IF Bancorp, Inc.
Form 10-Q
February 12, 2019

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 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	**(I.R.S. Employer**

incorporation or organization)	**Identification Number)**
201 East Cherry Street, Watseka, Illinois	**60970**
(Address of Principal Executive Offices)	**Zip Code**

(815) 432-2476

(Registrant s telephone number)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically 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 such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (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 3,604,908 shares of common stock, par value $0.01 per share, issued and outstanding as of February 4, 2019.

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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)

	December 31, 2018 (Unaudited)	June 30, 2018
Assets		
Cash and due from banks	$ 6,261	$ 4,240
Interest-bearing demand deposits	757	514
Cash and cash equivalents	7,018	4,754
Interest-bearing time deposits in banks	2,500	1,750
Available-for-sale securities	127,648	125,996
Loans, net of allowance for loan losses of $6,319 and $5,945 at December 31, 2018 and June 30, 2018, respectively	494,240	476,480
Premises and equipment, net of accumulated depreciation of $7,043 and $6,717 at December 31, 2018 and June 30, 2018, respectively	10,824	10,226
Federal Home Loan Bank stock, at cost	3,668	3,285
Foreclosed assets held for sale	2,909	219
Accrued interest receivable	1,962	1,821
Bank-owned life insurance	8,938	8,803
Mortgage servicing rights	896	866
Deferred income taxes	3,334	4,003
Other	337	720
Total assets	$ 664,274	$ 638,923
Liabilities and Equity		
Liabilities		
Deposits		
Demand	$ 22,950	$ 21,350
Savings, NOW and money market	181,243	195,491
Certificates of deposit	247,991	229,236
Brokered certificates of deposit	41,535	34,344
Total deposits	493,719	480,421
Repurchase agreements	2,840	2,281
Federal Home Loan Bank advances	81,500	67,500

Advances from borrowers for taxes and insurance	1,140	309
Accrued post-retirement benefit obligation	2,787	2,770
Accrued interest payable	467	188
Other	3,300	3,779
Total liabilities	585,753	557,248
Commitments and Contingencies		
Stockholders Equity		
Common stock, $.01 par value per share, 100,000,000 shares authorized, 3,616,408 and 3,871,408 shares issued and outstanding at both December 31, 2018 and June 30, 2018, respectively	36	39
Additional paid-in capital	48,600	48,361
Unearned ESOP shares, at cost, 240,563 and 250,185 shares at December 31, 2018 and June 30, 2018, respectively	(2,406)	(2,502)
Retained earnings	34,726	38,885
Accumulated other comprehensive loss, net of tax	(2,435)	(3,108)
Total stockholders equity	78,521	81,675
Total liabilities and stockholders equity	$ 664,274	$ 638,923

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Condensed Consolidated Statements of Income (Unaudited)

(Dollars in thousands except per share amounts)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Interest and Dividend Income				
Interest and fees on loans	$ 5,721	$ 4,923	$ 11,226	$ 9,663
Securities:				
Taxable	826	650	1,653	1,296
Tax-exempt	30	35	63	70
Federal Home Loan Bank dividends	40	23	69	45
Deposits with other financial institutions	41	39	66	64
Total interest and dividend income	6,658	5,670	13,077	11,138
Interest Expense				
Deposits	1,738	1,027	3,277	1,912
Federal Home Loan Bank advances and repurchase agreements	429	196	847	368
Total interest expense	2,167	1,223	4,124	2,280
Net Interest Income	4,491	4,447	8,953	8,858
Provision (Credit) for Loan Losses	138	(50)	375	358
Net Interest Income After Provision for Loan Losses	4,353	4,497	8,578	8,500
Noninterest Income				
Customer service fees	103	100	206	221
Other service charges and fees	67	94	155	200
Insurance commissions	154	170	337	343
Brokerage commissions	247	228	523	405
Net realized gains on sales of available-for-sale securities				13
Mortgage banking income, net	66	65	152	135
Gain on sale of loans	86	50	179	150
Gain (loss) on foreclosed assets, net	(22)		98	
Bank-owned life insurance income, net	68	69	135	246
Other	274	201	536	432
Total noninterest income	1,043	977	2,321	2,145
Noninterest Expense				
Compensation and benefits	2,711	2,556	5,214	4,895

Office occupancy		229		194		440		363
Equipment		340		348		671		658
Federal deposit insurance		43		42		86		85
Stationary, printing and office		27		26		63		66
Advertising		113		130		255		214
Professional services		94		188		214		267
Supervisory examinations		44		40		88		80
Audit and accounting services		45		24		85		88
Organizational dues and subscriptions		15		29		34		46
Insurance bond premiums		36		37		78		72
Telephone and postage		66		72		133		139
Other		567		837		1,193		1,208
Total noninterest expense		4,330		4,523		8,554		8,181
Income Before Income Tax		1,066		951		2,345		2,464
Provision for Income Tax		279		1,679		624		2,217
Net Income (Loss)	$	787	$	(728)	$	1,721	$	247
Earnings (Loss) Per Share:								
Basic	$	0.22	$	(0.20)	$	0.48	$	0.07
Diluted	$	0.22	$	(0.20)	$	0.47	$	0.07
Dividends declared per common share	$		$		$	0.125	$	0.10

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

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

(Dollars in thousands)

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
Net Income (Loss)	$ 787	$ (728)
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $752 and $(278), for 2018 and 2017, respectively	1,889	(924)
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of $2 and $1 for 2018 and 2017, respectively	2	2
Other comprehensive income (loss), net of tax	1,891	(922)
Comprehensive Income (Loss)	$ 2,678	$ (1,650)

	Six Months Ended December 31, 2018	Six Months Ended December 31, 2017
Net Income	$ 1,721	$ 247
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $632 and $(255), for 2018 and 2017, respectively	698	(869)
Less: reclassification adjustment for realized gains included in net income, net of taxes of $0 and $4, for 2018 and 2017, respectively		9
	698	(878)
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of $33 and $(2) for 2018 and 2017, respectively	(25)	(4)
Other comprehensive income (loss), net of tax	673	(882)
Comprehensive Income (Loss)	$ 2,394	$ (635)

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Condensed Consolidated Statement of Stockholders Equity (Unaudited)

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
For the six months ended December 31, 2018						
Balance, July 1, 2018	$ 39	$ 48,361	$ (2,502)	$ 38,885	$ (3,108)	$ 81,675
Net income				1,721		1,721
Other comprehensive loss					673	673
Dividends on common stock, $0.125 per share				(453)		(453)
Stock equity plan		113				113
Stock repurchase, 255,000 shares, average price $21.30 each	(3)			(5,427)		(5,430)
ESOP shares earned, 9,622 shares		126	96			222
Balance, December 31, 2018	$ 36	$ 48,600	$ (2,406)	$ 34,726	$ (2,435)	$ 78,521
For the six months ended December 31, 2017						
Balance, July 1, 2017	$ 39	$ 47,940	$ (2,694)	$ 39,051	$ (367)	$ 83,969
Net income				247		247
Other comprehensive loss				206	(882)	(676)
Dividends on common stock, $0.10 per share				(366)		(366)
Stock equity plan		112				112
ESOP shares earned, 9,622 shares		94	96			190
Balance, December 31, 2017	$ 39	$ 48,146	$ (2,598)	$ 39,138	$ (1,249)	$ 83,476

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Condensed Consolidated Statement of Cash Flows (Unaudited)

(Dollars in thousands)

	Six Months Ended December 31, 2018	2017
Operating Activities		
Net income	$ 1,721	$ 247
Items not requiring (providing) cash		
Depreciation	326	244
Provision for loan losses	375	358
Amortization of premiums and discounts on securities	29	92
Deferred income taxes	4	944
Net realized gains on loan sales	(179)	(150)
Net realized gains on sales of available-for-sale securities		(13)
Gain on foreclosed assets held for sale	(98)	
Bank-owned life insurance income, net	(135)	(246)
Originations of loans held for sale	(9,192)	(10,155)
Proceeds from sales of loans held for sale	9,469	10,471
ESOP compensation expense	222	190
Stock equity plan expense	113	112
Changes in		
Accrued interest receivable	(141)	(213)
Other assets	383	(132)
Accrued interest payable	279	61
Post-retirement benefit obligation	25	6
Other liabilities	(479)	(531)
Net cash provided by operating activities	2,722	1,285
Investing Activities		
Net change in interest bearing time deposits	(750)	
Purchases of available-for-sale securities	(7,970)	(23,607)
Proceeds from the sales of available-for-sale securities		5,966
Proceeds from maturities and pay-downs of available-for-sale securities	7,619	11,061
Net change in loans	(24,595)	(18,723)
Purchase of premises and equipment	(924)	(3,817)
Proceeds from sale of foreclosed assets	3,740	9
Redemption of Federal Home Loan Bank stock owned	1,057	788
Purchase of Federal Home Loan Bank stock	(1,440)	(1,035)
Proceeds from settlement of bank-owned life insurance policies		397
Net cash used in investing activities	(23,263)	(28,961)
Financing Activities		
	(12,648)	14,518

