# Section 1: 10-Q (10-Q)

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 September 30, 2019**

**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**<br>**(State or other jurisdiction of incorporation or organization)** | **45-1834449**<br>**(I.R.S. Employer Identification Number)** |
| --- | --- |
| **201 East Cherry Street, Watseka, Illinois**<br>**(Address of Principal Executive Offices)** | **60970**<br>**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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

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

* * * * *

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

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, par value $0.01 per share** | **IROQ** | **Nasdaq Capital Market** |

The Registrant had 3,265,771 shares of common stock, par value $0.01 per share, issued and outstanding as of November 4, 2019.

[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 September 30, 2019 (unaudited) and June 30, 2019 | 1 |
| | Condensed Consolidated Statements of Income for the Three Months Ended September 30, 2019 and 2018 (unaudited) | 2 |
| | Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended September 30, 2019 and 2018 (unaudited) | 3 |
| | Condensed Consolidated Statements of Stockholders' Equity for the Three Months Ended September 30, 2019 and 2018 (unaudited) | 4 |
| | Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2019 and 2018 (unaudited) | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 35 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 47 |
| Item 4. | Controls and Procedures | 47 |
| | **Part II. Other Information** | |
| Item 1. | Legal Proceedings | 48 |
| Item 1A. | Risk Factors | 48 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 48 |
| Item 3. | Defaults upon Senior Securities | 48 |
| Item 4. | Mine Safety Disclosures | 48 |
| Item 5. | Other Information | 48 |
| Item 6. | Exhibits | 49 |
| | Signature Page | 50 |

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)

| | September 30, 2019 (Unaudited) | June 30, 2019 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 7,991 | $ 57,994 |
| Interest-bearing demand deposits | 1,385 | 1,606 |
| Cash and cash equivalents | 9,376 | 59,600 |
| Interest-bearing time deposits in banks | 3,000 | 3,000 |
| Available-for-sale securities | 147,975 | 146,291 |
| Loans, net of allowance for loan losses of $6,277 and $6,328 at September 30, 2019 and June 30, 2019, respectively | 490,966 | 487,774 |
| Premises and equipment, net of accumulated depreciation of $7,498 and $7,345 at September 30, 2019 and June 30, 2019, respectively | 10,637 | 10,706 |
| Federal Home Loan Bank stock, at cost | 1,215 | 1,174 |
| Foreclosed assets held for sale | 584 | 778 |
| Accrued interest receivable | 2,386 | 2,142 |
| Bank-owned life insurance | 9,142 | 9,072 |
| Mortgage servicing rights | 836 | 853 |
| Deferred income taxes | 1,377 | 2,066 |
| Other | 710 | 414 |
| Total assets | $ 678,204 | $723,870 |
| **Liabilities and Equity** | | |
| Liabilities | | |
| Deposits | | |
| Demand | $ 33,453 | $ 80,442 |
| Savings, NOW and money market | 198,932 | 196,296 |
| Certificates of deposit | 291,569 | 290,761 |
| Brokered certificates of deposit | 32,523 | 39,524 |
| Total deposits | 556,477 | 607,023 |
| Repurchase agreements | 3,102 | 2,015 |
| Federal Home Loan Bank advances | 27,000 | 24,000 |
| Line of credit and other borrowings | 5,000 | — |
| Advances from borrowers for taxes and insurance | 847 | 747 |
| Accrued post-retirement benefit obligation | 2,930 | 2,919 |
| Accrued interest payable | 1,190 | 801 |
| Other | 4,371 | 3,904 |
| Total liabilities | 600,917 | 641,409 |
| **Commitments and Contingencies** | | |
| **Stockholders' Equity** | | |
| Common stock, $.01 par value per share, 100,000,000 shares authorized, 3,274,071 and 3,578,252 shares issued and outstanding at September 30, 2019 and June 30, 2019, respectively | 32 | 36 |
| Additional paid-in capital | 48,925 | 48,813 |
| Unearned ESOP shares, at cost, 226,129 and 230,940 shares at September 30, 2019 and June 30, 2019, respectively | (2,261) | (2,309) |
| Retained earnings | 29,156 | 35,356 |
| Accumulated other comprehensive income, net of tax | 1,435 | 565 |
| Total stockholders' equity | 77,287 | 82,461 |
| Total liabilities and stockholders' equity | $ 678,204 | $723,870 |

See accompanying notes to the unaudited condensed consolidated financial statements.

**IF Bancorp, Inc.**
**Condensed Consolidated Statements of Income (Unaudited)**
**(Dollars in thousands except per share amounts)**

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 |
|---|---|---|
| **Interest and Dividend Income** | | |
| Interest and fees on loans | $ 5,897 | $ 5,505 |
| Securities: | | |
| Taxable | 919 | 827 |
| Tax-exempt | 30 | 33 |
| Federal Home Loan Bank dividends | 23 | 29 |
| Deposits with other financial institutions | 139 | 25 |
| Total interest and dividend income | 7,008 | 6,419 |
| **Interest Expense** | | |
| Deposits | 2,283 | 1,539 |
| Federal Home Loan Bank advances | 139 | 418 |
| Total interest expense | 2,422 | 1,957 |
| **Net Interest Income** | 4,586 | 4,462 |
| **Provision for Loan Losses** | (54) | 237 |
| **Net Interest Income After Provision for Loan Losses** | 4,640 | 4,225 |
| **Noninterest Income** | | |
| Customer service fees | 102 | 103 |
| Other service charges and fees | 65 | 88 |
| Insurance commissions | 162 | 183 |
| Brokerage commissions | 235 | 276 |
| Net realized gains on sales of available-for-sale securities | 1 | — |
| Mortgage banking income, net | 45 | 86 |
| Gain on sale of loans | 140 | 93 |
| Gain on foreclosed assets, net | (2) | 120 |
| Bank-owned life insurance income, net | 70 | 67 |
| Other | 248 | 262 |
| Total noninterest income | 1,066 | 1,278 |
| **Noninterest Expense** | | |
| Compensation and benefits | 2,665 | 2,503 |
| Office occupancy | 255 | 211 |
| Equipment | 386 | 331 |
| Federal deposit insurance | 28 | 43 |
| Stationary, printing and office | 30 | 36 |
| Advertising | 121 | 142 |
| Professional services | 116 | 120 |
| Supervisory examinations | 44 | 44 |
| Audit and accounting services | 69 | 40 |
| Organizational dues and subscriptions | 19 | 19 |
| Insurance bond premiums | 41 | 42 |
| Telephone and postage | 50 | 67 |
| Other | 367 | 626 |
| Total noninterest expense | 4,191 | 4,224 |
| **Income Before Income Tax** | 1,515 | 1,279 |
| **Provision for Income Tax** | 415 | 345 |
| **Net Income** | $ 1,100 | $ 934 |
| **Earnings Per Share:** | | |
| Basic | $ 0.33 | $ 0.26 |
| Diluted | $ 0.33 | $ 0.25 |
| Dividends declared per common share | $ 0.15 | $ 0.125 |

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

**IF Bancorp, Inc.**
**Condensed Consolidated Statements of Comprehensive Income (Loss)**
**(Unaudited)**
**(Dollars in thousands)**

| | Three Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| **Net Income** | $ 1,100 | $ 934 |
| **Other Comprehensive Income (Loss)** | | |
| Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $345 and $(120), for 2019 and 2018, respectively | 868 | (1,191) |
| Less: reclassification adjustment for realized gains included in net income, net of taxes of $0 and $0 for 2019 and 2018, respectively | 1 | — |
| | 867 | (1,191) |
| Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of $2 and $31 for 2019 and 2018, respectively | 3 | (27) |
| Other comprehensive income (loss), net of tax | 870 | (1,218) |
| **Comprehensive Income (Loss)** | $ 1,970 | $ (284) |

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

**IF Bancorp, Inc.**
**Condensed Consolidated Statements 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 Loss | Total |
|---|---|---|---|---|---|---|
| **For the three months ended September 30, 2019** | | | | | | |
| Balance, July 1, 2019 | $ 36 | $ 48,813 | $ (2,309) | $ 35,356 | $ 565 | $82,461 |
| Net income | — | — | — | 1,100 | — | 1,100 |
| Other comprehensive income | — | — | — | — | 870 | 870 |
| Dividends on common stock, $0.15 per share | — | — | — | (521) | — | (521) |
| Stock equity plan | — | 55 | — | — | — | 55 |
| Stock repurchase, 304,181 shares, average price $22.30 each | (4) | — | — | (6,779) | — | (6,783) |
| ESOP shares earned, 4,811 shares | — | 57 | 48 | — | — | 105 |
| Balance, September 30, 2019 | $ 32 | $ 48,925 | $ (2,261) | $ 29,156 | $ 1,435 | $77,287 |
| **For the three months ended September 30, 2018** | | | | | | |
| Balance, July 1, 2018 | $ 39 | $ 48,361 | $ (2,502) | $ 38,885 | $ (3,108) | $81,675 |
| Net income | — | — | — | 934 | — | 934 |
| Other comprehensive loss | — | — | — | — | (1,218) | (1,218) |
| Dividends on common stock, $0.125 per share | — | — | — | (484) | — | (484) |
| Stock equity plan | — | 56 | — | — | — | 56 |
| ESOP shares earned, 4,811 shares | — | 70 | 48 | — | — | 118 |
| Balance, September 30, 2018 | $ 39 | $ 48,487 | $ (2,454) | $ 39,335 | $ (4,326) | $81,081 |

See accompanying notes to the unaudited condensed consolidated financial statements.

