IF Bancorp, Inc.
Form 10-Q
November 09, 2018
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018

OR

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

Commission File No. 001-35226

IF Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

(815) 432-2476

(Registrant s telephone number)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit). YES NO

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

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

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

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

The Registrant had 3,871,408 shares of common stock, par value $0.01 per share, issued and outstanding as of November 2, 2018.

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Part I. Financial Information

Item 1. Financial Statements

IF Bancorp, Inc.

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amount)

	September 30, 2018 (Unaudited)	June 30, 2018
Assets		
Cash and due from banks	$ 6,077	$ 4,240
Interest-bearing demand deposits	1,053	514
Cash and cash equivalents	7,130	4,754
Interest-bearing time deposits in banks	1,750	1,750
Available-for-sale securities	126,241	125,996
Loans, net of allowance for loan losses of $6,181 and $5,945 at September 30, 2018 and June 30, 2018, respectively	484,464	476,480
Premises and equipment, net of accumulated depreciation of $6,866 and $6,717 at September 30, 2018 and June 30, 2018, respectively	10,549	10,226
Federal Home Loan Bank stock, at cost	3,589	3,285
Foreclosed assets held for sale	5,036	219
Accrued interest receivable	2,295	1,821
Bank-owned life insurance	8,870	8,803
Mortgage servicing rights	894	866
Deferred income taxes	4,106	4,003
Other	530	720
Total assets	$ 655,454	$ 638,923
Liabilities and Equity		
Liabilities		
Deposits		
Demand	$ 22,226	$ 21,350
Savings, NOW and money market	188,243	195,491
Certificates of deposit	239,040	229,236
Brokered certificates of deposit	41,294	34,344
Total deposits	490,803	480,421

Repurchase agreements		2,134	2,281
Federal Home Loan Bank advances		74,750	67,500
Advances from borrowers for taxes and insurance		657	309
Accrued post-retirement benefit obligation		2,778	2,770
Accrued interest payable		393	188
Other		2,858	3,779
Total liabilities		574,373	557,248
Commitments and Contingencies			
Stockholders Equity			
Common stock, $.01 par value per share, 100,000,000 shares authorized, 3,871,408 shares issued and outstanding at both September 30, 2018 and June 30, 2018		39	39
Additional paid-in capital		48,487	48,361
Unearned ESOP shares, at cost, 245,374 and 250,185 shares at September 30, 2018 and June 30, 2018, respectively		(2,454)	(2,502)
Retained earnings		39,335	38,885
Accumulated other comprehensive loss, net of tax		(4,326)	(3,108)
Total stockholders equity		81,081	81,675
Total liabilities and stockholders equity	$	655,454	$ 638,923

See accompanying notes to the unaudited condensed consolidated financial statements.

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IF Bancorp, Inc.

Condensed Consolidated Statements of Income (Unaudited)

(Dollars in thousands except per share amounts)

	Three Months Ended September 30,	
	2018	**2017**
Interest and Dividend Income		
Interest and fees on loans	$ 5,505	$ 4,740
Securities:		
Taxable	827	646
Tax-exempt	33	35
Federal Home Loan Bank dividends	29	22
Deposits with other financial institutions	25	25
Total interest and dividend income	6,419	5,468
Interest Expense		
Deposits	1,539	885
Federal Home Loan Bank advances	418	172
Total interest expense	1,957	1,057
Net Interest Income	4,462	4,411
Provision for Loan Losses	237	408
Net Interest Income After Provision for Loan Losses	4,225	4,003
Noninterest Income		
Customer service fees	103	121
Other service charges and fees	88	106
Insurance commissions	183	173
Brokerage commissions	276	177
Net realized gains on sales of available-for-sale securities		13
Mortgage banking income, net	86	70
Gain on sale of loans	93	100
Gain on foreclosed assets, net	120	
Bank-owned life insurance income, net	67	177
Other	262	231
Total noninterest income	1,278	1,168
Noninterest Expense		
Compensation and benefits	2,503	2,339
Office occupancy	211	169

Equipment		331		310
Federal deposit insurance		43		43
Stationary, printing and office		36		40
Advertising		142		84
Professional services		120		79
Supervisory examinations		44		40
Audit and accounting services		40		64
Organizational dues and subscriptions		19		17
Insurance bond premiums		42		35
Telephone and postage		67		67
Other		626		371
Total noninterest expense		4,224		3,658
Income Before Income Tax		1,279		1,513
Provision for Income Tax		345		538
Net Income	$	934	$	975
Earnings Per Share:				
Basic	$	0.26	$	0.27
Diluted	$	0.25	$	0.26
Dividends declared per common share	$	0.125	$	0.10

See accompanying notes to the unaudited condensed consolidated financial statements.

