

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

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 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)**

<b>Maryland</b> <b>(State or other jurisdiction of</b> <b>incorporation or organization)</b>	<b>45-1834449</b> <b>(I.R.S. Employer</b> <b>Identification Number)</b>
<b>201 East Cherry Street, Watseka, Illinois</b> <b>(Address of Principal Executive Offices)</b>	<b>60970</b> <b>Zip Code</b>
<b>(815) 432-2476</b>	

**(Registrant's telephone number)**

N/A

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

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



**Table of Contents**

**IF Bancorp, Inc.**

**Form 10-Q**

Index

	Page
<b><u>Part I. Financial Information</u></b>	
Item 1.	1
	1
	2
	3
	4
	5
	6
Item 2.	38
Item 3.	55
Item 4.	55
<b><u>Part II. Other Information</u></b>	
Item 1.	56
Item 1A.	56
Item 2.	56
Item 3.	56
Item 4.	56
Item 5.	56
Item 6.	57
	58

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****IF Bancorp, Inc.****Condensed Consolidated Balance Sheets****(Dollars in thousands, except per share amount)**

	<b>March 31, 2018 (Unaudited)</b>	<b>June 30, 2017</b>
<b>Assets</b>		
Cash and due from banks	\$ 9,573	\$ 7,252
Interest-bearing demand deposits	404	514
Cash and cash equivalents	9,977	7,766
Interest-bearing time deposits in banks	1,750	1,750
Available-for-sale securities	121,721	111,611
Loans, net of allowance for loan losses of \$5,703 and \$6,835 at March 31, 2018 and June 30, 2017, respectively	458,342	440,322
Premises and equipment, net of accumulated depreciation of \$6,619 and \$6,249 at March 31, 2018 and June 30, 2017, respectively	9,385	5,840
Federal Home Loan Bank stock, at cost	2,205	2,543
Foreclosed assets held for sale	327	429
Accrued interest receivable	2,006	1,539
Bank-owned life insurance	8,737	8,823
Mortgage servicing rights	791	710
Deferred income taxes	3,572	3,721
Other	497	420
Total assets	\$ 619,310	\$ 585,474
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Demand	\$ 24,059	\$ 20,140
Savings, NOW and money market	194,285	171,213
Certificates of deposit	223,125	209,020
Brokered certificates of deposit	37,337	38,773
Total deposits	478,806	439,146

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Repurchase agreements	2,734	2,183
Federal Home Loan Bank advances	49,000	53,500
Advances from borrowers for taxes and insurance	1,110	754
Accrued post-retirement benefit obligation	2,893	2,874
Accrued interest payable	148	55
Other	3,006	2,993
<b>Total liabilities</b>	<b>537,697</b>	<b>501,505</b>

**Commitments and Contingencies**

**Stockholders' Equity**

Common stock, \$.01 par value per share, 100,000,000 shares authorized, 3,891,408 and 3,940,408 shares issued and outstanding at March 31, 2018 and June 30, 2017, respectively	39	39
Additional paid-in capital	48,250	47,940
Unearned ESOP shares, at cost, 254,996 and 269,430 shares at March 31, 2018 and June 30, 2017, respectively	(2,550)	(2,694)
Retained earnings	38,762	39,051
Accumulated other comprehensive income (loss), net of tax	(2,888)	(367)
<b>Total stockholders' equity</b>	<b>81,613</b>	<b>83,969</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 619,310</b>	<b>\$ 585,474</b>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Interest and Dividend Income</b>				
Interest and fees on loans	\$ 4,849	\$ 4,519	\$ 14,512	\$ 13,846
Securities:				
Taxable	730	663	2,026	1,949
Tax-exempt	32	35	102	107
Federal Home Loan Bank dividends	26	27	71	79
Deposits with other financial institutions	38	11	102	30
Total interest and dividend income	5,675	5,255	16,813	16,011
<b>Interest Expense</b>				
Deposits	1,170	716	3,082	2,095
Federal Home Loan Bank advances and repurchase agreements	200	182	568	587
Total interest expense	1,370	898	3,650	2,682
<b>Net Interest Income</b>	<b>4,305</b>	<b>4,357</b>	<b>13,163</b>	<b>13,329</b>
<b>Provision for Loan Losses</b>	<b>110</b>	<b>192</b>	<b>468</b>	<b>225</b>
<b>Net Interest Income After Provision for Loan Losses</b>	<b>4,195</b>	<b>4,165</b>	<b>12,695</b>	<b>13,104</b>
<b>Noninterest Income</b>				
Customer service fees	75	117	296	395
Other service charges and fees	62	64	262	186
Insurance commissions	129	198	472	548
Brokerage commissions	239	127	644	420
Net realized gains on sales of available-for-sale securities			13	117
Mortgage banking income, net	121	65	256	349
Gain on sale of loans	23	39	173	214
Bank-owned life insurance income, net	65	65	311	201
Other	223	164	655	548
Total noninterest income	937	839	3,082	2,978

