Section 1: 10-K (10-K)

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

FORM 10-K

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

For the fiscal year ended June 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 Number: 001-35226

IF BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**45-1834449** **(I.R.S. Employer Identification No.)**
201 East Cherry Street, Watseka, Illinois **(Address of principal executive offices)**	**60970** **(Zip Code)**

(815) 432-2476
(Registrant's telephone number, including area code)

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**	**The NASDAQ Stock Market, LLC**

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of December 31, 2018 was $53,353,934.

The number of shares outstanding of the registrant's common stock as of September 4, 2019 was 3,560,852.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on November 25, 2019 are incorporated by reference in Part III of this Form 10-K.

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This report contains certain "forward-looking statements" within the meaning of the federal securities laws. These statements are not historical facts; rather, they are statements based on IF Bancorp, Inc.'s current expectations regarding its business strategies, intended results and 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 which could affect actual results include interest rate trends, the general economic climate in the market area in which IF Bancorp, Inc. operates, as well as nationwide, IF Bancorp, Inc.'s ability to control costs and expenses, competitive products and pricing, loan delinquency rates and changes in federal and state legislation and regulation. For further discussion of factors that may affect the results, see "Item 1A. Risk Factors" in this Annual Report on Form 10-K ("Form 10-K"). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements.

PART I

ITEM 1. BUSINESS

General

IF Bancorp, Inc. ("IF Bancorp" or the "Company") is a Maryland corporation formed in March 2011 to become the holding company for Iroquois Federal Savings and Loan Association ("Iroquois Federal" or the "Association").

The Company is primarily engaged in the business of directing, planning, and coordinating the business activities of Iroquois Federal. The Company's most significant asset is its investment in Iroquois Federal. At June 30, 2019 and 2018, we had consolidated assets of $723.9 million and $638.9 million, consolidated deposits of $607.0 million and $480.4 million and consolidated equity of $82.5 million and $81.7 million, respectively.

Iroquois Federal is a federally chartered savings association headquartered in Watseka, Illinois. The Association's business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans, multi-family mortgage loans, commercial real estate loans (including farm loans), home equity lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land development loans. We also invest in securities, which historically have consisted primarily of securities issued by the U.S. government, U.S. government agencies and U.S. government-sponsored enterprises, as well as mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises. To a lesser extent, we also invest in municipal obligations.

We offer a variety of deposit accounts, including savings accounts, certificates of deposit, money market accounts, commercial and personal checking accounts, individual retirement accounts and health savings accounts. We also offer alternative delivery channels, including ATMs, online banking and bill pay, mobile banking with mobile deposit and bill pay, ACH origination, remote deposit capture and telephone banking.

In addition to our traditional banking products and services, we offer a full line of property and casualty insurance products through Iroquois Federal's wholly-owned subsidiary, L.C.I. Service Corporation, an insurance agency with offices in Watseka and Danville, Illinois. We also offer annuities, mutual funds, individual and group retirement plans, life, disability and health insurance, individual securities, managed accounts and other financial services at all of our locations through Iroquois Financial, a division of Iroquois Federal. Raymond James Financial Services, Inc. serves as the broker-dealer for Iroquois Financial.

Available Information

IF Bancorp's executive offices are located at 201 East Cherry Street, Watseka, Illinois 60970. Our telephone number at this address is (815) 432-2476, and our website address is www.iroquoisfed.com. Information on our website should not be considered a part of this annual report.

IF Bancorp, Inc. is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission ("SEC"). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov).

We make available free of charge through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

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Market Area

We conduct our operations from our seven full-service banking offices located in the municipalities of Watseka, Danville, Clifton, Hoopeston, Savoy, Bourbonnais and Champaign, Illinois and our loan production and wealth management office in Osage Beach, Missouri. Our primary lending market includes the Illinois counties of Vermilion, Iroquois, Champaign and Kankakee, as well as the adjacent counties in Illinois and Indiana within 30 miles of a branch or loan production office. Our loan production and wealth management office in Osage Beach, Missouri, serves the Missouri counties of Camden, Miller and Morgan.

In recent years, Iroquois and Vermilion Counties, our traditional primary market areas, have experienced negative growth, reflecting in part, the economic downturn. However, Champaign County, where our Savoy and Champaign branches are located, has experienced population growth. Future business and growth opportunities will be influenced by economic and demographic characteristics of our primary market area and of east central Illinois. According to data from the U.S. Census Bureau, Iroquois County had an estimated population of 28,000 in July 2018, a decrease of 7.1% since April 2010, Vermilion County had an estimated population of 77,000 in July 2018, a decrease of 5.9% since April 2010, and Kankakee County had an estimated population of 110,000 in July 2018, a decrease of 3.0% since April 2010, while Champaign County had an estimated population of 210,000 in July 2018, an increase of 4.4% since April 2010. Unemployment rates in our primary market have decreased over the last year. According to the Illinois Department of Employment Security, unemployment, on a non-seasonally adjusted basis, decreased from 3.8% to 3.4% in Iroquois County, from 6.0% to 4.7% in Vermilion County, from 4.7% to 3.8% in Champaign County, and from 4.9% to 4.3% in Kankakee County.

The economy in our primary market is fairly diversified. Employment in healthcare, manufacturing, and retail trade serve as the basis of the Vermilion County and Kankakee County economies, while education and healthcare are dominant in Champaign County. Agriculture and agriculture-related business, hospital and other healthcare providers, local schools, and retail businesses are major employers in Iroquois County.

Our Osage Beach, Missouri loan production and wealth management office is located in the Lake of the Ozarks region and serves the Missouri counties of Camden, Miller and Morgan. Once known primarily as a resort area, this market is becoming an area of permanent residences and a growing retirement community, providing an excellent market for mortgage loans and our wealth management and financial services business.

Competition

We face intense competition in our market area both in making loans and attracting deposits. We also compete with commercial banks, credit unions, savings institutions, mortgage brokerage firms, finance companies, mutual funds, insurance companies and investment banking firms. Some competitors in our newer markets have the natural advantage of greater name recognition and market presence, while we work to increase our market share in those markets.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices located in Iroquois and Vermilion Counties, Illinois. As of June 30, 2018, the latest date for which FDIC data is available, we ranked first of 12 bank and thrift institutions with offices in Iroquois County with a 25.01% deposit market share. As of the same date, we ranked first of 16 bank and thrift institutions with offices in Vermilion County with a 17.83% deposit market share, we ranked 21st of 31 bank and thrift institutions with offices in Champaign County, with a 0.67% deposit market share and we ranked 13th of 16 bank and thrift institutions with offices in Kankakee County, with a 1.01% deposit market share.

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Lending Activities

Our principal lending activity is the origination of one- to four-family residential mortgage loans, multi-family loans, commercial real estate loans (including farm loans), home equity loans and lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land development loans.

In addition to loans originated by Iroquois Federal, our loan portfolio includes loan purchases which are secured by single family homes located primarily in the Midwest. As of June 30, 2019 and 2018, the amount of such loans equaled $4.8 million and $5.9 million, respectively. See "—Loan Originations, Purchases, Sales, Participations and Servicing."

Our loan portfolio also includes commercial loan participations which are secured by both real estate and other business assets, primarily within 100 miles of our primary lending market. As of June 30, 2019 and 2018, the amount of such loans equaled $29.5 million and $32.9 million, respectively. See "—Loan Originations, Purchases, Sales, Participations and Servicing."

The Association's legal lending limit to any one borrower is 15% of unimpaired capital and surplus. On July 30, 2012 our bank received approval from the Comptroller of the Currency to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one borrower, or small farm loans or extensions of credit to one borrower, in the lesser of the following two amounts: (1) 10% of its capital and surplus; or (2) the percentage of capital and surplus, in excess of 15%, that a state bank is permitted to lend under the state lending limit that is available for loans secured by one- to four-family residential real estate, small business loans, small farm loans or unsecured loans in the state where the main office of the savings association is located. For our association this additional limit (or "supplemental limit(s)") for one- to four-family residential real estate, small business, or small farm loans is 10% of our Association's capital and surplus. In addition, the total outstanding amount of the Association's loans or extensions of credit or parts of loans and extensions of credit made to all of its borrowers under the SLLP may not exceed 100% of the Association's capital and surplus. By Association policy, participation of any credit facilities in the SLLP is to be infrequent and all credit facilities are to be with prior Board approval.

We originate a substantial portion of our fixed-rate one- to four-family residential mortgage loans for sale to the Federal Home Loan Bank of Chicago with servicing retained. Total loans sold under this program equaled approximately $99.0 million and $95.8 million as of June 30, 2019 and 2018, respectively. See "—One- to Four-Family Residential Real Estate Lending" below for more information regarding the origination of loans for sale to the Federal Home Loan Bank of Chicago.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, including loans held for sale, by type of loan at the dates indicated. Amounts shown for one- to four-family loans include loans held for sale of approximately $316,000, $206,000, $186,000, $0 and $93,000 at June 30, 2019, 2018, 2017 2016 and 2015, respectively.

	At June 30,									
	2019		2018		2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate loans:										
One- to four-family (1)	$129,290	26.19%	$134,977	27.99%	$140,647	31.47%	$149,538	33.29%	$144,887	40.18%
Multi-family	104,663	21.20	107,436	22.28	87,228	19.52	84,200	18.15	58,399	16.20
Commercial	143,367	29.04	140,944	29.22	133,841	29.94	119,643	26.64	103,614	28.74
Home equity lines of credit	8,938	1.81	9,058	1.88	7,520	1.68	8,138	1.81	7,713	2.14
Construction	16,113	3.26	13,763	2.85	7,421	1.66	19,698	4.39	471	0.13
Commercial	84,246	17.06	68,720	14.25	62,392	13.96	57,826	12.87	37,151	10.30
Consumer	7,136	1.44	7,366	1.53	7,905	1.77	10,086	2.25	8,325	2.31
Total loans	493,753	100.00%	482,264	100.00%	446,954	100.00%	449,129	100.00%	360,560	100.00%
Less:										
Unearned fees and discounts, net	(349)		(161)		(203)		30		155	
Allowance for loan losses	6,328		5,945		6,835		5,351		4,211	
Total loans, net	$487,774		$476,480		$440,322		$443,748		$356,194	

(1) Includes home equity loans.

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at June 30, 2019. We had no demand loans or loans having no stated repayment schedule or maturity at June 30, 2019.

	One- to four-family residential real estate (1)		Multi-family real estate		Commercial real estate		Home equity lines of credit	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years Ending June 30,								
2020	$ 7,619	5.44%	$ 7,367	4.36%	$ 17,728	4.33%	$ 450	5.35%
2021	4,814	4.97	24,556	3.82	25,917	4.18	685	4.75
2022 to 2023	16,997	4.87	52,506	4.37	57,803	4.77	1,719	4.76
2024 to 2028	21,579	5.21	20,027	4.76	37,099	4.94	1,401	5.69
2029 to 2033	8,646	4.90	143	6.50	1,646	4.80	3,716	5.16
2034 and beyond	69,635	4.38	64	6.13	3,174	5.11	967	4.44
Total	$ 129,290	4.70%	$104,663	4.32%	$143,367	4.66%	$ 8,938	5.07%

	Construction		Commercial		Consumer		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due During the Years Ending June 30,								
2020	$ 2,606	5.47%	$ 60,246	5.82%	$ 634	5.32%	$ 96,650	5.39%
2021	7,641	6.00	4,543	5.03	1,489	5.83	69,645	4.40
2022 to 2023	4,382	5.61	7,630	5.61	2,933	5.78	143,970	4.73
2024 to 2028	808	5.58	10,679	5.03	2,080	4.50	93,673	4.98
2029 to 2033	—	—	1,111	4.18	—	—	15,262	4.92
2034 and beyond	676	5.33	37	5.50	—	—	74,553	4.42
Total	$ 16,113	5.76%	$ 84,246	5.63%	$ 7,136	5.38%	$493,753	4.82%

(1) Includes home equity loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at June 30, 2019 that are contractually due after June 30, 2020.

	Due After June 30, 2020		
	Fixed	Adjustable	Total
	(In thousands)		
Real estate loans:			
One- to four-family (1)	$ 51,132	$ 70,539	$121,671
Multi-family	93,648	3,648	97,296
Commercial	108,758	16,881	125,639
Home equity lines of credit	3,335	5,153	8,488
Construction	5,190	8,317	13,507
Commercial	22,002	1,998	24,000
Consumer	6,502	—	6,502
Total loans	$290,567	$ 106,536	$397,103

(1) Includes home equity loans.

One- to Four-Family Residential Mortgage Loans. At June 30, 2019, $129.3 million, or 26.2% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. We generally underwrite our one- to four-family residential mortgage loans based on the applicant's employment and credit history and the appraised value of the subject property. We also offer loans through various agency programs, such as the Mortgage Partnership Finance Program of the Federal Home Loan Bank of Chicago, which are originated for sale.

We currently offer fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments. We also offer adjustable-rate mortgage loans that generally provide an initial fixed interest rate of five to seven years and annual interest rate adjustments thereafter. Our adjustable rate mortgage loans amortize over a period of up to 30 years. We offer one- to four-family residential mortgage loans with loan-to-value ratios up to 102%. Private mortgage insurance or participation in a government sponsored program is required for all one- to four-family residential mortgage loans with loan-to-value ratios exceeding 90%. One- to four-family residential mortgage loans with loan-to-value ratios above 80%, but below 90%, require private mortgage insurance unless waived by management. At June 30, 2019, fixed-rate one- to four-family residential mortgage loans totaled $58.0 million, or 44.8% of our one- to four-family residential mortgage loans, and adjustable-rate one- to four-family residential mortgage loans totaled $71.3 million, or 55.2% of our one- to four-family residential mortgage loans.

Our one- to four-family residential mortgage loans are generally conforming loans. We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency for Fannie Mae and Freddie Mac, which for our primary market area is currently $484,350 for single-family homes. At June 30, 2019, our average one- to four-family residential mortgage loan had a principal balance of $83,000. We also originate loans above the lending limit for conforming loans, which we refer to as "jumbo loans." At June 30, 2019, $22.0 million, or 17.0%, of our total one- to four-family residential loans had principal balances in excess of $484,350. Most of our jumbo loans are originated with a seven-year fixed-rate term and an annual adjustable rate thereafter, with up to a 30 year amortization schedule. Occasionally we will originate fixed-rate jumbo loans with terms of up to 15 years.

We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgage loans. In recent years there has been increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, we have sold a substantial majority of our fixed-rate one- to four-family residential mortgage loans with terms of 15 years or greater. We sell fixed-rate residential mortgages to the Federal Home Loan Bank of Chicago, with servicing retained, under its Mortgage Partnership Finance Program. Since December 2008, we have sold loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program. Total mortgages sold under this program were approximately $3.4 million and $3.6 million for the years ended June 30, 2019 and 2018, respectively. In October 2015, we began to also sell loans to FHLBC under its Mortgage Partnership Finance Original Program. Total loans sold under this program were approximately $13.7 million and $14.3 million for the years ended June 30, 2019 and 2018, respectively. Generally, however, we retain in our portfolio 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 that we have originated in recent years due to the favorable long-term rates for borrowers.

We currently offer several types of adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period of five to seven years. We offer adjustable-rate mortgage loans that are fully amortizing. After the initial fixed period, the interest rate on adjustable-rate mortgage loans generally resets every year based upon the weekly average of a one-year U.S. Treasury Securities rate plus an applicable margin, subject to periodic and lifetime limitations on interest rate changes. The adjustable rate mortgage loans we are currently offering have a 2% maximum annual rate change up or down, and a 6% lifetime cap. In our portfolio are also adjustable rate mortgage loans with a 1% maximum annual rate change up or down, and a 5% lifetime cap up from the initial rate. Interest rate changes are further limited by floors. After the initial fixed period, the interest rate will generally have a floor that is equal to the initial rate, but no less than 4.0% on our five and seven year adjustable-rate mortgage loans.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans, This is primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default and higher rates of delinquency in a rising interest rate environment. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Since changes in the interest rates on adjustable-rate mortgages may be limited by an initial fixed-rate period or by the contractual limits on periodic interest rate adjustments, adjustable-rate loans may not adjust as quickly to increases in interest rates as our interest-bearing liabilities.

In addition to traditional one- to four-family residential mortgage loans, we offer 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 that we use to underwrite one- to four-family residential mortgage loans. Home equity loans may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 10 years, fully amortized. At June 30, 2019, approximately $1.6 million, or 1.2% of our one- to four-family mortgage loans were home equity loans secured by a second mortgage.

Home equity loans secured by second mortgages have greater risk than one- to four-family residential mortgage loans or home equity loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity loans, decreases in real estate values could adversely affect the value of property used as collateral for our loans.

We do not offer or purchase loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan.

We require title insurance on all of our one- to four-family residential mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. We also require flood insurance, as applicable. We do not conduct environmental testing on residential mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Commercial Real Estate and Multi-family Real Estate Loans. At June 30, 2019, $143.4 million, or 29.0% of our loan portfolio consisted of commercial real estate loans, and $104.7 million, or 21.2% of our loan portfolio consisted of multi-family (which we consider to be five or more units) residential real estate loans. At June 30, 2019, substantially all of our commercial real estate and multi-family real estate loans were secured by properties located in Illinois, Indiana and Missouri.

Our commercial real estate mortgage loans are primarily secured by office buildings, owner-occupied businesses, retail rentals, churches, and farm loans secured by real estate. At June 30, 2019, loans secured by commercial real estate had an average loan balance of $510,000. We originate commercial real estate loans with balloon and adjustable rates of up to seven years with amortization up to 25 years. At June 30, 2019, $17.5 million or 12.2% of our commercial real estate loans had adjustable rates. The rates on our adjustable-rate commercial real estate loans are generally based on the prime rate of interest plus an applicable margin, and generally have a specified floor.

We originate multi-family loans with balloon and adjustable rates for terms of up to seven years with amortization up to 25 years. At June 30, 2019, $3.8 million or 3.6% of our multi-family loans had adjustable rates. The rates on our adjustable-rate multi-family loans are generally tied to the prime rate of interest plus or minus an applicable margin and generally have a specified floor.

In underwriting commercial real estate and multi-family real estate loans, we consider a number of factors, which include the projected net cash flow to the loan's debt service requirement (generally requiring a minimum

ratio of 120%), 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. Commercial real estate and multi-family real estate loans are originated in amounts up to 80% of the appraised value or the purchase price of the property securing the loan, whichever is lower. 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.

Commercial real estate and multi-family real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate and multi-family real estate loans, however, entail greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate and multi-family real estate than for one- to four-family residential properties.

At June 30, 2019, our largest commercial real estate loan had an outstanding balance of $6.6 million, was secured by a commercial building, and was performing in accordance with its terms. At that date, our largest multi-family real estate loan had a balance of $10.9 million, was secured by multiple apartment buildings with a total of 353 units, and was performing in accordance with its terms.

Home Equity Lines of Credit. In addition to traditional one- to four-family residential mortgage loans and home equity loans, we offer 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 that we use to underwrite one- to four-family residential mortgage loans. Our home equity lines of credit are originated with either fixed or adjustable rates and may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of an existing first mortgage loan. Fixed-rate lines of credit are generally based on the prime rate of interest plus an applicable margin and have monthly payments of 1.5% of the outstanding balance. Adjustable-rate home equity lines of credit are based on the prime rate of interest plus or minus an applicable margin and require interest paid monthly. Both fixed and adjustable rate home equity lines of credit have balloon terms of five years. At June 30, 2019 we had $8.9 million, or 1.8% of our total loan portfolio in home equity lines of credit. At that date we had $6.7 million of undisbursed funds related to home equity lines of credit.

Home equity lines of credit secured by second mortgages have greater risk than one- to four-family residential mortgage loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity lines of credit, decreases in real estate values could adversely affect the value of property securing the loan.

Commercial Business Loans. We also originate commercial non-mortgage business (term) loans and adjustable lines of credit. At June 30, 2019, we had $84.2 million of commercial business loans outstanding, representing 17.1% of our total loan portfolio. At that date, we also had $27.6 million of unfunded commitments on such loans. These loans are generally originated to small- and medium-sized companies in our primary market area. Our 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. We also offer agriculture loans that are not secured by real estate.

In underwriting commercial business loans, we generally lend up to 80% of the appraised value or purchase price of the collateral securing the loan, whichever is lower. The commercial business loans that we offer have fixed interest rates or adjustable rates indexed to the prime rate of interest plus an applicable margin, and with terms

ranging from one to seven years. Our commercial business loan portfolio consists primarily of secured loans. When making commercial business loans, we consider the financial statements, lending history and debt service capabilities of the borrower (generally requiring a minimum ratio of 120%), the projected cash flows of the business and the value of the collateral, if any. Virtually all of our loans are guaranteed by the principals of the borrower.

Commercial business loans generally have a greater credit risk than one- to four-family residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. We seek to minimize these risks through our underwriting standards.

At June 30, 2019, our largest commercial business loan outstanding was for $5.1 million and was secured by commercial business assets. At June 30, 2019, this loan was performing in accordance with its terms.

Construction Loans. We also originate construction loans for one- to four-family residential properties and commercial real estate properties, including multi-family properties. At June 30, 2019, $16.1million, or 3.3%, of our total loan portfolio, consisted of construction loans, which were secured by one- to four-family residential real estate, multi-family real estate properties and commercial real estate properties.

Construction loans for one- to four-family residential properties are originated with a maximum loan to value ratio of 85% and are generally "interest-only" loans during the construction period which typically does not exceed 12 months. After this time period, the loan converts to permanent, amortizing financing following the completion of construction. Construction loans for commercial real estate are made in accordance with a schedule reflecting the cost of construction, and are generally limited to an 80% loan-to-completed appraised value ratio. We generally require that a commitment for permanent financing be in place prior to closing the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property.

Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

At June 30, 2019, all of the construction loans that we originated were for one- to four-family residential properties, multi-family real estate properties and commercial real estate properties. The largest of such construction loans at June 30, 2019 was for a 93 unit apartment building and had a principal balance of $7.2 million. This loan was performing in accordance with its terms at June 30, 2019.

Loan Originations, Purchases, Participations, Sales and Servicing. Lending activities are conducted primarily by our loan personnel operating in each office. All loans that we originate are underwritten pursuant to our standard policies and procedures. In addition, our one- to four-family residential mortgage loans generally incorporate Fannie Mae, Freddie Mac or Federal Home Loan Bank of Chicago underwriting guidelines, as applicable. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed- or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment which typically results in decreased loan demand. Most of our commercial real estate and commercial business loans are generated by our internal business development efforts

and referrals from professional contacts. Most of our originations of one- to four-family residential mortgage loans, consumer loans and home equity loans and lines of credit are generated by existing customers, referrals from realtors, residential home builders, walk-in business and from our website.

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis a substantial majority of the conforming, fixed-rate one- to four-family residential mortgage loans with maturities of 15 years or greater that we have originated.