**IF Bancorp, Inc.**
**Condensed Consolidated Statement of Cash Flows (Unaudited)**
**(Dollars in thousands)**

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 1,100 | $ 934 |
| Items not requiring (providing) cash | | |
| Depreciation | 153 | 149 |
| Provision for loan losses | (54) | 237 |
| Amortization of premiums and discounts on securities | 91 | 7 |
| Deferred income taxes | 342 | (14) |
| Net realized gains on loan sales | (140) | (93) |
| Net realized gains on sales of available-for-sale securities | (1) | — |
| (Gain) Loss on foreclosed assets held for sale | 2 | (120) |
| Bank-owned life insurance income, net | (70) | (67) |
| Originations of loans held for sale | (5,883) | (4,629) |
| Proceeds from sales of loans held for sale | 6,356 | 4,900 |
| ESOP compensation expense | 105 | 118 |
| Stock equity plan expense | 55 | 56 |
| Changes in | | |
| Accrued interest receivable | (244) | (474) |
| Other assets | (296) | 190 |
| Accrued interest payable | 389 | 205 |
| Post-retirement benefit obligation | 16 | 12 |
| Other liabilities | (54) | (1,405) |
| Net cash provided by operating activities | 1,867 | 6 |
| **Investing Activities** | | |
| Purchases of available-for-sale securities | (6,596) | (5,457) |
| Proceeds from maturities and pay downs of available-for-sale securities | 6,034 | 3,894 |
| Net change in loans | (3,482) | (14,759) |
| Purchase of premises and equipment | (84) | (472) |
| Proceeds from the sale of foreclosed assets | 220 | 1,635 |
| Redemption of Federal Home Loan Bank stock owned | — | 450 |
| Purchase of Federal Home Loan Bank stock | (41) | (754) |
| Net cash used in investing activities | (3,949) | (15,463) |
| **Financing Activities** | | |
| Net decrease in demand deposits, money market, NOW and savings accounts | (44,353) | (6,372) |
| Net increase (decrease) in certificates of deposit, including brokered certificates | (6,193) | 16,754 |
| Net increase in advances from borrowers for taxes and insurance | 100 | 348 |
| Proceeds from Federal Home Loan Bank advances | 8,000 | 72,250 |
| Repayments of Federal Home Loan Bank advances | (5,000) | (65,000) |
| Proceeds from other borrowings | 5,000 | — |
| Net increase (decrease) in repurchase agreements | 1,087 | (147) |
| Purchases of Common Stock | (6,783) | — |
| Net cash provided by (used in) financing activities | (48,142) | 17,833 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (50,224) | 2,376 |
| **Cash and Cash Equivalents, Beginning of Period** | 59,600 | 4,754 |
| **Cash and Cash Equivalents, End of Period** | $ 9,376 | $ 7,130 |
| **Supplemental Cash Flows Information** | | |
| Interest paid | $ 2,033 | $ 1,752 |
| Income taxes paid (net of refunds) | $ 200 | $ — |
| Dividends payable | $ 521 | $ 484 |
| Foreclosed assets acquired in settlement of loans | $ 28 | $ 6,332 |

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 mutual-to-stock conversion on July 7, 2011. At the time of the conversion, the Company 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 then began trading on the NASDAQ Capital Market under the symbol "IROQ".

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 September 30, 2019 and June 30, 2019, and the results of its operations for the three month periods ended September 30, 2019 and 2018. These condensed 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, 2019. The results of operations for the three-month period ended September 30, 2019 are not necessarily indicative of the results that may be expected for the entire year.

**Revenue Recognition**

Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans, letters of credit and investments securities, as well as revenue related to our mortgage servicing activities and bank owned life insurance, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Descriptions of our revenue-generating activities that are within the scope of ASC 606, and which are presented in our income statements as components of noninterest income are as follows:

- Customer Service Fees—The Company generates revenue from fees charged for deposit account maintenance, overdrafts, wire transfers, and check fees. The revenue related to deposit fees is recognized at the time the performance obligation is satisfied.

- Insurance Commissions—The Company's insurance agency, Iroquois Insurance Agency, receives commissions on premiums of new and renewed business policies. Iroquois Insurance Agency records commission revenue on direct bill policies as the cash is received. For agency bill policies, Iroquois Insurance Agency retains its commission portion of the customer premium payment and remits the balance to the carrier. In both cases, the carrier holds the performance obligation.
- Brokerage Commissions—The primary brokerage revenue is recorded at the beginning of each quarter through billing to customers based on the account asset size on the last day of the previous quarter. If a withdrawal of funds takes place, a prorated refund may occur; this is reflected within the same quarter as the original billing occurred. All performance obligations are met within the same quarter that the revenue is recorded.
- Other—The Company generates revenue through service charges from the use of its ATM machines and interchange income from the use of Company issued credit and debit cards. The revenue is recognized at the time the service is used, and the performance obligation is satisfied.

**Note 2: New Accounting Pronouncements**

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 became effective for the Company July 1, 2019. As permitted by the amendments, the Company has elected an accounting policy to not recognize lease assets and lease liabilities for leases with a term of twelve months or less. The adoption did not have an effect on the Company's financial position or results of operations since the Company does not have any material lease agreements.

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 eligible to be smaller reporting companies (SRC), this update will be effective for interim and annual periods beginning after December 15, 2022. 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. We have entered an agreement with a firm specializing in ALLL modeling and have begun transition modeling so we will be ready for the required adoption. As of September 30, 2019, model installation was not completed to a point a reliable parallel test could determine the final expected impact that the adoption of ASU 2016-13 will have on the 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, and 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 September 30, 2019 and June 30, 2019 are as follows (dollars in thousands):

| | September 30, 2019 | June 30, 2019 |
|---|---|---|
| Allocated shares | 128,263 | 109,018 |
| Shares committed for release | 4,811 | 19,245 |
| Unearned shares | 226,129 | 230,940 |
| Total ESOP shares | 359,203 | 359,203 |
| Fair value of unearned ESOP shares (1) | $ 4,749 | $ 4,829 |

(1) Based on closing price of $21.00 and $20.91 per share on September 30, 2019, and June 30, 2019, respectively.

During the three months ended September 30, 2019 and 2018, no ESOP shares were paid to ESOP participants due to separation from service.

The IF Bancorp, Inc. 2012 Equity Incentive Plan (the "Equity Incentive Plan") was approved by stockholders in 2012. 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 be awarded to senior officers and directors of the Association. The restricted stock will vest in equal installments over 10 years and the stock options will vest in equal installments over 7 years, both starting 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 will vest in equal installments over 8 years, starting in December 2016. As of September 30, 2019, there were 90,050 shares of restricted stock and 314,125 stock option shares available for future grants under this plan.

Table of Contents

The following table summarizes stock option activity for the three months ended September 30, 2019 (dollars in thousands):

| | Options | Weighted-Average Exercise Price/Share | Weighted-Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, June 30, 2019 | 153,143 | $ 16.63 | | |
| Granted | — | — | | |
| Exercised | — | — | | |
| Forfeited | — | — | | |
| Outstanding, September 30, 2019 | 153,143 | $ 16.63 | 4.2 | $ 669 (1) |
| Exercisable, September 30, 2019 | 108,571 | $ 16.63 | 4.2 | $ 474 (1) |

(1) Based on closing price of $21.00 per share on September 30, 2019.

Intrinsic value for stock options is defined as the difference between the current market value and the exercise price. There were no options granted during the three months ended September 30, 2019.

There were no options that vested during the three months ended September 30, 2019 and 2018. Stock-based compensation expense and related tax benefit was considered nominal for stock options for the three months ended September 30, 2019 and 2018. Total unrecognized compensation cost related to non-vested stock options was $66,000 at September 30, 2019 and is expected to be recognized over a weighted-average period of 1.2 years.

The following table summarizes non-vested restricted stock activity for the three months ended September 30, 2019:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Balance, June 30, 2019 | 50,313 | $ 16.79 |
| Granted | — | — |
| Forfeited | — | — |
| Earned and issued | — | — |
| Balance, September 30, 2019 | 50,313 | $ 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 $42,000 and $12,000, respectively, for the three months ended September 30, 2019, and was $42,000 and $12,000, respectively, for the three months ended September 30, 2018. Unrecognized compensation expense for non-vested restricted stock awards was $724,000 and is expected to be recognized over 4.2 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 periods ended September 30, 2019 and 2018. The factors used in the earnings per common share computation are as follows:

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 |
|---|---|---|
| Net income | $ 1,100 | $ 934 |
| Basic weighted average shares outstanding | 3,533,275 | 3,871,408 |
| Less: Average unallocated ESOP shares | (228,534) | (247,779) |
| Basic average shares outstanding | 3,304,741 | 3,623,629 |
| Diluted effect of restricted stock awards and stock options | 52,155 | 69,853 |
| Diluted average shares outstanding | 3,356,896 | 3,693,482 |
| Basic earnings per common share | $ 0.33 | $ 0.26 |
| Diluted earnings per common share | $ 0.33 | $ 0.25 |

The Company announced a stock repurchase plan on June 12, 2019, whereby the Company could repurchase up to 89,526 shares of its common stock, or approximately 2.5% of its then current outstanding shares. As of September 30, 2019, 20,200 shares were repurchased at an average price of $21.17 per share. On September 13, 2019, the Company announced an increase in the number of shares that may be repurchased under the Company's existing stock repurchase plan, whereby the Company could repurchase up to 320,476 shares, or approximately 9.0% of its then outstanding shares. As of September 30, 2019, there were 286,781 shares repurchased by the Company and there were 33,695 shares yet to be repurchased under this plan.

**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:** | | | | |
| **September 30, 2019:** | | | | |
| U.S. Government and federal agency and Government sponsored enterprises (GSE's) | $ 10,660 | $ 430 | $ — | $ 11,090 |
| Mortgage-backed: | | | | |
| GSE residential | 127,481 | 2,214 | (231) | 129,464 |
| Small Business Administration | 4,510 | 4 | (1) | 4,513 |
| State and political subdivisions | 2,725 | 183 | — | 2,908 |
| | $ 145,376 | $ 2,831 | $ (232) | $147,975 |
| **June 30, 2019:** | | | | |
| U.S. Government and federal agency and Government sponsored enterprises (GSE's) | $ 12,654 | $ 296 | $ — | $ 12,950 |
| Mortgage-backed: | | | | |
| GSE residential | 124,615 | 1,231 | (336) | 125,510 |
| Small Business Administration | 4,911 | 25 | (1) | 4,935 |
| State and political subdivisions | 2,725 | 171 | — | 2,896 |
| | $ 144,905 | $ 1,723 | $ (337) | $146,291 |

With the exception of U.S. Government, federal agency and GSE securities and Mortgage-backed GSE residential securities with a book value of approximately $10,660,000 and $127,481,000, respectively, and a market value of approximately $11,090,000 and $129,464,000, respectively, at September 30, 2019, the Company held no securities at September 30, 2019 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at September 30, 2019, and June 30, 2019 were issued by GSEs.