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IF Bancorp, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2018	2017
Net Income	$ 934	$ 975
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $(120) and $31, for 2018 and 2017, respectively	(1,191)	47
Less: reclassification adjustment for realized gains included in net income, net of taxes of $0 and $5 for 2018 and 2017, respectively		8
	(1,191)	39
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of $31 and $0 for 2018 and 2017, respectively	(27)	1
Other comprehensive income (loss), net of tax	(1,218)	40
Comprehensive Income (Loss)	$ (284)	$ 1,015

See accompanying notes to the unaudited condensed consolidated financial statements.

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IF Bancorp, Inc.

Condensed Consolidated Statements of Stockholders Equity (Unaudited)

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total
For the three months ended September 30, 2018						
Balance, July 1, 2018	$ 39	$ 48,361	$ (2,502)	$ 38,885	$ (3,108)	$ 81,675
Net income				934		934
Other comprehensive loss					(1,218)	(1,218)
Dividends on common stock, $0.125 per share				(484)		(484)
Stock equity plan		56				56
ESOP shares earned, 4,811 shares		70	48			118
Balance, September 30, 2018	$ 39	$ 48,487	$ (2,454)	$ 39,335	$ (4,326)	$ 81,081
For the three months ended September 30, 2017						
Balance, July 1, 2017	$ 39	$ 47,940	$ (2,694)	$ 39,051	$ (367)	$ 83,969
Net income				975		975
Other comprehensive income					40	40
Dividends on common stock, $0.10 per share				(393)		(393)
Stock equity plan		56				56
ESOP shares earned, 4,811 shares		47	48			95
Balance, September 30, 2017	$ 39	$ 48,043	$ (2,646)	$ 39,633	$ (327)	$ 84,742

See accompanying notes to the unaudited condensed consolidated financial statements.

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IF Bancorp, Inc.

Condensed Consolidated Statement of Cash Flows (Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2018	2017
Operating Activities		
Net income	$ 934	$ 975
Items not requiring (providing) cash		
Depreciation	149	119
Provision for loan losses	237	408
Amortization of premiums and discounts on securities	7	41
Deferred income taxes	(14)	(347)
Net realized gains on loan sales	(93)	(100)
Net realized gains on sales of available-for-sale securities		(13)
Gain on foreclosed assets held for sale	(120)	
Bank-owned life insurance income, net	(67)	(177)
Originations of loans held for sale	(4,629)	(5,621)
Proceeds from sales of loans held for sale	4,900	5,827
ESOP compensation expense	118	95
Stock equity plan expense	56	56
Changes in		
Accrued interest receivable	(474)	(291)
Other assets	190	(455)
Accrued interest payable	205	27
Post-retirement benefit obligation	12	(3)
Other liabilities	(1,405)	(271)
Net cash provided by operating activities	6	270
Investing Activities		
Purchases of available-for-sale securities	(5,457)	(9,130)
Proceeds from the sales of available-for-sale securities		5,966
Proceeds from maturities and pay downs of available-for-sale securities	3,894	4,756
Net change in loans	(14,759)	(26,140)
Purchase of premises and equipment	(472)	(3,441)
Proceeds from the sale of foreclosed assets	1,635	9
Redemption of Federal Home Loan Bank stock owned	450	203
Purchase of Federal Home Loan Bank stock	(754)	(810)
Proceeds from settlement of bank-owned life insurance policies		395
Net cash used in investing activities	(15,463)	(28,192)
Financing Activities		

Net increase (decrease) in demand deposits, money market, NOW and savings accounts		(6,372)		12,613
Net increase in certificates of deposit, including brokered certificates		16,754		1,056
Net increase (decrease) in advances from borrowers for taxes and insurance		348		(232)
Proceeds from Federal Home Loan Bank advances		72,250		46,000
Repayments of Federal Home Loan Bank advances		(65,000)		(34,500)
Net increase (decrease) in repurchase agreements		(147)		670
Net cash provided by financing activities		17,833		25,607
Net Increase (Decrease) in Cash and Cash Equivalents		2,376		(2,315)
Cash and Cash Equivalents, Beginning of Period		4,754		7,766
Cash and Cash Equivalents, End of Period	$	7,130	$	5,451
Supplemental Cash Flows Information				
Interest paid	$	1,752	$	1,030
Income taxes paid	$		$	509
Dividends payable	$	484	$	393

See accompanying notes to the unaudited condensed consolidated financial statements.