From time to time, we purchase loan participations in commercial loans in which we are not the lead lender secured by real estate and other business assets, primarily within 100 miles of our primary lending area. In these circumstances, we follow our customary loan underwriting and approval policies. We have sufficient capital to take advantage of these opportunities to purchase loan participations, as well as strong relationships with other community banks in our primary market area and throughout Illinois that may desire to sell participations, and we may increase our purchases of participations in the future as a growth strategy. At June 30, 2019 and 2018, the amount of commercial loan participations totaled $29.5 million and $32.9 million, respectively, of which $12.0 million and $11.0 million, at June 30, 2019 and 2018 were outside our primary market area.

We sell a portion of our fixed-rate residential mortgage loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra Program and its Mortgage Partnership Finance Original Program. We retain servicing on all loans sold under these programs. During the years ended June 30, 2019 and 2018, we sold $17.1 million and $17.9 million of loans to the Federal Home Loan Bank of Chicago under the program. Prior to December 2008, and after October 2015, we also retained some credit risk associated with a portion of the loans sold to the Federal Home Loan Bank of Chicago. For additional information regarding retained risk associated with these loans, see "Allowance for Loan Losses—Other Credit Risk."

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan.

Iroquois Federal's policies and loan approval limits are established by our Board of Directors. Our 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 and 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 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.

We generally require appraisals from certified or licensed third party appraisers of all real property securing loans. When appraisals are ordered, they are done so through an agency independent of the Association or by staff independent of the loan approval process, in order to maintain a process free of any influence or pressure from any party that has an interest in the transaction.

Non-performing and Problem Assets

For all of our loans, once a loan is 15 days delinquent, a past due notice is mailed. Past due notices continue to be mailed monthly in the event the account is not brought current. Prior to the time a loan is 30 days past due, we attempt to contact the borrower by telephone. Thereafter we continue with follow-up calls. Generally, once a loan becomes 90-120 days delinquent, if no work-out efforts have been pursued, we commence the foreclosure or repossession process. A summary report of all loans 90 days or more past due and all criticized and classified loans is provided monthly to our Board of Directors.

Loans are evaluated for non-accrual status when payment of principal and/or interest is 90 days or more past due. Loans are also placed on non-accrual status when it is determined collection of principal or interest is in doubt or if the collateral is in jeopardy. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received and only after the loan is returned to accrual status. The loans are typically returned to accrual status if unpaid principal and interest are repaid so that the loan is current.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At June 30, 2019, 2018, 2017, 2016 and 2015, we had troubled debt restructurings of approximately $1.5 million, $2.9 million, $3.1 million, $2.3 million and $2.6 million, respectively. At the dates presented, we had one loan that was delinquent 120 days or greater and that were still accruing interest. This loan is a performing TDR with more than 2 years of payments as agreed, but it is still listed as delinquent more than 120 days.

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	At June 30,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
One- to four-family (1)	$ 414	$6,339	$ 9,105	$1,604	$2,724
Multi-family	—	116	146	185	240
Commercial	18	50	25	63	46
Home equity lines of credit	20	—	24	316	—
Construction	—	—	—	—	—
Commercial	60	30	84	9	21
Consumer	29	—	—	—	14
Total non-accrual loans	541	6,535	9,384	2,177	3,045
Loans delinquent 90 days or greater and still accruing:					
Real estate loans:					
One- to four-family (1)	226	293	155	4	15
Multi-family	—	—	—	—	—
Commercial	—	—	—	—	—
Home equity line of credit	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Consumer	—	1	—	8	7
Total loans delinquent 90 days or greater and still accruing	226	294	155	12	22
Total non-performing loans	767	6,829	9,539	2,189	3,067
Performing troubled debt restructurings	1,310	2,675	2,211	2,084	1,855
Total non-performing loans and performing troubled debt restructurings	$2,264	$9,504	$11,750	$4,273	$4,922
Other real estate owned and foreclosed assets:					
Real estate loans:					
One- to four-family (1)	539	—	210	338	50
Multi-family	—	—	—	—	—
Commercial	219	—	—	—	—
Home equity lines of credit	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	20	219	219	—	—
Consumer	—	—	—	—	—
Total other real estate owned and foreclosed assets	778	219	429	338	50
Total non-performing assets	$1,545	$7,048	$ 9,968	$2,527	$3,117
Ratios:					
Non-performing loans to total loans	0.16%	1.42%	2.13%	0.49%	0.85%
Non-performing assets to total assets	0.21%	1.10%	1.70%	0.42%	0.55%

(1) Includes home equity loans.

For the years ended June 30, 2019 and 2018, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $25,000 and $554,000, respectively. We recognized no interest income on such loans for the years ended June 30, 2019 and 2018.

At June 30, 2019, our non-accrual loans totaled $541,000. These non-accrual loans consisted primarily of eight one- to four-family residential loans with aggregate principal balances totaling $414,000 and specific allowances totaling $13,000, one home equity line of credit with principal balance of $20,000 and no specific allowance, three commercial real estate loans with aggregate principal balances totaling $18,000 and no specific

allowances, two commercial business loans with aggregate principal balances totaling $60,000 with no specific allowances, and five consumer loans with aggregate principal balances of $29,000 and specific allowances totaling $10,000.

The $6.3 million of non-accrual one- to four-family loans at June 30, 2018 was related to one credit relationship. In June 2017, a $7.8 million loan secured by 45 one- to four-family properties was moved to non-performing when the borrower became involved in litigation, and subsequently filed for bankruptcy protection. The properties securing this loan are all existing homes that were acquired by the borrower to be renovated and resold. As of June 30, 2018, we had accrued real estate taxes of $577,000 and we had charged off $1.5 million of the credit to reflect the net realizable value of the properties. During the year ended June 30, 2019, these 45 properties, with an aggregate value of $6.3 million, were moved to foreclosed assets held for sale, and 43 of these properties were sold.

Troubled Debt Restructurings. Troubled debt restructurings are defined under ASC 310-40 to include loans for which either a portion of interest or principal has been forgiven, or for loans modified at interest rates or on terms materially less favorable than current market rates. 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 June 30, 2019 and 2018, we had $1.5 million and $2.9 million, respectively, of troubled debt restructurings. At June 30, 2019 our troubled debt restructurings consisted of $1.5 million of residential one- to four-family mortgage loans, $6,000 of commercial real estate loans, $22,000 of home equity lines of credit loans, and $2,000 of consumer loans, all of which were impaired.

For the years ended June 30, 2019 and 2018, gross interest income that would have been recorded had our troubled debt restructurings been performing in accordance with their original terms was $84,000 and $176,000, respectively. We recognized interest income of $56,000 and $137,000 on such modified loans for the years ended June 30, 2019 and 2018, respectively.

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Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	Loans Delinquent For					
	60 to 89 Days		90 Days or Greater		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At June 30, 2019						
Real estate loans:						
One- to four-family (1)	5	255	10	481	15	736
Multi-family	—	—	—	—	—	—
Commercial	1	6	2	12	3	18
Home equity lines of credit	1	26	1	20	2	46
Construction	—	—	—	—	—	—
Commercial	—	—	2	60	2	60
Consumer	—	—	5	29	5	29
Total loans	7	$ 287	20	$ 602	27	$ 889
At June 30, 2018						
Real estate loans:						
One- to four-family (1)	4	207	10	6,633	14	6,840
Multi-family	—	—	1	2	1	2
Commercial	1	13	2	37	3	50
Home equity lines of credit	1	23	—	—	1	23
Construction	—	—	—	—	—	—
Commercial	—	—	1	30	1	30
Consumer	2	29	1	1	3	30
Total loans	8	$ 272	15	$ 6,703	23	$ 6,975
At June 30, 2017						
Real estate loans:						
One- to four-family (1)	4	158	5	540	9	698
Multi-family	—	—	—	—	—	—
Commercial	1	84	—	—	1	84
Home equity lines of credit	—	—	1	24	1	24
Construction	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Consumer	3	6	—	—	3	6
Total loans	8	$ 248	6	$ 564	14	$ 812
At June 30, 2016						
Real estate loans:						
One- to four-family (1)	6	148	9	1,489	15	1,637
Multi-family	—	—	—	—	—	—
Commercial	2	97	1	27	3	124
Home equity lines of credit	—	—	1	316	1	316
Construction	—	—	—	—	—	—
Commercial	1	100	—	—	1	100
Consumer	1	5	1	8	2	13
Total loans	10	$ 350	12	$ 1,840	22	$ 2,190
At June 30, 2015						
Real estate loans:						
One- to four-family (1)	14	724	17	2,279	31	3,003
Multi-family	1	31	—	—	1	31
Commercial	3	137	—	—	3	137
Home equity lines of credit	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Commercial	1	21	—	—	1	21
Consumer	—	—	3	21	3	21
Total loans	19	$ 913	20	$ 2,300	39	$ 3,213

(1) Includes home equity loans.

Total delinquent loans decreased by $6.1 million to $889,000 at June 30, 2019 from $7.0 million at June 30, 2018. The decrease in delinquent loans was due primarily to one large non-performing credit at June 30, 2018, that secured 45 one- to four-family properties with an aggregate value of $6.3 million that were moved to foreclosed assets held for sale during the year ended June 30, 2019. During the year ended June 30, 2019, 43 of these 45 properties were sold.

Real Estate Owned and Foreclosed Assets. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. When property is acquired it is recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in fair value result in charges to expense after acquisition. In addition, we could repossess certain collateral, including automobiles and other titled vehicles, called other repossessed assets. At June 30, 2019, we had $778,000 in foreclosed assets compared to $219,000 as of June 30, 2018. During the year ended June 30, 2019, 45 properties, securing one large credit and with an aggregate value of $6.3 million, were moved to foreclosed assets held for sale, and 43 of these properties were sold. 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, while foreclosed assets at June 30, 2018, consisted of $219,000 in commercial nonoccupied property.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as watch.

When we classify assets as either substandard or doubtful, we undertake an impairment analysis which may result in allocating a portion of our general loss allowances to a specific allowance for such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. When we classify a problem asset as loss, we charge off the asset. For other classified assets, we provide a specific allowance for that portion of the asset that is considered uncollectible. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

The following table sets forth our amounts of classified assets, assets designated as watch and total criticized assets (classified assets and loans designated as watch) as of the date indicated. Amounts shown at June 30, 2019 and 2018, include approximately $767,000 and $6.8 million of nonperforming loans, respectfully. The related specific valuation allowance in the allowance for loan losses for such nonperforming loans was $23,000 and $3,000 at June 30, 2019 and 2018, respectively. Substandard assets shown include foreclosed assets.

	At June 30,	
	2019	2018
	(In thousands)	
Classified assets:		
Substandard	$4,096	$ 2,617
Doubtful	10	6,332
Loss	—	—
Total classified assets	4,106	8,949
Watch	2,415	2,294
Total criticized assets	$6,521	$11,243

At June 30, 2019, substandard assets consisted of $1.9 million of one- to four-family residential mortgage loans, $159,000 in multi-family loans, $251,000 of commercial real estate loans, $20,000 in home equity lines of credit, $965,000 of commercial business loans, $19,000 of consumer loans, and $778,000 of foreclosed assets held for sale. At June 30, 2019, watch assets consisted $1.0 million of commercial real estate loans and $1.4 million of commercial business loans, while doubtful assets consisted of $10,000 in consumer loans. During the year ended June 30, 2019, 45 properties, securing one large credit and with an aggregate value of $6.3 million, were moved to foreclosed assets held for sale, and 43 of these properties were sold. At June 30, 2019, no assets were classified as loss.

Other Loans of Concern. At June 30, 2019, there were no other loans or other assets that are not disclosed in the text or tables above where known information about the possible credit problems of borrowers caused us to have serious doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in disclosure of such loans in the future.

Other Credit Risk. We also have some credit risk associated with fixed-rate residential loans that we sold to the Federal Home Loan Bank of Chicago. Between 2000 and 2004, we sold loans under its Mortgage Partnership Finance (MPF) 100 Program. Then from 2004 to December 2008, and again starting in October 2015, loans were sold under its MPF Original Program. However, while we retain the servicing of these loans and receive both service fees and credit enhancement fees, they are not our assets. We sold $13.7 million in loans under the MPF Original program in the year ended June 30, 2019, and we continue to service approximately $42.7 million of loans in the MPF 100 and MPF Original Programs combined, for which our maximum potential credit risk is approximately $1.9 million. From June 2000 to June 30, 2019, we experienced only $170,000 in actual losses under the MPF 100 and MPF Original Programs combined. We have also sold loans to the Federal Home Loan Bank of Chicago since December 2008 under its MPF Xtra Program. Unlike loans sold under the MPF 100 and MPF Original Programs, we do not retain any credit risk with respect to loans sold under the MPF Xtra Program.

Allowance for Loan Losses

The allowance for loan losses represents one of the most significant estimates within our financial statements and regulatory reporting. Because of this, we have developed, maintained, and documented a comprehensive, systematic, and consistently applied process for determining the allowance for loan losses, in accordance with GAAP, our stated policies and procedures, management's best judgment and relevant supervisory guidance.

Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis, and more frequently if warranted. We analyze the collectability of loans held for investment and maintain an allowance that is appropriate and determined in accordance with GAAP. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our 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 our review for identified problem loans; and (2) a general allowance based on estimated credit losses inherent in the remainder of the loan portfolio.

In performing the allowance for loan loss review, we have divided our credit portfolio into several separate homogeneous and non-homogeneous categories within the following groups:

- Mortgage Loans: one- to four-family residential first lien loans originated by Iroquois Federal; one- to four-family residential first lien loans purchased from a separate origination company; one- to four-family residential junior lien loans; home equity lines of credit; multi-family residential loans on properties with five or more units; non-residential real estate loans; and loans on land under current development or for future development.
- Consumer Loans (unsecured or secured by other than real estate): loans secured by deposit accounts; loans for home improvement; educational loans; automobile loans; mobile home loans; loans on other security; and unsecured loans.

- Commercial Loans (unsecured or secured by other than real estate): secured loans and unsecured loans.

Determination of Specific Allowances for Identified Problem Loans. The Company establishes a specific allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows, the loan's observable market value, or, for collateral-dependant loans, the fair value of the collateral adjusted for market conditions and selling expenses. 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 our 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.

Determination of General Allowance for Remainder of the Loan Portfolio. 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 our historical loss experience, delinquency trends 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 significant 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 and includes amounts for anticipated losses which may not be reflected in our current loss history experience; (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 ("TDR") 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-dependant 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 our policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, we have historically evaluated every loan classified as substandard, regardless of size, for impairment as part of our review for establishing specific allowances. Our policy also allows for a 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 general allowances calculated on our non-classified loans.

In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses. Such agency may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

The allowance for loan losses increased $383,000 to $6.3 million at June 30, 2019, from $5.9 million at June 30, 2018. The increase was a result of an increase in outstanding loans and corresponding provision expense, partially offset by net charge-offs of $24,000, and was necessary in order to bring the allowance for loan losses to a level that reflects management's estimate of the probable loss in the Company's loan portfolio at June 30, 2019.

As noted above, 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. As the Company and the industry have seen increases in loan defaults in the past several years, the Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation.

The following table sets forth the Company's weighted average historical net charge-offs as of June 30, 2019 and June 30, 2018:

Portfolio segment	June 30, 2019 Net charge-offs – 12 quarter weighted historical	June 30, 2018 Net charge-offs – 12 quarter weighted historical
Real Estate:		
One- to four-family	0.38%	0.65%
Multi-family	0.00%	0.00%
Commercial	0.00%	0.00%
HELOC	0.17%	0.23%
Construction	0.00%	0.00%
Commercial business	0.01%	0.02%
Consumer	0.02%	0.04%
Entire portfolio total	0.12%	0.20%

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. As noted above, the Company has identified specific qualitative factors that address these issues and assigns a percentage to each factor based on management's judgement. 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 June 30, 2019	Qualitative factor applied at June 30, 2018
Real Estate:		
One- to four-family	0.42%	0.13%
Multi-family	1.57%	1.56%
Commercial	1.18%	1.21%
HELOC	0.83%	0.77%
Construction	1.32%	1.22%
Commercial business	1.96%	1.98%
Consumer	0.75%	0.74%
Entire portfolio total	1.16%	1.05%

At June 30, 2019, the amount of our allowance for loan losses attributable to these qualitative factors was approximately $5.7 million, as compared to $5.1 million at June 30, 2018. The general increase in qualitative factors was attributable primarily to actual losses versus minimum expected losses already factored.

While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio, the increase in troubled debt restructurings and the potential changes in market conditions, our level of nonperforming assets and resulting 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.

The following table sets forth activity in our allowance for loan losses at and for the periods indicated.

	At or For the Fiscal Years Ended June 30,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Balance at beginning of period	$ 5,945	$ 6,835	$5,351	$ 4,211	$ 3,958
Charge-offs:					
Real estate loans:					
One- to four-family (1)	(17)	(1,608)	(232)	(188)	(231)
Multi-family	—	—	—	—	—
Commercial	—	—	(8)	(3)	—
Home equity lines of credit	(15)	(24)	—	(32)	(35)
Construction	—	—	—	—	—
Commercial	—	(30)	—	—	—
Consumer	(18)	(14)	(35)	(10)	(12)
Total charge-offs	(50)	(1,676)	(275)	(233)	(278)
Recoveries:					
Real estate loans:					
One- to four-family (1)	22	1	32	5	29
Multi-family	—	—	—	—	—
Commercial	—	—	—	—	—
Home equity lines of credit	—	—	—	—	13
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Consumer	4	8	6	2	29
Total recoveries	26	9	38	7	71
Net charge-offs	(24)	(1,667)	(237)	(226)	(207)
Provision for loan losses	407	777	1,721	1,366	460
Balance at end of period	$ 6,328	$ 5,945	$6,835	$ 5,351	$ 4,211
Ratios:					
Net charge-offs to average loans outstanding	0.01%	0.35%	0.05%	0.05%	0.01%
Allowance for loan losses to non-performing loans at end of period	825.03%	87.06%	71.66%	244.39%	137.30%
Allowance for loan losses to total loans at end of period	1.28%	1.23%	1.53%	1.19%	1.17%

(1) Includes home equity loans.

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At June 30,					
	2019		2018		2017	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Real estate loans:						
One- to four-family (1)	$ 1,031	26.2%	$ 997	28.0%	$ 2,519	31.5%
Multi-family	1,642	21.2	1,650	22.3	1,336	19.5
Commercial	1,623	29.0	1,604	29.2	1,520	29.9
Home equity lines of credit	89	1.8	91	1.9	76	1.7
Construction	213	3.3	168	2.9	75	1.6
Commercial	1,659	17.1	1,373	14.2	1,242	14.0
Consumer	71	1.4	62	1.5	67	1.8
Total allocated allowance	6,328		5,945		6,835	
Unallocated	—		—		—	
Total	$ 6,328	100.0%	$ 5,945	100.0%	$ 6,835	100.0%

(1) Includes home equity loans.

	At June 30,			
	2016		2015	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Real estate loans:				
One- to four-family (1)	$ 1,198	33.3%	$ 1,216	40.2%
Multi-family	1,202	18.8	827	16.2
Commercial	1,399	26.6	1,246	28.8
Home equity lines of credit	94	1.8	85	2.1
Construction	227	4.4	6	0.1
Commercial	1,140	12.9	744	10.3
Consumer	91	2.2	87	2.3
Total allocated allowance	5,351		4,211	
Unallocated	—		—	
Total	$ 5,351	100.0%	$ 4,211	100.0%

(1) Includes home equity loans.

Net charge-offs decreased to $24,000 for the year ended June 30, 2019, from $1.7 million for the year ended June 30, 2018. Charge-offs for the year ended June 30, 2019 involved one- to four-family real estate loans, home equity lines of credit and consumer loans, while most of the charge-offs during the year ended June 30, 2018, involved one- to four-family residential real estate loans. In addition, non-performing loans decreased by $6.1 million during the year ended June 30, 2019.

The allowance for loan losses increased $383,000, or 6.4%, to $6.3 million at June 30, 2019 from $5.9 million at June 30, 2018. The increase was due to an increase in the loan portfolio and the change in loan portfolio composition, partially offset by charge-offs. At June 30, 2019, the allowance for loan losses represented 1.28% of total loans compared to 1.23% of total loans at June 30, 2018.

Investments

We conduct investment transactions in accordance with our Board-approved investment policy. The investment policy is reviewed at least annually by the Budget and Investment Committee of the Board, and any changes to the policy are subject to ratification by the full Board of Directors. This policy dictates that investment

decisions give consideration to the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, minimizing exposure to credit risk, potential returns and consistency with our interest rate risk management strategy. Authority to make investments under approved guidelines is delegated to our Investment Committee, comprised of our President and Chief Executive Officer, our Senior Executive Vice President and Chief Financial Officer, our Executive Vice President and Community President, and our Senior Vice President and Controller. All investments are reported to the Board of Directors for ratification at the next regular Board meeting.

Our current investment policy permits us to invest only in investment quality securities permitted by Office of the Comptroller of the Currency regulations, including U.S. Treasury or Government guaranteed securities, U.S. Government agency securities, securities issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, bank-qualified municipal securities, bank-qualified money market instruments, and bank-qualified corporate bonds. We do not engage in speculative trading. As of June 30, 2019, we held no asset-backed securities other than mortgage-backed securities. As a federal savings and loan association, Iroquois Federal is generally not permitted to invest in equity securities, although this general restriction will not apply to IF Bancorp, which may acquire up to 5% of voting securities of any company without regulatory approval.

ASC 320-10, "Investment – Debt and Equity Securities" requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available for sale are reported at fair value, while securities held to maturity are reported at amortized cost. All of our securities are available for sale. We do not maintain a trading portfolio.

U.S. Government and Agency Debt Securities. While U.S. Government and federal agency securities generally provide lower yields than other investments, including mortgage-backed securities and interest-earning certificates of deposit, we maintain these investments, to the extent appropriate, for liquidity purposes and as collateral for borrowings.

Mortgage-Backed Securities. We invest in mortgage-backed securities insured or guaranteed by the U.S. Government or government sponsored enterprises. Mortgage-backed securities are created by pooling mortgages and issuing a security with an interest rate that is less than the interest rate on the underlying mortgages. Some securities pools are guaranteed as to payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Finally, mortgage-backed securities are assigned lower risk weightings for purposes of calculating our risk-based capital level. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments. Also classified as agency mortgage-backed securities, are securities backed by debentures/loans for working capital to small businesses with limited or no access to private venture capital, and regulated by the Small Business Administration (SBA). Like other agency mortgage-backed securities, they are backed by the full faith and credit of the United States Government. They have zero risk weighting for purposes of calculating our risk-based capital level. With ten year maturities, these fixed rate bullet debentures pay interest semi-annually and principal at maturity. Prepayments are required to be in whole on any semi-annual payment date, and there are no prepayments penalties for deals issued since 2007. Therefore, the two sources of prepayment risk are voluntary prepays and defaults. In the event of default, the SBA may accelerate the payment equal to 100% of the outstanding principal balance, or the SBA will make the principal and interest payments.