The amortized cost and fair value of available-for-sale securities at September 30, 2019, 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.

| | Available-for-sale Securities | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Within one year | $ 1,150 | $ 1,159 |
| One to five years | — | — |
| Five to ten years | 13,993 | 14,599 |
| After ten years | 2,752 | 2,753 |
| | 17,895 | 18,511 |
| Mortgage-backed securities | 127,481 | 129,464 |
| Totals | $ 145,376 | $ 147,975 |

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $66,876,000 and $57,921,000 as of September 30, 2019 and June 30, 2019, respectively.

The carrying value of securities sold under agreement to repurchase amounted to $3.1 million at September 30, 2019 and $2.0 million at June 30, 2019. At September 30, 2019, approximately $1.5 of our repurchase agreements had an overnight maturity, while the remaining $1.6 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 $1,000 and $0 and gross losses of $0 and $0 resulting from sales of available-for-sale securities were realized for the three months ended September 30, 2019, and 2018, respectively. Tax provision applicable to these net realized gains was nominal for the three months ended September 30, 2019, and $0 for the three months ended September 30, 2018.

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 September 30, 2019 and June 30, 2019, was $28,076,000 and $47,146,000, respectively, which is approximately 19% and 32% of the Company's available-for-sale investment portfolio. These declines in fair value at September 30, 2019 and June 30, 2019, resulted from increases in market interest rates and are considered temporary.

Table of Contents

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 September 30, 2019 and June 30, 2019:

| Description of Securities | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **September 30, 2019:** | | | | | | |
| Mortgage-backed: | | | | | | |
| GSE residential | $ 14,836 | $ (91) | $ 11,400 | $ (140) | $ 26,236 | $ (231) |
| Small Business Administration | 1,840 | (1) | — | — | 1,840 | (1) |
| Total temporarily impaired securities | $ 16,676 | $ (92) | $ 11,400 | $ (140) | $ 28,076 | $ (232) |
| **June 30, 2019:** | | | | | | |
| Mortgage-backed: | | | | | | |
| GSE residential | $ 15,167 | $ (72) | $ 31,049 | $ (264) | $ 46,216 | $ (336) |
| Small Business Administration | 930 | (1) | — | — | 930 | (1) |
| Total temporarily impaired securities | $ 16,097 | $ (73) | $ 31,049 | $ (264) | $ 47,146 | $ (337) |

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 September 30, 2019 and June 30, 2019, were mostly the result of a decline in market value that was 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 September 30, 2019 and June 30, 2019.

**Note 6: Loans and Allowance for Loan Losses**

**Classes of loans include:**

| | September 30, 2019 | June 30, 2019 |
|---|---|---|
| Real estate loans: | | |
| One- to four-family, including home equity loans | $ 126,152 | $ 129,290 |
| Multi-family | 105,548 | 104,663 |
| Commercial | 146,500 | 143,367 |
| Home equity lines of credit | 8,897 | 8,938 |
| Construction | 17,267 | 16,113 |
| Commercial | 84,825 | 84,246 |
| Consumer | 7,714 | 7,136 |
| Total loans | 496,903 | 493,753 |
| Less: | | |
| Unearned fees and discounts, net | (340) | (349) |
| Allowance for loan losses | 6,277 | 6,328 |
| Loans, net | $ 490,966 | $ 487,774 |

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 in place 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 lending activity is the origination of one- to four-family residential mortgage loans, multi-family loans, commercial real estate loans, home equity lines of credits, commercial business loans, consumer (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 and Champaign, 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 a 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 $375,000, other secured loans up to $375,000, 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 $2,000,000 in aggregate loans and unsecured loans up to $500,000. 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 Association 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 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 borrowers.

The Company offers USDA Rural Development loans which are originated and sold servicing released. The Company also offers FHA and VA loans that are originated through a nationwide wholesale lender.

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 adjustable 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, including real estate construction loans, amounting to $264,116,000 and $260,888,000 as of September 30, 2019 and June 30, 2019, 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 $4,638,000 and $4,844,000 at September 30, 2019 and June 30, 2019, respectively. All of these purchased loans are secured by single family homes located out of our primary market area, primarily in the Midwest. The Company's loans receivable also include commercial loan participations of $28,574,000 and $29,524,000 at September 30, 2019 and June 30, 2019, respectively, of which $11,181,000 and $12,025,000, at September 30, 2019 and June 30, 2019 were outside our primary market area. These participation loans are secured by real estate and other business assets.

[Table of Contents](#)

*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 periods ended September 30, 2019 and 2018 and the year ended June 30, 2019:

| | Three Months Ended September 30, 2019 Real Estate Loans | | | |
|---|---|---|---|---|
| | One- to Four-Family | Multi-Family | Commercial | Home Equity Lines of Credit |
| **Allowance for loan losses:** | | | | |
| Balance, beginning of period | $ 1,031 | $ 1,642 | $ 1,623 | $ 89 |
| Provision charged to expense | (44) | (40) | 34 | 1 |
| Losses charged off | — | — | — | — |
| Recoveries | 3 | — | — | — |
| Balance, end of period | $ 990 | $ 1,602 | $ 1,657 | $ 90 |
| Ending balance: individually evaluated for impairment | $ 13 | $ — | $ — | $ — |
| Ending balance: collectively evaluated for impairment | $ 977 | $ 1,602 | $ 1,657 | $ 90 |
| **Loans:** | | | | |
| Ending balance | $ 126,152 | $ 105,548 | $ 146,500 | $ 8,897 |
| Ending balance: individually evaluated for impairment | $ 1,702 | $ — | $ 16 | $ 19 |
| Ending balance: collectively evaluated for impairment | $ 124,450 | $ 105,548 | $ 146,484 | $ 8,878 |

| | Three Months Ended September 30, 2019 (Continued) | | | |
|---|---|---|---|---|
| | Construction | Commercial | Consumer | Total |
| **Allowance for loan losses:** | | | | |
| Balance, beginning of period | $ 213 | $ 1,659 | $ 71 | $ 6,328 |
| Provision charged to expense | (9) | (9) | 13 | (54) |
| Losses charged off | — | — | (15) | (15) |
| Recoveries | — | 14 | 1 | 18 |
| Balance, end of period | $ 204 | $ 1,664 | $ 70 | $ 6,277 |
| Ending balance: individually evaluated for impairment | $ — | $ — | $ 6 | $ 19 |
| Ending balance: collectively evaluated for impairment | $ 204 | $ 1,664 | $ 64 | $ 6,258 |
| **Loans:** | | | | |
| Ending balance | $ 17,267 | $ 84,825 | $ 7,714 | $ 496,903 |
| Ending balance: individually evaluated for impairment | $ — | $ 55 | $ 21 | $ 1,813 |
| Ending balance: collectively evaluated for impairment | $ 17,267 | $ 84,770 | $ 7,693 | $ 495,090 |

| | Year Ended June 30, 2019 Real Estate Loans | | | |
|---|---|---|---|---|
| | One- to Four-Family | Multi-Family | Commercial | Home Equity Lines of Credit |
| **Allowance for loan losses:** | | | | |
| Balance, beginning of year | $ 997 | $ 1,650 | $ 1,604 | $ 91 |
| Provision charged to expense | 29 | (8) | 19 | 13 |
| Losses charged off | (17) | — | — | (15) |
| Recoveries | 22 | — | — | — |
| Balance, end of year | $ 1,031 | $ 1,642 | $ 1,623 | $ 89 |

| | | | | |
|---|---|---|---|---|
| Ending balance: individually evaluated for impairment | $ 13 | $ — | $ — | $ — |
| Ending balance: collectively evaluated for impairment | $ 1,018 | $ 1,642 | $ 1,623 | $ 89 |
| **Loans:** | | | | |
| Ending balance | $ 129,290 | $ 104,663 | $ 143,367 | $ 8,938 |
| Ending balance: individually evaluated for impairment | $ 1,722 | $ — | $ 18 | $ 22 |
| Ending balance: collectively evaluated for impairment | $ 127,568 | $ 104,663 | $ 143,349 | $ 8,916 |

| | Year Ended June 30, 2019 (Continued) | | | |
|---|---|---|---|---|
| | Construction | Commercial | Consumer | Total |
| **Allowance for loan losses:** | | | | |
| Balance, beginning of year | $ 168 | $ 1,373 | $ 62 | $ 5,945 |
| Provision charged to expense | 45 | 286 | 23 | 407 |
| Losses charged off | — | — | (18) | (50) |
| Recoveries | — | — | 4 | 26 |
| Balance, end of year | $ 213 | $ 1,659 | $ 71 | $ 6,328 |
| Ending balance: individually evaluated for impairment | $ — | $ — | $ 10 | $ 23 |
| Ending balance: collectively evaluated for impairment | $ 213 | $ 1,659 | $ 61 | $ 6,305 |
| **Loans:** | | | | |
| Ending balance | $ 16,113 | $ 84,246 | $ 7,136 | $ 493,753 |
| Ending balance: individually evaluated for impairment | $ — | $ 60 | $ 29 | $ 1,851 |
| Ending balance: collectively evaluated for impairment | $ 16,113 | $ 84,186 | $ 7,107 | $ 491,902 |

| | Three Months Ended September 30, 2018 Real Estate Loans | | | |
|---|---|---|---|---|
| | One- to Four-Family | Multi-Family | Commercial | Home Equity Lines of Credit |
| **Allowance for loan losses:** | | | | |
| Balance, beginning of year | $ 997 | $ 1,650 | $ 1,604 | $ 91 |
| Provision charged to expense | 14 | 6 | 40 | — |
| Losses charged off | — | — | — | — |
| Recoveries | 1 | — | — | — |
| Balance, end of year | $ 1,012 | $ 1,656 | $ 1,644 | $ 91 |
| Ending balance: individually evaluated for impairment | $ — | $ — | $ 3 | $ — |
| Ending balance: collectively evaluated for impairment | $ 1,012 | $ 1,656 | $ 1,641 | $ 91 |
| **Loans:** | $ 130,518 | $ 107,625 | $ 144,425 | $ 9,033 |
| Ending balance | $ 1,535 | $ 1,207 | $ 48 | $ 24 |
| Ending balance: individually evaluated for impairment | $ 128,983 | $ 106,418 | $ 144,377 | $ 9,009 |

| | Three Months Ended September 30, 2018 (Continued) | | | |
|---|---|---|---|---|
| | Construction | Commercial | Consumer | Total |
| **Allowance for loan losses:** | | | | |
| Balance, beginning of year | $ 168 | $ 1,373 | $ 62 | $ 5,945 |
| Provision charged to expense | 1 | 174 | 2 | 237 |
| Losses charged off | — | — | (2) | (2) |
| Recoveries | — | — | — | 1 |
| Balance, end of year | $ 169 | $ 1,547 | $ 62 | $ 6,181 |
| Ending balance: individually evaluated for impairment | $ — | $ 9 | $ — | $ 12 |
| Ending balance: collectively evaluated for impairment | $ 169 | $ 1,538 | $ 62 | $ 6,169 |
| **Loans:** | | | | |
| Ending balance | $ 12,574 | $ 78,734 | $ 7,532 | $ 490,441 |
| Ending balance: individually evaluated for impairment | $ — | $ 9 | $ 3 | $ 2,826 |
| Ending balance: collectively evaluated for impairment | $ 12,574 | $ 78,725 | $ 7,529 | $ 487,615 |