<b>Noninterest Expense</b>				
Compensation and benefits	2,417	2,446	7,312	7,089
Office occupancy	206	146	569	444
Equipment	315	278	973	872
Federal deposit insurance	44	42	129	134
Stationary, printing and office	45	46	111	130
Advertising	123	107	337	263
Professional services	154	159	421	400
Supervisory examinations	43	40	123	121
Audit and accounting services	18	40	106	114
Organizational dues and subscriptions	4	2	50	52
Insurance bond premiums	40	35	112	110
Telephone and postage	62	62	201	153
Gain (Loss) on foreclosed assets, net	24	(7)	24	(14)
Other	363	285	1,571	955
<b>Total noninterest expense</b>	<b>3,858</b>	<b>3,681</b>	<b>12,039</b>	<b>10,823</b>
<b>Income Before Income Tax</b>	<b>1,274</b>	<b>1,323</b>	<b>3,738</b>	<b>5,259</b>
<b>Provision for Income Tax</b>	<b>280</b>	<b>479</b>	<b>2,497</b>	<b>1,942</b>
<b>Net Income</b>	<b>\$ 994</b>	<b>\$ 844</b>	<b>\$ 1,241</b>	<b>\$ 3,317</b>
<b>Earnings Per Share:</b>				
Basic	\$ 0.27	\$ 0.23	\$ 0.34	\$ 0.90
Diluted	\$ 0.27	\$ 0.23	\$ 0.33	\$ 0.89
<b>Dividends declared per common share</b>	<b>\$ 0.10</b>	<b>\$ 0.08</b>	<b>\$ 0.20</b>	<b>\$ 0.16</b>

See accompanying notes to the unaudited condensed consolidated financial statements.



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

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Net Income</b>	\$ 994	\$ 844
<b>Other Comprehensive Income (Loss)</b>		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of \$(874) and \$145, for 2018 and 2017, respectively	(1,689)	226
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of \$9 and \$(1) for 2018 and 2017, respectively	50	(2)
Other comprehensive income (loss), net of tax	(1,639)	224
<b>Comprehensive Income (Loss)</b>	\$ (645)	\$ 1,068

	<b>Nine Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Net Income</b>	\$ 1,241	\$ 3,317
<b>Other Comprehensive Income (Loss)</b>		
Unrealized depreciation on available-for-sale securities, net of taxes of \$(1,125) and \$(1,587), for 2018 and 2017, respectively	(2,352)	(2,469)
Less: reclassification adjustment for realized gains included in net income, net of taxes of \$4 and \$46, for 2018 and 2017, respectively	9	71
	(2,361)	(2,540)
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of \$7 and \$(4) for 2018 and 2017, respectively	46	(6)
Other comprehensive loss, net of tax	(2,315)	(2,546)
<b>Comprehensive Income (Loss)</b>	\$ (1,074)	\$ 771

See accompanying notes to the unaudited condensed consolidated financial statements.



Table of Contents**IF Bancorp, Inc.****Condensed Consolidated Statement of Stockholders Equity (Unaudited)**