Net increase (decrease) in demand deposits, money market, NOW and savings accounts				
Net increase in certificates of deposit, including brokered certificates		25,946		7,911
Net increase in advances from borrowers for taxes and insurance		831		260
Proceeds from Federal Home Loan Bank advances		111,500		66,500
Repayments of Federal Home Loan Bank advances		(97,500)		(63,000)
Net increase in repurchase agreements		559		781
Dividends paid		(453)		(366)
Stock purchase per stock repurchase plan		(5,430)		
Net cash provided by financing activities		22,805		26,604
Net Increase (Decrease) in Cash and Cash Equivalents		2,264		(1,072)
Cash and Cash Equivalents, Beginning of Period		4,754		7,766
Cash and Cash Equivalents, End of Period	$	7,018	$	6,694
Supplemental Cash Flows Information				
Interest paid	$	3,845	$	2,219
Income taxes paid	$	30	$	1,849
Foreclosed assets acquired in settlement of loans	$	6,332	$	71

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Form 10-Q (Unaudited)

(Table dollar amounts in thousands)

Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Financial Statement Presentation

IF Bancorp, Inc., a Maryland corporation (the Company), became the holding company for Iroquois Federal Savings and Loan Association (the Association) upon completion of the Association s conversion on July 7, 2011. In connection with the conversion, the Company completed its initial public offering of common stock, selling 4,496,500 shares of common stock at $10.00 per share, including 384,900 shares sold to the Association s employee stock ownership plan, and raising approximately $45.0 million of gross proceeds. The Company also established a charitable foundation, Iroquois Federal Foundation, to which the Company donated 314,755 shares of Company stock and $450,000 cash. IF Bancorp, Inc. s common stock trades on the NASDAQ Capital Market under the symbol IROQ .

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with instructions for Form 10 Q and Regulation S X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ from these estimates. In the opinion of management, the preceding unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial condition of the Company as of December 31, 2018 and June 30, 2018, and the results of its operations for the three month and six month periods ended December 31, 2018 and 2017. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended June 30, 2018. The results of operations for the three month and six month periods ended December 31, 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. 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. 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 December 31, 2018 and June 30, 2018 are as follows (dollars in thousands):

	December 31, 2018	June 30, 2018
Allocated shares	109,018	96,133
Shares committed for release	9,622	19,245
Unearned shares	240,563	250,185
Total ESOP shares	359,203	365,563
Fair value of unearned ESOP shares (1)	$ 4,840	$ 5,979

(1) Based on closing price of $20.12 and $23.90 per share on December 31, 2018, and June 30, 2018, respectively. During the six months ended December 31, 2018, 6,360 ESOP shares were paid to ESOP participants due to separation from service. During the six months ended December 31, 2017, 6,116 ESOP shares were paid to ESOP participants due to separation from service.

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

On December 10, 2013, the Board of Directors approved grants of 85,500 shares of restricted stock and 167,000 in stock options to senior officers and directors of the Association. The restricted stock vests in equal installments over 10 years and the stock options vest in equal installments over 7 years. Vesting of both the restricted stock and options started in December 2014. On December 10, 2015, the Board of Directors approved grants of 16,900 shares of restricted stock to be awarded to senior officers and directors of the Association. The restricted stock vests in equal installments over 8 years, starting in December 2016. As of December 31, 2018, there were 90,050 shares of restricted stock and 314,125 stock option shares available for future grants under this plan.

The following table summarizes stock option activity for the six months ended December 31, 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, December 31, 2018	153,143	$	16.63	4.9	$	534(1)
Exercisable, December 31, 2018	108,571	$	16.63	4.9	$	379(1)

(1) Based on closing price of $20.12 per share on December 31, 2018.
Intrinsic value for stock options is defined as the difference between the current market value and the exercise price.
There were no stock options granted during the six months ended December 31, 2018.

There were 22,286 stock options that vested during the six months ended December 31, 2018 and 22,285 stock options that vested during the six months ended December 31, 2017. Stock-based compensation expense and related tax benefit was considered nominal for stock options for the six months ended December 31, 2018 and 2017. Total unrecognized compensation cost related to non-vested stock options was $108,000 at December 31, 2018 and is expected to be recognized over a weighted-average period of 1.9 years.

The following table summarizes non-vested restricted stock activity for the six months ended December 31, 2018:

	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, December 31, 2018	50,313	$	16.79

The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (ten years) and is based on the market price of the Company s common stock at the date of grant multiplied by the number of shares granted that are expected to vest. At the date of grant the par value of the shares granted was recorded in equity as a credit to common stock and a debit to paid-in capital. Stock-based compensation expense and related tax benefit for restricted stock, which was recognized in non-interest expense, was $85,000 and $24,000, respectively, for both the six months ended December 31, 2018 and the six months ended December 31, 2017. Unrecognized compensation expense for non-vested restricted stock awards was $841,000 at December 31, 2018, and is expected to be recognized over 4.9 years with a corresponding credit to paid-in capital.

Note 4: Earnings Per Common Share (EPS)

Basic and diluted earnings per common share are presented for the three month and six month periods ended December 31, 2018 and 2017. The factors used in the earnings per common share computation follow:

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Six Months Ended December 31, 2018	Six Months Ended December 31, 2017
Net income (loss)	$ 787	$ (728)	$ 1,721	$ 247
Basic weighted average shares outstanding	3,813,636	3,940,408	3,842,522	3,940,408
Less: Average unallocated ESOP shares	(242,968)	(262,213)	(245,374)	(264,619)
Basic average shares outstanding	3,570,668	3,678,195	3,597,148	3,675,789
Diluted effect of restricted stock awards and stock options	53,475	34,058	62,683	34,612
Diluted average shares outstanding	3,624,143	3,712,253	3,659,831	3,710,401
Basic earnings (loss) per common share	$ 0.22	$ (0.20)	$ 0.48	$ 0.07
Diluted earnings (loss) per common share	$ 0.22	$ (0.20)	$ 0.47	$ 0.07

The Company announced a stock repurchase plan on December 5, 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 December 31, 2018, 255,000 shares were repurchased under this plan at an average price of $21.30.

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:				
December 31, 2018:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 24,781	$ 4	$ (389)	$ 24,396
Mortgage-backed:				
GSE residential	97,711	36	(2,604)	95,143
Small Business Administration	5,340		(65)	5,275
State and political subdivisions	2,726	108		2,834
	$ 130,558	$ 148	$ (3,058)	$ 127,648
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

With the exception of U.S. Government, federal agency and GSE securities and GSE residential mortgage-backed securities with a book value of approximately $24,781,000 and $97,711,000, respectively, and a market value of approximately $24,396,000 and $95,143,000, respectively, at December 31, 2018, the Company held no securities at December 31, 2018 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at December 31, 2018 and June 30, 2018 were issued by GSEs.

The amortized cost and fair value of available-for-sale securities at December 31, 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	$ 1,150	$ 1,193
One to five years	10,058	9,815
Five to ten years	18,232	18,106
After ten years	3,407	3,391
	32,847	32,505
Mortgage-backed securities	97,711	95,143
Totals	$ 130,558	$ 127,648

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was $70,314,000 and $64,625,000 as of December 31, 2018 and June 30, 2018, respectively.

The carrying value of securities sold under agreement to repurchase amounted to $2,840,000 at December 31, 2018 and $2,281,000 at June 30, 2018. At December 31, 2018, approximately $905,000 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 six months ended December 31, 2018. Gross gains of $20,000, and gross losses of $7,000, resulting from sales of available-for-sale securities were realized for the six month period ended December 31, 2017. The tax provision applicable to these net realized gains amounted to approximately $4,000. No gross gains or gross losses resulting from sales of available-for-sale securities were realized for the three month periods ended December 31, 2018 and 2017.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2018 and June 30, 2018, was $114,792,000 and $119,180,000, respectively, which is approximately 90% and 95% of the Company s available-for-sale investment portfolio. These declines in fair value at December 31, 2018 and June 30, 2018, resulted from increases in market interest rates and are considered temporary.

The following table shows the Company s gross unrealized investment losses and the fair value of the Company s investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and June 30, 2018:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018:						
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 8,218	$ (49)	$ 14,844	$ (340)	$ 23,062	$ (389)
Mortgage-backed:						
GSE residential	13,341	(116)	73,113	(2,488)	86,454	(2,604)
Small Business Administration	3,391	(16)	1,885	(49)	5,276	(65)
Total temporarily impaired securities	$ 24,950	$ (181)	$ 89,842	$ (2,877)	$ 114,792	$ (3,058)
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 December 31, 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 December 31, 2018 and June 30, 2018.

Note 6: Loans and Allowance for Loan Losses

Classes of loans include:

	December 31, 2018	June 30, 2018
Real estate loans:		
One- to four-family, including home equity loans	$ 130,800	$ 134,977
Multi-family	108,391	107,436
Commercial	158,226	140,944
Home equity lines of credit	8,913	9,058
Construction	12,447	13,763
Commercial	74,231	68,720
Consumer	7,293	7,366
Total loans	500,301	482,264
Less:		

Unearned fees and discounts, net				(161)
Allowance for loan losses		6,319		5,945
Loans, net	$	494,240	$	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 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, Champaign and Kankakee, as well as the adjacent counties in Illinois and Indiana. The Company also has a loan production and wealth management office in Osage Beach, Missouri, which serves the Missouri counties of Camden, Miller, and Morgan. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid from cash flows of the borrowers or from proceeds from the sale of selected assets of the borrowers.