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. In certain instances, the historical loss experience could be adjusted if similar risks are not inherent in the remaining 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.

**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 |
| **September 30, 2019 :** | | | | | | | | |
| Pass | $ 124,182 | $ 105,392 | $ 145,146 | $ 8,807 | $ 17,267 | $ 82,214 | $ 7,692 | $490,700 |
| Watch | — | — | 1,108 | 71 | — | 1,528 | — | 2,707 |
| Substandard | 1,970 | 156 | 246 | 19 | — | 1,083 | 15 | 3,489 |
| Doubtful | — | — | — | — | — | — | 7 | 7 |
| Loss | — | — | — | — | — | — | — | — |
| Total | $ 126,152 | $ 105,548 | $ 146,500 | $ 8,897 | $ 17,267 | $ 84,825 | $ 7,714 | $496,903 |

| | Real Estate Loans | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | One- to Four-Family | Multi-Family | Commercial | Home Equity Lines of Credit | Construction | Commercial | Consumer | Total |
| **June 30, 2019:** | | | | | | | | |
| Pass | $ 127,386 | $ 104,504 | $ 142,076 | $ 8,918 | $ 16,113 | $ 81,906 | $ 7,107 | $488,010 |
| Watch | — | — | 1,040 | — | — | 1,375 | — | 2,415 |
| Substandard | 1,904 | 159 | 251 | 20 | — | 965 | 19 | 3,318 |
| Doubtful | — | — | — | — | — | — | 10 | 10 |
| Loss | — | — | — | — | — | — | — | — |
| Total | $ 129,290 | $ 104,663 | $ 143,367 | $ 8,938 | $ 16,113 | $ 84,246 | $ 7,136 | $493,753 |

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.

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

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable | Total Loans > 90 Days & Accruing |
|---|---|---|---|---|---|---|---|
| **September 30, 2019:** | | | | | | | |
| Real estate loans: | | | | | | | |
| One- to four-family | $ 922 | $ 216 | $ 562 | $ 1,700 | $124,452 | $ 126,152 | $ 313 |
| Multi-family | 415 | — | — | 415 | 105,133 | 105,548 | — |
| Commercial | 90 | 184 | 12 | 286 | 146,214 | 146,500 | — |
| Home equity lines of credit | 13 | 18 | — | 31 | 8,866 | 8,897 | — |
| Construction | — | — | — | — | 17,267 | 17,267 | — |
| Commercial | 140 | — | 192 | 332 | 84,493 | 84,825 | 138 |
| Consumer | 41 | 14 | 15 | 70 | 7,644 | 7,714 | — |
| Total | $ 1,621 | $ 432 | $ 781 | $ 2,834 | $494,069 | $ 496,903 | $ 451 |

| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable | Total Loans > 90 Days & Accruing |
|---|---|---|---|---|---|---|---|
| **June 30, 2019:** | | | | | | | |
| Real estate loans: | | | | | | | |
| One- to four-family | $ 1,515 | $ 255 | $ 481 | $ 2,251 | $127,039 | $ 129,290 | $ 226 |
| Multi-family | 422 | — | — | 422 | 104,241 | 104,663 | — |
| Commercial | 74 | 6 | 12 | 92 | 143,275 | 143,367 | — |
| Home equity lines of credit | — | 26 | 20 | 46 | 8,892 | 8,938 | — |
| Construction | — | — | — | — | 16,113 | 16,113 | — |
| Commercial | 291 | — | 60 | 351 | 83,895 | 84,246 | — |
| Consumer | 99 | — | 29 | 128 | 7,008 | 7,136 | — |
| Total | $ 2,401 | $ 287 | $ 602 | $ 3,290 | $490,463 | $ 493,753 | $ 226 |

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 Association 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. Significant restructured loans are considered impaired in determining the adequacy of the allowance for loan losses.

Table of Contents

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 $1.5 million in troubled debt restructurings that were classified as impaired.

The following tables present impaired loans:

| | | | | Three Months Ended September 30, 2019 | | |
|---|---|---|---|---|---|---|
| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized | Interest on Cash Basis |
| **September 30, 2019:** | | | | | | |
| Loans without a specific valuation allowance | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | $ 1,656 | $ 1,656 | $ — | $ 1,666 | $ 15 | $ 15 |
| Multi-family | — | — | — | — | — | — |
| Commercial | 16 | 16 | — | 17 | — | — |
| Home equity line of credit | 19 | 19 | — | 20 | — | — |
| Construction | — | — | — | — | — | — |
| Commercial | 55 | 55 | — | 58 | — | — |
| Consumer | 15 | 15 | — | 17 | — | — |
| Loans with a specific allowance | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | 46 | 46 | 13 | 46 | — | — |
| Multi-family | — | — | — | — | — | — |
| Commercial | — | — | — | — | — | — |
| Home equity line of credit | — | — | — | — | — | — |
| Construction | — | — | — | — | — | — |
| Commercial | — | — | — | — | — | — |
| Consumer | 6 | 6 | 6 | 7 | — | — |
| Total: | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | 1,702 | 1,702 | 13 | 1,712 | 15 | 15 |
| Multi-family | — | — | — | — | — | — |
| Commercial | 16 | 16 | — | 17 | — | — |
| Home equity line of credit | 19 | 19 | — | 20 | — | — |
| Construction | — | — | — | — | — | — |
| Commercial | 55 | 55 | — | 58 | — | — |
| Consumer | 21 | 21 | 6 | 24 | — | — |
| | $ 1,813 | $ 1,813 | $ 19 | $ 1,831 | $ 15 | $ 15 |

| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Year Ended June 30, 2019<br>Average Investment in Impaired Loans | Interest Income Recognized | Interest on Cash Basis |
|---|---|---|---|---|---|---|
| **June 30, 2019:** | | | | | | |
| Loans without a specific valuation allowance | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | $ 1,676 | $ 1,676 | $ — | $ 1,718 | $ 63 | $ 71 |
| Multi-family | — | — | — | 1 | — | — |
| Commercial | 18 | 18 | — | 34 | — | — |
| Home equity line of credit | 22 | 22 | — | 24 | 1 | 2 |
| Construction | — | — | — | — | — | — |
| Commercial | 60 | 60 | — | 63 | 6 | 6 |
| Consumer | 19 | 19 | — | 24 | 2 | 2 |
| Loans with a specific allowance | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | 46 | 46 | 13 | 47 | 1 | 1 |
| Multi-family | — | — | — | — | — | — |
| Commercial | — | — | — | — | — | — |
| Home equity line of credit | — | — | — | — | — | — |
| Construction | — | — | — | — | — | — |
| Commercial | — | — | — | — | — | — |
| Consumer | 10 | 10 | 10 | 11 | 1 | 1 |
| Total: | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | 1,722 | 1,722 | 13 | 1,765 | 64 | 72 |
| Multi-family | — | — | — | 1 | — | — |
| Commercial | 18 | 18 | — | 34 | — | — |
| Home equity line of credit | 22 | 22 | — | 24 | 1 | 2 |
| Construction | — | — | — | — | — | — |
| Commercial | 60 | 60 | — | 63 | 6 | 6 |
| Consumer | 29 | 29 | 10 | 35 | 3 | 3 |
| | $ 1,851 | $ 1,851 | $ 23 | $ 1,922 | $ 74 | $ 83 |

| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Three Months Ended September 30, 2018 Average Investment in Impaired Loans | Three Months Ended September 30, 2018 Interest Income Recognized | Three Months Ended September 30, 2018 Interest on Cash Basis |
|---|---|---|---|---|---|---|
| **September 30, 2018:** | | | | | | |
| Loans without a specific valuation allowance | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | $ 1,535 | $ 1,535 | $ — | $ 1,545 | $ 16 | $ 17 |
| Multi-family | 1,207 | 1,207 | — | 1,211 | 21 | 21 |
| Commercial | 45 | 45 | — | 46 | — | — |
| Home equity line of credit | 24 | 24 | — | 25 | 1 | 1 |
| Construction | — | — | — | — | — | — |
| Commercial | — | — | — | — | — | — |
| Consumer | 3 | 3 | — | 3 | — | — |
| Loans with a specific allowance | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | — | — | — | — | — | — |
| Multi-family | — | — | — | — | — | — |
| Commercial | 3 | 3 | 3 | 3 | — | — |
| Home equity line of credit | — | — | — | — | — | — |
| Construction | — | — | — | — | — | — |
| Commercial | 9 | 9 | 9 | 9 | — | — |
| Consumer | — | — | — | — | — | — |
| Total: | | | | | | |
| Real estate loans: | | | | | | |
| One- to four-family | 1,535 | 1,535 | — | 1,545 | 16 | 17 |
| Multi-family | 1,207 | 1,207 | — | 1,211 | 21 | 21 |
| Commercial | 48 | 48 | 3 | 49 | — | — |
| Home equity line of credit | 24 | 24 | — | 25 | 1 | 1 |
| Construction | — | — | — | — | — | — |
| Commercial | 9 | 9 | 9 | 9 | — | — |
| Consumer | 3 | 3 | — | 3 | — | — |
| | $ 2,826 | $ 2,826 | $ 12 | $ 2,842 | $ 38 | $ 39 |

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.