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>For the nine months ended March 31, 2018</b>						
Balance, July 1, 2017	\$ 39	\$ 47,940	\$ (2,694)	\$ 39,051	\$ (367)	\$ 83,969
Net income				1,241		1,241
Other comprehensive loss					(2,315)	(2,315)
Reclassification of stranded tax effects due to tax reform				206	(206)	
Dividends on common stock, \$0.20 per share				(756)		(756)
Stock equity plan		169				169
Stock repurchase, 49,000 shares, average price \$20.00 each				(980)		(980)
ESOP shares earned, 14,434 shares		141	144			285
Balance, March 31, 2018	\$ 39	\$ 48,250	\$ (2,550)	\$ 38,762	\$ (2,888)	\$ 81,613
<b>For the nine months ended March 31, 2017</b>						
Balance, July 1, 2016	\$ 40	\$ 47,535	\$ (2,887)	\$ 37,095	\$ 2,189	\$ 83,972
Net income				3,317		3,317
Other comprehensive loss					(2,546)	(2,546)
Dividends on common stock, \$0.16 per share				(612)		(612)
Stock equity plan		169				169
Stock repurchase, 73,653 shares, average price \$18.65 each	(1)			(1,374)		(1,375)
ESOP shares earned, 14,434 shares		132	145			277
Balance, March 31, 2017	\$ 39	\$ 47,836	\$ (2,742)	\$ 38,426	\$ (357)	\$ 83,202

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	<b>Nine Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Net income	\$ 1,241	\$ 3,317
Items not requiring (providing) cash		
Depreciation	370	309
Provision for loan losses	468	225
Amortization of premiums and discounts on securities	128	195
Deferred income taxes	1,639	151
Net realized gains on loan sales	(173)	(214)
Net realized gains on sales of available-for-sale securities	(13)	(117)
Loss (Gain) on foreclosed assets held for sale	24	(14)
Bank-owned life insurance income, net	(311)	(201)
Originations of loans held for sale	(14,615)	(14,927)
Proceeds from sales of loans held for sale	13,493	14,954
ESOP compensation expense	285	277
Stock equity plan expense	169	169
Changes in		
Accrued interest receivable	(467)	(118)
Other assets	(77)	486
Accrued interest payable	93	(9)
Post-retirement benefit obligation	(296)	26
Other liabilities	(377)	542
Net cash provided by operating activities	1,581	5,051
<b>Investing Activities</b>		
Net change in interest bearing time deposits		2
Purchases of available-for-sale securities	(32,514)	(22,680)
Proceeds from the sales of available-for-sale securities	5,966	
Proceeds from maturities and pay-downs of available-for-sale securities	12,833	26,169
Net change in loans	(17,453)	5,222
Purchase of premises and equipment	(3,915)	(713)
Proceeds from sale of foreclosed assets	257	552
Redemption of Federal Home Loan Bank stock	1,666	2,815
Purchase of Federal Home Loan Bank stock	(1,328)	(203)
Proceeds from settlement of bank-owned life insurance policies	397	
Net cash provided by (used in) investing activities	(34,091)	11,164

<b>Financing Activities</b>		
Net increase in demand deposits, money market, NOW and savings accounts	26,991	12,719
Net increase (decrease) in certificates of deposit, including brokered certificates	12,669	(10,274)
Net increase in advances from borrowers for taxes and insurance	356	115
Proceeds from Federal Home Loan Bank advances	85,500	72,500
Repayments of Federal Home Loan Bank advances	(90,000)	(77,000)
Net increase (decrease) in repurchase agreements	551	(1,952)
Dividends paid	(366)	(612)
Stock purchase per stock repurchase plan	(980)	(1,375)
Net cash provided by (used in) financing activities	34,721	(5,879)
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,211</b>	<b>10,336</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>7,766</b>	<b>6,449</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 9,977</b>	<b>\$ 16,785</b>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 3,557	\$ 2,691
Income taxes paid, net of refunds	\$ 1,980	\$ 2,037
Foreclosed assets acquired in settlement of loans	\$ 179	\$ 355
Dividends payable	\$ 390	\$ 315
See accompanying notes to the unaudited condensed consolidated financial statements.		

---

**Table of Contents**

**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 from the mutual form of organization to the stock holding company form of organization (the Conversion) on July 7, 2011. At the time of the conversion, the Company sold shares of its common stock (the Common Stock) to the public and also established an employee stock ownership plan that purchased 384,900 shares of Company stock, and a charitable foundation, Iroquois Federal Foundation, to which the Company donated 314,755 shares of Company stock and \$450,000 cash. IF Bancorp, Inc.'s common stock began trading on the NASDAQ Capital Market under the symbol IROQ.