Municipal Obligations. Iroquois Federal's investment policy allows it to purchase municipal securities of credit-worthy issuers, and does not permit it to invest more than 10% of Iroquois Federal's capital in the bonds of any single issuer. At June 30, 2019, we held $2.9 million of municipal securities, all of which were issued by local governments and school districts within our market area.

Federal Home Loan Bank Stock. At June 30, 2019, we held $1.2 million of Federal Home Loan Bank of Chicago common stock in connection with our borrowing activities totaling $24.0 million. The common stock of the Federal Home Loan Bank is carried at cost and classified as a restricted equity security.

Bank-Owned Life Insurance. 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. At June 30, 2019, we had $9.1million invested in bank-owned life insurance, which was 11.1% of our Tier 1 capital plus our allowance for loan losses.

Investment Securities Portfolio. The following table sets forth the composition of our investment securities portfolio at the dates indicated, excluding Federal Home Loan Bank of Chicago stock, federally insured interest-earning time deposits and bank-owned life insurance. As of June 30, 2019, 2018 and 2017 all of such securities were classified as available for sale.

	At June 30,					
	2019		2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities available for sale:						
U.S. government, federal agency and government-sponsored enterprises	$ 12,654	$ 12,950	$ 24,757	$ 23,922	$ 25,230	$ 25,035
U.S. government sponsored mortgage-backed securities	124,615	125,510	100,534	97,059	81,088	80,962
Small Business Administration	4,911	4,935	1,965	1,891	2,048	2,032
State and political subdivisions	2,725	2,896	2,980	3,124	3,274	3,582
Total	$ 144,905	$146,291	$ 130,236	$125,996	$ 111,640	$111,611

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Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at June 30, 2019 are summarized in the following table. At such date, all of our securities were available for sale. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. The yields on municipal securities have not been adjusted to a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
U.S. government, federal agency and government-sponsored enterprises	$ —	— %	$ 1,999	2.68%	$ 10,655	2.62%	$ —	— %	$ 12,654	$ 12,950	2.63%
U.S. government sponsored mortgage-backed securities	—	—	5,330	2.48	41,662	2.64	77,623	2.76	124,615	125,510	2.71
Small Business Administration	—	—	—	—	1,826	2.63	3,084	2.91	4,910	4,935	2.81
State and political subdivisions	1,150	6.11	—	—	1,576	3.04	—	—	2,726	2,896	5.37
Total	$ 1,150	6.11%	$ 7,329	2.53%	$ 55,719	2.65%	$ 80,707	2.76%	$ 144,905	$146,291	2.75%

Sources of Funds

General. Deposits traditionally have been our primary source of funds for our lending and investment activities. We also borrow from the Federal Home Loan Bank of Chicago, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are the proceeds from the sale of loans originated for sale, scheduled loan payments, maturing investments, loan prepayments, retained earnings and income on other earning assets.

Deposits. We generate deposits primarily from the areas in which our branch offices are located. We rely on our competitive pricing, convenient locations and customer service to attract and retain both retail and commercial deposits.

We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts, individual retirement accounts and health savings accounts. From time to time we utilize brokered certificates of deposit or or non-brokered certificates of deposit obtained through an internet listing service. At June 30, 2019, we had $39.5 million in brokered certificates of deposit and $18.5 million in non-brokered certificates of deposit obtained through an internet listing service.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies, including the cost of alternate sources of funds, and market interest rates, liquidity requirements, interest rates paid by competitors and our deposit growth goals.

The following tables set forth the distribution of our average total deposit accounts, by account type, for the periods indicated.

	For the Fiscal Year Ended June 30, 2019			For the Fiscal Year Ended June 30, 2018		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)					
Deposit type:						
Noninterest bearing demand	$ 28,429	5.50%	0.00%	$ 21,029	4.53%	0.00%
Interest-bearing checking or NOW	50,668	9.81	0.28	46,299	9.98	0.14
Savings accounts	43,183	8.36	0.41	43,159	9.31	0.24
Money market accounts	97,555	18.89	1.29	96,984	20.92	0.88
Certificates of deposit	296,692	57.44	1.94	256,250	55.26	1.34
Total deposits	$516,527	100.00%	1.42%	$463,721	100.00%	0.96%

	For the Fiscal Year Ended June 30, 2017		
	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)		
Deposit type:			
Noninterest bearing demand	$ 19,011	4.43%	0.00%
Interest-bearing checking or NOW	44,080	10.28	0.09
Savings accounts	40,191	9.38	0.12
Money market accounts	75,736	17.67	0.26
Certificates of deposit	249,689	58.24	1.04
Total deposits	$428,707	100.00%	0.67%

As of June 30, 2019, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $152.3 million. The following table sets forth the maturity of those certificates as of June 30, 2019.

	At June 30, 2019
	(In thousands)
Three months or less	$ 23,499
Over three months through six months	12,676
Over six months through one year	69,566
Over one year to three years	44,798
Over three years	1,754
Total	$ 152,293

The following table sets forth the amount of our certificates of deposit classified by interest rate as of the dates indicated.

	At June 30,		
	2019	2018	2017
	(In thousands)		
Interest Rate:			
Less than 2.00%	$125,493	$216,275	$242,262
2.00% to 2.99%	199,791	45,565	5,531
3.00% to 3.99%	5,001	1,740	—
4.00% to 4.99%	—	—	—
5.00% to 5.99%	—	—	—
Total	$330,285	$263,580	$247,793

Borrowings. Our borrowings consist of advances from the Federal Home Loan Bank of Chicago and repurchase agreements. At June 30, 2019, we had access to additional Federal Home Loan Bank of Chicago advances of up to $158.0 million based on our collateral. The following table sets forth information concerning balances and interest rates on our borrowings and repurchase agreements at the dates and for the periods indicated.

	At or For the Fiscal Years Ended June 30,		
	2019	2018	2017
	(Dollars in thousands)		
Federal Home Loan Bank of Chicago			
Balance at end of period	$ 24,000	$ 67,500	$ 53,500
Average balance during period	61,017	61,374	64,622
Maximum outstanding at any month end	81,500	67,500	74,000
Weighted average interest rate at end of period	2.11%	1.88%	1.02%
Average interest rate during period	2.48%	1.34%	1.10%
Repurchase Agreements			
Balance at end of period	$ 2,015	$ 2,281	$ 2,183
Average balance during period	2,400	2,623	3,277
Maximum outstanding at any month end	2,840	2,980	4,817
Weighted average interest rate at end of period	1.12%	0.94%	0.38%
Average interest rate during period	0.84%	0.63%	0.42%

Personnel

At June 30, 2019, the Association had 101 full-time employees and 4 part-time employees, none of whom is represented by a collective bargaining unit. Iroquois Federal believes that its relationship with its employees is good.

Subsidiaries

IF Bancorp conducts its principal business activities through its wholly-owned subsidiary, Iroquois Federal Savings and Loan Association. The Iroquois Federal Savings and Loan Association has one wholly-owned subsidiary, L.C.I. Service Corporation, an insurance agency with offices in Watseka and Danville, Illinois.

REGULATION AND SUPERVISION

General

Iroquois Federal is subject to examination and regulation by the OCC, and is also subject to examination by the FDIC. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC’s deposit insurance fund and depositors, and not for the protection of stockholders. Iroquois Federal also is a member of and owns stock in the FHLB-Chicago, which is one of the 11 regional banks in the Federal Home Loan Bank System.

Under this system of regulation, the regulatory authorities have extensive discretion in connection with their supervisory, enforcement, rulemaking and examination activities and policies, including rules or policies that: establish minimum capital levels; restrict the timing and amount of dividend payments; govern the classification of assets; determine the adequacy of loan loss reserves for regulatory purposes; and establish the timing and amounts of assessments and fees. Moreover, as part of their examination authority, the banking regulators assign numerical ratings to banks and savings institutions relating to capital, asset quality, management, liquidity, earnings and other factors. The receipt of a less than satisfactory rating in one or more categories may result in enforcement action by the banking regulators against a financial institution. A less than satisfactory rating may also prevent a financial institution, such as Iroquois Federal or its holding company, from obtaining necessary regulatory approvals to access the capital markets, pay dividends, acquire other financial institutions or establish new branches.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, Community Reinvestment Act laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

As a savings and loan holding company, IF Bancorp is required to comply with the rules and regulations of the Federal Reserve Board and to file certain reports with and is subject to examination by the Federal Reserve Board. IF Bancorp is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Any change in applicable laws or regulations, whether by the OCC, the FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on the operations and financial performance of IF Bancorp and Iroquois.

Set forth below is a brief description of material regulatory requirements that are applicable to Iroquois Federal and IF Bancorp. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on Iroquois Federal and IF Bancorp.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners' Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, Iroquois Federal may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. Iroquois Federal may also establish subsidiaries that may engage in certain activities not otherwise permissible for Iroquois Federal, including real estate investment and securities and insurance brokerage.

Capital Requirements. Federal regulations require federally insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of regulations implementing recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

As noted, the risk-based capital standards for savings associations require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated other comprehensive income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the OCC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual associations where necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in and became fully phased in on January 1, 2019 at 2.5%.

Legislation enacted in May 2018 requires the federal banking agencies, including the OCC, to establish for institutions with assets of less than $10 billion of assets a "community bank leverage ratio" of between 8 to 10%. Institutions electing to follow the alternative framework whose capital meets or exceeds the specified ratio will be deemed to comply with the applicable regulatory capital requirements, including the risk-based requirements. The establishment of the community bank leverage ratio is subject to notice and comment rulemaking by the federal regulators and, in February 2019, a proposed rule was issued that would establish the community bank leverage ratio at 9%.

At June 30, 2019, Iroquois Federal's capital exceeded all applicable requirements.

Loans to One Borrower. Generally, a federal savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate.

On July 30, 2012 Iroquois Federal received approval from the OCC to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one

borrower, or small farm loans or extensions of credit to one borrower, in the lesser of the following two amounts: (1) 10% of its capital and surplus; or (2) the percentage of capital and surplus, in excess of 15%, that a state bank is permitted to lend under the state lending limit that is available for loans secured by one- to four-family residential real estate, small business loans, small farm loans or unsecured loans in the state where the main office of the savings association is located. For Iroquois Federal, this additional limit (or "supplemental limit") for one- to four-family residential real estate, small business, or small farm loans is 10% of its capital and surplus. In addition, the total outstanding amount of Iroquois Federal's loans or extensions of credit or parts of loans and extensions of credit made to all of Iroquois Federal's borrowers under the SLLP may not exceed 100% of Iroquois Federal's capital and surplus. Iroquois Federal uses the supplemental limit for its loans to one borrower infrequently, and all such credit facilities must receive prior approval by the Board of Directors.

As of June 30, 2019, Iroquois Federal was in compliance with its loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, Iroquois Federal must either qualify as a "domestic building and loan association" within the meaning of the Internal Revenue Code or satisfy the qualified thrift lender, or "QTL," test. Under the QTL test, Iroquois Federal must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" in at least nine months of the most recent 12 months. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings institution's business. A savings bank that fails the qualified thrift lender test must operate under specified restrictions specified in the Home Owners' Loan Act. The Dodd-Frank Act made noncompliance with the QTL Test potentially subject to agency enforcement action for a violation of law. At June 30, 2019, Iroquois Federal held 73.53% of its "portfolio assets" in "qualified thrift investments," and satisfied the QTL Test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the capital account. A savings bank must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings bank's net income for that year to date plus the savings bank's retained net income for the preceding two years;
- the savings bank would not be at least adequately capitalized (as defined in the prompt corrective action regulations discussed below) following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or
- the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every federal savings bank that is a subsidiary of a holding company, such as Iroquois Federal, must still file a notice with the Federal Reserve Board (with a copy to the OCC) at least 30 days before the Board of Directors declares a dividend or approves a capital distribution.

The Federal Reserve Board, upon consultation with OCC, may disapprove a notice or application if:

- the savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation, agreement with a federal banking regulatory agency or condition, imposed in connection with an application or notice.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to satisfy any applicable regulatory capital requirement. A federal savings bank also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its conversion to stock form. In addition, Iroquois Federal's ability to pay dividends is now limited if Iroquois Federal does not have the capital conservation buffer required by the new capital rules, which may limit the ability of IF Bancorp to pay dividends to its stockholders. See "— Capital Requirements."

Community Reinvestment Act and Fair Lending Laws. All federal savings banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings bank, the OCC is required to assess the association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. Iroquois Federal received a "satisfactory" Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings bank's authority to engage in transactions with its affiliates is limited by federal regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing Regulation W. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as Iroquois Federal. IF Bancorp is an affiliate of Iroquois Federal because of its control of Iroquois Federal. In general, transactions between an insured depository institution and its affiliate are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a federal savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

Iroquois Federal's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features (subject to an exception for bank-wide lending programs available to all employees); and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Iroquois Federal's capital.

In addition, extensions of credit in excess of certain limits must be approved by Iroquois Federal's Board of Directors. Extensions of credit to executive officers are subject to additional restrictions, including limits on various types of loans.

Enforcement. The OCC has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all "institution-affiliated parties," including stockholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The FDIC also has the authority to terminate deposit insurance or to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the OCC, the FDIC has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Interstate Banking and Branching.

Federal regulations permit federal savings banks to establish branches in any state subject to OCC approval and certain other requirements.

Prompt Corrective Action Regulations. Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The OCC has adopted regulations to implement the prompt corrective action legislation. For this purpose, a savings bank is placed in one of the five categories based on the institution's capital:

- *Well Capitalized* - a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater.
- *Adequately Capitalized* – a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater.
- *Undercapitalized* - a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%.
- *Significantly Undercapitalized* - a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%.
- *Critically Undercapitalized* - a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

At June 30, 2019, Iroquois Federal met the criteria for being considered "well-capitalized."

The previously referenced 2018 legislation provides that qualifying institutions that elect the alternative community bank ratio framework, when effective, and comply with the specified ratio will be considered to be "well-capitalized."

"Undercapitalized" institution's must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. Compliance with such a plan must be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" institutions must comply with one or more of a number of additional measures, including, but not limited to, a required sale of sufficient voting stock to become adequately capitalized, a requirement to reduce total assets, cessation of taking deposits from correspondent banks, the dismissal of directors or officers and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status. These actions are in addition to other discretionary supervisory or enforcement actions that the OCC may take.

Insurance of Deposit Accounts. The Deposit Insurance Fund of the FDIC insures deposits at FDIC-insured financial institutions such as Iroquois Federal. Deposit accounts in Iroquois Federal are insured by the FDIC generally up to a maximum of $250,000 per separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

Assessments for institutions with less than $10 billion of assets, such as Iroquois Federal, are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution's failure within three years, with institutions deemed less risky paying lower assessments. That system, effective July 1, 2016, replaced a previous system under which institutions were placed into risk categories.

The Dodd-Frank Act required the FDIC to revise its procedures to base assessments upon each insured institution's total assets less tangible equity instead of its insured deposits. The FDIC finalized a rule, effective April 1, 2011, that set the risk-based assessment range (inclusive of possible adjustments) at 2.5 to 45 basis points of total assets less tangible equity. In conjunction with the Deposit Insurance Fund's reserve ratio achieving 1.15%, the assessment range was reduced for insured institutions of less than $10 billion of total assets to 1.5 basis points to 30 basis points, effective July 1, 2016. The FDIC may increase or decrease the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment rulemaking.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC announced that the 1.35% ratio was achieved in September 2018. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC, which has exercised that discretion by establishing a long range fund ratio of 2%.

In addition to the FDIC assessments, the Financing Corporation ("FICO") is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature by year-end 2019. For the quarter ended June 30, 2019, the annualized FICO assessment was equal to 0.12 of a basis point of total assets less tangible capital

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Iroquois Federal. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

USA Patriot Act. Iroquois Federal is subject to the USA PATRIOT Act, which gives federal agencies additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act contains provisions intended to encourage information sharing among bank regulatory agencies and law enforcement bodies and imposes affirmative obligations on financial institutions, such as enhanced recordkeeping and customer identification requirements.

***Prohibitions Against Tying Arrangements*.** Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. Iroquois Federal is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Chicago, Iroquois Federal is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of June 30, 2019, Iroquois Federal was in compliance with this requirement.

Federal Reserve System

Federal Reserve Board regulations require savings banks to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At June 30, 2019, Iroquois Federal was in compliance with these reserve requirements.

Other Regulations

Interest and other charges collected or contracted for by Iroquois Federal are subject to state usury laws and federal laws concerning interest rates. Iroquois Federal's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- fair lending laws;
- Unfair or Deceptive Acts or Practices laws and regulations;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

In addition, the Consumer Financial Protection Bureau issues regulations and standards under these federal consumer protection laws that affect our consumer businesses. These include regulations setting "ability to repay" and "qualified mortgage" standards for residential mortgage loans and mortgage loan servicing and originator compensation standards. Iroquois Federal is evaluating recent regulations and proposals, and devotes significant compliance, legal and operational resources to compliance with consumer protection regulations and standards.

The operations of Iroquois Federal also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- The USA PATRIOT Act, which requires savings banks to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and
- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General. IF Bancorp is a unitary savings and loan holding company within the meaning of Home Owners' Loan Act. As such, IF Bancorp is registered with the Federal Reserve Board and is subject to regulations, examinations, supervision and reporting requirements applicable to savings and loan holding companies. In addition, the Federal Reserve Board has enforcement authority over IF Bancorp and any future non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

Permissible Activities. Under present law, the business activities of IF Bancorp are generally limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, provided certain conditions are met (including electing such status), or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to regulatory approval, and certain additional activities authorized by federal regulations. As of June 30, 2018, IF Bancorp, Inc. has not elected financial holding company status.

Federal law prohibits a savings and loan holding company, including IF Bancorp, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior regulatory approval. It also prohibits the acquisition or retention of, with certain exceptions,

more than 5% of a non-subsidiary company engaged in activities that are not closely related to banking or financial in nature, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

- the approval of interstate supervisory acquisitions by savings and loan holding companies; and
- the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital. Savings and loan holding companies historically have not been subject to consolidated regulatory capital requirements. The Dodd-Frank Act required the Federal Reserve Board to establish for all depository institution holding companies minimum consolidated capital requirements that are as stringent as those required for the insured depository subsidiaries. However, pursuant to legislation passed in December 2014, the FRB extended the applicability of the "Small Bank Holding Company" exception to its consolidated capital requirements to savings and loan holding companies and increased the threshold for the exception to $1.0 billion, effective May 15, 2015. As a result, savings and loan holding companies with less than $1.0 billion in consolidated assets were generally not subject to the capital requirements unless otherwise advised by the FRB. Legislation enacted in 2018 directed the Federal Reserve Board to expand the applicability of the exception to holding companies with up to $3.0 billion of consolidated assets and that increase was effective August 2018. Consequently, holding companies of less than $3.0 billion with up to $3 billion of consolidated assets are generally not subject to the holding company capital requirements unless otherwise directed by the FRB.

Source of Strength. The Dodd-Frank Act extended the "source of strength" doctrine to savings and loan holding companies. The Federal Reserve Board has issued regulations requiring that all bank and savings and loan holding companies serve as a source of managerial and financial strength to their subsidiary savings and loan associations by providing capital, liquidity and other support in times of financial stress.

Dividends. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate or earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a savings and loan holding company to pay dividends may be restricted if a subsidiary savings and loan association becomes undercapitalized. The regulatory guidance also states that a savings and loan holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the savings and loan holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of IF Bancorp to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Acquisition. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a savings and loan holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the company's outstanding voting stock, unless the

Federal Reserve Board has found that the acquisition will not result in control of the company. A change in control definitively occurs upon the acquisition of 25% or more of the company's outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

Federal Securities Laws

IF Bancorp common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. IF Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in the stock offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not our affiliates may be resold without registration. Shares purchased by our affiliates are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If we meet the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of ours that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: (i) they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; (ii) they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and (iii) they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

ITEM 1A. RISK FACTORS

We intend to continue to grow our commercial real estate, multi-family and commercial business loans and increase these loans as a percentage of our total loan portfolio. As a result, our credit risk will continue to increase, and downturns in the local real estate market or economy could have a more severe adverse effect on our earnings.

We intend to continue growing our portfolio of commercial real estate, multi-family and commercial business loans. Historically, we operated as a traditional thrift institution. At June 30, 2010, prior to our mutual-to-stock conversion, 64.6% of our loan portfolio, consisted of longer-term, one- to four-family residential real estate loans. Since then we have emphasized the origination of our commercial loans. At June 30, 2019, $143.4 million, or 29.0%, of our total loan portfolio consisted of commercial real estate loans, $104.7 million, or 21.2%, of our total loan portfolio consisted of multi-family loans, and $84.2 million, or 17.1%, of our total loan portfolio consisted of commercial business loans. We expect each of these loan categories to continue to increase as a percentage of our total loan portfolio. Commercial real estate, multi-family and commercial business loans generally have more risk than the one- to four-family residential real estate loans that we originate. Because the repayment of commercial real estate, multi-family and commercial business loans depends on the successful management and operation of the borrower's properties or businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate, multi-family and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. In addition, a downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower's business, thereby increasing the risk of nonperforming loans. As our commercial real estate, multi-family and commercial business loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase.

Future changes in interest rates could reduce our profits.

Our profitability largely depends on our net interest income, which can be negatively affected by changes in interest rates. Net interest income is the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and
- the interest expense we incur on our interest-bearing liabilities, such as deposits and borrowings.

The interest rates on our loans are generally fixed for a longer period of time than the interest rates on our deposits. Like many savings institutions, our focus on deposits as a source of funds, which either have no stated maturity or shorter contractual maturities than mortgage loans, results in our liabilities having a shorter average duration than our assets. For example, as of June 30, 2019, 8.1% of our loans had remaining maturities of, or reprice after, 5 years or longer, while 63.9% of our certificates of deposit had remaining maturities of, or reprice in, one year or less. This imbalance can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest we earn on our assets, such as loans and investments, may not increase as rapidly as the interest we pay on our liabilities, such as deposits. In a period of declining market interest rates, the interest income we earn on our assets may decrease more rapidly than the interest expense we incur on our liabilities, as borrowers prepay mortgage loans and mortgage-backed securities and callable investment securities are called or prepaid, thereby requiring us to reinvest these cash flows at lower interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A decline in interest rates generally results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

We evaluate interest rate sensitivity using a model that estimates the change in our net portfolio value over a range of interest rate scenarios, also known as a "rate shock" analysis. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."

Increased interest rates and changes in secondary mortgage market conditions could reduce our earnings from our mortgage banking operations.