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

The Company s policies and loan approval limits are established by the Board of Directors. The loan officers generally have authority to approve one- to four-family residential mortgage loans up to $100,000, other secured loans up to $50,000, and unsecured loans up to $10,000. Managing Officers (those with designated loan approval authority), generally have authority to approve one- to four-family residential mortgage loans up to $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 at least four other Board members. At no time is a borrower s total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Company s directors, are reviewed for compliance with regulatory guidelines and the Board of Directors at least annually.

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

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

One- to four-family Residential Mortgage Loans

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

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

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

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

Commercial Real Estate and Multi-Family Real Estate Loans

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

Home Equity Lines of Credit

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

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Commercial Business Loans

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

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

Real Estate Construction Loans

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

Consumer Loans

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

Loan Concentration

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to $277,225,000 and $260,671,000 as of December 31, 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 $5,206,000 and $5,855,000 at December 31, 2018 and June 30, 2018, respectively. All of these purchased loans are secured by single family homes located out of our primary market area, but still primarily in the Midwest. The Company s loans receivable also include commercial loan participations of $31,348,000 and $32,874,000 at December 31, 2018 and June 30, 2018, respectively, of which $10,408,000 and $11,009,000, at December 31, 2018 and June 30, 2018 were outside our primary market area.

Allowance for Loan Losses

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of the three month and six month periods ended December 31, 2018 and 2017 and the year ended June 30, 2018:

	Three Months Ended December 31, 2018 Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 1,012	$ 1,656	$ 1,644	$ 91
Provision charged to expense	11	12	160	12
Losses charged off				
Recoveries				
Balance, end of period	$ 1,023	$ 1,668	$ 1,804	$ 103
Ending balance: individually evaluated for impairment	$	$	$ 2	$ 15
Ending balance: collectively evaluated for impairment	$ 1,023	$ 1,668	$ 1,802	$ 88
Loans:				
Ending balance	$ 130,800	$ 108,391	$ 158,226	$ 8,913
Ending balance: individually evaluated for impairment	$ 1,458	$ 1,200	$ 38	$ 38
Ending balance: collectively evaluated for impairment	$ 129,342	$ 107,191	$ 158,188	$ 8,875

	Three Months Ended December 31, 2018 (Continued)			
	Construction	Commercial	Consumer	Total
Allowance for loan losses:				
Balance, beginning of period	$ 169	$ 1,547	$ 62	$ 6,181
Provision charged to expense	1	(66)	8	138
Losses charged off			(3)	(3)
Recoveries			3	3
Balance, end of period	$ 170	$ 1,481	$ 70	$ 6,319
Ending balance: individually evaluated for impairment	$	$ 6	$	$ 23
Ending balance: collectively evaluated for impairment	$ 170	$ 1,475	$ 70	$ 6,296
Loans:				
Ending balance	$ 12,447	$ 74,231	$ 7,293	$ 500,301
Ending balance: individually evaluated for impairment	$	$ 6	$ 3	$ 2,743

Ending balance: collectively evaluated for impairment	$ 12,447	$ 74,225	$ 7,290	$ 497,558

	Six Months Ended December 31, 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	25	18	200	12
Losses charged off				
Recoveries	1			
Balance, end of period	$ 1,023	$ 1,668	$ 1,804	$ 103
Ending balance: individually evaluated for impairment	$	$	$ 2	$ 15
Ending balance: collectively evaluated for impairment	$ 1,023	$ 1,668	$ 1,802	$ 88
Loans:				
Ending balance	$ 130,800	$ 108,391	$ 158,226	$ 8,913
Ending balance: individually evaluated for impairment	$ 1,458	$ 1,200	$ 38	$ 38
Ending balance: collectively evaluated for impairment	$ 129,342	$ 107,191	$ 158,188	$ 8,875

	Six Months Ended December 31, 2018 (Continued)			
	Construction	Commercial	Consumer	Total
Allowance for loan losses:				
Balance, beginning of period	$ 168	$ 1,373	$ 62	$ 5,945
Provision charged to expense	2	108	10	375
Losses charged off			(5)	(5)
Recoveries			3	4
Balance, end of period	$ 170	$ 1,481	$ 70	$ 6,319
Ending balance: individually evaluated for impairment	$	$ 6	$	$ 23
Ending balance: collectively evaluated for impairment	$ 170	$ 1,475	$ 70	$ 6,296
Loans:				
Ending balance	$ 12,447	$ 74,231	$ 7,293	$ 500,301
Ending balance: individually evaluated for impairment	$	$ 6	$ 3	$ 2,743
Ending balance: collectively evaluated for impairment	$ 12,447	$ 74,225	$ 7,290	$ 497,558

	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
	$ 7,904	$ 1,329	$ 50	$ 26

Ending balance: individually evaluated for impairment				
Ending balance: collectively evaluated for impairment	$ 127,073	$ 106,107	$ 140,894	$ 9,032

	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
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

	Three Months Ended December 31, 2017 Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 2,534	$ 1,521	$ 1,573	$ 78
Provision charged to expense	28	(61)	(38)	24
Losses charged off	(45)			(24)
Recoveries				
Balance, end of period	$ 2,517	$ 1,460	$ 1,535	$ 78
Ending balance: individually evaluated for impairment	$ 1,527	$	$ 5	$
Ending balance: collectively evaluated for impairment	$ 990	$ 1,460	$ 1,530	$ 78
Loans:				
Ending balance	$ 140,950	$ 95,231	$ 135,645	$ 7,844
Ending balance: individually evaluated for impairment	$ 9,782	$ 1,360	$ 21	$ 31
Ending balance: collectively evaluated for impairment	$ 131,168	$ 93,871	$ 135,624	$ 7,813

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

Ending balance: individually evaluated for impairment	$		$	61	$	4	$	11,259
Ending balance: collectively evaluated for impairment	$	11,446	$	66,099	$	8,098	$	454,119

	Six Months Ended December 31, 2017 Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 2,519	$ 1,336	$ 1,520	$ 76
Provision charged to expense	43	124	15	26
Losses charged off	(45)			(24)
Recoveries				
Balance, end of period	$ 2,517	$ 1,460	$ 1,535	$ 78
Ending balance: individually evaluated for impairment	$ 1,527	$	$ 5	$
Ending balance: collectively evaluated for impairment	$ 990	$ 1,460	$ 1,530	$ 78
Loans:				
Ending balance	$ 140,950	$ 95,231	$ 135,645	$ 7,844
Ending balance: individually evaluated for impairment	$ 9,782	$ 1,360	$ 21	$ 31
Ending balance: collectively evaluated for impairment	$ 131,168	$ 93,871	$ 135,624	$ 7,813

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

Ending balance: individually evaluated for impairment				
Ending balance: collectively evaluated for impairment	$ 11,446	$ 66,099	$ 8,098	$ 454,119

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

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

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

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

The Company establishes a general allowance for loans that are not deemed impaired to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. The general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on the Company s historical loss experience, 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 significant 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 and other loan modifications, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependent loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.

Although the Company s policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, the Company has historically evaluated every loan classified as substandard, regardless of size, for impairment as part of the review for establishing specific allowances. The Company s policy also allows for general valuation allowance on certain smaller-balance, homogenous pools of loans which are loans criticized as special mention or watch. A separate general allowance calculation is made on these loans based on historical measured weakness, and which is no less than twice the amount of the general allowance calculated on the non-classified loans.

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

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

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

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

Substandard Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of any pledged collateral. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

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

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

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

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

Construction Real Estate: Construction real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company s market areas.

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

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

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

	Real Estate Loans							
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction	Commercial	Consumer	Total
December 31, 2018:								
Pass	$ 129,532	$ 108,391	$ 157,124	$ 8,877	$ 12,447	$ 71,797	$ 7,290	$ 495,458
Watch			1,064			1,565		2,629
Substandard	1,268		38	36		869	3	2,214
Doubtful								

Loss								
Total	$ 130,800	$ 108,391	$ 158,226	$ 8,913	$ 12,447	$ 74,231	$ 7,293	$ 500,301

	Real Estate Loans One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction	Commercial	Consumer	Total
June 30, 2018:								
Pass	$ 127,410	$ 107,320	$ 139,805	$ 9,035	$ 13,763	$ 66,545	$ 7,362	$ 471,240
Watch			1,089			1,204	1	2,294
Substandard	1,265	116	50	23		941	3	2,398
Doubtful	6,302					30		6,332
Loss								
Total	$ 134,977	$ 107,436	$ 140,944	$ 9,058	$ 13,763	$ 68,720	$ 7,366	$ 482,264

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

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

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Total Loans 90 Days Past Due & Accruing
December 31, 2018:							
Real estate loans:							
One- to four-family	$ 2,101	$ 347	$ 336	$ 2,784	$ 128,016	$ 130,800	$ 303
Multi-family	1,185	611		1,796	106,595	108,391	
Commercial	1,559	1,175	38	2,772	155,454	158,226	
Home equity lines of credit	71			71	8,842	8,913	
Construction					12,447	12,447	
Commercial	25	247		272	73,959	74,231	
Consumer	39	33		72	7,221	7,293	
Total	$ 4,980	$ 2,413	$ 374	$ 7,767	$ 492,534	$ 500,301	$ 303

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Total Loans 90 Days Past Due & Accruing
June 30, 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

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

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

The Company actively seeks to reduce its investment in impaired loans. The primary tools to work through impaired loans are settlements with the borrowers or guarantors, foreclosure of the underlying collateral, or restructuring. Included in certain loan categories in the impaired loans are $2.7 million in troubled debt restructurings that were classified as impaired.