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IF Bancorp, Inc.

Form 10-Q (Unaudited)

(Table dollar amounts in thousands)

Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Financial Statement Presentation

IF Bancorp, Inc., a Maryland corporation (the Company), became the holding company for Iroquois Federal Savings and Loan Association (the Association) upon completion of the Association s mutual-to-stock conversion on July 7, 2011. At the time of the conversion, the Company also established an employee stock ownership plan that purchased 384,900 shares of Company stock, and a charitable foundation, Iroquois Federal Foundation, to which the Company donated 314,755 shares of Company stock and $450,000 cash. IF Bancorp, Inc. s common stock began trading on the NASDAQ Capital Market under the symbol IROQ on July 8, 2011.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with instructions for Form 10-Q and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ from these estimates. In the opinion of management, the preceding unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial condition of the Company as of September 30, 2018 and June 30, 2018, and the results of its operations for the three month periods ended September 30, 2018 and 2017. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended June 30, 2018. The results of operations for the three-month period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the entire year.

Note 2: New Accounting Pronouncements

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

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

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

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

Insurance Commissions - The Company s insurance agency, Iroquois Insurance Agency, receives commissions on premiums of new and renewed business policies. Iroquois Insurance Agency records commission revenue on direct bill policies as the cash is received. For agency bill policies, Iroquois Insurance Agency retains its commission portion of the customer premium payment and remits the balance to the carrier. In both cases, the carrier holds the performance obligation.

Brokerage Commissions - The primary brokerage revenue is recorded at the beginning of each quarter through billing to customers based on the account asset size on the last day of the previous quarter. If a withdrawal of funds takes place, a prorated refund may occur; this is reflected within the same quarter as the original billing occurred. All performance obligations are met within the same quarter that the revenue is recorded.

Other - The Company generates revenue through service charges from the use of its ATM machines and interchange income from the use of Company issued credit and debit cards. The revenue is recognized at the time the service is used, and the performance obligation is satisfied.

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 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods with early adoption permitted. The Company is currently reviewing the amendments to ensure it is fully compliant by the adoption date. As permitted by the amendments, the Company is anticipating electing an accounting policy to not recognize lease assets and lease liabilities for leases with a term of twelve months or less. The impact is not expected to have a material effect on the Company s financial position or results of operations since the Company does not have a material amount of lease agreements. The Company continues to evaluate the amendments and does not expect to early adopt.

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

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230),* which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASC 230 lacks consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. This has led to diversity in practice and, in certain circumstances, financial statement restatements. Therefore, the FASB issued the ASU with the intent of reducing diversity in practice with respect to eight types of cash flows. The 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 3: Stock-based Compensation

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

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

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

	September 30, 2018	June 30, 2018
Allocated shares	115,378	96,133
Shares committed for release	4,811	19,245
Unearned shares	245,374	250,185
Total ESOP shares	365,563	365,563
Fair value of unearned ESOP shares (1)	$ 5,656	$ 5,979

(1) Based on closing price of $23.05 and $23.90 per share on September 30, 2018, and June 30, 2018, respectively. During the three months ended September 30, 2018, no ESOP shares were paid to ESOP participants due to separation from service. During the three months ended September 30, 2017, 6,116 ESOP shares were paid to ESOP participants due to separation from service.

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

On December 10, 2013, the Board of Directors approved grants of 85,500 shares of restricted stock and 167,000 in stock options to be awarded to senior officers and directors of the Association. The restricted stock will vest in equal installments over 10 years and the stock options will vest in equal installments over 7 years, both starting in December

2014. On December 10, 2015, the Board of Directors approved grants of 16,900 shares of restricted stock to be awarded to senior officers and directors of the Association. The restricted stock will vest in equal installments over 8 years, starting in December 2016. As of September 30, 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 three months ended September 30, 2018 (dollars in thousands):

	Options	Weighted-Average Exercise Price/Share		Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value	
Outstanding, June 30, 2018	153,143	$	16.63			
Granted						
Exercised						
Forfeited						
Outstanding, September 30, 2018	153,143	$	16.63	5.2	$	983 (1)
Exercisable, September 30, 2018	86,285	$	16.63	5.2	$	554 (1)

(1) Based on closing price of $23.05 per share on September 30, 2018.
Intrinsic value for stock options is defined as the difference between the current market value and the exercise price.
There were no options granted during the three months ended September 30, 2018.