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

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

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 March 31, 2018 and June 30, 2017, and the results of its operations for the three month and nine month periods ended March 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, 2017. The results of operations for the three month and nine month periods ended March 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 update provides a five-step revenue recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects

---

**Table of Contents**

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

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

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual



periods beginning after December 15, 2019. As we prepare for the adoption of ASU-2016-13, we have established a team to review the requirements as published, monitor developments and new guidance, and review and collect data that will be required to calculate and report the allowance when ASU 2016-13 becomes effective. During a recent conversion of our core information technology system, our team members worked closely with the conversion team to assure that we will have the data necessary for calculating the allowance under the new guidance. The team has reviewed various third-party models and continues to evaluate options to assure CECL compliance. The Company has not yet determined the impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

---

**Table of Contents**

In August, 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*, which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASC 230 lacks consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. This has led to diversity in practice and, in certain circumstances, financial statement restatements. Therefore, the FASB issued the ASU with the intent of reducing diversity in practice with respect to eight types of cash flows. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the pending adoption of ASU-2016-15 and its impact on the Company's consolidated financial statements.

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

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220)*. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reporting to financial statement users. The amendments in the Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for public entities for reporting periods for which financial statements have not yet been issued. The Company adopted this Update effective March 31, 2018, and the adoption resulted in a reclassification between retained earnings and accumulated other comprehensive income.

**Note 3: Stock-based Compensation**

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



**Table of Contents**

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 March 31, 2018 and June 30, 2017 are as follows (dollars in thousands):

	March 31, 2018	June 30, 2017
Allocated shares	96,133	83,004
Shares committed for release	14,434	19,245
Unearned shares	254,996	269,430
Total ESOP shares	365,563	371,679
Fair value of unearned ESOP shares (1)	\$ 5,100	\$ 5,294

(1) Based on closing price of \$20.00 and \$19.50 per share on March 31, 2018, and June 30, 2017, respectively. During the nine months ended March 31, 2018, 6,116 ESOP shares were paid to ESOP participants due to separation from service. During the nine months ended March 31, 2017, 7,829 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, 85,500 shares of restricted stock and 167,000 in stock options were awarded 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, 16,900 shares of restricted stock were 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 March 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 nine months ended March 31, 2018 (dollars in thousands):

	<b>Options</b>	<b>Weighted-Average Exercise Price/Share</b>	<b>Weighted-Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, June 30, 2017	153,143	\$ 16.63		
Granted				
Exercised				
Forfeited				
Outstanding, March 31, 2018	153,143	\$ 16.63	5.7	\$ 516(1)
Exercisable, March 31, 2018	86,285	\$ 16.63	5.7	\$ 291(1)

(1) Based on closing price of \$20.00 per share on March 31, 2018.

**Table of Contents**

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 nine months ended March 31, 2018.

There were 22,285 options that vested during the nine months ended March 31, 2018 compared to 22,286 stock options that vested during the nine months ended March 31, 2017. Stock-based compensation expense and related tax benefit was considered nominal for stock options for the nine months ended March 31, 2018 and 2017. Total unrecognized compensation cost related to non-vested stock options was \$151,000 at March 31, 2018 and is expected to be recognized over the remaining weighted-average period of 2.7 years.

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

	Shares	Weighted-Average Grant-Date Fair Value
Balance, June 30, 2017	70,438	\$ 16.79
Granted		
Forfeited		
Earned and issued	10,063	16.79
Balance, March 31, 2018	60,375	\$ 16.79

The fair value of the restricted stock awards is amortized to compensation expense over the vesting period (ten years) and is based on the market price of the Company's common stock at the date of grant multiplied by the number of shares granted that are expected to vest. At the date of grant the par value of the shares granted was recorded in equity as a credit to common stock and a debit to paid-in capital. Stock-based compensation expense and related tax benefit for restricted stock, which was recognized in non-interest expense, was \$127,000 and \$35,000, respectively, for the nine months ended March 31, 2018, and \$127,000 and \$43,000, respectively, for the nine months ended March 31, 2017. Unrecognized compensation expense for non-vested restricted stock awards was \$959,000 and is expected to be recognized over 5.7 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 nine month periods ended March 31, 2018 and 2017. The factors used in the earnings per common share computation are as follows:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Nine Months Ended March 31, 2018	Nine Months Ended March 31, 2017
Net income	\$ 994	\$ 844	\$ 1,241	\$ 3,317
Basic weighted average shares outstanding	3,917,819	3,940,630	3,932,988	3,968,593
Less: Average unallocated ESOP shares	(257,402)	(276,647)	(262,213)	(281,458)
	3,660,417	3,663,983	3,670,775	3,687,135

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Basic average shares  
outstanding