The following tables present impaired loans:

				Three Months Ended December 31, 2018			Six Months Ended December 31, 2018		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest on Cash Basis	Average Investment in Impaired Loans	Interest Income Recognized	Interest on Cash Basis
December 31, 2018:									
Loans without a specific valuation allowance									
Real estate loans:									
One- to-four family	$ 1,458	$ 1,458	$	$ 1,467	$ 16	$ 16	$ 1,477	$ 32	$ 34
Multi-family	1,200	1,200		1,204	21	21	1,207	42	42
Commercial	36	36		40			41		
Home equity line of credit	23	23		24	1		25	1	1
Construction									
Commercial									
Consumer	3	3		3			3		
Loans with a specific valuation allowance									
Real estate loans:									
One- to-four family									
Multi-family									
Commercial	2	2	2	2			3		
Home equity line of credit	15	15	15	15			15		

Construction					
Commercial	6	6	6	8	8
Consumer					

Total:									
Real estate loans:									
One- to-four family	1,458	1,458		1,467	16	16	1,477	32	34
Multi-family	1,200	1,200		1,204	21	21	1,207	42	42
Commercial	38	38	2	42			44		
Home equity line of credit	38	38	15	39	1		40	1	1
Construction									
Commercial	6	6	6	8			8		
Consumer	3	3		3			3		
	$ 2,743	$ 2,743	$ 23	$ 2,763	$ 38	$ 37	$ 2,779	$ 75	$ 77

				Year Ended June 30, 2018		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest on Cash Basis
June 30, 2018:						
Loans without a specific valuation 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 line 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 line 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 line of credit	26	26		28	2	2
Construction						
Commercial	30	30		57		
Consumer	3	3		4	1	1

	$ 9,342	$ 9,342	$ 3	$ 10,278	$ 142	$ 144

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

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

The following table presents the Company s nonaccrual loans at December 31, 2018 and June 30, 2018:

	December 31, 2018	June 30, 2018
Mortgages on real estate:		
One- to four-family	$ 33	$ 6,339
Multi-family		116
Commercial	38	50
Home equity lines of credit	15	
Construction		
Commercial	6	30
Consumer		
Total	$ 92	$ 6,535

At December 31, 2018 and June 30, 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, all of which were performing according to the terms of the restructuring as of December 31, 2018, except for four one- to four-family real estate loans for $158,000, and two commercial real estate loans for $12,000. As of December 31, 2018, all loans listed were on nonaccrual except for twelve one- to four-family residential loans totaling $1.4 million, one multi-family loan for $1.2 million, two home equity lines of credit totaling $23,000, and one consumer loan for $3,000. All loans listed as of June 30, 2018 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 for $26,000, and one consumer loan for $4,000.

	December 31, 2018	June 30, 2018
Real estate loans		
One- to four-family	$ 1,442	$ 1,588
Multi-family	1,200	1,213
Commercial	12	17
Home equity lines of credit	23	26
Total real estate loans	2,677	2,844
Construction		
Commercial		30
Consumer	3	3
Total	$ 2,680	$ 2,877

<u>TDR Modifications</u>

During the six month period ended December 31, 2018, no loans were modified.

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.

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

TDR s with Defaults

The Company had six TDRs, comprised of four one- to four-family residential loans totaling $158,000 and two commercial real estate loans totaling $12,000, that were in default as of December 31, 2018, and were restructured in prior periods. No restructured loans were in foreclosure at December 31, 2018. 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 were 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.

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

We may obtain physical possession of real estate collateralizing a residential mortgage loan or home equity loan via foreclosure or in-substance repossession. As of December 31, 2018, the carrying value of foreclosed residential real estate properties as a result of obtaining physical possession was $2,670,000. In addition, as of December 31, 2018, we had residential mortgage loans and home equity loans with a carrying value of $14,000 collateralized by residential real estate property for which formal foreclosure proceedings were in process.

Note 7: Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. The Company owned $3,668,000 and $3,285,000 of Federal Home Loan Bank stock as of December 31, 2018 and June 30, 2018. The FHLB provides liquidity and funding through advances.

Note 8: Accumulated Other Comprehensive Income (Loss)

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

	December 31, 2018	June 30, 2018
Net unrealized losses on securities available-for-sale	$ (2,910)	$ (4,240)
Net unrealized postretirement health benefit plan obligations	(496)	(504)
	(3,406)	(4,744)
Tax effect	971	1,636
Total	$ (2,435)	$ (3,108)

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

Amounts reclassified from AOCI and the affected line items in the statements of income during the three and six month periods ended December 31, 2018 and 2017, were as follows:

	Amounts Reclassified from AOCI Three Months Ended December 31,		Six Months Ended December 31,		Affected Line Item in the Condensed Consolidated Statements of Income
	2018	2017	2018	2017	
Realized gains (losses) on available-for-sale securities	$	$	$	$ 13	Net realized gains on sale of available-for- sale securities
Amortization of defined benefit pension items:					Components are included in computation of net periodic pension cost
Actuarial losses	4	12	7	23	
Prior service costs		(9)		(17)	
Total reclassified amount before tax	4	3	7	19	
Tax expense	2	1	3	6	Provision for Income Tax
Total reclassification out of AOCI	$ 2	$ 2	$ 4	$ 13	Net Income

Note 10: Income Taxes

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Computed at the statutory rate (1)	$ 224	$ 323	$ 492	$ 838
Decrease resulting from				
Tax exempt interest	(6)	(12)	(13)	(24)
Cash surrender value of life insurance	(14)	(23)	(28)	(84)
State income taxes	72	56	157	135
Adjustment of deferred tax asset for enacted changes in tax laws		1,318		1,318
Other	3	17	16	34
Actual expense	$ 279	$ 1,679	$ 624	$ 2,217

(1) Statutory rate was 21% for the three and six months ended December 31, 2018 and 34% for the three and six months ended December 31, 2017.

Note 11: Regulatory Capital

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

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and Tier 1 capital to adjusted total assets. Management believes, as of December 31, 2018, 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.

As of December 31, 2018, 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.

Note 12: Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

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

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and June 30, 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)**
December 31, 2018:				
Available-for-sale securities:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 24,396	$	$ 24,396	$
Mortgage-backed: GSE residential	95,143		95,143	
Small Business Administration	5,275		5,275	
State and political subdivisions	2,834		2,834	
Mortgage servicing rights	896			896

		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:				

U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 23,922	$	$ 23,922	$
Mortgage-backed: 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

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended December 31, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. There were no Level 1 securities as of December 31, 2018 or June 30, 2018. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Government and federal agency, mortgage-backed securities (GSE residential) and state and political subdivisions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities as of December 31, 2018 or June 30, 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.

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, 2018	$ 866
Total realized and unrealized gains and losses included in net income	(4)
Servicing rights that result from asset transfers	85
Payments received and loans refinanced	(51)
Balance, December 31, 2018	$ 896
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	$ (4)

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 December 31, 2018 and June 30, 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)
December 31, 2018:				
Impaired loans (collateral-dependent)	$	$	$	$
June 30, 2018:				
Impaired loans (collateral-dependent)	$	$	$	$

The following table presents (losses)/recoveries recognized on assets measured on a non-recurring basis for the three months and six months ended December 31, 2018 and 2017:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Impaired loans (collateral-dependent)	$ (11)	$ 2	$ (19)	$ 1

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

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

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

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

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2018 and June 30, 2018.

	Fair Value at December 31, 2018	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
Mortgage servicing rights	$ 896	Discounted cash flow	Discount rate	9.5% - 11.5% (9.5%)
			Constant prepayment rate	6.3% - 10.7% (6.8%)
			Probability of default	0.00% - 0.17% (0.16%)

	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%)

Fair Value of Financial Instruments

The following tables present estimated fair values of the Company s financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and June 30, 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)
December 31, 2018:				
Financial assets				
Cash and cash equivalents	$ 7,018	$ 7,018	$	$
Interest-bearing time deposits in banks	2,500	2,500		
Loans, net of allowance for loan losses	494,240			483,291
Federal Home Loan Bank stock	3,668		3,668	
Accrued interest receivable	1,962		1,962	
Financial liabilities				
Deposits	493,719		204,193	288,559
Repurchase agreements	2,840		2,840	
Federal Home Loan Bank advances	81,500		81,546	
Advances from borrowers for taxes and insurance	1,140		1,140	
Accrued interest payable	467		467	
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans				
Lines of credit				

	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 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 following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

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

The carrying amount approximates fair value.

Loans

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

Deposits

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

Federal Home Loan Bank Advances

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

Commitments to Originate Loans and Lines of Credit

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

Note 13: Commitments

Commitments to Originate Loans

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

Lines of Credit

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

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

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

Management s ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on our actual results include, but are not limited to, general economic conditions, changes in the interest rate environment, legislative or regulatory changes that may adversely affect our business, changes in accounting policies and practices, changes in competition and demand for financial services, adverse changes in the securities markets and changes in the quality or composition of the Association s loan or investment portfolios. Additional factors that may affect our results are discussed under Item 1A. Risk Factors , in the Company s Annual Report on Form 10-K for the year ended June 30, 2018, and the Company s other filings with the SEC. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. IF Bancorp, Inc. assumes no obligation to update any forward-looking statement, except as may be required by law.