Our mortgage banking income varies with movements in interest rates, and increases in interest rates could negatively affect our ability to originate loans in the same volume as we have in past years. In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for residential mortgage loans and increased investor yield requirements for these loans. These conditions may fluctuate or worsen in the future. In light of current conditions, there is greater risk in retaining mortgage loans pending their sale to investors. As a result, a prolonged period of secondary market illiquidity may reduce our loan mortgage production volume and could have a material adverse effect on our financial condition and results of operations.

The State of Illinois has significant financial difficulties, and this could adversely impact certain of our borrowers and the economic vitality of the state, which would have a negative impact on our business.

The State of Illinois has significant financial difficulties, including material pension funding shortfalls. The State of Illinois' debt rating has been downgraded and its executive and legislative branches of government have been unable to reach agreement on a budget for the current fiscal year. These issues could impact the economic vitality of the state and the businesses operating there, encourage businesses to leave the State of Illinois, discourage new employers from starting or moving businesses to the state, and could result in an increase in the Illinois state income tax rate. In addition, population outflow from the State of Illinois could affect our ability to attract and retain customers.

Some of the markets we are in include significant university and healthcare presence, which rely heavily on state funding and contracts. Payment delays by the State of Illinois to its vendors and government sponsored entities may have significant, negative effects on our markets, which could in turn adversely affect our financial condition and results of operations. In addition, adverse changes in agribusiness and capital goods exports could materially adversely affect downstate Illinois markets, which are heavily reliant upon these industries. Delays in the payment of accounts receivable owed to borrowers that are employed by or who do business with these industries or the State of Illinois could impair their ability to repay their loans when due and negatively impact our business.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has adopted Accounting Standard Update 2016-13, which will be effective for IF Bancorp and Iroquois Federal for the first quarter of the fiscal year ending June 30, 2020. This standard, often referred to as "CECL" (reflecting a current expected credit loss model), will require companies to recognize an allowance for credit losses based on estimates of losses expected to be realized over the contractual lives of the loans. Under current U.S. GAAP, companies generally recognize credit losses only when it is probable that a loss has been incurred as of the balance sheet date. This new standard will require us to collect and review increased types and amounts of data for us to determine the appropriate level of the allowance for loan losses, and may require us to increase our allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

We may be adversely affected by recent changes in U.S. tax laws.

Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for single-family residential real estate. Changes include (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans and for home equity loans, (ii) a limitation on the deductibility of business interest expense and (iii) a limitation on the deductibility of property taxes and state and local income taxes.

The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks’ reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Strong traditional and non-traditional competition within our market areas may limit our growth and profitability.

We face intense competition in making loans and attracting deposits. Price competition from other financial institutions, credit unions, money market and mutual funds, insurance companies, and other non-traditional competitors such as financial technology companies for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits and may reduce our net interest income. Competition also makes it more difficult and costly to attract and retain qualified employees. Many of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. Our competitors also may price loan and deposit products aggressively when they enter into new lines of business or new market areas. We expect competition to increase in the future as a result of legislative, regulatory, and technological changes and the continuing trend of consolidation in the financial services industry. If we are not able to compete effectively in our market area, our profitability may be negatively affected. The greater resources and broader offering of deposit and loan products of some of our competitors may also limit our ability to increase our interest-earning assets.

Our funding sources may prove insufficient to replace deposits and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These additional sources consist primarily of FHLB advances, certificates of deposit and brokered certificates of deposit and, to a lesser extent, repurchase agreements. As we continue to grow, we are likely to become more dependent on these sources. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

A portion of our loan portfolio consists of loan participations secured by properties outside of our primary market area. Loan participations may have a higher risk of loss than loans we originate because we are not the lead lender and we have limited control over credit monitoring.

We occasionally purchase loan participations secured by properties outside of our primary market area in which we are not the lead lender. Although we underwrite these loan participations consistent with our general underwriting criteria, loan participations may have a higher risk of loss than loans we originate because we rely on the lead lender to monitor the performance of the loan. Moreover, our decision regarding the classification of a loan participation and loan loss provisions associated with a loan participation is made in part based upon information provided by the lead lender. A lead lender also may not monitor a participation loan in the same manner as we would for loans that we originate. At June 30, 2019, our loan participations totaled $29.5 million, or 6.0% of our gross loans, most of which are within 100 miles of our primary lending market and consist primarily of multi-family, commercial real estate and commercial loans.

Additionally, we expect to continue to use loan participations as a way to effectively deploy our capital. If our underwriting of these participation loans is not sufficient, our non-performing loans may increase and our earnings may decrease.

If our non-performing loans and other non-performing assets increase, or the value of our foreclosed assets decreases our earnings will decrease.

At June 30, 2019, our non-performing assets (which consist of non-accrual loans, loans 90 days or more delinquent and still accruing, and real estate owned) totaled $1.5 million. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans, and we must establish reserves or take charge-offs for probable losses on non-performing loans. Reserves are established through a current period charge to income in the provision for loan losses. There are also legal fees associated with the resolution of problem assets.

Further, the resolution of non-performing assets requires the active involvement of management, which can distract us from the overall supervision of operations and other income-producing activities of Iroquois Federal. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance accordingly by recording a provision for loan losses.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable losses in our loan portfolio, requiring us to make additions to our allowance for loan losses. Our allowance for loan losses was 1.28% of total loans at June 30, 2019. Additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our financial condition and results of operations.

Government responses to economic conditions may adversely affect our operations, financial condition and earnings.

The Dodd-Frank Wall Street Reform and Consumer Protection Act has changed the bank regulatory framework, created an independent consumer protection bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and established more stringent capital standards for savings associations and savings and loan holding companies, subject to a transition period. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of the Dodd-Frank Act and regulatory actions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These risks could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision, and examination by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Federal regulations govern the activities in which we may engage, and are primarily for the protection of depositors and the Deposit Insurance Fund. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operations of a savings association, the classification of assets by a savings association, and the adequacy of a savings association's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations or legislation, could have a material impact on our results of operations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. Any legislative, regulatory or policy changes adopted in the future could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Further, we expect any such new laws, rules or regulations will add to our compliance costs and place additional demands on our management team.

The short-term and long-term impact of the changing regulatory capital requirements and capital rules is uncertain.

In July, 2013, the federal banking agencies approved a rule that substantially amended the regulatory risk-based capital rules applicable to Iroquois Federal and IF Bancorp. The rule implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. The application of more stringent capital requirements for Iroquois Federal and IF Bancorp could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as the inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

We face significant operational risks because the financial services business involves a high volume of transactions.

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory standards or customer attrition due to potential negative publicity. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and/or suffer damage to our reputation.

Cyber-attacks or other security breaches could adversely affect our operations, net income or reputation.

We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf.

Information security risks have generally increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial and other transactions and the increased sophistication and activities of perpetrators of cyber-attacks and mobile phishing. Mobile phishing, a means for identity thieves to obtain sensitive personal information through fraudulent e-mail, text or voice mail, is an emerging threat targeting the customers of popular financial entities. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses.

If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss.

Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit us to confirm the third party's compliance with the terms of the agreement. As information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur and may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource some of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any systems failures, interruptions, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We operate from our main office, six branch offices, an administrative office, and a data center located in Iroquois, Vermilion, Champaign and Kankakee Counties, Illinois, and our loan production and wealth management office in Osage Beach, Missouri. The net book value of our premises, land and equipment was $10.7 million at June 30, 2019. The following tables set forth information with respect to our banking offices, including the expiration date of leases with respect to leased facilities.

Location	Year Opened	Owned/ Leased
Main Office:		
201 East Cherry Street Watseka, Illinois 60970	1964	Owned
Branches:		
619 North Gilbert Street Danville, Illinois 61832	1973	Owned
175 East Fourth Avenue Clifton, Illinois 60927	1977	Owned
511 South Chicago Road Hoopeston, Illinois 60942	1979	Owned
108 Arbours Drive Savoy, Illinois 61874	2014	Owned
421 Brown Boulevard Bourbonnais, Illinois 60914	2017	Owned
2411 Village Green Place Champaign, Illinois 61822	2018	Owned
Loan Production Office:		
3535 Highway 54 Osage Beach, Missouri 65065	2006	Owned
Administrative Office:		
204 East Cherry Street Watseka, Illinois 60970	2001	Owned
Data Center:		
183 Bethel Drive Bourbonnais, Illinois 60914	2019	Leased (expires March 31, 2022)

ITEM 3. LEGAL PROCEEDINGS

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and Dividend Information.

The Company's common stock is listed on the Nasdaq Capital Market ("NASDAQ") under the trading symbol "IROQ." The following table sets forth the high and low sales prices of the Company's common stock as reported by NASDAQ, as well as dividends paid, during the periods indicated.

Fiscal 2019:	High	Low	Dividend
First Quarter	$25.00	$22.45	$ 0.125
Second Quarter	$23.40	$18.70	—
Third Quarter	$22.00	$19.35	$ 0.125
Fourth Quarter	$21.70	$19.16	—

Fiscal 2018:	High	Low	Dividend
First Quarter	$20.42	$19.31	$ 0.10
Second Quarter	$20.00	$19.10	—
Third Quarter	$20.45	$19.21	$ 0.10
Fourth Quarter	$24.65	$19.90	—

Holders.

As of September 3, 2019, there were 372 holders of record of the Company's common stock.

Dividends.

The Company paid dividends of $0.125 per share in October 2018 and April 2019, and $0.10 per share in October 2017 and April 2018. The payment of dividends in the future will depend upon a number of factors, including capital requirements, the Company's financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. In addition, the Company's ability to pay dividends is dependent on dividends received from Iroquois Federal. No assurances can be given that dividends will continue to be paid, or that, if paid, will not be reduced. For more information regarding restrictions on the payment of cash dividends by the Company and by Iroquois Federal, see "Business—Regulation and Supervision—Holding Company Regulation—Dividends" and "—Regulation and Supervision—Federal Savings Institution Regulation—Capital Distributions."

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

Not applicable.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following table provides information regarding the Company's purchase of its common stock during the quarter ended June 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)
4/1/19 – 4/30/19	—	$ —	—	—
5/1/19 – 5/31/19	—	—	—	—
6/1/19 – 6/30/19	2,800	21.02	2,800	86,726
Total	2,800	$ 21.02	2,800	86,726

(1) On December 6, 2018, the Company announced an increase in the number of shares that may be purchased under the Company's existing stock repurchase plan, whereby the Company could repurchase up to 290,356 shares of its common stock, or approximately 7.5% of its then outstanding shares. As of March 31, 2019, all 290,356 shares had been repurchased under this plan at an average price of $21.23 per share. The Company also announced a new 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 outstanding shares. There were 2,800 shares of the Company's common stock repurchased by the Company duing the three months ended June 30, 2019, and there were 86,726 shares yet to be purchased under the plan as of June 30, 2019.

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ITEM 6. SELECTED FINANCIAL DATA

	At June 30,				
	2019	2018	2017	2016	2015
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$723,870	$638,923	$585,474	$595,565	$563,668
Cash and cash equivalents	59,600	4,754	7,766	6,449	13,224
Investment securities available for sale	146,291	125,996	111,611	121,328	170,630
Federal Home Loan Bank of Chicago stock	1,174	3,285	2,543	5,425	5,425
Loans held for sale	316	206	186	—	93
Loans receivable, net	487,458	476,274	440,136	443,748	356,101
Foreclosed assets held for sale	778	219	429	338	50
Bank-owned life insurance	9,072	8,803	8,823	8,555	8,289
Deposits	607,023	480,421	439,146	433,708	415,544
Federal Home Loan Bank of Chicago advances	24,000	67,500	53,500	67,000	58,000
Total equity	82,461	81,675	83,969	83,972	80,436

	For the Fiscal Year Ended June 30,				
	2019	2018	2017	2016	2015
	(In thousands)				
Selected Operating Data:					
Interest income	$26,725	$22,794	$21,338	$20,373	$18,895
Interest expense	8,854	5,289	3,617	3,313	3,226
Net interest income	17,871	17,505	17,721	17,060	15,669
Provision for loan losses	407	777	1,721	1,366	460
Net interest income after provision for loan losses	17,464	16,728	16,000	15,694	15,209
Noninterest income	4,162	4,091	4,728	4,095	3,320
Noninterest expense	16,775	16,356	14,535	14,209	13,420
Income before income tax expense	4,851	4,463	6,193	5,580	5,109
Income tax expense	1,293	2,725	2,274	2,014	1,835
Net income	$ 3,558	$ 1,738	$ 3,919	$ 3,566	$ 3,274

	At or For the Fiscal Years Ended June 30,				
	2019	2018	2017	2016	2015
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets (net income as a percentage of average total assets)	0.53%	0.28%	0.67%	0.62%	0.60%
Return on average equity (net income as a percentage of average equity)	4.41%	2.09%	4.69%	4.35%	3.92%
Interest rate spread (1)	2.54%	2.77%	3.02%	3.00%	2.87%
Net interest margin (2)	2.78%	2.93%	3.14%	3.11%	2.98%
Efficiency ratio (3)	76.14%	75.76%	64.75%	67.17%	70.67%
Dividend payout ratio	24.51%	42.55%	15.09%	13.54%	12.05%
Noninterest expense to average total assets	2.52%	2.66%	2.48%	2.49%	2.45%
Average interest-earning assets to average interest-bearing liabilities	116.69%	118.01%	118.30%	117.85%	117.98%
Average equity to average total assets	12.10%	13.48%	14.27%	14.33%	15.21%
Asset Quality Ratios:					
Non-performing assets to total assets	0.21%	1.10%	1.70%	0.42%	0.55%
Non-performing loans to total loans	0.16%	1.42%	2.13%	0.49%	0.85%
Allowance for loan losses to non-performing loans	825.03%	87.06%	71.66%	244.39%	137.30%
Allowance for loan losses to total loans	1.28%	1.23%	1.53%	1.19%	1.17%
Net charge-offs (recoveries) to average loans	0.01%	0.35%	0.05%	0.05%	0.01%
Capital Ratios:					
Total capital (to risk-weighted assets):					
Company	17.6%	18.5%	20.09%	19.7%	23.2%
Association	16.3%	16.1%	16.9%	16.1%	19.3%
Tier 1 capital (to risk-weighted assets):					
Company	16.3%	17.3%	18.8%	18.5%	22.0%
Association	15.0%	14.9%	15.7%	14.9%	18.2%
Common Equity Tier 1 Capital (to risk-weighted assets):					
Company (4)	16.3%	17.3%	18.8%	18.5%	22.0%
Association (4)	15.0%	14.9%	15.7%	14.9%	18.2%
Tier 1 capital (to adjusted total assets):					
Company	11.9%	13.4%	14.3%	14.4%	14.5%
Association	11.0%	11.5%	12.0%	11.1%	11.9%
Tangible capital (to adjusted total assets):					
Company	11.9%	13.4%	14.3%	14.4%	14.5%
Association	11.0%	11.5%	12.0%	11.1%	11.9%
Other Data:					
Number of full service offices	7	6	6	5	5
Full time equivalent employees	103	104	100	95	98

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

(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.

(3) The efficiency ratio represents noninterest expense as a percentage of the sum of net interest income and noninterest income.

(4) The common equity Tier 1 ("CET1") capital is a new capital requirement adopted by the OCC, which became effective for the Association in January, 2015.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Overview

We have grown our organization to $723.9 million in assets at June 30, 2019 from $377.2 million in assets at June 30, 2009. We have increased our assets primarily through increased investment securities and loan growth.

Historically, we have operated as a traditional thrift institution. As recently as June 30, 2009, approximately 72.4% of our loan portfolio, consisted of longer-term, one- to four-family residential real estate loans. However, in recent years, we have increased our focus on the origination of commercial real estate loans, multi-family real estate loans and commercial business loans, which generally provide higher returns than one- to four-family residential mortgage loans, have shorter durations and are often originated with adjustable rates of interest.

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, repurchase agreements, 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 2.54% and 2.77% for the year ended June 30, 2019 and 2018, respectively. Net interest income increased to $17.9 million for the year ended June 30, 2019, from $17.5 million for the year ended June 30, 2018.

Our net income for the year ended June 30, 2019 was $3.6 million, compared to a net income of $1.7 million for the year ended June 30, 2018. The year ended June 30, 2018 included an additional $1.3 million income tax expense due to a downward adjustment to our net deferred tax asset ("DTA") related to the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017. The Tax Act provided for a reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018, which resulted in the downward adjustment to our DTA. The increase in net income for the year ended June 30, 2019 was also impacted by a $3.9 million increase in interest income, a $71,000 increase in noninterest income, and a $370,000 decrease in provision for loan losses, partially offset by a $3.6 million increase in interest expense and a $419,000 increase in noninterest expense. Excluding the $1.3 million impact of the adjustment to the DTA, the Company's net income for the year ended June 30, 2018 would have been $3.1 million. Management believes that presenting net income on a non-GAAP basis excluding the impact of the adjustment to the DTA in the year ended June 30, 2018 provides useful information for evaluating the Company's operating results and any related trends that may be affecting the Company's business. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP.

Our emphasis on conservative loan underwriting has resulted in relatively low levels of non-performing assets. However, in June 2017, one large credit in the amount of $7.8 million, secured by 45 one- to four-family properties, was moved to non-performing when the borrower became involved in litigation, and subsequently filed for bankruptcy protection. The properties securing this loan are all existing homes that were acquired by the borrower to be renovated and resold. During the year ended June 30, 2019, these 45 properties with an aggregate value of $6.3 million were moved to foreclosed assets held for sale, and 43 of these properties were sold for an aggregate gain of $3,000. Our non-performing assets totaled $1.5 million or 0.2% of total assets at June 30, 2019, and $7.0 million, or 1.1% of assets at June 30, 2018. All of our mortgage-backed securities have been issued by Freddie Mac, Fannie Mae or Ginnie Mae, U.S. government-sponsored enterprises. These entities guarantee the payment of principal and interest on our mortgage-backed securities.

Other than our loans for the construction of one- to four-family residential properties and the draw portion of our home equity lines of credit, we do not offer "interest only" mortgage loans on one- to four-family residential properties (where the borrower pays interest but no principal for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer "subprime loans" (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation). We also do not own any private label mortgage-backed securities that are collateralized by Alt-A, low or no documentation or subprime mortgage loans.

The Association's legal lending limit to any one borrower is 15% of unimpaired capital and surplus. On July 30, 2012 the Association received approval from the Office of the Comptroller of the Currency to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one borrower, or small farm loans or extensions of credit to one borrower. For our association this additional limit (or "supplemental limit(s)") for one- to four-family residential real estate, small business, or small farm loans is 10% of our Association's capital and surplus. In addition, the total outstanding amount of the Association's loans or extensions of credit or parts of loans and extensions of credit made to all of its borrowers under the SLLP may not exceed 100% of the Association's capital and surplus. By Association policy, participation of any credit facilities in the SLLP is to be infrequent and all credit facilities are to be with prior Board approval.

All of our mortgage-backed securities have been issued by Freddie Mac, Fannie Mae or Ginnie Mae, U.S. government-sponsored enterprises. These entities guarantee the payment of principal and interest on our mortgage-backed securities.

On July 7, 2011, we completed our initial public offering of common stock in connection with Iroquois Federal's mutual-to-stock conversion, selling 4,496,500 shares of common stock at $10.00 per share, including 384,900 shares sold to Iroquois Federal'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.

Critical Accounting Policies

We consider accounting 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, to be critical accounting policies. 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 cover 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 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. See also “Business — Allowance for Loan Losses.”

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 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.

We believe our tax policies and practices are critical accounting policies because the determination of our tax provision and current and deferred tax assets and liabilities have a material impact on our net income and the carrying value of our assets. We believe our tax liabilities and assets are properly recorded in the consolidated financial statements at June 30, 2019 and no valuation allowance was necessary.

The Tax Cuts and Jobs Act, enacted on December 22, 2017, provided for a reduction in the federal corporate income rate from 35% to 21% effective January 1, 2018. As a result, our blended federal corporate income tax rate for the year ended June 30, 2019 was 28.505%.

Comparison of Financial Condition at June 30, 2019 and June 30, 2018

Total assets increased $84.9 million, or 13.3%, to $723.9 million at June 30, 2019 from $638.9 million at June 30, 2018. The increase was primarily due to a $54.8 million increase in cash and cash equivalents, a $20.3 million increase in investments and a $11.3 million increase in net loans, partially offset by a $2.1 million decrease in FHLB stock and a $1.9 million decrease in deferred income taxes.

Cash and cash equivalents increased by $54.8 million to $59.6 million at June 30, 2019, from $4.8 million at June 30, 2018. This increase was the result of approximately $55.3 million in deposits received from a public entity that collects real estate taxes in two installments, due June and September. These deposits are temporary in nature as distributions are made in early July and September.

Investment securities, consisting entirely of securities available for sale, increased $20.3 million, or 16.1%, to $146.3 million at June 30, 2019 from $126.0 million at June 30, 2018. We had no held-to-maturity securities at June 30, 2019 or June 30, 2018.

Net loans receivable, including loans held for sale, increased by $11.3 million, or 2.4%, to $487.8 million at June 30, 2019 from $476.5 million at June 30, 2018. The increase in net loans receivable during this period was due primarily to a $15.5 million, or 22.6%, increase in commercial business loans, a $2.4 million, or 17.1% increase in construction loans, and a $2.4 million, or 1.7%, increase in commercial real estate loans, partially offset by a $2.8 million, or 2.6%, decrease in multi-family loans, a $5.7 million, or 4.2%, decrease in one- to four-family loans, a $120,000, or 1.3%, decrease in home equity lines of credit, and a $230,000, or 3.1%, decrease in consumer loans.

Compared to June 30, 2018, as of June 30, 2019, premises and equipment increased $480,000 to $10.7 million, accrued interest receivable increased $321,000 to $2.1 million, foreclosed assets held for sale increased $559,000 to $778,000, and bank-owned life insurance increased $269,000 to $9.1 million, while deferred income taxes decreased $1.9 million to $2.1 million, Federal Home Loan Bank (FHLB) stock decreased $2.1 million to $1.2 million, and other assets decreased $306,000 to $414,000. The increase in premises and equipment was mostly due to the opening of a new office building in Champaign, Illinois, and the increase in accrued interest receivable was due to increases in the average balance of both loans and securities. The increase in foreclosed assets held for sale was due to the large credit discussed in “Overview” above that resulted in 45 one- to four-family properties with an aggregate value of $6.3 million being transferred to foreclosed assets held for sale. During the year ended June 30, 2019, 43 of those 45 properties were sold. The increase in bank-owned life insurance was the result of regular accruals of the cash surrender value. The decrease in deferred income taxes was mostly due to an increase in unrealized gains on the sale of available-for sale securities, while the decrease in FHLB stock was the result of a lower stock requirement due to a reduced balance of FHLB advances, and the decrease in other assets resulted from a lower accounts receivable general at June 30, 2019.