There were no options that vested during the three months ended September 30, 2018 and 2017. Stock-based compensation expense and related tax benefit was considered nominal for stock options for the three months ended September 30, 2018 and 2017. Total unrecognized compensation cost related to non-vested stock options was $123,000 at September 30, 2018 and is expected to be recognized over a weighted-average period of 2.2 years.

The following table summarizes non-vested restricted stock activity for the three months ended September 30, 2018:

	Shares	Weighted-Average Grant-Date Fair Value	
Balance, June 30, 2018	60,375	$	16.79
Granted			
Forfeited			
Earned and issued			
Balance, September 30, 2018	60,375	$	16.79

The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (ten years) and is based on the market price of the Company s common stock at the date of grant multiplied by the number of shares granted that are expected to vest. At the date of grant the par value of the shares granted was recorded in equity as a credit to common stock and a debit to paid-in capital. Stock-based compensation expense and related tax benefit for restricted stock, which was recognized in non-interest expense, was $42,000 and $12,000, respectively, for the three months ended September 30, 2018, and was $42,000 and $14,000, respectively, or the three months ended September 30, 2017. Unrecognized compensation expense for non-vested restricted stock awards was $884,000 and is expected to be recognized over 5.2 years with a corresponding credit to paid-in capital.

Note 4: Earnings Per Common Share (EPS)

Basic and diluted earnings per common share are presented for the three-month periods ended September 30, 2018 and 2017. The factors used in the earnings per common share computation are as follows:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
Net income	$	934	$	975
Basic weighted average shares outstanding		3,871,408		3,940,408
Less: Average unallocated ESOP shares		(247,779)		(267,024)
Basic average shares outstanding		3,623,629		3,673,384
Diluted effect of restricted stock awards and stock options		69,853		35,081
Diluted average shares outstanding		3,693,482		3,708,465
Basic earnings per common share	$	0.26	$	0.27
Diluted earnings per common share	$	0.25	$	0.26

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The Company announced a stock repurchase plan on February 5, 2016, which allowed the Company to repurchase up to 200,703 shares of its common stock, or approximately 5% of its then current outstanding shares. As of September 30, 2018, 142,653 shares were repurchased at an average price of $19.30 per share.

On December 10, 2013, the Company awarded 85,500 shares of restricted stock and 167,000 in stock options to officers and directors of the Association as part of the IF Bancorp, Inc. 2012 Equity Incentive Plan. The restricted stock vests over 10 years and the stock options vest over 7 years, both starting in December 2014. On December 10, 2015, the Company awarded 16,900 shares of restricted stock to officers and directors of the Association as part of this plan. This restricted stock vests over 8 years, starting in December 2016.

Note 5: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
September 30, 2018:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 24,769	$	$ (1,074)	$ 23,695
Mortgage-backed:				
GSE residential	98,661	10	(4,479)	94,192
Small Business Administration	5,382		(115)	5,267
State and political subdivisions	2,980	107		3,087
	$ 131,792	$ 117	$ (5,668)	$ 126,241
June 30, 2018:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 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	2,980	144		3,124
	$ 130,236	$ 168	$ (4,408)	$ 125,996

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With the exception of U.S. Government, federal agency and GSE securities and Mortgage-backed GSE residential securities with a book value of approximately $24,769,000 and $98,661,000, respectively, and a market value of approximately $23,695,000 and $94,192,000, respectively, at September 30, 2018, the Company held no securities at September 30, 2018 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at September 30, 2018 and June 30, 2018 were issued by GSEs.

The amortized cost and fair value of available-for-sale securities at September 30, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale Securities	
	Amortized Cost	**Fair Value**
Within one year	$ 135	$ 135
One to five years	9,927	9,524
Five to ten years	17,987	17,267
After ten years	5,082	5,123
	33,131	32,049
Mortgage-backed securities	98,661	94,192
Totals	$ 131,792	$ 126,241

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $69,135,000 and $64,625,000 as of September 30, 2018 and June 30, 2018, respectively.

The carrying value of securities sold under agreement to repurchase amounted to $2.1 million at September 30, 2018 and $2.3 million at June 30, 2018. At September 30, 2018, approximately $234,000 of our repurchase agreements had an overnight maturity, while the remaining $1.9 million in repurchase agreements had a term of 30 to 90 days. All of our repurchase agreements were secured by U.S. Government, federal agency and GSE securities. The right of offset for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default. The collateral is held by the Company in a segregated custodial account. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained.