Overview

On July 7, 2011 we completed our initial public offering of common stock in connection with the Association s mutual-to-stock conversion, selling 4,496,500 shares of common stock at $10.00 per share, including 384,900 shares sold to the Association s employee stock ownership plan, and raising approximately $45.0 million of gross proceeds. In addition, we issued 314,755 shares of our common stock and $450,000 in cash to the Iroquois Federal Foundation.

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

The Association is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers within a 100-mile radius of its locations in Watseka, Danville, Clifton, Hoopeston, Savoy, Champaign, and Bourbonnais, Illinois, and Osage Beach, Missouri. The principal activity of the Association s wholly-owned subsidiary, L.C.I. Service Corporation, is the sale of property and casualty insurance. The Association is subject to regulation by the Office of the Controller of the Currency and the Federal Deposit Insurance Corporation.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets, and the interest paid on our interest-bearing liabilities, consisting primarily of savings and transaction accounts, certificates of deposit, and Federal Home Loan Bank of Chicago advances. Our results of operations also are affected by our provision for loan losses, noninterest income and noninterest expense. Noninterest income consists primarily of customer service fees, brokerage commission income, insurance commission income, net realized gains on loan sales, mortgage banking income, net gain on foreclosed assets 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, and federal deposit insurance premiums. 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 2.63% and 2.87% for the six months ended December 31, 2018 and 2017, respectively. Net interest income increased to $9.0 million, or $17.9 million on an annualized basis, for the six months ended December 31, 2018 from $8.9 million, or $17.7 million on an annualized basis, for the six months ended December 31, 2017.

Our emphasis on conservative loan underwriting has historically 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 six months ended December 31, 2018, these 45 properties with an aggregate value of $6.3 million were moved to foreclosed assets for sale, and 29 of these properties were sold for an aggregate gain of $86,000. Our non-performing loans totaled $344,000, or 0.1% of total loans at December 31, 2018 and $6.8 million, or 1.4% of total loans at June 30, 2018. Our non-performing assets totaled $3.3 million or 0.5% of total assets at December 31, 2018, and $7.0 million, or 1.1% of total assets at June 30, 2018.

At December 31, 2018, the Association was categorized as well capitalized under regulatory capital requirements.

Our net income for the six months ended December 31, 2018 was $1.7 million, compared to a net income of $247,000 for the six months ended December 31, 2017. The quarter ended December 31, 2017 included an additional $1.3 million income tax expense due to a downward adjustment to our net deferred tax asset (DTA) related to the Tax Cuts and Jobs Act (the Tax Act) enacted on December 22, 2017. The Tax Act provides for a reduction in the corporate income tax rate from 35% to 21% effective January 1, 2018, which resulted in the downward adjustment to our DTA.

Management s discussion and analysis of the financial condition and results of operations at and for the three and six months ended December 31, 2018 and 2017 is intended to assist in understanding the financial condition and results of operations of the Association. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto, appearing in Part I, Item 1 of this quarterly report on Form 10-Q.

Critical Accounting Policies

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

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

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

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

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

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

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

There are no material changes to the critical accounting policies disclosed in IF Bancorp, Inc. s Form 10-K for fiscal year ended June 30, 2018.

Comparison of Financial Condition at December 31, 2018 and June 30, 2018

Total assets increased $25.4 million, or 4.0%, to $664.3 million at December 31, 2018 from $638.9 million at June 30, 2018. The increase was primarily due to a $17.8 million increase in net loans receivable, a $1.7 million increase in investment securities, a $2.7 million increase in foreclosed assets held for sale, and a $2.3 million increase in cash and cash equivalents.

Net loans receivable, including loans held for sale, increased by $17.8 million, or 3.7%, to $494.2 million at December 31, 2018 from $476.5 million at June 30, 2018. The increase in net loans receivable during this period was due primarily to a $17.3 million, or 12.3%, increase in commercial real estate loans, a $5.5 million, or 8.0 %, increase in commercial business loans, and a $955,000, or 0.9%, increase in multi-family loans, partially offset by a $4.2 million, or 3.1%, decrease in one- to four-family loans, a $1.3 million, or 9.6%, decrease in construction loans, a $145,000, or 1.6%, decrease in home equity lines of credit, and a $73,000, or 1.0% decrease in consumer loans.

Investment securities, consisting entirely of securities available for sale, increased $1.7 million, or 1.3%, to $127.6 million at December 31, 2018 from $126.0 million at June 30, 2018. We had no securities classified as held to maturity at December 31, 2018 or June 30, 2018.

Between June 30, 2018 and December 31, 2018, foreclosed assets held for sale increased $2.7 million to $2.9 million, premises and equipment increased $598,000 to $10.8 million, interest receivable increased $141,000 to $2.0 million, and Federal Home Loan Bank stock increased $383,000 to $3.7 million, while deferred income taxes decreased $669,000 to $3.3 million. 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 for sale. The increase in premises and equipment was due to the opening of a new office building in Champaign, Illinois, the increase in interest receivable was due to an increase in the average balance of loans, and the increase in Federal Home Loan Bank stock was due to stock purchases to support loan growth and the increase in Federal Home Loan Bank advances. The decrease in deferred income taxes was mostly due to a decrease in unrealized losses on sale of available-for-sale securities.

At December 31, 2018, our investment in bank-owned life insurance was $8.9 million, an increase of $135,000 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 our Tier 1 capital plus our allowance for loan losses, which resulted in a limit of $20.4 million at December 31, 2018.

Deposits increased $13.3 million, or 2.8%, to $493.7 million at December 31, 2018 from $480.4 million at June 30, 2018. Certificates of deposit, excluding brokered certificates of deposit, increased $18.8 million, or 8.2%, to $248.0 million, while brokered certificates of deposit increased $7.2 million, or 20.9%, to $41.5 million. Savings, NOW, and money market accounts decreased $14.2 million, or 7.3%, to $181.2 million, and noninterest bearing demand accounts increased $1.6 million, or 7.5%, to $23.0 million. Repurchase agreements increased $559,000, or 24.5%, to $2.8 million at December 31, 2018, from $2.3 million at June 30, 2018. Borrowings, which consisted solely of advances from the Federal Home Loan Bank of Chicago, increased $14.0 million, or 20.7%, to $81.5 million at December 31, 2018 from $67.5 million at June 30, 2018.

Advances from borrowers for taxes and insurance increased $831,000, or 268.9%, to $1.1 million at December 31, 2018, from $309,000 at June 30, 2018. Accrued interest payable increased $279,000, or 148.4%, to $467,000 at December 31, 2018, from $188,000 at June 30, 2018. Other liabilities decreased $479,000, or 12.7%, to $3.3 million at December 31, 2018 from $3.8 million on June 30, 2018. The increase in advances from borrowers for taxes and insurance was attributable to the timing of the payment of real estate taxes and insurance, and the increase in accrued interest payable resulted from increases in both the average balance and average cost of interest-bearing liabilities. The decrease in other liabilities was the result of a large payable at June 30, 2018 related to the credit discussed in the Overview above, that was cleared when the 45 properties moved to foreclosed asset held for sale in July, 2018.

Total equity decreased $3.2 million, or 3.9%, to $78.5 million at December 31, 2018 from $81.7 million at June 30, 2018. Equity decreased due to the repurchase of 255,000 shares of common stock at an aggregate cost of approximately $5.4 million and the payment of approximately $453,000 in dividends to our shareholders, partially offset by net income of $1.7 million, an increase of $673,000 in accumulated other comprehensive income, net of tax, and ESOP and stock equity plan activity of $335,000. 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 the then current outstanding shares. As of December 31, 2018, 255,000 shares had been repurchased under this plan at an average price of $21.30 per share, and there are 35,356 shares that may yet be repurchased under the plan.

Comparison of Operating Results for the Six Months Ended December 31, 2018 and 2017

General. Net income increased $1.5 million to $1.7 million for the six months ended December 31, 2018 from $247,000 for the six months ended December 31, 2017. The increase in net income was largely due to the adjustment to the DTA in the six months ended December 31, 2017, as discussed above under Overview . The increase in net income was also due to an increase in net interest income, an increase in noninterest income, and a decrease in provision for income taxes, partially offset by an increase in provision for loan losses and an increase in noninterest expense.

Net Interest Income. Net interest income increased $95,000, or 1.1%, to $9.0 million for the six months ended December 31, 2018 from $8.9 million for the six months ended December 31, 2017. This was a result of an increase of $1.9 million in interest and dividend income, partially offset by an increase of $1.8 million in interest expense. A $43.8 million, or 7.5%, increase in the average balance of interest earning assets was offset by a $48.0 million, or 9.6%, increase in average balance of interest bearing liabilities. Our interest rate spread decreased by 24 basis points to 2.63% for the six months ended December 31, 2018 compared to 2.87% for the six months ended December 31, 2017, and our net interest margin decreased by 18 basis points to 2.84% for the six months ended December 31, 2018 compared to 3.02% for the six months ended December 31, 2017.