The following table presents the Company’s nonaccrual loans at September 30, 2019 and June 30, 2019:

| | September 30, 2019 | June 30, 2019 |
|---|---|---|
| Mortgages on real estate: | | |
| One- to four-family | $ 407 | $ 414 |
| Multi-family | — | — |
| Commercial | 16 | 18 |
| Home equity lines of credit | 19 | 20 |
| Construction loans | — | — |
| Commercial business loans | 55 | 60 |
| Consumer loans | 21 | 29 |
| Total | $ 518 | $ 541 |

At September 30, 2019 and June 30, 2019, 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, as of September 30, 2019 and June 30, 2019. With the exception of one one- to four-family residential loan for $3,000, all were performing according to the terms of the restructuring as of September 30, 2019, and with the exception of three one- to four-family

residential loans totaling $8,000, one home equity line of credit for $20,000, and one consumer loan for $2,000, all were performing according to the terms of restructuring as of June 30, 2019. As of September 30, 2019, all loans listed were on nonaccrual except for ten one- to four-family residential loans totaling $1.3 million, and one home equity line of credit for $1,000. All loans listed as of June 30, 2019 were on nonaccrual except for ten one- to four-family residential loans totaling $1.3 million, and one home equity line of credit for $1,000.

| | September 30, 2019 | June 30, 2019 |
|---|---|---|
| Real estate loans | | |
| One- to four-family | $ 1,456 | $ 1,475 |
| Multi-family | — | — |
| Commercial | 4 | 6 |
| Home equity lines of credit | 19 | 22 |
| Total real estate loans | 1,479 | 1,503 |
| Construction loans | — | — |
| Commercial business loans | — | — |
| Consumer loans | 2 | 2 |
| Total | $ 1,481 | $ 1,505 |

**Modifications**

During the three month period ended September 30, 2019, no loans were modified.

During the year ended June 30, 2019, the Company modified one one- to four-family loan in the amount of $159,000.

During the three month period ended September 30, 2018, no loans were modified.

**TDR's with Defaults**

The Company had two TDRs, both one- to four-family residential loans totaling $136,000 that were in default as of September 30, 2019, and were restructured in prior periods. No loans were in foreclosure at September 30, 2019. The Company had six TDRs, four one- to four-family residential loans for $144,000, one home equity line of credit for $20,000, and one consumer loan for $2,000 that were in default as of June 30, 2019, and were restructured in prior years. No restructured loans were in foreclosure at June 30, 2019. 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 economic environment and 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 September 30, 2019, the carrying value of foreclosed residential real estate properties as a result of obtaining physical possession was $361,000. In addition, as of September 30, 2019, we had residential mortgage loans and home equity loans with a carrying value of $246,000 collateralized by residential real estate property for which formal foreclosure proceedings were in process.

Table of Contents

**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 $1,215,000 and $1,174,000 of Federal Home Loan Bank stock as of September 30, 2019 and June 30, 2019. The FHLB provides liquidity and funding through advances.

**Note 8: Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

| | September 30, 2019 | June 30, 2019 |
|---|---|---|
| Net unrealized gains on securities available-for-sale | $ 2,598 | $ 1,386 |
| Net unrealized postretirement health benefit plan obligations | (591) | (596) |
| | 2,007 | 790 |
| Tax effect | (572) | (225) |
| Total | $ 1,435 | $ 565 |

**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 quarters ended September 30, 2019 and 2018, were as follows:

| | Amounts Reclassified from AOCI | | |
|---|---|---|---|
| | 2019 | 2018 | Affected Line Item in the Condensed Consolidated Statements of Income |
| Realized gains on available-for-sale securities | $ 1 | $ — | 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 |
| Transition obligation | $ — | $ — | |
| Actuarial losses | $ 5 | $ 3 | |
| Prior service costs | $ — | $ — | |
| Total reclassified amount before tax | 6 | 3 | |
| Tax expense (benefit) | 2 | 1 | Provision for Income Tax |
| Total reclassification out of AOCI | $ 4 | $ 2 | 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 September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Computed at the statutory rate | $ 318 | $ 269 |
| Decrease resulting from | | |
| Tax exempt interest | (6) | (7) |
| Cash surrender value of life insurance | (14) | (14) |
| State income taxes | 110 | 86 |
| Other | 7 | 11 |
| Actual expense | $ 415 | $ 345 |

**Note 11: Regulatory Capital**

The Association is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that if undertaken, could have a direct material effect on the Association’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines involving quantitative measures of the Association’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Association’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

The Basel III regulatory capital framework (the “Basel III Capital Rules”) adopted by U.S. federal regulatory authorities, among other things, (i) establish the capital measure called “Common Equity Tier 1” (“CET1”), (ii) specify that Tier 1 capital consist of CET1 and “Additional Tier 1 Capital” instruments meeting stated requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) set forth the acceptable scope of deductions/adjustments to the specified capital measures. The Basel III Capital Rules became effective for us on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019.

Additionally, the Basel III Capital Rules require that we maintain a capital conservation buffer with respect to each of the CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. The capital conservation buffer was phased in and became fully phased in on January 1, 2019 at 2.5%. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and Tier 1 capital to adjusted total assets. Management believes, as of September 30, 2019, the Association meets all capital adequacy requirements to which it is subject.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Economic Growth Act”), the federal banking agencies are required to develop a “Community Bank Leverage Ratio” (the ratio of a bank’s tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A “qualifying community bank” that exceeds this ratio will be deemed to be in compliance with all other capital and leverage

requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The Economic Growth Act requires that federal banking agencies set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%, and the agencies have issued a final rule setting the ratio at 9%. A financial institution can elect to be subject to this new definition.

As of September 30, 2019, the Association was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Association has to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios. There are no conditions or events that management believes have changed the Association's prompt corrective action category.

**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

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 September 30, 2019 and June 30, 2019:

| | | 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) |
| September 30, 2019: | | | | |
| Available-for-sale securities: | | | | |
| U.S. Government and federal agency and Government sponsored enterprises (GSE's) | $ 11,090 | $ — | $ 11,090 | $ — |
| Mortgage-backed: GSE residential | 129,464 | — | 129,464 | — |
| Small Business Administration | 4,513 | — | 4,513 | — |
| State and political subdivisions | 2,908 | — | 2,908 | — |
| Mortgage servicing rights | 836 | — | — | 836 |

| | Fair Value | 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, 2019: | | | | |
| Available-for-sale securities: | | | | |
| U.S. Government and federal agency and Government sponsored enterprises (GSE's) | $ 12,950 | $ — | $ 12,950 | $ — |
| Mortgage-backed: GSE residential | 125,510 | — | 125,510 | — |
| Small Business Administration | 4,935 | — | 4,935 | — |
| State and political subdivisions | 2,896 | — | 2,896 | — |
| Mortgage servicing rights | 853 | — | — | 853 |

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 September 30, 2019. 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 September 30, 2018 or June 30, 2018. 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 September 30, 2019 or June 30, 2019.

**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, 2019 | $ 853 |
| Total realized and unrealized gains and losses included in net income | (43) |
| Servicing rights that result from asset transfers | 53 |
| Payments received and loans refinanced | (27) |
| Balance, September 30, 2019 | $ 836 |
| 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 | $ (43) |

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.

**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 September 30, 2019 and June 30, 2019:

| | | 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) |
| September 30, 2019: | | | | |
| Impaired loans (collateral-dependent) | $ — | $ — | $ — | $ — |
| Foreclosed assets | $ — | $ — | $ — | $ — |
| June 30, 2019: | | | | |
| Impaired loans (collateral-dependent) | $ 33 | $ — | $ — | $ 33 |
| Foreclosed assets | $ 512 | $ — | $ — | $ 512 |

The following table presents (losses)/recoveries recognized on assets measured on a non-recurring basis for the three months ended September 30, 2018 and 2017:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Impaired loans (collateral-dependent) | $ 2 | $ (8) |

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.

**Unobservable (Level 3) Inputs**

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at September 30, 2019 and June 30, 2019.

| | Fair Value at September 30, 2019 | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Mortgage servicing rights | $ 836 | Discounted cash flow | Discount rate | 9.5% - 11.5% (9.5%) |
| | | | Constant prepayment rate | 9.2% - 11.1% (10.3%) |
| | | | Probability of default | 0.05% - 0.12% (0.11%) |

| | Fair Value at June 30, 2019 | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Mortgage servicing rights | $ 853 | Discounted cash flow | Discount rate | 9.5% - 11.5% (9.5%) |
| | | | Constant prepayment rate | 8.3% - 11.0% (9.0%) |
| | | | Probability of default | 0.05% - 0.12% (0.11%) |
| Impaired loans (collateral dependent) | 33 | Market comparable properties | Marketability discount | 11.1% (11.1%) |
| Foreclosed assets | 512 | Market comparable properties | Comparability adjustments (%) | 7.8% (7.8%) |

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 September 30, 2019 and June 30, 2019.

| | 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) |
|---|---|---|---|---|
| September 30, 2019: | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | $ 9,376 | $ 9,376 | $ — | $ — |
| Interest-bearing time deposits in banks | 3,000 | 3,000 | — | — |
| Loans, net of allowance for loan losses | 490,966 | — | — | 486,413 |
| Federal Home Loan Bank stock | 1,215 | — | 1,215 | — |
| Accrued interest receivable | 2,386 | — | 2,386 | — |
| Financial liabilities | | | | |
| Deposits | 556,477 | — | 232,385 | 325,835 |
| Repurchase agreements | 3,102 | — | 3,102 | — |
| Federal Home Loan Bank advances | 27,000 | — | 27,484 | — |
| Advances from borrowers for taxes and insurance | 847 | — | 847 | — |
| Accrued interest payable | 1,190 | — | 1,190 | — |
| Unrecognized financial instruments (net of contract amount) | — | — | — | — |
| Commitments to originate loans | — | — | — | — |
| Lines of credit | — | — | — | — |

| | 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, 2019: | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | $ 59,600 | $ 59,600 | $ — | $ — |
| Interest-bearing time deposits in banks | 3,000 | 3,000 | — | — |
| Loans, net of allowance for loan losses | 487,774 | — | — | 480,479 |
| Federal Home Loan Bank stock | 1,174 | — | 1,174 | — |
| Accrued interest receivable | 2,142 | — | 2,142 | — |
| Financial liabilities | | | | |
| Deposits | 607,023 | — | 276,738 | 331,865 |
| Repurchase agreements | 2,015 | — | 2,015 | — |
| Federal Home Loan Bank advances | 24,000 | — | 24,419 | — |
| Advances from borrowers for taxes and insurance | 747 | — | 747 | — |
| Accrued interest payable | 801 | — | 801 | — |
| Unrecognized financial instruments (net of contract amount) | | | | |
| Commitments to originate loans | — | — | — | — |
| Lines of credit | — | — | — | — |

In accordance with the Company’s adoption of ASU 2016-01 as of July 1, 2018, the methods utilized to measure the fair value of financial instruments at September 30, 2019, represent an approximation of exit price; however, an actual exit price may differ.