At June 30, 2019, our investment in bank-owned life insurance was $9.1 million, an increase of $269,000 from $8.8 million at June 30, 2018. 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 the Association’s Tier 1 capital plus our allowance for loan losses. At June 30, 2019, our investment of $9.1 million in bank-owned life insurance was 11.1% of our Tier 1 capital plus our allowance for loan losses.

Deposits increased $126.6 million, or 26.4%, to $607.0 million at June 30, 2019 from $480.4 million at June 30, 2018. Savings, NOW, and money market accounts increased $805,000, or 0.4%, to $196.3 million, noninterest bearing demand accounts increased $59.1 million, or 276.8%, to $80.4 million, certificates of deposit, excluding brokered certificates of deposit, increased $61.5 million, or 26.8%, to $290.8 million, and brokered certificates of deposit increased $5.2 million, or 15.1%, to $39.5 million. Repurchase agreements decreased $266,000 to $2.0 million. The increase in noninterest bearing demand deposits includes approximately $55.3 million in deposits from a public entity that collects real estate taxes in two installments, due June and September. These deposits are temporary in nature as distributions are made in early July and September.

Advances from the Federal Home Loan Bank of Chicago decreased $43.5 million, or 64.4%, to $24.0 million at June 30, 2019 from $67.5 million at June 30, 2018 as the new deposit funds were used to reduce our borrowing from the Federal Home Loan Bank of Chicago.

Total equity increased $786,000, or 1.0%, to $82.5 million at June 30, 2019 from $81.7 million at June 30, 2018. Equity increased due to net income of $3.6 million, an increase of $3.7 million in accumulated other comprehensive income, net of tax, and ESOP and stock equity plan activity of $645,000, partially offset by the repurchase of 293,156 shares of common stock at an aggregate cost of approximately $6.2 million, and the payment of approximately $868,000 in dividends to our shareholders. The Company announced a stock repurchase plan on December 5, 2018, whereby the Company could repurchase up to 290,356 shares of its common stock, or approximately 7.5% of its then current outstanding shares. All 290,356 shares of the Company’s common stock were repurchased by the Company at an average price of $21.23 per share. The Company announced another repurchase plan on June 12, 2019, which allowed the Company to repurchase up to 89,526 shares of it common stock, or approximately 2.5% of its then current outstanding shares. As of June 30, 2019, 2,800 shares had been repurchased at an average price of $21.02 per share, and there were 86,726 shares yet to be repurchased under the plan.

Comparison of Operating Results for the Years Ended June 30, 2019 and 2018

General. Net income increased $1.8 million, or 104.7%, to $3.6 million net income for the year ended June 30, 2019 from $1.7 million net income for the year ended June 30, 2018. The increase was largely due to a decrease of $1.3 million in provision for income tax as a result of the Tax Act enacted in December 2018. The increase was also impacted by an increase in net interest income, a decrease in provision for loan losses, and an increase in noninterest income, partially offset by an increase in noninterest expense.

Net Interest Income. Net interest income increased by $366,000, or 2.1%, to $17.9 million for the year ended June 30, 2019 from $17.5 million for the year ended June 30, 2018. The increase was due to an increase of $3.9 million in interest and dividend income, partially offset by an increase of $3.6 million in interest expense. A $45.6 million, or 7.6%, increase in the average balance of interest earning assets was partially offset by a $44.8 million, or 8.9%, increase in the average balance of interest bearing liabilities. Our interest rate spread decreased 23 basis points to 2.54% for the year ended June 30, 2019 from 2.77% for the year ended June 30, 2018, and our net interest margin decreased by 15 basis points to 2.78% for the year ended June 30, 2019 from 2.93% for the year ended June 30, 2018. The decrease in spread and margin was primarily due to the increasing interest rate environment, as our interest earning assets repriced more slowly than our interest bearing liabilities.

Interest and Dividend Income. Interest and dividend income increased $3.9 million, or 17.2%, to $26.7 million for the year ended June 30, 2019 from $22.8 million for the year ended June 30, 2018. The increase in interest income was due to a $3.2 million increase in interest income on loans, a $510,000 increase in interest income on securities, and a $204,000 increase in other interest income. An increase of $3.2 million, or 16.4%, in interest on loans resulted from a $25.2 million, or 5.4%, increase in the average balance of loans to $494.9 million for the year ended June 30, 2019, and a 43 basis point, or 10.3%, increase in the average yield on loans to 4.61% from 4.18%. Interest on securities increased $510,000, or 17.3%, due to a $13.2 million increase in the average balance of securities to $132.2 million at June 30, 2019 from $118.9 million at June 30, 2018, and a 14 basis point, or 5.6%, increase in the average yield on securities to 2.62% for the year ended June 30, 2019 from 2.48% for the year ended June 30, 2018.

Interest Expense. Interest expense increased $3.6 million, or 67.4%, to $8.9 million for the year ended June 30, 2019 from $5.3 million for the year ended June 30, 2018. The increase was primarily due to increased average balance of interest-bearing liabilities and higher market rates of interest during the period.

Interest expense on interest-bearing deposits increased $2.9 million, or 64.4%, to $7.3 million for the year ended June 30, 2019, from $4.5 million for the year ended June 30, 2018. This increase was primarily due to an increase in the average balance of interest-bearing deposits to $488.1 million for the year ended June 30, 2019, from $442.7 million for the year ended June 30, 2018, and also a 49 basis point, or 49.1% increase in the average cost of interest-bearing deposits to 1.50% from 1.01%.

Interest expense on borrowings, including FHLB advances and repurchase agreements, increased $698,000, or 83.2%, to $1.5 million for the year ended June 30, 2019 from $839,000 for the year ended June 30, 2018. This increase was due to an 111 basis point increase in the average cost of such borrowings to 2.42% for the year ended June 30, 2019 from 1.31% for the year ended June 30, 2018, partially offset by a $580,000, or 0.9%, decrease in the average balance of borrowings to $63.4 million for the year ended June 30, 2019 from $64.0 million for the year ended June 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 $407,000 for the year ended June 30, 2019, compared to a provision for loan losses of $777,000 for the year ended June 30, 2018. The allowance for loan losses was $6.3 million, or 1.28% of total loans, at June 30, 2019, compared to $5.9 million, or 1.23% of total loans, at June 30, 2018. Non-performing loans decreased during the year ended June 30, 2019, to $767,000, from $6.8 million at June 30, 2018. This decrease was the result of moving the 45 properties with an aggregate value of $6.3 million, that secured the large credit discussed in "Overview" above, to foreclosed assets held for sale. During the year ended June 30, 2019, 43 of those 45 properties were sold. During the year ended June 30, 2019, net charge-offs of $24,000 were recorded, while during the year ended June 30, 2018, $1.7 million in net charge-offs were recorded. Of the $1.7 million charged off in the year ended June 30, 2018, $1.5 million related to one large credit discussed under "Overview" above.

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

	Year Ended June 30, 2019	Year Ended June 30, 2018
Allowance to non-performing loans	825.03%	87.06%
Allowance to total loans outstanding at the end of the period	1.28%	1.23%
Net charge-offs to average total loans outstanding during the period, annualized	0.01%	0.35%
Total non-performing loans to total loans	0.16%	1.42%
Total non-performing assets to total assets	0.21%	1.10%

Noninterest Income. Noninterest income increased $71,000, or 1.7%, to $4.2 million for the year ended June 30, 2019 from $4.1 million for the year ended June 30, 2018. The increase was primarily due to an increase in brokerage commissions, an increase in insurance commissions, an increase in other income, an increase in the gain on the sale of loans, and an increase in the gain on foreclosed assets, net, partially offset by a decrease in mortgage banking income, net, a decrease in other service charges and fees, and a decrease in bank-owned life insurance, net. For the year ended June 30, 2019, brokerage commissions increased $106,000 to $981,000, insurance commissions increased $61,000 to $660,000, other income increased $117,000 to $1.0 million, gains on the sale of loans increased $111,000 to $343,000, and gain on foreclosed assets, net increased $27,000 to $3,000, while mortgage banking income, net decreased $152,000 to $236,000, other service charges and fees decreased $79,000 to $279,000, and bank-owned life insurance, net decreased $108,000 to $269,000. The increase in brokerage commissions was due to a change in the timing and calculation of commission payments, the increase in insurance commissions was due to higher commissions earned, the increase in other income was mostly to due to an increase in debit card and ATM income, the increase in gain on the sale of loans was the result of an increase in loans sold, and the increase in the gain on foreclosed assets, net was due to more foreclosed assets being sold at a gain in the year ended June 30, 2019. The decrease in mortgage banking income, net was the result of a decrease in the valuation of mortgage servicing rights, the decrease in service charges and fees was due to fewer service charges assessed in the year ended June 30, 2019, and the decrease in bank-owned life insurancewas due to a benefit claim received in the year ended June 30, 2018.

Noninterest Expense. Noninterest expense increased $419,000, or 2.6%, to $16.8 million for the year ended June 30, 2019 from $16.4 million for the year ended June 30, 2018. The largest components of this increase were compensation and benefits, which increased $912,000, or 9.4%, office occupancy, which increased $126,000, or 16.6%, and equipment expense, which increased $94,000, or 7.3%. These increases were partially offset by decreases in other expenses, which decreased $640,000, or 24.1%, stationary, printing and office, which decreased $49,000, or 31.4%, and telephone and postage, which decreased $42,000, or 15.8%. Compensation and benefits increased due to increased staffing changes including additional staff for the Champaign office that opened in August 2018, as well as, 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 other expenses decreased as a result of the accrual of real estate taxes and closing costs on a large credit in bankruptcy in the year ended June 30, 2018. Expenses for stationary, printing and office decreased as a result of additional supplies purchased in the year ended June 30, 2018 related to our IT core conversion, and expenses for telephone and postage decreased as a result of new vendor billing that allowed us to reduce telephone expenses by reallocating data line expenses to equipment expense.

Income Tax Expense. We recorded a provision for income tax of $1.3 million for the year ended June 30, 2019, compared to a provision for income tax of $2.7 million for the year ended June 30, 2018, reflecting effective tax rates of 26.7% and 61.1%, respectively. The effective tax rate for the year ended June 30, 2018, reflects the impact of the adjustment to the DTA, as discussed above under “Overview”.

Asset Quality and Allowance for Loan Losses

For information regarding asset quality and allowance for loan loss activity, see "Item 1. Business—Non-performing and Problem Assets" and "Item 1. Business—Allowance for Loan Losses."

Average Balances and Yields

The following tables set forth average balance sheets, average yields and costs, and certain other information 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 Iroquois Federal. 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.

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	For the Fiscal Years Ended June 30,								
	2019			2018			2017		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
Interest-earning assets:									
Loans:									
Real estate loans:									
One- to four-family (1)	$ 131,494	$ 5,909	4.49%	$ 139,529	$ 5,866	4.20%	$ 145,662	$ 6,119	4.20%
Multi-family	107,282	4,543	4.23	97,767	3,857	3.95	83,292	3,275	3.93
Commercial	148,344	6,672	4.50	138,351	5,584	4.04	123,706	5,029	4.07
Home equity lines of credit	9,033	437	4.84	8,269	358	4.33	7,735	336	4.34
Construction loans	13,931	745	5.35	10,945	491	4.49	19,738	789	4.00
Commercial business loans	77,548	4,148	5.35	66,962	3,092	4.62	56,975	2,490	4.37
Consumer loans	7,288	379	5.20	7,923	368	4.64	8,687	405	4.66
Total loans	494,920	22,833	4.61	469,746	19,616	4.18	445,795	18,443	4.14
Securities:									
U.S. government, federal agency and government-sponsored enterprises	27,816	711	2.56	22,594	543	2.40	69,920	1,802	2.58
U.S. government sponsored mortgage-backed securities	101,530	2,700	2.66	93,247	2,345	2.51	37,238	870	2.34
State and political subdivisions	2,812	52	1.85	3,103	65	2.09	3,340	75	2.25
Total securities	132,158	3,463	2.62	118,944	2,953	2.48	110,498	2,747	2.49
Other	16,512	429	2.60	9,276	225	2.43	8,716	148	1.70
Total interest-earning assets	643,590	26,725	4.15	597,966	22,794	3.81	565,009	21,338	3.78
Noninterest-earning assets	23,054			17,948			20,403		
Total assets	$ 666,644			$ 615,914			$ 585,412		
Interest-bearing liabilities:									
Interest-bearing checking or NOW	$ 50,668	141	0.28	$ 46,299	66	0.14	$ 44,080	40	0.09
Savings accounts	43,183	178	0.41	43,159	102	0.24	40,191	49	0.12
Money market accounts	97,555	1,254	1.29	96,984	853	0.88	75,736	195	0.26
Certificates of deposit	296,692	5,744	1.94	256,250	3,429	1.34	249,689	2,607	1.04
Total interest-bearing deposits	488,098	7,317	1.50	442,692	4,450	1.01	409,696	2,891	0.71
Federal Home Loan Bank advances and repurchase agreements	63,417	1,537	2.42	63,997	839	1.31	67,899	726	1.07
Total interest-bearing liabilities	551,515	8,854	1.61	506,689	5,289	1.04	477,595	3,617	0.76
Noninterest-bearing liabilities	34,440			26,193			24,279		
Total liabilities	585,955			532,882			501,874		
Equity	80,689			83,032			83,538		
Total liabilities and equity	666,644			615,914			585,412		
Net interest income		$ 17,871			$ 17,505			$ 17,721	
Net interest rate spread (2)			2.54%			2.77%			3.02%
Net interest-earning assets (3)	$ 92,075			$ 91,277			$ 87,414		
Net interest margin (4)			2.78%			2.93%			3.14%
Average interest-earning assets to interest-bearing liabilities	117%			118%			118%		

(1) Includes home equity loans.
(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average total interest-earning assets.

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.

	Fiscal Years Ended June 30, 2019 vs. 2018			Fiscal Years Ended June 30, 2018 vs. 2017		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Loans	$ 1,102	$2,115	$ 3,217	$ 996	$ 177	$ 1,173
Securities	338	172	510	217	(11)	206
Other	187	17	204	9	68	77
Total interest-earning assets	$ 1,627	$2,304	$ 3,931	$ 1,222	$ 234	$ 1,456
Interest-bearing liabilities:						
Interest-bearing checking or NOW	$ 6	$ 69	$ 75	$ 2	$ 24	$ 26
Savings accounts	—	76	76	4	49	53
Certificates of deposit	603	1,712	2,315	68	754	822
Money market accounts	5	396	401	37	621	658
Total interest-bearing deposits	614	2,253	2,867	111	1,448	1,559
Federal Home Loan Bank advances	(8)	706	698	(44)	157	113
Total interest-bearing liabilities	$ 606	$2,959	$ 3,565	$ 67	$ 1,605	$ 1,672
Change in net interest income	$ 1,021	$ (655)	$ 366	$ 1,155	$(1,371)	$ (216)

Management of Market Risk

General. Because the majority of our assets and liabilities are sensitive to changes in interest rates, our most significant form of market risk is interest rate risk. We are vulnerable to an increase in interest rates to the extent that our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Management Committee pursuant to our Interest Rate Risk Management Policy that is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

As part of our ongoing asset-liability management, we currently use the following strategies to manage our interest rate risk:

(i) sell the majority of our long-term, fixed-rate one- to four-family residential mortgage loans that we originate;

(ii) lengthen the weighted average maturity of our liabilities through retail deposit pricing strategies and through longer-term wholesale funding sources such as brokered certificates of deposit and fixed-rate advances from the Federal Home Loan Bank of Chicago;

(iii) invest in shorter- to medium-term investment securities and interest-earning time deposits;

(iv) originate commercial mortgage loans, including multi-family loans and land loans, commercial loans and consumer loans, which tend to have shorter terms and higher interest rates than one- to four-family residential mortgage loans, and which generate customer relationships that can result in larger noninterest-bearing demand deposit accounts; and

(v) maintain adequate levels of capital.

We currently do not engage in hedging activities, such as futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligations, residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

In addition, changes in interest rates can affect the fair values of our financial instruments. For additional information regarding the fair values of our assets and liabilities, see Note 17 to the Notes to our Consolidated Financial Statements.

Interest Rate Risk Analysis

We also perform an interest rate risk analysis that assesses our earnings at risk and our value at risk (or net economic value of equity at risk). Earnings at risk represents the underlying threat to earnings associated with the continual repricing of a financial institution's various assets and liabilities in differing amounts, at different times, at different interest rate levels, all within the context of a continually changing, global interest rate environment. Our analysis of our earnings at risk is completed monthly on our net interest income for periods extending twelve and twenty-four months forward. Simulations include a base line analysis with no change in the current interest rate environment and alternative interest rate possibilities including rising and falling interest rates of 100, 200, 300, and 400 basis points in interest rates under ramp, shock, static and dynamic rate environments to generate the estimated impact on net interest income. Value at risk represents the threat to the underlying value of a financial institution's various assets and liabilities, and consequently its capital, given the potential for change in the interest rate structure in which these financial instruments might either reprice, or fail to reprice, in an environment of constantly changing interest rates. Our analysis of our value at risk is completed quarterly and the calculation measures the net effect on the market value of the bank's equity position when quantifying the impact when interest rates rise and fall for the range of -400 basis points to +400 basis points. Details of our general ledger along with key data from each deposit, loan, investment, and borrowing are downloaded into our forecasting model, which takes into account both market

and internal trends. Historical testing is done internally on a regular basis to confirm the validity of the model, while third-party testing is done periodically. Details of our interest rate risk analysis are reviewed by the Asset/Liability Management Committee and presented to the Board on a quarterly basis.

The tables below illustrate the simulated impact of rate shock scenarios up to 400 basis points over a two-year period on our earnings at risk for net interest income. The earnings at risk tables show net interest income increasing in a rising rate environment and decreasing when rates decline. The net economic value of equity at risk table below sets forth our calculation of the estimated changes in our net economic value of equity at June 30, 2019 resulting from immediate rate shocks ranging from -400 basis points to +400 basis points..

Earnings at Risk

Change in Interest Rates (basis points)	% Change in Net Interest Income	
	6/30/20	6/30/21
+400	5.39	1.53
+300	4.51	1.91
+200	3.26	1.60
+100	1.88	1.01
0		
-100	(3.58)	(3.76)
-200	(6.97)	(7.38)
-300	(10.04)	(10.43)
-400	(12.80)	(13.22)

Net Economic Value of Equity (NEVE) at Risk

Change in Interest Rates (basis points)	Estimated NEVE	% Change NEVE
+400	81,097	(10.94)
+300	84,091	(7.65)
+200	87,185	(4.25)
+100	90,164	(0.98)
0	91,058	
-100	89,300	(1.93)
-200	86,938	(4.52)
-300	89,371	(1.85)
-400	91,442	0.42

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. We also utilize brokered certificates of deposit, internet funding, borrowings from the Federal Reserve, and sales of securities, when appropriate. 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 years ended June 30, 2019 and 2018, our liquidity ratio averaged 21.4% and 19.8% of our total assets, respectively. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of June 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 June 30, 2019, cash and cash equivalents totaled $59.6 million.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Statements of Cash Flows included in our financial statements.

At June 30, 2019, we had $5.4 million in loan commitments outstanding, and $50.8 million in unused lines of credit to borrowers. Certificates of deposit due within one year of June 30, 2019 totaled $210.9 million, or 34.7% of total deposits. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before June 30, 2018. Additionally, 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.

Our primary investing activity is originating loans. During the years ended June 30, 2019 and 2018, we originated $156.2 million and $224.1 million of loans, respectively.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We had a net increase in total deposits of $126.6 million for the year ended June 30, 2019, and a net increase in total deposits of $41.3 million for the year ended June 30, 2018. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

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 $24.0 million at June 30, 2019. At June 30, 2019, we had the ability to borrow up to an additional $158.0 million from the Federal Home Loan Bank of Chicago based on our collateral and had the ability to borrow an additional $28.5 million from the Federal Reserve based upon current collateral pledged.

Iroquois Federal 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. At June 30, 2019, Iroquois Federal exceeded all regulatory capital requirements. Iroquois Federal is considered "well capitalized" under regulatory guidelines. See Note 12– Regulatory Matters of the notes to the financial statements included in this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. For additional information, see Note 19 – Commitments and Credit Risk of the notes to the financial statements included in this Annual Report on Form 10-K.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

Recent Accounting Pronouncements

For a discussion of the impact of recent and future accounting pronouncements, see Note 1 of the notes to our consolidated financial statements beginning on page F-1 of this Annual Report on Form 10-K.

Impact of Inflation and Changing Prices

Our financial statements and related notes have been prepared in accordance with U.S. GAAP. U.S. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of

inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on our performance than the effects of inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to Part II, Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operation*."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements, including supplemental data, of IF Bancorp begin on page F-1 of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

The Company's President and Chief Executive Officer, its Chief Financial Officer, and other members of its senior management team have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)), as of June 30, 2019. Based on such evaluation, the President and Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this report, were adequate and effective to provide reasonable assurance that information required to be disclosed by the Company, including Iroquois Federal, in reports that are filed or submitted under the Exchange Act, is (1) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (2) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely discussions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting.

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2019, utilizing the framework established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of June 30, 2019 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial

statements in accordance with accounting principles generally accepted in the United States of America; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information relating to the directors and officers of the Company, information regarding compliance with Section 16(a) of the Exchange Act and information regarding the audit committee and audit committee financial expert is incorporated herein by reference to the Company's Proxy Statement for the Registrant's Annual Meeting of Stockholders, to be held on November 25, 2019 (the "Proxy Statement") under the captions "Proposal 1—Election of Directors," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance," "Nominating Committee Procedures—Procedures to be Followed by Stockholders," "Corporate Governance—Committees of the Board of Directors" and "—Audit Committee" is incorporated herein by reference.

The Company has adopted a code of ethics that applies to its principal executive officer, the principal financial officer and principal accounting officer. The Code of Ethics is posted on the Company's Internet Web site.

ITEM 11. EXECUTIVE COMPENSATION

The information regarding executive compensation, compensation committee interlocks and insider participation is incorporated herein by reference to the Proxy Statement under the captions "Executive Officers—Executive Compensation" and "Director Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned "Stock Ownership" in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned "Stock Ownership" in the Proxy Statement.

(c) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person or securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

Equity Compensation Plan Information

The following table sets forth information as of June 30, 2019 about Company common stock that may be issued upon the exercise of options under the IF Bancorp, Inc. 2012 Equity Incentive Plan. The plan was approved by the Company's stockholders.

Plan Category	Number of securities to be issued upon the exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	153,143	$ 16.63	314,125
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	153,143	$ 16.63	314,125

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information relating to certain relationships and related transactions and director independence is incorporated herein by reference to the Proxy Statement under the captions "Transactions with Related Persons" and "Proposal 1 — Election of Directors."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information relating to the principal accounting fees and expenses is incorporated herein by reference to the Proxy Statement under the captions "Proposal III—Ratification of Independent Registered Public Accounting Firm—Audit Fees" and "—Pre-Approval of Services by the Independent Registered Public Accounting Firm."