Interest and Dividend Income. Interest and dividend income increased $1.9 million, or 17.4%, to $13.1 million for the six months ended December 31, 2018 from $11.1 million for the six months ended December 31, 2017. The increase in interest and dividend income was due to a $1.6 million increase in interest income on loans, a $350,000 increase in interest on securities, and a $26,000 increase in other interest income. The increase in interest income on loans resulted from a $26.2 million, or 5.6%, increase in the average balance of loans to $492.4 million for the six months ended December 31, 2018, from $466.3 million for the six months ended December 31, 2017, and a 42 basis point, or 10.1%, increase in the average yield on loans to 4.56% for the six months ended December 31, 2018 from 4.14% for the six months ended December 31, 2017. The increase in interest income on securities was due to an $18.8 million increase in the average balance of securities to $130.8 million for the six months ended December 31, 2018, from $111.9 million for the six months ended December 31, 2017, and an 18 basis point increase in the average yield on securities to 2.62% for the six months ended December 31, 2018 from 2.44% for the six months ended December 31, 2017. The increase in other interest income was a result of a 98 basis point increase in the average yield in other interest earning assets, including Federal Home Loan Bank dividends and deposits with other financial institutions, to 3.35% from 2.37%, partially offset by a $1.2 million decrease in the average balance of other interest earning assets.

Interest Expense. Interest expense increased $1.8 million, or 80.9%, to $4.1 million for the six months ended December 31, 2018, from $2.3 million for the six months ended December 31, 2017. The increase was primarily due to increases in the average balances and average cost of both deposits and borrowings.

Interest expense on interest-bearing deposits increased by $1.4 million, or 71.4%, to $3.3 million for the six months ended December 31, 2018 from $1.9 million for the six months ended December 31, 2017. This increase was due to an increase of $36.6 million in the average balance of interest-bearing deposits to $469.7 million for the six months ended December 31, 2018 from $433.1 million for the six months ended December 31, 2017, as well as a 52 basis point increase in the average cost of interest bearing deposits to 1.40% for the six months ended December 31, 2018 from 0.88% for the six months ended December 31, 2017.

Interest expense on borrowings increased $479,000, or 130.2%, to $847,000 for the six months ended December 31, 2018 from $368,000 for the six months ended December 31, 2017. This increase was due to an increase in the average balance of borrowings to $76.2 million for the six months ended December 31, 2018 from $64.8 million for the six months ended December 31, 2017, and a 108 basis point increase in the average cost of such borrowings to 2.22% for the six months ended December 31, 2018 from 1.14% for the six months ended December 31, 2017.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb probable credit losses inherent in our loan portfolio. We recorded a provision for loan losses of $375,000 for the six months ended December 31, 2018, compared to a provision for loan losses of $358,000 for the six months ended December 31, 2017. The allowance for loan losses was $6.3 million, or 1.26% of total loans, at December 31, 2018, compared to $7.1 million, or 1.53% of total loans, at December 31, 2017 and $5.9 million, or 1.23% of total loans, at June 30, 2018. Non-performing loans decreased $6.5 million to $344,000, during the six month period ended December 31, 2018, mostly due to the credit discussed in Overview above which resulted in moving 45 properties with an aggregate value of $6.3 million to foreclosed assets held for sale during the period. During the six months ended December 31, 2018, a net charge-off of $1,000 was recorded while during the six months ended December 31, 2017, a net charge-off of $71,000 was recorded.

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

	At or for the Six Months Ended December 31, 2018	At or for the Year Ended June 30, 2018
Allowance to non-performing loans at the end of the period	1,836.92%	87.06%
Allowance to total loans outstanding at the end of the period	1.26%	1.23%
Net charge-offs to average total loans outstanding during the period, annualized	0.00%	0.35%
Total non-performing loans to total loans at the end of the period	0.07%	1.42%
Total non-performing assets to total assets at the end of the period	0.49%	1.10%

Noninterest Income. Noninterest income increased $176,000, or 8.2%, to $2.3 million for the six months ended December 31, 2018 from $2.1 million for the six months ended December 31, 2017. The increase was primarily due to an increase in brokerage commissions, an increase in gain on foreclosed assets, net, an increase in gain on sale of loans and an increase in mortgage banking income, net, partially offset by a decrease in bank-owned life insurance, net, and a decrease in other service charges and fees. For the six months ended December 31, 2018, brokerage commissions increased $118,000 to $523,000, gain on foreclosed assets, net increased $98,000 to $98,000, gain on sale of loans increased $29,000 to $179,000, and mortgage banking income, net increased $17,000 to $152,000, while bank-owned life insurance, net decreased $111,000 to $135,000, and other service charges and fees decreased $45,000 to $155,000. The increase in brokerage commissions was due to a change in the timing of commission payments, while the increase in gain on foreclosed assets, net was mostly due to the sale of 29 of the 45 properties transferred to foreclosed assets held for sale and discussed in Overview above. The increase in gain on sale of loans and the increase in mortgage banking income, net resulted from an increase in the loans sold and increase in valuation of mortgage servicing rights. The decrease in bank-owned life insurance, net, was due to a benefit claim during the six months ended December 31, 2017, and the decrease in other service charges and fees was due to a decrease in the number of loan fees.

Noninterest Expense. Noninterest expense increased $373,000, or 4.6%, to $8.6 million for the six months ended December 31, 2018 from $8.2 million for the six months ended December 31, 2017. The largest components of this increase were compensation and benefits, which increased $319,000, or 6.5%, office occupancy, which increased $77,000, or 21.2%, and advertising expense, which increased $41,000, or 19.2%, partially offset by a $53,000, or 19.9%, decrease in professional services. Compensation and benefits increased due to increased staffing changes including additional staff for the Champaign office that opened in August 2018, normal salary increases and increased medical costs. Office occupancy and advertising increased as a result of the addition of the new Champaign office. The decrease in professional services was due to additional services received in the six months ended December 31, 2017 than in the six months ended December 31, 2018.

Income Tax Expense. We recorded a provision for income tax of $624,000 for the six months ended December 31, 2018, compared to a provision for income tax of $2.2 million for the six months ended December 31, 2017, reflecting effective tax rates of 26.6% and 90.0%, respectively. The effective tax rate for the six months ended December 31, 2017, reflects the impact of the adjustment to the DTA, as discussed above under Overview .

Comparison of Operating Results for the Three Months Ended December 31, 2018 and 2017

General. Net income increased $1.5 million to $787,000 for the three months ended December 31, 2018 from $728,000 net loss for the three months ended December 31, 2017. The increase in net income was largely due to the adjustment to the DTA in the six months ended December 31, 2017, as discussed above under Overview . Net income was also impacted by an increase in net interest income, an increase in noninterest income, a decrease in noninterest expense and a decrease in provision for income taxes, partially offset by an increase in the provision for loan losses.

Net Interest Income. Net interest income increased $44,000 to $4.5 million for the three months ended December 31, 2018 from $4.4 million for the three months ended December 31, 2017. The increase was a result of a $988,000 increase in interest and dividend income, partially offset by a $944,000 increase in interest expense. Our interest rate spread decreased 25 basis points to 2.61% for the three months ended December 31, 2018 compared to 2.86% for the three months ended December 31, 2017, and our net interest margin decreased by 19 basis points to 2.82% for the three months ended December 31, 2018 compared to 3.01% for the three months ended December 31, 2017. A $44.6 million, or 7.5%, increase in the average balance of interest earning assets was offset by a $46.8 million, or 9.3% increase in average balance of interest bearing liabilities.

Interest and Dividend Income. Interest and dividend income increased $988,000, or 17.4%, to $6.7 million for the three months ended December 31, 2018 from $5.7 million for the three months ended December 31, 2017. The increase in interest and dividend income was primarily due to a $798,000 increase in interest income on loans, which resulted from a $28.1 million, or 6.0%, increase in the average balance of loans to $497.2 million from $469.1 million, and a 40 basis point, or 9.7%, increase in the average yield on loans to 4.60% from 4.20%. Interest on securities increased $176,000, or 27.1%, as the average balance increased by $18.3 million, or 16.3%, to $130.7 million from $112.4 million and the average yield increased 18 basis points to 2.62% from 2.44%.

Interest Expense. Interest expense increased $944,000, or 77.2%, to $2.2 million for the three months ended December 31, 2018 from $1.2 million for the three months ended December 31, 2017. This increase was due to a $46.8 million increase in the average balance of interest-bearing liabilities and a 61 basis point increase in average cost of interest-bearing liabilities.

Interest expense on interest-bearing deposits increased by $711,000, or 69.2%, to $1.7 million for the three months ended December 31, 2018 from $1.0 million for the three months ended December 31, 2017. This increase was due to a $35.6 million, or 8.1%, increase in the average balance of interest-bearing deposits to $474.4 million for the three months ended December 30, 2018 from $438.8 million for the three months ended December 31, 2017, and an increase in the average cost of interest-bearing deposits to 1.47% for the three months ended December 31, 2018 from 0.94% for the three months ended December 31, 2017.