**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.

[Table of Contents](#)

**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.

[Table of Contents](#)

## 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, 2019, 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. As of September 30, 2019, the Company repurchased 1,640,784 shares of common stock under stock repurchase plans.

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, Champaign, and Bourbonnais, Illinois and Osage Beach, Missouri. The principal activity of the Association's wholly-owned subsidiary, L.C.I. Service Corporation ("L.C.I."), 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 2.53% and 2.66% for the three months ended September 30, 2019 and 2018, respectively. Net interest income increased to $4.6 million, or $18.3 million on an annualized basis, for the three months ended September 30, 2019 from $4.5 million, or $17.8 million on an annualized basis, for the three months ended September 30, 2018.

Our emphasis on conservative loan underwriting has historically resulted in relatively low levels of non-performing assets. Our non-performing loans totaled $969,000 or 0.2% of total loans at September 30, 2019, and $767,000, or 0.2% of total loans at June 30, 2019. Our non-performing assets totaled $1.6 million or 0.2% of total assets at September 30, 2019, and $1.5 million, or 0.2% of total assets at June 30, 2019.

At September 30, 2019, the Association was categorized as "well capitalized" under federal regulations.

Our net income for the three months ended September 30, 2019 was $1.1 million, compared to a net income of $934,000 for the three months ended September 30, 2018. The increase in net income was due to an increase in net interest income, a decrease in noninterest expense, and a decrease in provision for loan losses, partially offset by a decrease in noninterest income.

Management's discussion and analysis of the financial condition and results of operations at and for three months ended September 30, 2019 and 2018 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 the fiscal year ended June 30, 2019.

**Comparison of Financial Condition at September 30 and June 30, 2019**

Total assets decreased $45.7 million, or 6.3%, to $678.2 million at September 30, 2019 from $723.9 million at June 30, 2019. The decrease was primarily due to a $50.0 million decrease in cash and cash equivalents, partially offset by a $3.2 million increase in net loans, and a $1.7 million increase in investment securities. The decrease in assets was due to the expected withdrawal of deposits by one public entity, as discussed below.

Net loans receivable, including loans held for sale, increased by $3.2 million, or 0.7%, to $491.0 million at September 30, 2019, from $487.8 million at June 30, 2019. The increase in net loans receivable during this period was due primarily to a $3.1 million, or 2.2%, increase in commercial real estate loans, a $1.2 million, or 7.2%, increase in construction loans, an $885,000, or 0.8%, increase in multi-family loans, a $579,000, or 0.7%, increase in commercial business loans, and a $578,000, or 8.1%, increase in consumer loans, partially offset by a $3.1 million, or 2.4%, decrease in one- to four-family residential mortgage loans and a $41,000, or 0.5%, decrease in home equity lines of credit.

Investment securities, consisting entirely of available-for-sale securities, increased $1.7 million, or 1.2%, to $148.0 million at September 30, 2019, from $146.3 million at June 30, 2019. We had no securities held to maturity at September 30, 2019 or June 30, 2019.

Compared to June 30, 2019, as of September 30, 2019, accrued interest receivable increased $244,000 to $2.4 million, other assets increased $296,000 to $710,000, Federal Home Loan Bank (FHLB) stock increased $41,000 to $1.2 million, and bank-owned life insurance increased $70,000 to $9.1 million, while premises and equipment decreased $69,000 to $10.6 million, foreclosed assets held for sale decreased $194,000 to $584,000, and deferred income taxes decreased $689,000 to $1.4 million. The increase in accrued interest receivable was due to increases in the average balances of both loans and securities and the increase in other assets resulted from a higher accounts receivable at September 30, 2019. The increase FHLB stock was the result of a higher stock requirement due to an increase in FHLB advances, and the increase in bank-owned life insurance was the result of regular accruals of the cash surrender value. The decrease in premises and equipment was primarily due to an increase in accumulated depreciation. The decrease in foreclosed assets held for sale was due to the sale of property, and the decrease in deferred income taxes was mostly due to an increase in unrealized gains on the sale of available-for-sale securities.

At September 30, 2019, our investment in bank-owned life insurance was $9.1 million, an increase of $70,000 from $9.1 million at June 30, 2019. 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 totaled $20.7 million at September 30, 2019.

Deposits decreased $50.5 million, or 8.3%, to $556.5 million at September 30, 2019 from $607.0 million at June 30, 2019. Certificates of deposit, excluding brokered certificates of deposit, increased $808,000, or 0.3%, to $291.6 million, brokered certificates of deposit decreased $7.0 million, or 17.7%, to $32.5 million, savings, NOW, and money market accounts increased $2.6 million, or 1.3%, to $198.9 million, while noninterest bearing demand accounts decreased $47.0 million, or 58.4%, to $33.5 million. The large decrease in noninterest bearing demand accounts was due to approximately $55.3 million in deposits from a public entity that collects real estate taxes that was on deposit at June 30, 2019 and withdrawn in the three months ended September 30, 2019, when tax monies were distributed. Repurchase agreements increased $1.1 million, or 53.9%, to $3.1 million at September 30, 2019 from $2.0 million at June 30, 2019. Borrowings consisted of advances from the Federal Home Loan Bank of Chicago and a line of credit from CIBC Bank USA. The FHLB advances increased $3.0 million, or 12.5%, to $27.0 million at September 30, 2019 from $24.0 million at June 30, 2019. The first draw on the line of credit occurred during the three months ended September 30, 2019, so the balance increased to $5.0 million as of September 30, 2019 from zero at June 30, 2019.

Advances from borrowers for taxes and insurance increased $100,000, or 13.4%, to $847,000 at September 30, 2019 from $747,000 at June 30, 2019, while accrued interest payable increased $389,000, or 48.6%, to $1.2 million at September 30, 2019 from $801,000 at June 30, 2019. The increase in advances from borrowers for taxes and insurance was attributable to the timing of the payment of real estate taxes and insurance, while the increase in accrued interest payable was mostly due to an increase in average balances and rates on deposits.

Total equity decreased $5.2 million, or 6.3%, to $77.3 million at September 30, 2019 from $82.5 million at June 30, 2019. Equity decreased due to a repurchase of 304,181 shares of common stock at an aggregate cost of approximately $6.8 million, and by dividends payable of $521,000, partially offset by net income of $1.1 million, an increase of $870,000 in accumulated other comprehensive income, net of tax, and ESOP and stock equity plan activity of $160,000. The Company announced a stock repurchase plan on June 12, 2019, whereby the Company could repurchase up to 89,526 shares of its common stock, or approximately 2.5% of the then current outstanding shares. There were 20,200 shares of the Company's common stock repurchased by the Company under this plan prior to September 13, 2019, when the Company announced an increase in the number of shares that may be repurchased under the Company's existing stock repurchase plan to 320,476 shares, or approximately 9.0% of its then outstanding shares. As of September 30, 2019, there were 286,781 shares repurchased by the Company under this plan and there were 33,695 shares yet to be repurchased under this plan.

**Comparison of Operating Results for the Three Months Ended September 30, 2019 and 2018**

***General.*** Net income increased $166,000 to $1.1 million net income for the three months ended September 30, 2019 from $934,000 net income for the three months ended September 30, 2018. The increase was primarily due to an increase in net interest income, a decrease in noninterest expense, and a decrease in provision for loan losses, partially offset by a decrease in noninterest income and an increase in provision for income taxes.

***Net Interest Income.*** Net interest income increased by $124,000, or 2.8%, to $4.6 million for the three months ended September 30, 2019 from $4.5 million for the three months ended September 30, 2018. The increase was due to an increase of $589,000 in interest income, partially offset by an increase of $465,000 in interest expense. A $30.0 million, or 4.8%, increase in the average balance of interest earning assets was partially offset by a $12.9 million, or 2.4%, increase in the average balance of interest bearing liabilities. Our net interest margin decreased by 6 basis points to 2.79% for the three months ended September 30, 2019 compared to 2.85% for the three months ended September 30, 2018, while our interest rate spread decreased by 13 basis points to 2.53% for the three months ended September 30, 2019 compared to 2.66% for the three months ended September 30, 2018.

***Interest Income.*** Interest income increased $589,000 or 9.2%, to $7.0 million for the three months ended September 30, 2019 from $6.4 million for the three months ended September 30, 2018. The increase in interest income was primarily due to a $392,000 increase in interest income on loans, an $89,000 increase in interest income on securities, and a $108,000 increase in other interest income. The increase in interest income on loans resulted from an $8.3 million, or 1.7%, increase in the average balance of loans to $495.9 million for the three months ended September 30, 2019, from $487.7 million for the three months ended September 30, 2018, and a 24 basis point, or 5.3%, increase in the average yield on loans to 4.76% for the three months ended September 30, 2019, from 4.52% for the three months ended September 30, 2018. Interest on securities increased $89,000, or 10.4%, as a result of a $13.8 million, or 10.5%, increase in the average balance of securities, to $144.7 million for the three months ended September 30, 2019, from $130.9 million for the three months ended September 30, 2018, partially offset by a 1 basis point, or 0.4%, decrease in the average yield on securities to 2.62% for the three months ended September 30, 2019 from 2.63% for the three months ended September 30, 2018.