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) The financial statements required in response to this item are incorporated by reference from Item 8 of this report.

(2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

3.1 Articles of Incorporation of IF Bancorp, Inc. (1)

3.2 Amended and Restated Bylaws of IF Bancorp, Inc. (2)

4.1 Specimen Stock Certificate of IF Bancorp, Inc. (1)

4.6 Description of Registrant's Securities

10.1 Employment Agreement between Iroquois Federal Savings and Loan Association and Walter H. Hasselbring, III (3)

10.2 Employment Agreement between IF Bancorp, Inc. and Walter H. Hasselbring, III (3)

10.3 Change in Control Agreement of Pamela J. Verkler (4)

10.4 Change in Control Agreement of Thomas J. Chamberlain (9)

10.5 Amendment One to Employment Agreement between Iroquois Federal Savings and Loan Association and Walter H. Hasselbring, III (5)

10.6 Amendment One to Employment Agreement between IF Bancorp, Inc. and Walter H. Hasselbring, III (5)

10.7 Amendment Two to Employment Agreement between Iroquois Federal Savings and Loan Association and Walter H. Hasselbring, III (6)

10.8 Amendment Two to Employment Agreement between IF Bancorp, Inc. and Walter H. Hasselbring, III (6)

10.9 Directors Non Qualified Retirement Plan (1)

10.10 IF Bancorp, Inc. 2012 Equity Incentive Plan (7)

21.0 List of Subsidiaries (1)

23.0 Consent of BKD, LLP

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.0 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer (8)

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2019 and 2018, (ii) the Consolidated Statements of Income for the years ended June 30, 2019 and 2018, (iii) the Consolidated Statements of Comprehensive Income (Loss) for the years ended June 30, 2019 and 2018, (iv) the Consolidated Statements of Stockholders' Equity for the years ended June 30, 2019 and 2018, (v) the Consolidated Statements of Cash Flows for the years ended June 30, 2019 and 2018, and (vi) the notes to the Consolidated Financial Statements.

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(1) Incorporated by reference to the Company's Registration Statement on Form S-1 (333-172842), as amended, initially filed with the SEC on March 16, 2011.
(2) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on March 8, 2018.
(3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on December 1, 2015.
(4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 14, 2011.
(5) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on May 31, 2016.
(6) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on June 15, 2017.

(7) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the SEC on October 12, 2012.
(8) This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.
(9) Incorporated by reference to the Company's Form 10-K filed with the SEC on September 11, 2017.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: September 10, 2019

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Walter H. Hasselbring, III Walter H. Hasselbring, III	President, Chief Executive Officer and Director (Principal Executive Officer)	September 10, 2019
/s/ Pamela J. Verkler Pamela J. Verkler	Senior Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 10, 2019
/s/ Gary Martin Gary Martin	Chairman of the Board	September 10, 2019
/s/ Alan D. Martin Alan D. Martin	Director	September 10, 2019
/s/ Joseph A. Cowan Joseph A. Cowan	Director	September 10, 2019
/s/ Wayne A. Lehmann Wayne A. Lehmann	Director	September 10, 2019
/s/ Frank J. Simutis Frank J. Simutis	Director	September 10, 2019
/s/ Dennis C. Wittenborn Dennis C. Wittenborn	Director	September 10, 2019
/s/ Rodney E. Yergler Rodney E. Yergler	Director	September 10, 2019

IF Bancorp, Inc.
Consolidated Financial Statements
Years Ended June 30, 2019 and 2018

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Shareholders, Board of Directors and Audit Committee
IF Bancorp, Inc.
Watseka, Illinois

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of IF Bancorp, Inc. (Company) as of June 30, 2019 and 2018, the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion

We have served as the Company's auditor since 2009.

/s/ BKD, LLP
Decatur, Illinois
September 12, 2019

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IF Bancorp, Inc.
Consolidated Balance Sheets
June 30, 2019 and 2018
(in thousands)

Assets

	2019	2018
Cash and due from banks	$ 57,994	$ 4,240
Interest-bearing demand deposits	1,606	514
Cash and cash equivalents	59,600	4,754
Interest-bearing time deposits in banks	3,000	1,750
Available-for-sale securities	146,291	125,996
Loans, net of allowance for loan losses of $6,328 and $5,945 at June 30, 2019 and 2018, respectively	487,774	476,480
Premises and equipment, net of accumulated depreciation of $7,345 and $6,717 at June 30, 2019 and 2018, respectively	10,706	10,226
Federal Home Loan Bank stock, at cost	1,174	3,285
Foreclosed assets held for sale	778	219
Accrued interest receivable	2,142	1,821
Bank-owned life insurance	9,072	8,803
Mortgage servicing rights	853	866
Deferred income taxes	2,066	4,003
Other	414	720
Total assets	$ 723,870	$ 638,923

See Notes to Consolidated Financial Statements

Liabilities and Stockholders' Equity

	2019	2018
Liabilities		
Deposits		
Demand	$ 80,442	$ 21,350
Savings, NOW and money market	196,296	195,491
Certificates of deposit	290,761	229,236
Brokered certificates of deposit	39,524	34,344
Total deposits	607,023	480,421
Repurchase agreements	2,015	2,281
Federal Home Loan Bank advances	24,000	67,500
Advances from borrowers for taxes and insurance	747	309
Accrued post-retirement benefit obligation	2,919	2,770
Accrued interest payable	801	188
Other	3,904	3,779
Total liabilities	641,409	557,248
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $.01 par value, 100,000,000 shares authorized, 3,578,252 and 3,871,408 shares issued and outstanding at June 30, 2019 and 2018, respectively	36	39
Additional paid-in capital	48,813	48,361
Unearned ESOP shares, at cost, 230,940 and 250,185 shares at June 30, 2019 and 2018, respectively	(2,309)	(2,502)
Retained earnings	35,356	38,885
Accumulated other comprehensive income (loss), net of tax	565	(3,108)
Total stockholders' equity	82,461	81,675
Total liabilities and stockholders' equity	$723,870	$638,923

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IF Bancorp, Inc.
Consolidated Statements of Income
Years Ended June 30, 2019 and 2018
(in thousands)

	2019	2018
Interest Income		
Interest and fees on loans	$22,833	$19,616
Securities		
Taxable	3,341	2,818
Tax-exempt	122	135
Federal Home Loan Bank dividends	150	96
Deposits with financial institutions	279	129
Total interest and dividend income	26,725	22,794
Interest Expense		
Deposits	7,317	4,450
Federal Home Loan Bank advances and repurchase agreements	1,537	839
Total interest expense	8,854	5,289
Net Interest Income	17,871	17,505
Provision for Loan Losses	407	777
Net Interest Income After Provision for Loan Losses	17,464	16,728
Noninterest Income		
Customer service fees	367	377
Other service charges and fees	279	358
Insurance commissions	660	599
Brokerage commissions	981	875
Net realized gains on sale of available-for-sale securities	11	13
Mortgage banking income, net	236	388
Gain on sale of loans	343	232
Gain (loss) on foreclosed assets, net	3	(24)
Bank-owned life insurance income, net	269	377
Other	1,013	896
Total noninterest income	4,162	4,091

See Notes to Consolidated Financial Statements

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	2019	2018
Noninterest Expense		
Compensation and benefits	$10,644	$ 9,732
Office occupancy	887	761
Equipment	1,377	1,283
Federal deposit insurance	169	171
Stationary, printing and office	107	156
Advertising	503	474
Professional services	355	352
Supervisory examination	165	165
Audit and accounting services	138	141
Organizational dues and subscriptions	44	55
Insurance bond premiums	150	148
Telephone and postage	223	265
Other	2,013	2,653
Total noninterest expense	16,775	16,356
Income Before Income Tax	4,851	4,463
Provision for Income Taxes	1,293	2,725
Net Income	$ 3,558	$ 1,738
Earnings Per Share:		
Basic	$ 1.02	$ 0.47
Diluted	$ 1.01	$ 0.47
Dividends Paid Per Share	$ 0.25	$ 0.20

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IF Bancorp, Inc.
Consolidated Statements of Comprehensive Income (Loss)
Years Ended June 30, 2019 and 2018
(in thousands)

	2019	2018
Net Income	$3,558	$ 1,738
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $1,860 and $(1,584) for 2019 and 2018, respectively	3,777	(2,614)
Less: reclassification adjustment for realized gains included in net income, net of taxes of $3 and $4 for 2019 and 2018, respectively	8	9
	3,769	(2,623)
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of $(4) and $18 for 2019 and 2018, respectively	(96)	88
Other comprehensive income (loss), net of tax	3,673	(2,535)
Comprehensive Income (Loss)	$7,231	$ (797)

See Notes to Consolidated Financial Statements

IF Bancorp, Inc.
Consolidated Statements of Stockholders' Equity
Years Ended June 30, 2019 and 2018
(in thousands)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, July 1, 2017	$ 39	$ 47,940	$ (2,694)	$ 39,051	$ (367)	$83,969
Net income	—	—	—	1,738	—	1,738
Other comprehensive loss	—	—	—	—	(2,535)	(2,535)
Reclassification of stranded tax effects due to tax reform	—	—	—	206	(206)	—
Dividends on common stock, $0.20 per share	—	—	—	(730)	—	(730)
Stock equity plan	—	225	—	—	—	225
Stock repurchase, 69,000 shares, average price $20.00 each	—	—	—	(1,380)	—	(1,380)
ESOP shares earned, 19,245 shares	—	196	192	—	—	388
Balance, June 30, 2018	39	48,361	(2,502)	38,885	(3,108)	81,675
Net income	—	—	—	3,558	—	3,558
Other comprehensive income	—	—	—	—	3,673	3,673
Dividends on common stock, $0.25 per share	—	—	—	(868)	—	(868)
Stock equity plan	—	225	—	—	—	225
Stock repurchase, 293,156 shares, average price $21.22 each	(3)	—	—	(6,219)	—	(6,222)
ESOP shares earned, 19,245 shares	—	227	193	—	—	420
Balance, June 30, 2019	$ 36	$ 48,813	$ (2,309)	$ 35,356	$ 565	$82,461

See Notes to Consolidated Financial Statements

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IF Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(in thousands)

	2019	2018
Operating Activities		
Net income	$ 3,558	$ 1,738
Items not requiring (providing) cash		
Depreciation	628	468
Provision for loan losses	407	777
Amortization of premiums and discounts on securities	83	157
Deferred income taxes	76	1,324
Net realized gains on loan sales	(343)	(232)
Net realized gains on sales of available-for-sale securities	(11)	(13)
(Gain) loss on foreclosed real estate held for sale	(3)	24
Bank-owned life insurance income, net	(269)	(377)
Originations of loans held for sale	(16,836)	(17,811)
Proceeds from sales of loans held for sale	17,082	17,867
ESOP compensation expense	420	388
Stock equity plan expense	225	225
Changes in		
Accrued interest receivable	(321)	(282)
Other assets	306	(300)
Accrued interest payable	613	133
Post-retirement benefit obligation	57	(34)
Other liabilities	125	786
Net cash provided by operating activities	5,797	4,838
Investing Activities		
Net change in interest bearing time deposits	(1,250)	—
Purchases of available-for-sale securities	(42,148)	(39,230)
Proceeds from the sales of available-for-sale securities	6,852	5,966
Proceeds from maturities and pay-downs of available-for-sale securities	20,555	14,524
Net change in loans	(17,950)	(37,094)
Purchase of premises and equipment	(1,108)	(4,854)
Proceeds from the sale of foreclosed assets	5,803	365
Purchase of Federal Home Loan Bank stock	(1,440)	(2,408)
Redemption of Federal Home Loan Bank stock	3,551	1,666
Proceeds from settlement of bank-owned life insurance policies	—	397
Net cash used in investing activities	(27,135)	(60,668)

See Notes to Consolidated Financial Statements

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	2019	2018
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	$ 59,897	$ 25,488
Net increase in certificates of deposit, including brokered certificates	66,705	15,787
Net increase (decrease) in advances from borrowers for taxes and insurance	438	(445)
Proceeds from Federal Home Loan Bank advances	111,500	140,000
Repayment of Federal Home Loan Bank advances	(155,000)	(126,000)
Net increase (decrease) in repurchase agreements	(266)	98
Dividends paid	(868)	(730)
Purchases of common stock	(6,222)	(1,380)
Net cash provided by financing activities	76,184	52,818
Increase (Decrease) in Cash and Cash Equivalents	54,846	(3,012)
Cash and Cash Equivalents, Beginning of Year	4,754	7,766
Cash and Cash Equivalents, End of Year	$ 59,600	$ 4,754
Supplemental Cash Flows Information		
Interest paid	$ 8,241	$ 5,156
Income taxes paid (net of refunds)	$ 365	$ 2,094
Foreclosed assets acquired in settlement of loans	$ 6,359	$ 179

IF Bancorp, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018
(Table dollar amounts in thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

IF Bancorp, Inc., ("IF Bancorp" or the "Company") is a Maryland corporation whose principal activity is the ownership and management of its wholly-owned subsidiary, Iroquois Federal Savings and Loan Association ("Iroquois Federal" or the "Association").

The Association provides a full range of banking and financial services to individual and corporate customers from our seven full-service banking offices located in the municipalities of Watseka, Danville, Clifton, Hoopeston, Savoy, Champaign, and Bourbonnais, Illinois, and our loan production and wealth management office in Osage Beach, Missouri. Our primary lending market includes the Illinois counties of Vermilion, Iroquois, Champaign and Kankakee, as well as the adjacent counties in Illinois and Indiana. Our loan production and wealth management office in Osage Beach, Missouri, serves the Missouri counties of Camden, Miller and Morgan. 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 Company is primarily engaged in the business of directing, planning, and coordinating the business activities of the Association. The Company and Association are subject to competition from other financial institutions. The Company and Association are also subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Principles of Consolidation

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

Operating Segment

The Company provides community banking services, including such products and services as loans, certificates of deposits, savings accounts, and mortgage originations. These activities are reported as a single operating segment.

The Company does not derive revenues from, or have assets located in, foreign countries, nor does it derive revenues from any single customer that represents 10% or more of the Company's total revenues.

IF Bancorp, Inc.
Notes to Consolidated Financial Statements
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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, fair value measurements and classifications of investment securities, loan servicing rights and income taxes.

Interest-bearing Time Deposits in Banks

Interest-bearing time deposits in banks mature within five years and are carried at cost.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of noninterest bearing deposits and interest bearing demand deposits.

Securities

Securities are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

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Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, and any unamortized deferred fees or costs on originated loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

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 cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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 loan 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 for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar characteristics, including individually evaluated loans not determined to be impaired, are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35-40 years
Furniture and equipment	3-5 years

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, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

IF Bancorp, Inc.
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Bank-owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheets at the estimated cash surrender value. Changes in the cash surrender value are reflected in noninterest income in the consolidated statements of income.

Fee Income

Loan origination fees, net of direct origination costs, are recognized as income using the level-yield method over the contractual life of the loans.

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.

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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.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company has elected to initially and subsequently measure the mortgage servicing rights for consumer mortgage loans using the fair value method. Under the fair value method, the servicing rights are carried in the balance sheet at fair value and the changes in fair value are reported in earnings in the period in which the changes occur.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The change in fair value of mortgage servicing rights is netted against loan servicing fee income.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2015.

In December 2017, the Tax Cuts and Jobs Act was enacted, which lowered our federal income tax rate to 21% effective for periods after December 31, 2017. As a result, the Company was required to revalue its deferred tax assets and deferred tax liabilities to account for the future impact of the lower corporate rate on these deferred amounts. The effect of the change in tax rates on our deferred tax assets and liabilities was recognized as an expense in the period that includes the enactment date, which is the quarter ended December 31, 2017. The one-time adjustment of deferred taxes for this tax change negatively impacted the Company's current earnings and is reflected in our June 30, 2018 financials as a $1.3 million tax expense.

The Company uses the specific identification method for reclassifying material stranded tax effects in accumulated other comprehensive income (AOCI) to earnings.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each year. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and restricted stock awards and are determined using the treasury stock method.

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Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive loss includes unrealized appreciation (depreciation) on available-for-sale securities and changes in the funded status of the postretirement health benefit plan.

Stock-based Compensation Plans

At June 30, 2019 and 2018, the Company has stock-based compensation plans (stock options and restricted stock) which are described more fully in Note 15.

Transfers between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on income.

Recent and Future Accounting Requirements

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance implements a common revenue standard that clarifies the principles for recognizing revenue. The core principal of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. The guidance does not apply to revenue associated with financial instruments, including loans and investments securities that are accounted for under other GAAP, which comprises a significant portion of our revenue stream. ASU 2014-09 became effective for the Company on July 1, 2018 and had no material effect on how we recognize revenue or to our consolidated financial statements. See below for additional information related to revenue generated from contracts with customers.

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In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10)—Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 became effective for the Company on July 1, 2018, and the adoption did not have material impact on our consolidated financial statements. The guidance also emphasizes the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities should not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculation used to determine the disclosed fair value of our loans held for investment portfolio as part of adopting this standard. The refined calculation did not have a significant impact on our fair value disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which amends the existing standards for lease accounting effectively bringing most leases onto the balance sheets of the related lessees by requiring them to recognize a right-of-use asset and a corresponding lease liability, while leaving lessor accounting largely unchanged with only targeted changes incorporated into the update. ASU 2016-02 became effective for the Company effective 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 impact does not have a material effect on the Company's financial position or results of operations since the Company does not have a material amount of lease agreements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. In August 2019, FASB issued a proposal to delay the implementation of the current expected loss standard for certain companies, including small reporting companies like our Company. If this is approved, the Company would not be required to adopt the standard until July 1, 2023. 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. This team has determined that our best option for compliance with ASU 2016-13 is an outsourced model. Therefore, we have entered an agreement with a firm specializing in ALLL modeling to begin transition modeling so we will be ready for the required adoption. As of June 30, 2019 model installation was started but 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.

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In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASC 230 lacks consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. This has led to diversity in practice and, in certain circumstances, financial statement restatements. Therefore, the FASB issued the ASU with the intent of reducing diversity in practice with respect to eight types of cash flows. The amendment became effective for the Company on July 1, 2018, and the adoption of ASU-2016-15 did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification". ASU 2017-09 was issued to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. Diversity in practice has arisen in part because some entities apply modification accounting under Topic 718 for modifications to terms and conditions that they consider substantive, but do not when they conclude that particular modifications are not substantive. Others apply modification accounting for any change to an award, except for changes that they consider purely administrative in nature. Still others apply modification accounting when a change to an award changes the fair value, the vesting, or the classification of the award. In practice, it appears that the evaluation of a change in fair value, vesting, or classification may be used to evaluate whether a change is substantive. ASU 2017-09 include guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. ASU 2017-09 became effective for the Company on July 1, 2018, and did not have a material impact on the Company's consolidated financial statements.

Note 2: Securities

The amortized cost and approximate fair values, 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:				
June 30, 2019:				
U.S. Government and federal agency and Government sponsored enterprises (GSEs)	$ 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

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June 30, 2018:				
U.S. Government and federal agency and Government sponsored enterprises (GSEs)	$ 24,757	$—	$ (835)	$ 23,922
Mortgage-backed:				
GSE residential	100,534	24	(3,499)	97,059
Small Business Administration	1,965	—	(74)	1,891
State and political subdivisions S	2,980	144	—	3,124
	$130,236	$168	$(4,408)	$125,996

With the exception of U.S. Government and federal agency and GSE securities and Mortgage-backed-GSE residential securities with a book value of $12,654,000 and $124,615,000, respectively, and a market value of $12,950,000 and $125,510,000, respectively at June 30, 2019, the Company held no securities at June 30, 2019 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at June 30, 2019 and 2018 were issued by government sponsored enterprises.

The amortized cost and fair value of available-for-sale securities at June 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.

	Amortized Cost	Fair Value
Within one year	$ 1,150	$ 1,173
One to five years	1,999	2,000
Five to ten years	14,057	14,523
After ten years	3,084	3,085
	20,290	20,781
Mortgage-backed securities	124,615	125,510
Totals	$ 144,905	$146,291

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $57,921,000 at June 30, 2019 and $64,625,000 at June 30, 2018.

Gross gains of $96,000 and $20,000 and gross losses of $85,000 and $7,000 resulting from sales of available-for-sale securities were realized for 2019 and 2018, respectively. The tax provision applicable to these net realized gains amounted to approximately $3,000 and $4,000 for 2019 and 2018, respectively.

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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 June 30, 2019 and 2018, was $47,146,000 and $119,180,000, respectively, which is approximately 32% and 95% of the Company's available-for-sale investment portfolio. These declines in fair value at June 30, 2019, resulted from increases in market interest rates and are considered temporary. There were no securities reported at less than historical cost at June 30, 2019.

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 June 30, 2019 and 2018:

Description of Securities	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 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)
June 30, 2018:						
U.S. Government and federal agency and Government sponsored enterprises (GSE's)	$15,541	$ (439)	$ 8,381	$ (396)	$ 23,922	$ (835)
Mortgage-backed:						
GSE residential	59,478	(1,836)	33,889	(1,663)	93,367	(3,499)
Small Business Administration	—	—	1,891	(74)	1,891	(74)
Total temporarily impaired securities	$75,019	$ (2,275)	$44,161	$ (2,133)	$119,180	$ (4,408)

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 June 30, 2019 and 2018, 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 June 30, 2019 and 2018.

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Note 3: Loans and Allowance for Loan Losses

Classes of loans at June 30, include:

	2019	2018
Real estate loans		
One- to four-family, including home equity loans	$129,290	$134,977
Multi-family	104,663	107,436
Commercial	143,367	140,944
Home equity lines of credit	8,938	9,058
Construction	16,113	13,763
Commercial	84,246	68,720
Consumer	7,136	7,366
	493,753	482,264
Less		
Unearned fees and discounts, net	(349)	(161)
Allowance for loan losses	6,328	5,945
Loans, net	$487,774	$476,480

The Company had loans held for sale included in one- to four-family real estate loans totaling $316,000 and $206,000 as of June 30, 2019 and 2018, respectively.

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 includes 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 construction loans. The primary lending market includes the Illinois counties of Vermilion, Iroquois, Champaign and Kankakee, as well as the adjacent counties in Illinois and Indiana within 30 miles of a branch or loan production office. 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.

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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. These loan approval limits are up slightly from the prior year when Managing Officers generally had authority to approve one- to four-family residential mortgage loans up to $300,000, other secured loans up to $300,000, and unsecured loans up to $100,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to $2,000,000 and unsecured loans up to $500,000. These loan approval limits also were increased from prior year when the Loan Committee could approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to $1,000,000 and unsecured loans up to $300,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman, and up to four other Board members. At no time is a borrower's total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Company's directors, are reviewed for compliance with regulatory guidelines and the Board of Directors at least annually.