Interest expense on borrowings increased $233,000, or 118.9%, to $429,000 for the three months ended December 31, 2018, from $196,000 for the three months ended December 31, 2017. This increase was due to a 106 basis point increase in the average cost of such borrowings to 2.30% for the three months ended December 31, 2018 from 1.24% for the three months ended December 31, 2017, and an increase in the average balance of borrowings to $74.6 million for the three months ended December 31, 2018, from $63.5 million for the three months ended December 31, 2017.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb probable credit losses inherent in our loan portfolio. We recorded a provision for loan losses of $138,000 for the three months ended December 31, 2018, compared to a reduction in provision for loan losses or credit of $50,000 for the three months ended December 31, 2017. During the three months ended December 31, 2018, there were no net charge-offs, while during the three months ended December 31, 2017, a net charge-off of $68,000 was recorded.

Noninterest Income. Noninterest income increased $66,000, or 6.8%, to $1.0 million for the three months ended December 31, 2018 from $977,000 for the three months ended December 31, 2017. The increase was primarily due to an increase in net gain on sale of loans and an increase in brokerage commissions, partially offset by a decrease in other service charges and fees. For the three months ended December 31, 2018, the net gain on the sale of loans increased $36,000 to $86,000, brokerage commissions increased $19,000 to $247,000, while other service charges and fees decreased $27,000 to $67,000. The increase in net gain on sale of loans was primarily due to a larger number of loans sold to the Federal Home Loan Bank of Chicago in the three months ending December 31, 2018, than in the three months ended December 31, 2017, while the increase in brokerage commissions was due to a change in the timing of commission payments. The decrease in other service charges and fees was due to a decrease in the number of loan fees.

Noninterest Expense. Noninterest expense decreased $193,000, or 4.3%, to $4.3 million for the three months ended December 31, 2018 from $4.5 million for the three months ended December 31, 2017. The largest components of this decrease were other expenses, which decreased $270,000, or 32.3%, and professional services, which decreased $94,000, or 50.0%. These decreases were partially offset by increases in compensation and benefits, which increased $155,000, or 6.1%, and office occupancy, which increased $35,000, or 18.0%. The other expenses decreased as a result of the accrual of real estate taxes on a large credit in bankruptcy in the three months ended December 31, 2017, and the decrease in professional services was due to additional services received during the three months ended December 31, 2017 when we went through a core system conversion. Compensation and benefits increased due to increased staffing changes including additional staff for the Champaign office that opened in August of 2018, normal salary increases and increased medical costs. Office occupancy increased as a result of the addition of the new Champaign office.

Income Tax Expense. We recorded a provision for income tax of $279,000 for the three months ended December 31, 2018, compared to a provision for income tax of $1.7 million for the three months ended December 31, 2017, reflecting effective tax rates of 26.2% and 176.6%, respectively. The effective tax rate for the three months ended December 31, 2017, reflects the impact of the adjustment to the DTA, as discussed above under Overview .

Asset Quality

At December 31, 2018, our non-accrual loans totaled $92,000, including $33,000 in one- to four-family loans, $38,000 in commercial real estate loans, $15,000 in home equity lines of credit, and $6,000 in commercial business loans. The commercial real estate loans are secured by commercial rental properties. At December 31, 2018, we had two one- to four family loans totaling $303,000, which were delinquent 90 days or greater and still accruing interest.

At December 31, 2018, loans classified as substandard equaled $2.2 million. Loans classified as substandard consisted of $1.3 million in one- to four-family loans, $38,000 in commercial real estate loans, $36,000 in home equity lines of credit, $869,000 in commercial business loans and $3,000 in consumer loans. At December 31, 2018, no loans were classified as doubtful or loss.

At December 31, 2018, watch assets consisted of $1.1 million in commercial real estate loans and $1.5 million in commercial business loans.

Troubled Debt Restructuring. Troubled debt restructurings include loans for which economic concessions have been granted to borrowers with financial difficulties. We periodically modify loans to extend the term or make other concessions to help borrowers stay current on their loans and to avoid foreclosure. At December 31, 2018 and June 30, 2018, we had $2.7 million and $2.9 million, respectively, of troubled debt restructurings. At December 31, 2018 our troubled debt restructurings consisted of $1.4 million in one- to four-family loans, $1.2 million in multi-family loans, $12,000 in commercial real estate loans, $23,000 in home equity lines of credit, and $3,000 in consumer loans.

Foreclosed Assets. At December 31 2018, we had $2.9 million in foreclosed assets compared to $219,000 as of June 30, 2018. Foreclosed assets at December 31, 2018 consisted of $2.7 million 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 non-occupied property.

Allowance for Loan Loss Activity

The Company regularly reviews its allowance for loan losses and makes adjustments to its balance based on management s analysis of the loan portfolio, the amount of non-performing and classified loans, as well as general economic conditions. Although the Company maintains its allowance for loan losses at a level that it considers sufficient to provide for losses, there can be no assurance that future losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies, which can order the establishment of additional loss provisions. The following table summarizes changes in the allowance for loan losses over the six-month periods ended December 31, 2018 and 2017:

	Six months ended	
	December 31,	
	2018	2017
Balance, beginning of period	$ 5,945	$ 6,835
Loans charged off		
Real estate loans		
One- to four-family		(45)
Multi-family		
Commercial		
HELOC		(24)
Construction		
Commercial business		
Consumer	(5)	(8)
Gross charged off loans	(5)	(77)
Recoveries of loans previously charged off		
Real estate loans		
One- to four-family	1	
Multi-family		
Commercial		
HELOC		
Construction		
Commercial business		
Consumer	3	6
Gross recoveries of charged off loans	4	6
Net charge offs	(1)	(71)
Provision charged to expense	375	358
Balance, end of period	$ 6,319	$ 7,122

The allowance for loan losses has been calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Company s loans. Management considers such factors as the repayment status of a loan, the estimated net fair value of the underlying collateral, the borrower s intent and ability to repay the loan, local economic conditions, and the Company s historical loss ratios. We maintain the allowance for loan losses through the provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. The allowance for loan losses increased $374,000 to $6.3 million at December 31, 2018, from $5.9 million at June 30, 2018. This increase was primarily the result of an increase in outstanding loans, and was necessary in order to bring the allowance for loan losses to a level that reflects management s estimate of the probable loan loss in the Company s loan portfolio at December 31, 2018.

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 has seen increases in loan defaults in the past several years, the Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation. The following table sets forth the Company s weighted average historical net charge offs as of December 31 and June 30, 2018:

Portfolio segment	December 31, 2018 Net charge-offs 12 quarter weighted historical	June 30, 2018 Net charge-offs 12 quarter weighted historical
Real Estate:		
One- to four-family	0.64%	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	0.02%	0.02%
Consumer	0.03%	0.04%
Entire portfolio total	0.20%	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. 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 December 31, 2018	Qualitative factor applied at June 30, 2018
Real Estate:		
One- to four-family	0.15%	0.13%
Multi-family	1.56%	1.56%
Commercial	1.19%	1.21%
HELOC	0.83%	0.77%
Construction	1.36%	1.22%
Commercial business	1.97%	1.98%
Consumer	0.75%	0.74%
Entire portfolio total	1.07%	1.05%

At December 31, 2018, the amount of our allowance for loan losses attributable to these qualitative factors was approximately $5.4 million, as compared to $5.1 million at June 30, 2018. The general increase in qualitative factors was attributable primarily to a change in the portfolio mix which resulted in higher balances in loans with slightly higher qualitative factors at December 31, 2018.

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

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan sales and repayments, advances from the Federal Home Loan Bank of Chicago, and maturities of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers, as well as unanticipated contingencies. For the three months ended December 31, 2018 and the year ended June 30, 2018, our liquidity ratio averaged 20.1% and 19.8% of our total assets, respectively. We believe that we had enough sources of liquidity to satisfy our short- and long-term liquidity needs as of December 31, 2018.

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

Our most liquid assets are cash and cash equivalents. The levels of these assets are affected by our operating, financing, lending and investing activities during any given period. At December 31, 2018, cash and cash equivalents totaled $7.0 million. Interest-earning time deposits which can offer additional sources of liquidity, totaled $2.5 million at December 31, 2018.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Condensed Consolidated Statement of Cash Flows included in our financial statements. Net cash provided by operating activities were $2.7 million and $1.3 million for the six months ended December 31, 2018 and 2017 respectively. Net cash used in investing activities consisted primarily of disbursements for loan originations and the purchase of securities, offset by net cash provided by principal collections on loans, and proceeds from maturing securities, the sale of securities and pay-downs on mortgage-backed securities. Net cash used in investing activities was $23.3 million and $29.0 million for the six months ended December 31, 2018 and 2017, respectively. Net cash provided by (used in) financing activities consisted primarily of the activity in deposit accounts and FHLB Advances. The net cash provided by financing activities was $22.8 million and $26.6 million for the six months ended December 31, 2018 and 2017, respectively.

The Company must also maintain adequate levels of liquidity to ensure the availability of funds to satisfy loan commitments. The Company anticipates that it will have sufficient funds available to meet its current commitments principally through the use of current liquid assets and through its borrowing capacity discussed above. The following table summarizes these commitments at December 31, 2018 and June 30, 2018.

	December 31, 2018	June 30, 2018
	(Dollars in thousands)	
Commitments to fund loans	$ 8,126	$ 9,246
Lines of credit	56,502	53,542

At December 31, 2018, certificates of deposit due within one year of December 31, 2018 totaled $167.4 million, or 33.9% of total deposits. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2019. Moreover, it is our intention as we continue to grow our commercial real estate portfolio, to emphasize lower cost deposit relationships with these commercial loan customers and thereby replace the higher cost certificates with lower cost deposits. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Chicago, which provides an additional source of funds. Federal Home Loan Bank advances were $81.5 million at December 31, 2018. At December 31, 2018 we had the ability to borrow up to an additional $141.0 million from the Federal Home Loan Bank of Chicago and also had the ability to borrow $16.8 million from the Federal Reserve based on current collateral pledged.

