.87%			3.06%
Net interest margin (2)			3.02%			3.18%

Net interest-earning assets (3)	$ 89,571	$ 85,220
Average interest-earning assets to interest-bearing liabilities	118%	118%

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(2) Net interest margin represents net interest income divided by average total interest-earning assets.
(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(4) Tax exempt income is not recorded on a tax equivalent basis.

Table of Contents

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated to the changes due to rate and the changes due to volume in proportion to the relationship of the absolute dollar amounts of change in each.

	Three Months Ended December 31, 2017 vs. 2016			Six Months Ended December 31, 2017 vs. 2016		
	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Loans	$ 409	$ (145)	$ 264	$ 621	$ (285)	$ 336
Securities	26	20	46	68	(60)	8
Other	(30)	52	22	(21)	59	38
Total interest-earning assets	$ 405	$ (73)	$ 332	$ 668	$ (286)	$ 382
Interest-bearing liabilities:						
Interest-bearing checking or NOW	$ 1	$	$ 1	$ 2	$	$ 2
Savings accounts	10	(6)	4	23	(18)	5
Certificates of deposit	14	162	176	(19)	306	287
Money market accounts	75	74	149	56	183	239
Total interest-bearing deposits	100	230	330	62	471	533
Federal Home Loan Bank advances	(51)	67	16	(47)	10	(37)
Total interest-bearing liabilities	$ 49	$ 297	$ 346	$ 15	$ 481	$ 496
Change in net interest income	$ 356	$ (370)	$ (14)	$ 653	$ (767)	$ (114)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

An internal interest rate risk analysis is performed at least quarterly to assess the Company s Earnings at Risk, Capital at Risk, and Value at Risk. As of December 31, 2017, there were no material changes in interest rate risk from the analysis disclosed in the Company s Form 10-K for the fiscal year ended June 30, 2017, as filed with the Securities and Exchange Commission.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company s management, including the Company s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2017. Based upon such evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (2) is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended December 31, 2017, there have been no changes in the Company s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

Part II Other Information

Item 1. Legal Proceedings

The Association and Company are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Association s or the Company s financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item1A.- Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, which could materially affect our business, financial condition or future results of operations. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases by the Company of the quarter ended December 31, 2017 regarding the Company s common stock.

PURCHASES OF EQUITY SECURITIES BY COMPANY (1)

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/17	10/31/17		$		127,050
11/1/17	11/30/17				127,050
12/1/17	12/31/17				127,050
Total			$		

(1) The Company announced a stock repurchase plan on February 5, 2016, whereby the Company could repurchase up to 200,703 shares of its common stock, or approximately 5% of the Company s then outstanding shares. There were no shares of the Company s common stock repurchased by the Company during the three months ended December 31, 2017, and there were 127,050 shares yet to be repurchased under the plan as of December 31,

2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Table of Contents

Item 5. Other Information

On February 5, 2018, Section 12 of Article II of the Company s Bylaws was amended to increase from 72 to 75 the age at which no person is eligible for election, re-election, appointment or reappointment to the Board of Directors of the Company. A copy of the Company s Bylaws as amended is included as Exhibit 3.2 of this Quarterly Report on Form 10-Q.

Item 6. Exhibits

3.2	Amended and Restated Bylaws of IF Bancorp, Inc.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of December 31, 2017 and June 30, 2017 (ii) the Condensed Consolidated Statements of Income for the three and six months ended December 31, 2017 and 2016, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended December 31, 2017 and 2016, (iv) the Condensed Consolidated Statements of Stockholders Equity for the six months ended December 31, 2017 and 2016, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2017 and 2016, and (vi) the notes to the Condensed Consolidated Financial Statements.

* This information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	IF BANCORP, INC.
Date: February 9, 2018	/s/ Walter H. Hasselbring III Walter H. Hasselbring III President and Chief Executive Officer
Date: February 9, 2018	/s/ Pamela J. Verkler Pamela J. Verkler Senior Executive Vice President and Chief Financial Officer