***Interest Expense.*** Interest expense increased $465,000, or 23.8%, to $2.4 million for the three months ended September 30, 2019, from $2.0 million for the three months ended September 30, 2018. The increase was due to increases in the average cost of both deposits and borrowings, and an increase in the average balance of deposits, partially offset by a decrease in the average balance of borrowings.

Interest expense on interest-bearing deposits increased by $744,000, or 48.3%, to $2.3 million for the three months ended September 30, 2019 from $1.5 million for the three months ended September 30, 2018. This increase was due to a $63.6 million, or 13.7% increase in the average balance of interest bearing deposits to $528.5 million for the three months ended September 30, 2019 from $464.9 million for the three months ended September 30, 2018, and a 41 basis point, or 31.0%, increase in the average cost of interest bearing deposits to 1.73% for the three months ended September 2019, from 1.32% for the three months ended September 30, 2018.

Interest expense on borrowings, including FHLB advances and a line of credit from CIBC Bank USA, and repurchase agreements, decreased $279,000, or 66.7%, to $139,000 for the three months ended September 30, 2019 from $418,000 for the three months ended September 30, 2018. This decrease was due to a decrease in the average balance of borrowings to $27.0 million for the three months ended September 30, 2019 from $77.7 million for the three months ended September 30, 2018 and a 9 basis point decrease in the average cost of such borrowings to 2.06% for the three months ended September 30, 2019 from 2.15% for the three months ended September 30, 2018.

***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 potential credit losses inherent in our loan portfolio. We recorded a provision for loan losses of $(54,000) for the three months ended September 30, 2019, compared to a provision for loan losses of $237,000 for the three months ended September 30, 2018. The allowance for loan losses was $6.3 million, or 1.26% of total loans, at September 30, 2019, compared to $6.2 million, or 1.26% of total loans, at September 30, 2018 and $6.3 million, or 1.28% of total loans, at June 30, 2019. During the three months ended September 30, 2019, a net recovery of $3,000 was recorded, while during the three months ended September 30, 2018, a net charge-off of $1,000 was recorded.

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

| | Three Months Ended September 30, 2019 | Year Ended June 30, 2019 |
|---|---|---|
| Allowance to non-performing loans | 647.78% | 825.03% |
| Allowance to total loans outstanding at the end of the period | 1.26% | 1.28% |
| Net charge-offs (recoveries) to average total loans outstanding during the period, annualized | 0.00% | 0.01% |
| Total non-performing loans to total loans | 0.20% | 0.16% |
| Total non-performing assets to total assets | 0.23% | 0.21% |

***Noninterest Income.*** Noninterest income decreased $212,000, or 16.6%, to $1.1 million for the three months ended September 30, 2019 from $1.3 million for the three months ended September 30, 2018. The decrease was primarily due to a decrease in gain on foreclosed assets, a decrease in brokerage commissions, a decrease in mortgage banking income, net, a decrease in insurance commissions and a decrease in other service charges and fees, partially offset by an increase in gain on sale of loans. For the three months ended September 30, 2019, gain on foreclosed assets decreased $122,000 to $(2,000), brokerage commissions decreased $41,000 to $235,000, mortgage banking income, net decreased $41,000 to $45,000, insurance commissions decreased $21,000 to $162,000, and other service charges and fees decreased $23,000 to $65,000, while gain on sale of loans increased $47,000 to $140,000 from the three months ended September 30, 2018. The decrease in the gain on foreclosed assets in the three months ended September 30, 2019 was mostly due to the sale of 15 properties at a net profit in the three months ended September 30, 2018. The decrease in brokerage commissions reflects decreased activity in the three months ended September 30, 2019, and the decrease in mortgage banking income, net, was a result of a lower valuation of mortgage servicing rights in the three months ended September 2019 than in the three months ended September 30, 2018. The decrease in insurance commissions was due to lower commissions earned and the decrease in other service charges and fees were due to a decrease in the number of fees charged in the three months ended September 30, 2019. The increase in the gain on sale of loans was the result of earning higher agent fees on loans sold to the FHLBC through the Mortgage Partnership Finance program in the three months ended September 30, 2019.

***Noninterest Expense.*** Noninterest expense decreased $33,000, or 0.8%, and was $4.2 million for both the three months ended September 30, 2019 and 2018. The largest components of this decrease were other expenses, which decreased $259,000, or 41.4%, deposit insurance premium, which decreased $15,000, or 34.9%, advertising, which decreased $21,000, or 14.8%, and telephone and postage, which decreased $17,000, or 25.4%. These decreases were partially offset by increases in compensation and benefits, which increased $162,000, or 6.5%, office occupancy, which increased $44,000, or 20.9%, equipment expense, which increased $55,000, or 16.6%, and audit and accounting, which increased $29,000, or 72.5%. Other expenses decreased due to expenses related to the foreclosed assets held for sale during the three months ended September 30, 2018. The deposit insurance premium decreased as a result of receiving an FDIC small bank assessment credit in the three months ended September 30, 2019. Advertising and telephone and postage decreased due to extra expenses in the three months ended September 30, 2018 as a result of the addition of the new office in Champaign. Compensation and benefits increased due to staffing changes, normal salary increases and increased medical costs. Office occupancy and equipment expense increased as a result of the addition of the new Champaign office. The increase in audit and accounting was due to a slight change in the timing of the audit billing process.

***Income Tax Expense***. We recorded a provision for income tax of $415,000 for the three months ended September 30, 2019, compared to a provision for income tax of $345,000 for the three months ended September 30, 2018, reflecting effective tax rates of 27.4% and 27.0%, respectively.

**Asset Quality**

At September 30, 2019, our non-accrual loans totaled $518,000, including $407,000 in one- to four-family loans, $16,000 in commercial real estate loans, $19,000 in home equity lines of credit, $55,000 in commercial business loans and $21,000 in consumer loans.

At September 30, 2019 we had five one- to four-family residential mortgage loans totaling $313,000 and one commercial business loan for $138,000 that were delinquent 90 days or greater and still accruing interest.

At September 30, 2019, loans classified as substandard equaled $3.5 million. Loans classified as substandard consisted of $2.0 million in one- to four-family loans, $156,000 in multi-family loans, $246,000 in commercial real estate loans, $19,000 in home equity lines of credit, $1.1 million in commercial business loans and $15,000 in consumer loans, while doubtful assets consisted of $7,000 in consumer loans. No loans were classified as loss at September 30, 2019.

At September 30, 2019, watch assets consisted of $1.1 million in commercial real estate loans, $71,000 in home equity lines of credit, and $1.5 million in commercial business loans.

***Troubled Debt Restructurings.*** 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 September 30, 2019 and June 30, 2019, we had $1.5 million of troubled debt restructurings. At September 30, 2019 our troubled debt restructurings consisted of $1.5 million in one- to four-family residential mortgage loans, $4,000 in commercial real estate loans, $19,000 in home equity lines of credit, and $2,000 in consumer loans.

***Foreclosed Assets.*** At September 30 2019, we had $584,000 in foreclosed assets compared to $778,000 as of June 30, 2019. Foreclosed assets at September 30, 2019 consisted of $361,000 in residential real estate properties, $219,000 in commercial non-occupied property, $3,000 in business assets, and $1,000 in automobiles, while foreclosed assets at June 30, 2019, consisted of $539,000 in residential real estate properties, $219,000 in commercial non-occupied property, and $20,000 in business assets.

**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 three-month periods ended September 30, 2019 and 2018:

| | Three months ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Balance, beginning of period | $ 6,328 | $ 5,945 |
| Loans charged off: | | |
| Real estate loans: | | |
| One- to four-family | — | — |
| Multi-family | — | — |
| Commercial | — | — |
| HELOC | — | — |
| Construction | — | — |
| Commercial business | — | — |
| Consumer | (15) | (2) |
| Gross charged off loans | (15) | (2) |
| Recoveries of loans previously charged off: | | |
| Real estate loans: | | |
| One- to four-family | 3 | — |
| Multi-family | — | — |
| Commercial | — | — |
| HELOC | — | — |
| Construction | — | — |
| Commercial business | 14 | — |
| Consumer | 1 | 1 |
| Gross recoveries of charged off loans | 18 | 1 |
| Net charge-offs | 3 | (1) |
| Provision charged to expense | (54) | 237 |
| Balance, end of period | $ 6,277 | $ 6,181 |

Table of Contents

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 decreased $51,000 to $6.3 million at September 30, 2019, from $6.3 million at June 30, 2019. The decrease was primarily the result of a decrease in risk associated with outstanding loans, and was necessary in order to bring the allowance for loan losses to a level that reflects management's estimate of the potential loss in the Company's loan portfolio at September 30, 2019.

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 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. 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 September 30 and June 30, 2019:

| Portfolio segment | September 30, 2019 Net charge-offs – 12 quarter weighted historical | June 30, 2019 Net charge-offs – 12 quarter weighted historical |
|---|---|---|
| Real Estate: | | |
| One- to four-family | 0.38% | 0.38% |
| Multi-family | 0.00% | 0.00% |
| Commercial | 0.00% | 0.00% |
| HELOC | 0.17% | 0.17% |
| Construction | 0.00% | 0.00% |
| Commercial business | 0.00% | 0.01% |
| Consumer | 0.07% | 0.02% |
| Entire portfolio total | 0.12% | 0.12% |

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 based on Management's judgment.