During the six months ended December 31, 2018, 255,000 shares were repurchased as part of the stock repurchase program that was announced by the Company on December 5, 2018, which allowed the Company to repurchase up to 290,356 shares of its common stock, or approximately 7.5% of the then current outstanding shares. Repurchases are made at management s discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company s financial performance. The repurchase plan may be suspended, terminated, or modified at any time for any reason, including market conditions, the cost of purchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. The repurchase program does not obligate the Company to purchase any particular number of shares. As of December 31, 2018, the Company had repurchased 255,000 shares at an average price of $21.30 per share, and the maximum number of shares that may yet be purchased under the plan was 35,356.

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

	December 31, 2018 Actual	June 30, 2018 Actual	Minimum to Be Well Capitalized
Tier 1 capital to total assets			
Association	11.3%	11.5%	5.0%
Company	12.2%	13.4%	N/A
Common equity tier 1 to risk-weighted assets			
Association	14.8%	14.9%	6.5%
Company	15.9%	17.3%	N/A
Tier 1 capital to risk-weighted assets			
Association	14.8%	14.9%	8.0%
Company	15.9%	17.3%	N/A
Total capital to risk-weighted assets			

Association	16.0%	16.1%	10.0%
Company	17.1%	18.5%	N/A

Average Balances and Yields

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

	For the Three Months Ended December 31,					
	2018			2017		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Assets						
Loans	$ 497,203	$ 5,721	4.60%	$ 469,126	$ 4,923	4.20%
Securities:						
U.S. government, federal agency and government-sponsored enterprises	30,131	192	2.55%	16,831	100	2.38%
U.S. government-sponsored enterprise MBS	97,714	652	2.67%	92,377	568	2.46%
State and political subdivisions	2,816	12	1.70%	3,176	17	2.14%
Total securities	130,661	856	2.62%	112,384	685	2.44%
Other interest-earning assets	8,153	81	3.97%	9,921	62	2.50%
Total interest-earning assets	636,017	6,658	4.19%	591,431	5,670	3.83%
Non-interest earning assets	22,576			21,521		
Total assets	$ 658,593			$ 612,952		
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Interest-bearing checking or NOW	$ 49,618	34	0.27%	$ 47,568	11	0.09%
Savings accounts	42,435	45	0.42%	42,569	16	0.15%
Money market accounts	94,194	300	1.27%	95,302	184	0.77%
Certificates of deposit	288,197	1,359	1.89%	253,396	816	1.29%
Total interest-bearing deposits	474,444	1,738	1.47%	438,835	1,027	0.94%
Federal Home Loan Bank Advances and repurchase agreements	74,617	429	2.30%	63,460	196	1.24%
Total interest-bearing liabilities	549,061	2,167	1.58%	502,295	1,223	0.97%
Noninterest-bearing liabilities	28,998			26,311		
Total liabilities	578,059			528,606		
Stockholders equity	80,534			84,346		

Total liabilities and stockholders equity	$ 658,593	$ 612,952

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	For the Three Months Ended December 31, 2018			2017		
	Average Balance	Interest Income/Expense	Yield/Cost	Average Balance	Interest Income/Expense	Yield/Cost
	(Dollars in thousands)					
Net interest income		$ 4,491			$ 4,447	
Interest rate spread (1)			2.61%			2.86%
Net interest margin (2)			2.82%			3.01%
Net interest-earning assets (3)	$ 86,956			$ 89,136		
Average interest-earning assets to interest-bearing liabilities	116%			118%		

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(2) Net interest margin represents net interest income divided by average total interest-earning assets.
(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(4) Tax exempt income is not recorded on a tax equivalent basis.

	For the Six Months Ended December 31, 2018			2017		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Assets						
Loans	$ 492,427	$ 11,226	4.56%	$ 466,277	$ 9,663	4.14%
Securities:						
U.S. government, federal agency and government-sponsored enterprises	29,414	368	2.50%	20,557	247	2.40%
U.S. government-sponsored enterprise MBS	98,472	1,320	2.68%	88,155	1,085	2.46%
State and political subdivisions	2,898	28	1.93%	3,225	34	2.11%
Total securities	130,784	1,716	2.62%	111,937	1,366	2.44%
Other interest-earning assets	8,056	135	3.35%	9,208	109	2.37%
Total interest-earning assets	631,267	13,077	4.14%	587,422	11,138	3.79%
Non-interest earning assets	22,891			20,181		
Total assets	$ 654,158			$ 607,603		

	For the Six Months Ended December 31,					
	2018			2017		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Liabilities and Stockholders Equity						
Interest-bearing liabilities:						
Interest-bearing checking or NOW	$ 48,534	66	0.27%	$ 46,283	21	0.09%
Savings accounts	42,216	89	0.42%	41,880	29	0.14%
Money market accounts	97,491	613	1.26%	93,400	308	0.66%
Certificates of deposit	281,424	2,509	1.78%	251,500	1,554	1.24%
Total interest-bearing deposits	469,665	3,277	1.40%	433,063	1,912	0.88%
Federal Home Loan Bank Advances and repurchase agreements	76,176	847	2.22%	64,788	368	1.14%
Total interest-bearing liabilities	545,841	4,124	1.51%	497,851	2,280	0.92%
Noninterest-bearing liabilities	27,140			25,234		
Total liabilities	572,981			523,085		
Stockholders equity	81,177			84,518		
Total liabilities and stockholders equity	$ 654,158			$ 607,603		
Net interest income		$ 8,953			$ 8,858	
Interest rate spread (1)			2.63%			2.87%
Net interest margin (2)			2.84%			3.02%
Net interest-earning assets (3)	$ 85,426			$ 89,571		
Average interest-earning assets to interest-bearing liabilities	116%			118%		

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(2) Net interest margin represents net interest income divided by average total interest-earning assets.
(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(4) Tax exempt income is not recorded on a tax equivalent basis.

Rate/Volume Analysis

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

	Three Months Ended December 31, 2018 vs. 2017			Six Months Ended December 31, 2018 vs. 2017		
	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Loans	$ 308	$ 490	$ 798	$ 557	$ 1,006	$ 1,563
Securities	118	53	171	244	106	350
Other	(63)	82	19	(36)	62	26
Total interest-earning assets	$ 363	$ 625	$ 988	$ 765	$ 1,174	$ 1,939
Interest-bearing liabilities:						
Interest-bearing checking or NOW	$ 1	$ 22	$ 23	$ 1	$ 44	$ 45
Savings accounts		29	29		60	60
Certificates of deposit	124	419	543	205	750	955
Money market accounts	(16)	132	116	14	291	305
Total interest-bearing deposits	109	602	711	220	1,145	1,365
Federal Home Loan Bank advances and repurchase agreements	40	193	233	75	404	479
Total interest-bearing liabilities	$ 149	$ 795	$ 944	$ 295	$ 1,549	$ 1,844
Change in net interest income	$ 214	$ (170)	$ 44	$ 470	$ (375)	$ 95

Item 3. Quantitative and Qualitative Disclosures About Market Risk

An internal interest rate risk analysis is performed at least quarterly to assess the Company s Earnings at Risk, Capital at Risk, and Value at Risk. As of December 31, 2018, there were no material changes in interest rate risk from the analysis disclosed in the Company s Form 10-K for the fiscal year ended June 30, 2018, as filed with the Securities and Exchange Commission.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company s management, including the Company s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2018. Based upon such evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (2) is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended December 31, 2018, there have been no changes in the Company s internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item1A.- Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, which could materially affect our business, financial condition or future results of operations. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

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

The following table provides information about purchases by the Company of the quarter ended December 31, 2018 regarding the Company s common stock.

PURCHASES OF EQUITY SECURITIES BY COMPANY (1)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/18 10/31/18		$		58,050
11/1/18 11/30/18				58,050
12/1/18 12/31/18	255,000	21.30	255,000	39,356
Total	255,000	$ 21.30	255,000	39,356

(1) 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 the Company s then outstanding shares. The remaining 58,050 shares from a plan adopted by the Board on February 5, 2016 are included as part of the 290,356 shares available for repurchase. There were 255,000 shares of the Company s common stock repurchased by the Company during the three months ended December 31, 2018, and there were 39,356 shares yet to be

repurchased under the plan as of December 31, 2018.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of December 31, 2018 and June 30, 2018 (ii) the Condensed Consolidated Statements of Income for the three and six months ended December 31, 2018 and 2017, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended December 31, 2018 and 2017, (iv) the Condensed Consolidated Statements of Stockholders Equity for the six months ended December 31, 2018 and 2017, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2018 and 2017, and (vi) the notes to the Condensed Consolidated Financial Statements.

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

SIGNATURES

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

IF BANCORP, INC.

Date: February 12, 2019	/s/ Walter H. Hasselbring III Walter H. Hasselbring III President and Chief Executive Officer
Date: February 12, 2019	/s/ Pamela J. Verkler Pamela J. Verkler Senior Executive Vice President and Chief Financial Officer