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

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

One- to four-family Residential Mortgage Loans

The Company offers one- to four-family residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. In recent years there has been an increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, the Company has sold a substantial portion of the fixed-rate one- to four-family residential mortgage loans with terms of 15 years or greater. Generally, the Company retains fixed-rate one- to four-family residential mortgage loans with terms of less than 15 years, although this has represented a small percentage of the fixed-rate loans originated in recent years due to the favorable long-term rates for borrower.

The Company offers USDA Rural Development loans 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 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.

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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 are 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 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 the collateral, if any. The cash flows of the underlying borrower, however, may not perform consistent 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.

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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 Concentrations

The loan portfolio includes a concentration of loans secured by commercial real estate properties, including commercial real estate construction loans, amounting to $260,888,000 and $260,671,000 as of June 30, 2019 and 2018, 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 $4,844,000 and $5,855,000 at June 30, 2019 and 2018, 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 $29,524,000 and $32,874,000 at June 30, 2019 and 2018, respectively, of which $12,025,000 and $11,009,000, at June 30, 2019 and 2018 were outside of our primary market area. These participation loans are secured by real estate and other business assets.

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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 June 30, 2019 and 2018:

	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 period	$ 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

	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

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	2018			
	Real Estate Loans			
	One- to four-family	Multi-family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of year	$ 2,519	$ 1,336	$ 1,520	$ 76
Provision charged to expense	85	314	84	39
Losses charged off	(1,608)	—	—	(24)
Recoveries	1	—	—	—
Balance, end of period	$ 997	$ 1,650	$ 1,604	$ 91
Ending balance: individually evaluated for impairment	$ —	$ —	$ 3	$ —
Ending balance: collectively evaluated for impairment	$ 997	$ 1,650	$ 1,601	$ 91
Loans:				
Ending balance	$ 134,977	$ 107,436	$ 140,944	$ 9,058
Ending balance: individually evaluated for impairment	$ 7,904	$ 1,329	$ 50	$ 26
Ending balance: collectively evaluated for impairment	$ 127,073	$ 106,107	$ 140,894	$ 9,032

	2018 (Continued)			
	Construction	Commercial	Consumer	Total
Allowance for loan losses:				
Balance, beginning of year	$ 75	$ 1,242	$ 67	$ 6,835
Provision charged to expense	93	161	1	777
Losses charged off	—	(30)	(14)	(1,676)
Recoveries	—	—	8	9
Balance, end of year	$ 168	$ 1,373	$ 62	$ 5,945
Ending balance: individually evaluated for impairment	$ —	$ —	$ —	$ 3
Ending balance: collectively evaluated for impairment	$ 168	$ 1,373	$ 62	$ 5,942
Loans:				
Ending balance	$ 13,763	$ 68,720	$ 7,366	$ 482,264
Ending balance: individually evaluated for impairment	$ —	$ 30	$ 3	$ 9,342
Ending balance: collectively evaluated for impairment	$ 13,763	$ 68,690	$ 7,363	$ 472,922

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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.

Allowance for Loan Losses

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 that the loan balance is confirmed as uncollectible. 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, delinquency trends, 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 I 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.

Credit Quality Indicators

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.

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

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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, as of June 30, 2019 and 2018, based on rating category and payment activity:

	Real Estate Loans				
June 30, 2019	**One- to four-family**	**Multi-family**	**Commercial**	**Home Equity Lines of Credit**	**Construction**
Pass	$ 127,386	$ 104,504	$ 142,076	$ 8,918	$ 16,113
Watch	—	—	1,040	—	—
Substandard	1,904	159	251	20	—
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
Total	$ 129,290	$ 104,663	$ 143,367	$ 8,938	$ 16,113

June 30, 2019, (Continued)	**Commercial**	**Consumer**	**Total**
Pass	$ 81,906	$ 7,107	$ 488,010
Watch	1,375	—	2,415
Substandard	965	19	3,318
Doubtful	—	10	10
Loss	—	—	—
Total	$ 84,246	$ 7,136	$ 493,753

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June 30, 2018	Real Estate Loans One- to four-family	Multi-family	Commercial	Home Equity Lines of Credit	Construction
Pass	$ 127,410	$ 107,320	$ 139,805	$ 9,035	$ 13,763
Watch	—	—	1,089	—	—
Substandard	1,265	116	50	23	—
Doubtful	6,302	—	—	—	—
Loss	—	—	—	—	—
Total	$ 134,977	$ 107,436	$ 140,944	$ 9,058	$ 13,763

June 30, 2018, (Continued)	Commercial	Consumer	Total
Pass	$ 66,545	$ 7,362	$ 471,240
Watch	1,204	1	2,294
Substandard	941	3	2,398
Doubtful	30	—	6,332
Loss	—	—	—
Total	$ 68,720	$ 7,366	$ 482,264

The following tables present the Company's loan portfolio aging analysis as of June 30, 2019 and 2018:

	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
June 30, 2018							
Real estate loans:							
One- to four-family	$ 1,426	$ 207	$ 6,633	$ 8,266	$126,711	$ 134,977	$ 293
Multi-family	—	—	2	2	107,434	107,436	—
Commercial	80	13	37	130	140,814	140,944	—
Home equity lines of credit	14	23	—	37	9,021	9,058	—
Construction	354	—	—	354	13,409	13,763	—
Commercial	76	—	30	106	68,614	68,720	—
Consumer	10	29	1	40	7,326	7,366	1
Total	$ 1,960	$ 272	$ 6,703	$ 8,935	$473,329	$ 482,264	$ 294

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

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

The Company actively seeks to reduce its investment in impaired loans. The primary tools to work through impaired loans are settlement 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.

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The following tables present impaired loans for year ended June 30, 2019 and 2018:

	June 30, 2019					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest on Cash Basis
Loans without a specific 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 lines 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 lines 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 lines of credit	22	22	—	24	1	2
Construction	—	—	—	—	—	—
Commercial	60	60	—	63	6	6
Consumer	29	29	10	35	3	3
Total	$ 1,851	$ 1,851	$ 23	$ 1,922	$ 74	$ 83

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	June 30, 2018					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest on Cash Basis
Loans without a specific allowance:						
Real estate loans:						
One- to four-family	$ 7,904	$ 7,904	$ —	$ 8,739	$ 50	$ 51
Multi-family	1,329	1,329	—	1,359	85	85
Commercial	47	47	—	86	4	5
Home equity lines of credit	26	26	—	28	2	2
Construction	—	—	—	—	—	—
Commercial	30	30	—	57	—	—
Consumer	3	3	—	4	1	1
Loans with a specific allowance:						
Real estate loans:						
One- to four-family	$ —	$ —	$ —	$ —	$ —	$ —
Multi-family	—	—	—	—	—	—
Commercial	3	3	3	5	—	—
Home equity lines of credit	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total:						
Real estate loans:						
One- to four-family	$ 7,904	$ 7,904	$ —	$ 8,739	$ 50	$ 51
Multi-family	1,329	1,329	—	1,359	85	85
Commercial	50	50	3	91	4	5
Home equity lines of credit	26	26	—	28	2	2
Construction	—	—	—	—	—	—
Commercial	30	30	—	57	—	—
Consumer	3	3	—	4	1	1
Total	$ 9,342	$ 9,342	$ 3	$ 10,278	$ 142	$ 144

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.

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The following table presents the Company's nonaccrual loans at June 30, 2019 and 2018:

	2019	2018
Real estate loans		
One- to four-family, including home equity loans	$414	$6,339
Multi-family	—	116
Commercial	18	50
Home equity lines of credit	20	—
Construction	—	—
Commercial	60	30
Consumer	29	—
Total	$541	$6,535

At June 30, 2019 and 2018, 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 June 30, 2019 and 2018. With the exception of three one- to four-family 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 the restructuring as of June 30, 2019, and with the exception of four one- to four-family loans totaling $169,000, one commercial real estate loan for $3,000, and one commercial business loan for $30,000, all loans were performing according to the terms of restructuring as of June 30, 2018. As of June 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. As of June 30, 2018 all loans listed were on nonaccrual except for thirteen one- to four-family residential loans totaling $1.6 million, one multi-family loan for $1.2 million, two home equity lines of credit totaling $26,000, and one consumer loan for $4,000.

	June 30, 2019	June 30, 2018
Real estate loans		
One- to four-family	$ 1,475	$ 1,588
Multi-family	—	1,213
Commercial	6	17
Home equity lines of credit	22	26
Total real estate loans	1,503	2,844
Construction	—	—
Commercial	—	30
Consumer	2	3
Total	$ 1,505	$ 2,877

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The following table represents loans modified as troubled debt restructurings during the years ending June 30, 2019 and 2018:

	Year Ended June 30, 2019		Year Ended June 30, 2018	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Real estate loans:				
One- to four-family	1	$ 159	2	$ 60
Home equity lines of credit	—	—	—	—
Multi-family	—	—	—	—
Commercial	—	—	1	13
Total real estate loans	1	159	3	73
Construction	—	—	—	—
Commercial	—	—	—	—
Consumer loans	—	—	—	—
Total	1	$ 159	3	$ 73

2019 Modifications

During the year ended June 30, 2019, the Company modified one one- to four-family loan in the amount of $159,000. This modification included a decrease in interest rate and a maturity concession.

2018 Modifications

During the year ended June 30, 2018, the Company modified two one- to four-family loans totaling $60,000 and one commercial real estate loan in the amount of $13,000.

TDRs with Defaults

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 had six TDRs, four one- to four-family residential loans for $169,000, one commercial real estate loan for $3,000, and one commercial business loan for $30,000 that were in default as of June 30, 2018, and was restructured in prior years. No restructured loans were in foreclosure at June 30, 2018. 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.

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

We may obtain physical possession of real estate collateralizing a residential mortgage loan or home equity loan via foreclosure or in-substance repossession. As of June 30, 2019 and 2018, the carrying value of foreclosed residential real estate properties as a result of obtaining physical possession was $539,000 and $0 respectively. In addition, as of June 30, 2019 and 2018, we had residential mortgage loans and home equity loans with a carrying value of $200,000 and $6.3 million, respectively, collateralized by residential real estate property for which formal foreclosure proceedings were in process.

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2019	2018
Land	$ 1,976	$ 1,976
Buildings and improvements	11,319	10,932
Furniture and equipment	4,756	4,035
	18,051	16,943
Less accumulated depreciation	7,345	6,717
Net premises and equipment	$10,706	$10,226

Note 5: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was $99,021,000 and $95,825,000 at June 30, 2019 and 2018, respectively.

Custodial escrow balances in connection with the foregoing loan servicing were $652,000 and $408,000 at June 30, 2019 and 2018, respectively.

The aggregate fair value of capitalized mortgage servicing rights at June 30, 2019 and 2018 was $853,000 and $866,000, respectively. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as costs to service, a discount rate, custodial earnings rate, default rates and losses and prepayment speeds.

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The following summarizes the activity in mortgage servicing rights measured using the fair value method:

	2019	2018
Fair value, beginning of period	$ 866	$ 710
Additions:		
Servicing assets resulting from asset transfers	144	164
Subtractions:		
Payments received and loans refinanced	(112)	(102)
Changes in fair value, due to changes in valuation inputs or assumptions	(45)	94
Fair value, end of period	$ 853	$ 866

For purposes of measuring impairment, risk characteristics including product type, investor type, and interest rates, were used to stratify the originated mortgage servicing rights.

Note 6: Interest-bearing Deposits

Interest-bearing deposits in denominations of $100,000 or more were $260,311,000 at June 30, 2019 and $218,149,000 at June 30, 2018.

The following table represents interest expense by deposit type:

	2019	2018
Savings, NOW, and Money Market	$1,574	$1,021
Certificates of deposit	4,954	2,873
Brokered certificates of deposit	789	556
Total deposit interest expense	$7,317	$4,450

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At June 30, 2019, the scheduled maturities of time deposits; including brokered time deposits, are as follows:

2020	$210,936
2021	99,154
2022	13,986
2023	5,211
2024 and thereafter	998
	$330,285

Note 7: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances totaled $24,000,000 and $67,500,000 as of June 30, 2019 and 2018, respectively. The Federal Home Loan Bank advances are secured by mortgage, multi-family, commercial real estate, and HELOC loans totaling $321,046,000 at June 30, 2019. Advances at June 30, 2019, at interest rates from 0.92 to 2.89 percent are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities of Federal Home Loan Bank advances at June 30, 2019, are:

2020	$ —
2021	4,000
2022	—
2023	10,000
2024	10,000
Thereafter	—
	$24,000

Note 8: Repurchase Agreements

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The carrying value of securities sold under agreement to repurchase amounted to $2.0 million at June 30, 2019 and $2.3 million at June 30, 2018. At June 30, 2019, approximately $472,000 of our repurchase agreements had an overnight maturity, while the remaining $1.5 million in repurchase agreements had a term of 30 to 90 days. The maximum amount of outstanding agreements at any month-end during 2019 and 2018 totaled $2,840,000 and $2,980,000, respectively, and the monthly average of such agreements totaled $2,400,000 and $2,623,000 for 2019 and 2018, respectively. 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.

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Note 9: Income Taxes

The Company and its subsidiary file income tax returns in the U.S. federal jurisdiction and the States of Illinois and Missouri. During the years ended June 30, 2019 and 2018, the Company did not recognize expense for interest or penalties.

The provision for income taxes includes these components:

	2019	2018
Taxes currently payable	$1,217	$1,401
Deferred income taxes	76	1,324
Income tax expense	$1,293	$2,725

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

	2019	2018
Computed at the statutory rate*	$1,019	$1,232
Increase (decrease) resulting from		
Tax exempt interest	(26)	(37)
Cash surrender value of life insurance	(56)	(104)
State income taxes	329	270
Adjustment of deferred tax asset and tax rate change for enacted changes in tax laws	—	1,318
Other	27	46
Actual tax expense	$1,293	$2,725
Tax rate as a percentage of pre-tax income	26.7%	61.1%

*Statutory tax rate of 21.0% for year ended June 30, 2019, and 27.6% (blended rate) for year ended June 30, 2018.

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The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	2019	2018
Deferred tax assets		
Allowance for loan losses	$ 1,802	$1,695
Accrued retirement liability	651	602
Deferred compensation	422	378
Deferred loan fees	83	114
Postretirement health plan	170	174
Unrealized losses on available-for-sale securities	—	1,462
Accrued vacation	46	40
MPF recourse liability	66	53
Deferred revenue Mastercard	27	30
Stock options - Directors	42	34
Other	12	28
	3,321	4,610
Deferred tax liabilities		
Depreciation	(426)	(198)
Mortgage servicing rights	(243)	(247)
Deferred loan expense	(182)	(160)
Unrealized gains on available-for-sale securities	(395)	—
Other	(9)	(2)
	(1,255)	(607)
Net deferred tax asset	$ 2,066	$4,003

Retained earnings at both June 30, 2019 and 2018, include approximately $2,217,000, for which no deferred federal income tax liability has been recognized. These amounts represent an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The deferred income tax liabilities on the preceding amounts that would have been recorded if they were expected to reverse into taxable income in the foreseeable future were approximately $466,000 at both June 30, 2019 and 2018.

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Note 10: Accumulated Other Comprehensive Income

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

	2019	2018
Net unrealized gains (losses) on securities available for sale	$1,386	$(4,240)
Net unrealized postretirement health benefit plan obligations	(596)	(504)
	790	(4,744)
Tax effect	(225)	1,636
Net-of-tax amount	$ 565	$(3,108)

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Note 11: 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 years ended June 30, 2019 and 2018, were as follows:

	Amounts Reclassified From AOCI		Affected Line Item in the Condensed Consolidated Statements of Income
	2019	2018	
Realized gains on available-for-sale securities	$ 11	$ 13	Net realized gains on sale of available-for-sale securities
Amortization of defined benefit pension items:			
Actuarial losses	104	104	Components are included in computation of net periodic pension cost
Prior service costs	—	(34)	
Total reclassified amount before tax	115	83	
Tax expense (benefit)	11	29	Provision for Income Tax
Total reclassification out of AOCI	$ 104	$ 54	Net Income

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Note 12: Regulatory Matters

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 June 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 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 federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. A financial institution can elect to be subject to this new definition.

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As of June 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 as disclosed in the table below. There are no conditions or events that management believes have changed the Association's prompt corrective action category.

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The Association's actual capital amounts (in thousands) and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2019						
Total capital (to risk-weighted assets)	$ 81,624	16.28%	$ 40,119	8.00%	$ 50,149	10.00%
Tier 1 capital (to risk-weighted assets)	75,355	15.03%	30,090	6.00%	40,119	8.00%
Common Equity Tier 1 capital (to risk-weighted assets)	75,355	15.03%	22,567	4.50%	32,597	6.50%
Tier 1 capital (to adjusted total assets)	75,355	10.96%	27,513	4.00%	34,392	5.00%
Tangible capital (to adjusted tangible assets)	75,355	10.96%	10,317	1.50%	N/A	N/A
As of June 30, 2018						
Total capital (to risk-weighted assets)	$ 78,988	16.09%	$ 39,276	8.00%	$ 49,095	10.00%
Tier 1 capital (to risk-weighted assets)	73,053	14.88%	29,457	6.00%	39,276	8.00%
Common Equity Tier 1 capital (to risk-weighted assets)	73,053	14.88%	22,093	4.50%	31,912	6.50%
Tier 1 capital (to adjusted total assets)	73,053	11.51%	25,394	4.00%	31,743	5.00%
Tangible capital (to adjusted tangible assets)	73,053	11.51%	9,523	1.50%	N/A	N/A

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The following is a reconciliation of the Association equity amounts included in the consolidated balance sheets to the amounts reflected for regulatory purposes:

	2019	2018
Association equity	$75,920	$69,945
Less net unrealized gains	991	(2,778)
Less postretirement benefit plan	(426)	(330)
Tier 1 capital	75,355	73,053
Plus allowance for loan losses subject to limit	6,269	5,945
Total risk-based capital	$81,624	$78,988

The Association's ability to pay dividends on its common stock to the Company is restricted to maintain adequate capital as shown in the previous tables. Additionally, prior regulatory approval is required for the declaration of any dividends generally in excess of the sum of net income for the calendar year and retained net income for the preceding two calendar years.

Note 13: Related Party Transactions

At June 30, 2019 and 2018, the Company had loans outstanding to executive officers, directors, significant members and their affiliates (related parties). Changes in loans to executive officers and directors are summarized as follows:

	2019	2018
Balance, beginning of year	$3,132	$ 4,520
New loans	756	139
Repayments	(855)	(1,527)
Balance, end of year	$3,033	$ 3,132

Deposits from related parties held by the Company at June 30, 2019 and 2018 totaled $1,482,000 and $1,599,000, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

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Note 14: Employee Benefits

The Company sponsors a noncontributory postretirement health benefit plan (postretirement plan). The postretirement plan provides medical coverage benefits for former employees and their spouses upon retirement. The postretirement plan has no assets to offset the future liabilities incurred under the postretirement plan. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute $171,000 to the plan in fiscal year 2020.

The Company uses a June 30 measurement date for the plan. Information about the plan's funded status and pension cost follows:

	2019	2018
Change in benefit obligation		
Beginning of year	$ 2,770	$ 2,874
Service cost	50	53
Interest cost	107	100
Actuarial gain	106	(138)
Benefits paid	(114)	(119)
End of year	$ 2,919	$ 2,770

Significant balances, costs and assumptions are:

	Postretirement Plan	
	2019	2018
Benefit obligation	$ 2,919	$ 2,770
Fair value of plan assets	—	—
Funded status	$(2,919)	$(2,770)
Accumulated benefit obligation	$ 2,919	$ 2,770

Amounts recognized in the consolidated balance sheets:

Accrued benefit cost	$2,919	$2,770

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Components of net periodic benefit cost:

	2019	2018
Service cost	$ 50	$ 53
Interest cost	107	100
Amortization of prior service credit	—	(34)
Amortization of (Gain) or Loss	16	31
	$173	$150

Amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	2019	2018
Net loss	$531	$440
Prior service credit	—	—
	$531	$440

Other significant balances and costs are:

	2019	2018
Employer contribution	$114	$119
Benefits paid	114	119
Benefit costs	173	150

Other changes in plan assets and benefit obligations recognized in other comprehensive income are described in Note 11.

The estimated net loss, prior service cost and transition obligation for the postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost of the next fiscal year are $25,000, $0, and $0, respectively.

A discount rate of 3.25% and 3.95% were used for 2019 and 2018, to determine the benefit obligations and benefit costs.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

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	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 4	$ (3)
Effect on postretirement benefit obligation	34	(35)

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019, 2020 and 2021, respectively. The rate was assumed to decrease gradually to 5% by the year 2030 and remain at that level thereafter.

The following postretirement plan benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2019:

2020	$124
2021	142
2022	167
2023	181
2024	197
2025-2029	947

The Company has a 401(k) plan covering substantially all employees. The Company matches 25% of the first 5% of compensation that a participant defers. Employer contributions charged to expense for 2019 and 2018 were $68,000 and $63,000, respectively. The plan also includes an Employer Profit Sharing contribution which allows all eligible participants to receive at least 5% of their Plan year salary. The Company's contributions for the plan years ended June 30, 2019 and 2018 were $510,000 and $466,000, respectively.

The Company has deferred compensation agreements for directors, which provides benefits payable upon normal retirement age of 72. The present value of the estimated liability under the agreement is being accrued using a discount rate of 6 percent. The deferred compensation charged to expense totaled $220,000 and $224,000 for the years ended June 30, 2019 and 2018, respectively. The agreements' accrued liability of $1.5 million and $1.3 million as of June 30, 2019 and 2018, respectively, is included in other liabilities in the consolidated balance sheets. The following benefit payments are expected to be paid for these agreements:

2020	$ 65
2021	104
2022	150
2023	131
2024	130
Thereafter	3,872
	$4,452

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Note 15: 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 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.

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A summary of ESOP shares at June 30, 2019 and 2018 are as follows (dollars in thousands):

	2019	2018
Allocated shares	109,018	96,133
Shares committed for release	19,245	19,245
Unearned shares	230,940	250,185
Total ESOP shares	359,203	365,563
Fair value of unearned ESOP shares (1)	$ 4,829	$ 5,979

(1) Based on closing price of $20.91 and $23.90 per share on June 30, 2019, and 2018, respectively.

During the year ended June 30, 2019 and 2018, 6,360 and 6,116 ESOP shares, respectively, 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 June 30, 2018, there were 90,050 shares of restricted stock and 314,125 stock option shares available for future grants under this plan.

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The following table summarizes stock option activity for the year ended June 30, 2019 (dollars in thousands):

	Shares	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, June 30, 2018	153,143	$ 16.63		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding, June 30, 2019	153,143	$ 16.63	4.4	$ 655(1)
Exercisable, June 30, 2019	108,571	$ 16.63	4.4	$ 465(1)

(1) Based on closing price of $20.91 per share on June 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 year ended June 30, 2019.