Table of Contents

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 September 30, 2019 | Qualitative factor applied at June 30, 2019 |
|---|---|---|
| Real Estate: | | |
| One- to four-family | 0.40% | 0.42% |
| Multi-family | 1.52% | 1.57% |
| Commercial | 1.18% | 1.18% |
| HELOC | 0.83% | 0.83% |
| Construction | 1.18% | 1.32% |
| Commercial business | 1.96% | 1.96% |
| Consumer | 0.72% | 0.75% |
| Entire portfolio total | 1.15% | 1.16% |

At September 30, 2019, the amount of our allowance for loan losses attributable to these qualitative factors was approximately $5.7 million, as compared to $5.7 million at June 30, 2019. The general decrease in qualitative factors was attributable primarily to a change in the loan portfolio mix which resulted in higher balances in loans with slightly lower qualitative factors at September 30, 2019.

While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio, the potential changes in market conditions, our level of nonperforming assets and resulting charges-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 September 30, 2019 and the year ended June 30, 2019, our liquidity ratio averaged 23.0% and 21.4% 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 September 30, 2019.

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 September 30, 2019, cash and cash equivalents totaled $8.0 million. Interest-earning time deposits which can offer additional sources of liquidity, totaled $3.0 million at September 30, 2019.

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 was $1.9 million and $6,000 for the three months ended September 30, 2019 and 2018, respectively. Net cash

Table of Contents

used in investing activities consisted primarily of proceeds from the sales, maturities, pay downs of available-for-sale securities, partially offset by disbursements for loan originations and the purchase of securities. Net cash used in investing activities was $(3.9) million and $(15.5) million for the three months ended September 30, 2019 and 2018, respectively. Net cash provided by (used in) financing activities consisted primarily of the activity in deposit accounts, FHLB advances and other borrowings. The net cash provided by (used in) financing activities was $(48.1) million and $17.8 million for the three months ended September 30, 2019 and 2018, 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 September 30, 2019 and June 30, 2019.

| | September 30, 2019 | June 30, 2019 |
|---|---|---|
| | (Dollars in thousands) | |
| Commitments to fund loans | $ 17,739 | $ 5,430 |
| Lines of credit | 47,575 | 50,796 |

At September 30, 2019, certificates of deposit due within one year of September 30, 2019 totaled $220.6 million, or 39.6% of total deposits. Depending on market conditions, we may be required to pay higher rates on such deposits, our line of credit or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2020. 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 $27.0 million at September 30, 2019. At September 30, 2019, we had the ability to borrow up to an additional $148.4 million from the Federal Home Loan Bank of Chicago and also had the ability to borrow $23.9 million from the Federal Reserve based on current collateral pledged.

During the three months ended September 30, 2019, 304,181 shares were repurchased as part of the stock repurchase program that was announced by the Company on June 12, 2019, which allowed the Company to repurchase up to 89,526 shares of its common stock, or approximately 2.5% of the then current outstanding shares and expanded on September 13, 2019 to increase the number of shares that may be repurchased under the plan to 320,476 shares, or approximately 9.0% of its then 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 September 30, 2019, there were 33,695 shares yet to be repurchased under this plan.

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.

| | September 30, 2019 Actual | June 30, 2019 Actual | Minimum to Be Well Capitalized |
|---|---|---|---|
| Tier 1 capital to total assets | 11.2% | 11.0% | 5.0% |
| Common equity tier 1 to risk-weighted assets | 14.9% | 15.0% | 6.5% |
| Tier 1 capital to risk-weighted assets | 14.9% | 15.0% | 8.0% |
| Total capital to risk-weighted assets | 16.2% | 16.3% | 10.0% |

**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. 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.

| | For the Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Average Balance | Interest Income/ Expense | Yield/Cost | Average Balance | Interest Income/ Expense | Yield/Cost |
| | (Dollars in thousands) | | | | | |
| **Assets** | | | | | | |
| Loans | $ 495,900 | 5,897 | 4.76% | $ 487,650 | 5,505 | 4.52% |
| Securities: | | | | | | |
| U.S. Government and federal agency and Government sponsored enterprises (GSE's) | 15,371 | 104 | 2.71% | 28,696 | 176 | 2.45% |
| Mortgage-backed: GSE residential | 126,565 | 833 | 2.63% | 99,231 | 668 | 2.69% |
| State and political subdivisions | 2,725 | 12 | 1.76% | 2,980 | 16 | 2.15% |
| Total securities | 144,661 | 949 | 2.62% | 130,907 | 860 | 2.63% |
| Other | 15,923 | 162 | 4.07% | 7,958 | 54 | 2.71% |
| Total interest-earning assets | 656,484 | 7,008 | 4.27% | 626,515 | 6,419 | 4.10% |
| Non-interest earning assets | 26,350 | | | 23,186 | | |
| Total assets | $ 682,834 | | | $ 649,701 | | |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking or NOW | $ 56,703 | 49 | 0.35% | $ 47,459 | 31 | 0.26% |
| Savings accounts | 44,040 | 46 | 0.42% | 41,997 | 44 | 0.42% |

| | For the Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Average Balance | Interest Income/ Expense | Yield/Cost | Average Balance | Interest Income/ Expense | Yield/Cost |
| | | | (Dollars in thousands) | | | |
| Money market accounts | 102,827 | 341 | 1.33% | 100,778 | 315 | 1.25% |
| Certificates of deposit | 324,930 | 1,847 | 2.27% | 274,652 | 1,149 | 1.67% |
| Total interest-bearing deposits | 528,500 | 2,283 | 1.73% | 464,886 | 1,539 | 1.32% |
| Federal Home Loan Bank Advances and repurchase agreements | 26,982 | 139 | 2.06% | 77,735 | 418 | 2.15% |
| Total interest-bearing liabilities | 555,482 | 2,422 | 1.74% | 542,621 | 1,957 | 1.44% |
| Noninterest-bearing liabilities | 46,056 | | | 25,260 | | |
| Total liabilities | 601,538 | | | 567,881 | | |
| Stockholders' equity | 81,296 | | | 81,820 | | |
| Total liabilities and stockholders' equity | $682,834 | | | $649,701 | | |
| Net interest income | | $ 4,586 | | | $ 4,462 | |
| Interest rate spread (1) | | | 2.53% | | | 2.66% |
| Net interest margin (2) | | | 2.79% | | | 2.85% |
| Net interest-earning assets (3) | $101,002 | | | | $83,894 | |
| Average interest-earning assets to interest-bearing liabilities | 118% | | | | 115% | |

(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.

**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 September 30, 2019 vs. 2018 | | |
|---|---|---|---|
| | Increase (Decrease) Due to | | Total Increase (Decrease) |
| | Volume | Rate | |
| **Interest-earning assets:** | | | |
| Loans | $ 95 | $ 297 | $ 392 |
| Securities | 111 | (22) | 89 |
| Other | 72 | 36 | 108 |
| Total interest-earning assets | $ 278 | $ 311 | $ 589 |
| **Interest-bearing liabilities:** | | | |
| Interest-bearing checking or NOW | $ 6 | $ 12 | $ 18 |
| Savings accounts | 2 | — | 2 |
| Certificates of deposit | 236 | 462 | 698 |
| Money market accounts | 6 | 20 | 26 |
| Total interest-bearing deposits | 250 | 494 | 744 |
| Federal Home Loan Bank advances | (262) | (17) | (279) |
| Total interest-bearing liabilities | $ (12) | $ 477 | $ 465 |
| Change in net interest income | $ 290 | $ (166) | $ 124 |

**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 and Value at Risk. As of September 30, 2019, 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, 2019, 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 September 30, 2019. 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 September 30, 2019, 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, 2019, 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 regarding the Company's purchase of its common stock during the quarter ended September 30, 2019.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| 7/1/19 – 7/31/19 | 13,500 | $ 21.18 | 13,500 | 73,226 |
| 8/1/19 – 8/31/19 | 3,900 | 21.23 | 3,900 | 69,326 |
| 9/1/19 – 9/30/19 | 286,781 | 22.37 | 286,781 | 33,695 |
| Total | 304,181 | $ 22.30 | 304,181 | 33,695 |

(1) The Company announced a stock repurchase plan on June 12, 2019, whereby the Company could repurchase up to 89,526 shares of its common stock, or approximately 2.5% of the then current outstanding shares. There were 20,200 shares of the Company's common stock repurchased by the Company prior to September 13, 2019, when the Company announced an increase in the number of shares that may be repurchased under the Company's existing stock repurchase plan to 320,476 shares, or approximately 9.0% of its then outstanding shares. As of September 30, 2019, there were 286,781 shares repurchased by the Company and there were 33,695 shares yet to be repurchased under this plan.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

None.

### Item 5. Other Information

None.

**Item 6. Exhibits**

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 September 30 and June 30, 2019, (ii) the Condensed Consolidated Statements of Income for the three months ended September 30, 2019 and 2018, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended September 30, 2019 and 2018, (iv) the Condensed Consolidated Statements of Stockholders' Equity for the three months ended September 30, 2019 and 2018, (v) the Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2019 and 2018, 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: November 12, 2019

/s/ Walter H. Hasselbring III
Walter H. Hasselbring III
President and Chief Executive Officer

Date: November 12, 2019

/s/ Pamela J. Verkler
Pamela J. Verkler
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)



(Back To Top)

# Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

**Certification of Chief Executive Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Walter H. Hasselbring III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of IF Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 12, 2019

/s/ Walter H. Hasselbring III
Walter H. Hasselbring III

President and Chief Executive Officer

(Back To Top)

# Section 3: EX-31.2 (EX-31.2)

**Exhibit 31.2**

**Certification of Chief Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Pamela J. Verkler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of IF Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Pamela J. Verkler
Pamela J. Verkler
Senior Executive Vice President and
Chief Financial Officer

(Back To Top)

# Section 4: EX-32 (EX-32)

**Exhibit 32**

**Certification of Chief Executive Officer and Chief Financial Officer**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Walter H. Hasselbring III, President and Chief Executive Officer of IF Bancorp, Inc., (the "Company") and Pamela J. Verkler, Senior Executive Vice President and Chief Financial Officer of the Company, each certify in their capacity as an officer of the Company that they have reviewed the quarterly report on Form 10-Q for the quarter ended September 30, 2019 (the "Report") and that to the best of their knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

/s/ Walter H. Hasselbring III

Walter H. Hasselbring III
President and Chief Executive Officer

Date: November 12, 2019

/s/ Pamela J. Verkler

Pamela J. Verkler
Senior Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)