There were no sales of available-for-sale securities for the three months ended September 30, 2018. Gross gains of $20,000 and gross losses of $7,000, resulting from sales of available-for-sale securities were realized for the three month periods ended September 30, 2017. The tax provision applicable to these net realized gains amounted to approximately $0 and $5,000, respectively.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2018 and June 30, 2018, was $120,276,000 and $119,180,000, respectively, which is approximately 95% and 95% of the Company s available-for-sale investment portfolio. These declines in fair value at September 30, 2018 and June 30, 2018, resulted from increases in market interest rates and are considered temporary.

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The following table shows the Company s gross unrealized investment losses and the fair value of the Company s investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2018 and June 30, 2018:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
September 30, 2018:						
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 8,321	$ (618)	$ 15,374	$ (456)	$ 23,695	$ (1,074)
Mortgage-backed:						
GSE residential	38,836	(1,370)	52,478	(3,109)	91,314	(4,479)
Small Business Administration	3,436	(13)	1,831	(102)	5,267	(115)
Total temporarily impaired securities	$ 50,593	$ (2,001)	$ 69,683	$ (3,667)	$ 120,276	$ (5,668)
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 September 30, 2018 and June 30, 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 September 30, 2018 and June 30, 2018.

Note 6: Loans and Allowance for Loan Losses

Classes of loans include:	**September 30, 2018**	**June 30, 2018**
Real estate loans:		
One- to four-family, including home equity loans	$ 130,518	$ 134,977
Multi-family	107,625	107,436
Commercial	144,425	140,944
Home equity lines of credit	9,033	9,058
Construction	12,574	13,763
Commercial	78,734	68,720

Consumer		7,532		7,366
Total loans		490,441		482,264
Less:				
Unearned fees and discounts, net		(204)		(161)
Allowance for loan losses		6,181		5,945
Loans, net	$	484,464	$	476,480

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

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

The Company s policies and loan approval limits are established by the Board of Directors. The loan officers generally have authority to approve one- to four-family residential mortgage loans up to $100,000, other secured loans up to $50,000, and unsecured loans up to $10,000. Managing Officers (those with designated loan approval authority), generally have authority to approve one- to four-family residential mortgage loans up to $375,000, other secured loans up to $375,000, and unsecured loans up to $100,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to $2,000,000 in aggregate loans and unsecured loans up to $500,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman and up to four other Board members. At no time is a borrower s total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Company s directors, are reviewed for compliance with regulatory guidelines and the Board of Directors at least annually.

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

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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 borrowers.

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

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

Commercial Real Estate and Multi-Family Real Estate Loans

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

Home Equity Lines of Credit

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

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Commercial Business Loans

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

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

Real Estate Construction Loans

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

Consumer Loans

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

Loan Concentration

The loan portfolio includes a concentration of loans secured by commercial real estate properties, including real estate construction loans, amounting to $263,506,000 and $260,671,000 as of September 30, 2018 and June 30, 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 $5,329,000 and $5,855,000 at September 30, 2018 and June 30, 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 $32,127,000 and $32,874,000 at September 30, 2018 and June 30, 2018, respectively, of which

$10,476,000 and $11,009,000, at September 30, 2018 and June 30, 2018 were outside our primary market area. These participation loans are secured by real estate and other business assets.

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Allowance for Loan Losses

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of the three-month periods ended September 30, 2018 and 2017 and the year ended June 30, 2018:

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

	Three Months Ended September 30, 2018 (Continued)			
	Construction	Commercial	Consumer	Total
Allowance for loan losses:				
Balance, beginning of period	$ 168	$ 1,373	$ 62	$ 5,945
Provision charged to expense	1	174	2	237
Losses charged off			(2)	(2)
Recoveries				1
Balance, end of period	$ 169	$ 1,547	$ 62	$ 6,181
	$	$ 9	$	$ 12

Ending balance: individually evaluated for impairment								
Ending balance: collectively evaluated for impairment	$	169	$	1,538	$	62	$	6,169
Loans:								
Ending balance	$	12,574	$	78,734	$	7,532	$	490,441
Ending balance: individually evaluated for impairment	$		$	9	$	3	$	2,826
Ending balance: collectively evaluated for impairment	$	12,574	$	78,725	$	7,529	$	487,615

	Year Ended June 30, 2018 Real Estate Loans							
		One- to Four-Family		**Multi-Family**		**Commercial**		**Home Equity Lines of Credit**
Allowance for loan losses:								
Balance, beginning of year	$	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 year	$	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

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	Year Ended June 30, 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