There were 22,286 options that vested during the year ended June 30, 2019 compared to 22,285 stock options that vested during the year ended June 30, 2018. Stock-based compensation expense and related tax benefit was $57,000 and $16,000, respectively, for both the year ended June 30, 2019, and the year ended June 30, 2018, and was recognized in non-interest expense. Total unrecognized compensation cost related to non-vested stock options was $80,000 at June 30, 2019 and is expected to be recognized over a weighted-average period of 1.4 years.

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The following table summarizes non-vested restricted stock activity for the year ended June 30, 2019:

	Shares	Weighted-Average Grant-Date Fair Value
Balance, June 30, 2018	60,375	$ 16.79
Granted	—	—
Forfeited	—	—
Earned and issued	10,062	16.79
Balance, June 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 was $160,000 and $46,000, respectively, for the year ended June 30, 2019, and was $160,000 and $44,000, respectively, for the year ended June 30, 2018, and was recognized in non-interest expense. Unrecognized compensation expense for non-vested restricted stock awards was $766,000 and is expected to be recognized over 4.4 years with a corresponding credit to paid-in capital.

Note 16: Earnings Per Share ("EPS")

Basic and diluted earnings per common share are presented for the years ended June 30, 2019 and 2018. The factors used in the earnings per common share computation follow:

	Year Ended June 30, 2019	Year Ended June 30, 2018
Net income	$ 3,558	$ 1,738
Basic weighted average shares outstanding	3,716,924	3,918,676
Less: Average unallocated ESOP shares	(240,563)	(259,808)
Average shares outstanding	3,476,361	3,658,868
Diluted effect of restricted stock awards and stock options	53,856	39,716
Diluted average shares outstanding	3,530,217	3,698,584
Basic earnings per common share	$ 1.02	$ 0.47
Diluted earnings per common share	$ 1.01	$ 0.47

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The Company announced a stock repurchase plan on December 10, 2018, which allowed the Company to repurchase up to 290,356 shares of its common stock, or approximately 7.5% of its then current outstanding shares. As of March 31, 2019, all 290,356 shares had been repurchased under this plan at an average price of $21.23 per share. The Company announced another stock repurchase plan on June 12, 2019, which allowed the Company to repurchase up to 89,526 shares of its common stock, or approximately 2.5% of its then current outstanding shares. As of June 30, 2019, 2,800 shares had been repurchased at an average price of $21.02 per share.

Note 17: 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

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated 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 June 30, 2019 and 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019:				
Available-for-sale securities:				
US Government and federal agency	$ 12,950	$ —	$ 12,950	$ —
Mortgage-backed securities – 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

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018:				
Available-for-sale securities:				
US Government and federal agency	$ 23,922	$ —	$ 23,922	$ —
Mortgage-backed securities – GSE residential	97,059	—	97,059	—
Small Business Administration	1,891	—	1,891	—
State and political subdivisions	3,124	—	3,124	—
Mortgage servicing rights	866	—	—	866

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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 year ended June 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 June 30, 2019 or 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 June 30, 2019 or 2018.

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.

Management measures mortgage servicing rights through the completion of a proprietary model. Inputs to the model are developed by the accounting staff and are reviewed by management. The model is tested annually using baseline data to check its accuracy.

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Level 3 Reconciliation

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

	Mortgage Servicing Rights
Balance, July 1, 2017	$ 710
Total realized and unrealized gains and losses included in net income	94
Servicing rights that result from asset transfers	164
Payments received and loans refinanced	(102)
Balance, June 30, 2018	866
Total realized and unrealized gains and losses included in net income	(45)
Servicing rights that result from asset transfers	144
Payments received and loans refinanced	(112)
Balance, June 30, 2019	$ 853
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	$ (45)

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 June 30, 2019 and 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019:				
Impaired loans (collateral dependent)	$ 33	$ —	$ —	$ 33
Foreclosed assets	512	—	—	512
June 30, 2018:				
Impaired loans (collateral dependent)	$ —	$ —	$ —	$ —

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The following table presents (losses)/recoveries recognized on assets measured on a non-recurring basis for the years ended June 30, 2019 and 2018:

	2019	2018
Impaired loans (collateral dependent)	$ (20)	$ 3
Foreclosed and repossessed assets held for sale	(196)	—

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.

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Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	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%)

	Fair Value at June 30, 2018	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 866	Discounted cash flow	Discount rate	9.5% - 11.5% (9.5%)
			Constant prepayment rate	6.3% - 10.3% (6.6%)
			Probability of default	0.00% -0.17% (0.16%)

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Fair Value of Financial Instruments

The following table presents 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 June 30, 2019 and 2018.

	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	—	—	—	—

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	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, 2018:				
Financial assets				
Cash and cash equivalents	$ 4,754	$ 4,754	$ —	$ —
Interest-bearing time deposits in banks	1,750	1,750	—	—
Loans, net of allowance for loan losses	476,480	—	—	468,932
Federal Home Loan Bank stock	3,285	—	3,285	—
Accrued interest receivable	1,821	—	1,821	—
Financial liabilities				
Deposits	480,421	—	216,841	261,898
Repurchase agreements	2,281	—	2,281	—
Federal Home Loan Bank advances	67,500	—	67,355	—
Advances from borrowers for taxes and insurance	309	—	309	—
Accrued interest payable	188	—	188	—
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	—	—	—	—
Lines of credit	—	—	—	—

The methods utilized to estimate the fair value of financial instruments at June 30, 2018 did not necessarily represent an exit price. 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 June 30, 2019 represent an approximation of exit price; however, an actual exit price may differ.

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Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

Note 19: Commitments and Credit Risk

The Company generates commercial, mortgage and consumer loans and receives deposits from customers located in the Illinois counties of Vermilion, Iroquois, Champaign, and Kankakee, as well as adjacent counties in Illinois and Indiana within 30 miles of a branch or loan production office. The Company generates commercial, mortgage and consumer loans from its location in Osage Beach, Missouri. The Company's loans are generally secured by specific items of collateral including real property and consumer assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon economic conditions in the Company's various locations.

Commitments to Originate Loans

Commitments to originate loans 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.

At June 30, 2019 and 2018, the Company had outstanding commitments to originate loans aggregating approximately $5,430,000 and $9,246,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to $2,959,000 and $8,890,000 at June 30, 2019 and 2018, respectively, with the remainder subject to adjustable interest rates. The weighted average interest rates for fixed rate loan commitments were 5.03% and 5.29% as of June 30, 2019 and 2018, respectively.

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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.

At June 30, 2019, the Company had granted unused lines of credit to borrowers aggregating approximately $44,070,000 and $6,726,000 for commercial lines and open-end consumer lines, respectively. At June 30, 2018, the Company had granted unused lines of credit to borrowers aggregating approximately $47,997,000 and $5,545,000 for commercial lines and open-end consumer lines, respectively.

Other Credit Risks

At June 30, 2019 and 2018, the interest-bearing demand deposits on the consolidated balance sheets represent amounts on deposit with one financial institution, the Federal Home Loan Bank of Chicago.

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Note 20: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company as of and for the years ended June 30, 2019 and 2018:

Condensed Balance Sheet

	June 30, 2019	June 30, 2018
Assets		
Cash and due from banks	$ 4,058	$ 9,060
Investment in common stock of subsidiary	75,920	69,945
ESOP loan	2,628	2,785
Total assets	$ 82,606	$ 81,790
Liabilities		
Other liabilities	$ 145	$ 115
Total liabilities	145	115
Stockholders' Equity	82,461	81,675
Total liabilities and stockholders' equity	$ 82,606	$ 81,790

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Condensed Statement of Income and Comprehensive Income (Loss)

	Year Ending June 30, 2019	Year Ending June 30, 2018
Income		
Interest on ESOP loan	$ 136	$ 123
Deposits with financial institutions	—	—
Total income	136	123
Expense	183	179
Loss Before Income Tax and Equity in Undistributed Income of Subsidiary	(47)	(56)
Benefit for Income Taxes	(11)	(19)
Loss Before Equity in Undistributed Loss of Subsidiary	(36)	(37)
Equity in Undistributed Income of Subsidiary	3,594	1,775
Net Income	$ 3,558	$ 1,738
Comprehensive Income (Loss)	$ 7,231	$ (797)

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Condensed Statement of Cash Flows

	Year Ended June 30, 2019	Year Ended June 30, 2018
Cash flows from operating activities		
Net income	$ 3,558	$ 1,738
Items not requiring (providing) cash		
Deferred income tax	—	(39)
Net change in other liabilities	30	87
Earnings from subsidiary	(3,594)	(1,775)
Net cash provided by operating activities	(6)	11
Cash flows from financing activities		
Stock purchase per stock repurchase plan	(6,222)	(1,380)
Dividends paid	(930)	(784)
Dividends received	2,000	—
Loan for ESOP	156	157
Net cash used in financing activities	(4,996)	(2,007)
Net Change in Cash and Cash Equivalents	(5,002)	(1,996)
Cash and Cash Equivalents at Beginning of Year	9,060	11,056
Cash and Cash Equivalents at End of Year	$ 4,058	$ 9,060

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Section 2: EX-4.6 (EX-4.6)

Exhibit 4.6

DESCRIPTION OF CAPITAL STOCK

General

IF Bancorp, Inc. is authorized to issue 100,000,000 shares of common stock, par value of $0.01 per share, and 50,000,000 shares of preferred stock, par value $0.01 per share. Each share of IF Bancorp, Inc. common stock has the same relative rights as, and is identical in all respects to, each other share of common stock. The shares of common stock of IF Bancorp, Inc. represent nonwithdrawable capital, are not an account of an insurable type, and are not insured by the Federal Deposit Insurance Corporation or any other government agency.

Common Stock

Dividends. IF Bancorp, Inc. can pay dividends on its common stock if, after giving effect to such distribution, (i) it would be able to pay its indebtedness as the indebtedness comes due in the usual course of business and (ii) its total assets exceed the sum of its liabilities and the amount needed, if IF Bancorp, Inc. were to be dissolved at the time of the distribution, to satisfy the preferential rights in the event of dissolution of any holders of capital stock who have a preference in the event of dissolution; provided, however, that even if IF Bancorp, Inc.'s assets are less than the amount necessary to satisfy the requirement set forth in (ii) above, IF Bancorp, Inc. may make a distribution from: (A) IF Bancorp, Inc.'s net earnings for the fiscal year in which the distribution is made; (B) IF Bancorp, Inc.'s net earnings for the preceding fiscal year; or (C) the sum of IF Bancorp, Inc.'s net earnings for the preceding eight fiscal quarters. The holders of common stock of IF Bancorp, Inc. are entitled to receive and share equally in dividends as may be declared by our Board of Directors out of funds legally available therefor. If IF Bancorp, Inc. issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

Voting Rights. The holders of common stock of IF Bancorp, Inc. have exclusive voting rights in IF Bancorp, Inc. They elect IF Bancorp, Inc.'s Board of Directors and act on other matters as are required to be presented to them under Maryland law or as are otherwise presented to them by the Board of Directors. Generally, each holder of common stock is entitled to one vote per share and does not have any right to cumulate votes in the election of directors. Any person who beneficially owns more than 10% of the then-outstanding shares of IF Bancorp, Inc.'s common stock, however, is not entitled or permitted to vote any shares of common stock held in excess of the 10% limit. If IF Bancorp, Inc. issues shares of preferred stock, holders of the preferred stock may also possess voting rights. Certain matters require an 80% stockholder vote.

As a federal stock savings association, corporate powers and control of Iroquois Federal Savings and Loan Association ("Iroquois Federal") are vested in its Board of Directors, who elect the officers of Iroquois Federal and who fill any vacancies on the Board of Directors. Voting rights of Iroquois

Federal are vested exclusively in the owner of the shares of capital stock of Iroquois Federal, which is IF Bancorp, Inc., and voted at the direction of IF Bancorp, Inc.'s Board of Directors. Consequently, the holders of the common stock of IF Bancorp, Inc. do not have direct control of Iroquois Federal.

Liquidation. In the event of any liquidation, dissolution or winding up of Iroquois Federal, IF Bancorp, Inc., as the holder of 100% of Iroquois Federal's capital stock, would be entitled to receive all assets of Iroquois Federal available for distribution, after payment or provision for payment of all debts and liabilities of Iroquois Federal, including all deposit accounts and accrued interest thereon, and after distribution of the balance in the liquidation account to Eligible Account Holders. In the event of liquidation, dissolution or winding up of IF Bancorp, Inc., the holders of its common stock would be entitled to receive, after payment or provision for payment of all its debts and liabilities, all of the assets of IF Bancorp, Inc. available for distribution. If preferred stock is issued, the holders thereof may have a priority over the holders of the common stock in the event of liquidation or dissolution.

Preemptive Rights. Holders of the common stock of IF Bancorp, Inc. are not entitled to preemptive rights with respect to any shares that may be issued, unless such preemptive rights are approved by the Board of Directors. The common stock is not subject to redemption.

Preferred Stock

Preferred stock may be issued with preferences and designations as our Board of Directors may from time to time determine. Our Board of Directors may, without stockholder approval, issue shares of preferred stock with voting, dividend, liquidation and conversion rights that could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

RESTRICTIONS ON ACQUISITION OF IF BANCORP, INC.

The following discussion is a general summary of the material provisions of IF Bancorp, Inc.'s articles of incorporation and bylaws, Iroquois Federal's federal stock charter, Maryland corporate law and certain other regulatory provisions that may be deemed to have an "anti-takeover" effect. The following description of certain of these provisions is necessarily general and, with respect to provisions contained in IF Bancorp, Inc.'s articles of incorporation and bylaws and Iroquois Federal's federal stock charter, reference should be made in each case to the document in question.

IF Bancorp, Inc.'s Articles of Incorporation and Bylaws

IF Bancorp, Inc.'s articles of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of stockholders that might discourage future takeover attempts. As a result, stockholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions also render the removal of the Board of Directors or management of IF Bancorp, Inc. more difficult.

Directors. The Board of Directors is divided into three classes. The members of each class are elected for a term of three years and only one class of directors is elected annually. Thus, it would take at least two annual elections to replace a majority of our directors. The bylaws establish qualifications for Board members, including restrictions on affiliations with competitors of Iroquois Federal and prior legal or regulatory violations.

Evaluation of Offers. The articles of incorporation of IF Bancorp, Inc. provide that its Board of Directors, when evaluating a transaction that would or may involve a change in control of IF Bancorp, Inc. (whether by purchases of its securities, merger, consolidation, share exchange, dissolution, liquidation, sale of all or substantially all of its assets, proxy solicitation or otherwise), may, in connection with the exercise of its business judgment in determining what is in the best interests of IF Bancorp, Inc. and its stockholders and in making any recommendation to the stockholders, give due consideration to all relevant factors, including, but not limited to:

- the economic effect, both immediate and long-term, upon IF Bancorp, Inc.'s stockholders, including stockholders, if any, who do not participate in the transaction;
- the social and economic effect on the present and future employees, creditors and customers of, and others dealing with, IF Bancorp, Inc. and its subsidiaries and on the communities in which IF Bancorp, Inc. and its subsidiaries operate or are located;
- whether the proposal is acceptable based on the historical, current or projected future operating results or financial condition of IF Bancorp, Inc.;
- whether a more favorable price could be obtained for IF Bancorp, Inc.'s stock or other securities in the future;
- the reputation and business practices of the other entity to be involved in the transaction and its management and affiliates as they would affect the employees of IF Bancorp, Inc. and its subsidiaries;
- the future value of the stock or any other securities of IF Bancorp, Inc. or the other entity to be involved in the proposed transaction;

- any antitrust or other legal and regulatory issues that are raised by the proposal;
- the business and historical, current or expected future financial condition or operating results of the other entity to be involved in the transaction, including, but not limited to, debt service and other existing financial obligations, financial obligations to be incurred in connection with the proposed transaction, and other likely financial obligations of the other entity to be involved in the proposed transaction; and
- the ability of IF Bancorp, Inc. to fulfill its objectives as a financial institution holding company and on the ability of its subsidiary financial institution(s) to fulfill the objectives of a federally insured financial institution under applicable statutes and regulations.

If the Board of Directors determines that any proposed transaction should be rejected, it may take any lawful action to defeat such transaction.

Restrictions on Calling Special Meetings. The bylaws provide that special meetings of stockholders can be called by only the President, a majority of the total number of directors that IF Bancorp, Inc. would have if there were no vacancies on the Board of Directors, or the Secretary upon the written request of stockholders entitled to cast at least a majority of all votes entitled to vote at the meeting.

Prohibition of Cumulative Voting. The articles of incorporation prohibit cumulative voting for the election of directors.

Limitation of Voting Rights. The articles of incorporation provide that in no event is any person who beneficially owns more than 10% of the then-outstanding shares of common stock, entitled or permitted to vote any of the shares of common stock held in excess of the 10% limit; provided that such 10% limit shall not apply if a majority of the unaffiliated directors approve the acquisition of shares in excess of the 10% limit prior to such acquisition.

Restrictions on Removing Directors from Office. The articles of incorporation provide that directors may be removed only for cause, and only by the affirmative vote of the holders of a majority of the voting power of all of our then-outstanding capital stock entitled to vote generally in the election of directors (after giving effect to the limitation on voting rights discussed above in "—Limitation of Voting Rights"), voting together as a single class.

Authorized but Unissued Shares. IF Bancorp, Inc. has authorized but unissued shares of common and preferred stock. The articles of incorporation authorize 50,000,000 shares of serial preferred stock. IF Bancorp, Inc. is authorized to issue preferred stock from time to time in one or more series subject to applicable provisions of law, and the Board of Directors is authorized to fix the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of such shares. In addition, the articles of incorporation provide that a majority of the total number of directors that IF Bancorp, Inc. would have if there were no vacancies on the Board of Directors may, without action by the stockholders, amend the articles of incorporation to increase or decrease the aggregate number of shares of stock of any class or series that IF Bancorp, Inc. has the authority to issue. In the event of a proposed merger, tender offer or other attempt to gain control of IF Bancorp, Inc. that the Board of Directors does not approve, it would be possible for the Board of Directors to authorize the issuance of a series of preferred stock with rights and preferences that would impede the completion of the transaction. An effect of the possible issuance of preferred stock therefore may be to deter a future attempt to gain control of IF Bancorp, Inc.

Amendments to Articles of Incorporation and Bylaws. Except as provided under "— Authorized but Unissued Shares," above, regarding the amendment of the articles of incorporation by the Board of Directors to increase or decrease the number of shares authorized for issuance, or as otherwise allowed by law, any amendment to the articles of incorporation must be approved by our Board of Directors and also by a majority of the outstanding shares of our voting stock; provided, however, that approval by at least 80% of the outstanding voting stock is generally required to amend the following provisions:

(i) The limitation on voting rights of persons who directly or indirectly beneficially own more than 10% of the outstanding shares of common stock;

(ii) The division of the Board of Directors into three staggered classes;

(iii) The ability of the Board of Directors to fill vacancies on the Board;

(iv) The requirement that at least a majority of stockholders must vote to remove directors, and can only remove directors for cause;

(v) The ability of the Board of Directors to amend and repeal the bylaws;

(vi) The ability of the Board of Directors to evaluate a variety of factors in evaluating offers to purchase or otherwise acquire IF Bancorp, Inc.;

(vii) The authority of the Board of Directors to provide for the issuance of preferred stock;

(viii) The validity and effectiveness of any action lawfully authorized by the affirmative vote of the holders of a majority of the total number of outstanding shares of common stock;

(ix) The number of stockholders constituting a quorum or required for stockholder consent;

(x) The indemnification of current and former directors and officers, as well as employees and other agents, by IF Bancorp, Inc.;

(xi) The limitation of liability of officers and directors to IF Bancorp, Inc. for money damages; and

(xii) The provision of the articles of incorporation requiring approval of at least 80% of the outstanding voting stock to amend the provisions of the articles of incorporation provided in (i) through (xi) of this list.

The articles of incorporation also provide that the bylaws may be amended by the affirmative vote of a majority of our directors or by the stockholders by the affirmative vote of at least 80% of the total votes eligible to be voted at a duly constituted meeting of stockholders. Any amendment of this supermajority requirement for amendment of the bylaws would also require the approval of 80% of the outstanding voting stock.

Maryland Corporate Law

Business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, statutory share exchange or, in circumstances specified in the statute, certain transfers of assets, certain stock issuances and transfers, liquidation plans and reclassifications involving interested stockholders and their affiliates or issuance or reclassification of equity securities. Maryland law defines an interested stockholder as: (i) any person who beneficially owns 10% or more of the voting power of a corporation’s voting stock after the date on which the corporation had 100 or more beneficial owners of its stock; or (ii) an affiliate or associate of the corporation at any time after the date on which the corporation had 100 or more beneficial owners of its stock who, within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting stock of the corporation. A person is not an interested stockholder under the statute if the Board of Directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, the Board of Directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the Board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the Board of Directors of the corporation and approved by the affirmative vote of at least: (i) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and (ii) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

Change in Control Laws

Under the Change in Bank Control Act, no person may acquire control of an insured savings association or its parent holding company unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition. The Federal Reserve Board takes into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. In addition, federal regulations provide that no company may acquire control of a savings association without the prior approval of the Federal Reserve Board. Any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination and regulation by the Federal Reserve Board.

Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a determination by the Federal Reserve Board that the acquirer has the power to direct, or directly or indirectly exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a savings and loan holding company's voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances including where, as is the case with Iroquois Federal, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934. Federal Reserve Board regulations provide that parties seeking to rebut control will be provided an opportunity to do so in writing.

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Section 3: EX-23.0 (EX-23.0)

Exhibit 23.0

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-176222 and No. 333-185075 on Form S-8 of our report dated September 12, 2019 relating to the consolidated financial statements of IF Bancorp, Inc. and subsidiary as of June 30, 2019 and 2018 and for the years then ended appearing in this Annual Report on Form 10-K.

/s/ BKD, LLP
Decatur, Illinois
September 12, 2019

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Section 4: EX-31.1 (EX-31.1)

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

CERTIFICATION

I, Walter H. Hasselbring, III certify that:

1. I have reviewed this annual report on Form 10-K 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 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 officers 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 officers 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 (or persons performing the equivalent functions):

(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: September 12, 2019

/s/ Walter H. Hasselbring, III
Walter H. Hasselbring, III
President and Chief Executive Officer
(principal executive officer)

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Section 5: EX-31.2 (EX-31.2)

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

CERTIFICATION

I, Pamela J. Verkler, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 officers 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 officers 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 (or persons performing the equivalent functions):

(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: September 12, 2019

/s/ Pamela J. Verkler
Pamela J. Verkler
Senior Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)

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Section 6: EX-32.0 (EX-32.0)

Exhibit 32.0

Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of IF Bancorp, Inc. (the "Company") on Form 10-K for the period ended June 30, 2019 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. §1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 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 as of and for the period covered by the Report.

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

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

September 12, 2019

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