Diluted effect of restricted stock awards and stock options	38,126	33,520	35,806	27,566
---	--------	--------	--------	--------

Diluted average shares outstanding	3,698,543	3,697,503	3,706,581	3,714,701
---------------------------------------	-----------	-----------	-----------	-----------

Basic earnings per common share	\$ 0.27	\$ 0.23	\$ 0.34	\$ 0.90
------------------------------------	---------	---------	---------	---------

Diluted earnings per common share	\$ 0.27	\$ 0.23	\$ 0.33	\$ 0.89
--------------------------------------	---------	---------	---------	---------

**Table of Contents**

The Company announced a stock repurchase plan on February 5, 2016, which allowed the Company to repurchase up to 200,703 shares of its common stock, or approximately 5% of its then current outstanding shares. As of March 31, 2018, 122,653 shares had been repurchased under this plan at an average price of \$19.19 per share.

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

**Note 5: Securities**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale securities:</b>				
<b>March 31, 2018:</b>				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	\$ 23,085	\$	\$ (566)	\$ 22,519
Mortgage-backed:				
GSE residential	97,209	9	(3,084)	94,134
Small Business Administration	1,965		(37)	1,928
State and political subdivisions	2,981	159		3,140
	\$ 125,240	\$ 168	\$ (3,687)	\$ 121,721
<b>June 30, 2017:</b>				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	\$ 25,230	\$ 39	\$ (234)	\$ 25,035
Mortgage-backed:				
GSE residential	81,088	372	(498)	80,962
Small Business Administration	2,048		(16)	2,032
State and political subdivisions	3,274	308		3,582
	\$ 111,640	\$ 719	\$ (748)	\$ 111,611

With the exception of U.S. Government and federal agency and GSE securities, and mortgage-backed GSE residential securities with a book value of approximately \$23,085,000 and \$97,209,000, respectively, and a market value of approximately \$22,519,000 and \$94,134,000, respectively, at March 31, 2018, the Company held no securities at March 31, 2018 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at March 31, 2018 and June 30, 2017 were issued by GSEs.





**Table of Contents**

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

	<b>Available-for-sale Securities</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Within one year	\$ 135	\$ 137
One to five years	3,928	3,924
Five to ten years	22,335	21,816
After ten years	1,633	1,710
	28,031	27,587
Mortgage-backed securities	97,209	94,134
<b>Totals</b>	<b>\$ 125,240</b>	<b>\$ 121,721</b>

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was \$64,138,000 and \$59,262,000 as of March 31, 2018 and June 30, 2017, respectively.

The carrying value of securities sold under agreement to repurchase amounted to \$2.7 million at March 31, 2018 and \$2.2 million at June 30, 2017. At March 31, 2018, approximately \$851,000 of our repurchase agreements had an overnight maturity, while the remaining \$1.9 million in repurchase agreements had a monthly maturity. All of our repurchase agreements were secured by U.S. Government, federal agency and GSE securities. The right of offset for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default. The collateral is held by the Company in a segregated custodial account. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained.

Gross gains of \$20,000 and \$117,000, and gross losses of \$7,000 and \$0, resulting from sales of available-for-sale securities were realized for the nine month periods ended March 31, 2018 and 2017, respectively. The tax provision applicable to these net realized gains amounted to approximately \$4,000 and \$46,000, respectively. There were no sales of available-for-sale securities for the three month periods ended March 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 March 31, 2018 and June 30, 2017 was \$114,794,000 and \$75,046,000, respectively, which is approximately 94% and 67% of the Company's available-for-sale investment portfolio. These declines in fair value at March 31, 2018 and June 30, 2017, resulted from increases in market interest rates and are considered temporary.

**Table of Contents**

The following table shows the gross unrealized losses of the Company's securities and the fair value of the Company's securities 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 March 31, 2018 and June 30, 2017:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>March 31, 2018:</b>						
U.S. Government and federal agency and Government sponsored enterprises (GSE's)	\$ 14,069	\$ (238)	\$ 8,450	\$ (328)	\$ 22,519	\$ (566)
Mortgage-backed:						
GSE residential	71,971	(2,212)	18,375	(872)	90,346	(3,084)
Small Business Administration	1,929	(37)			1,929	(37)
Total temporarily impaired securities	\$ 87,969	\$ (2,487)	\$ 26,825	\$ (1,200)	\$ 114,794	\$ (3,687)
<b>June 30, 2017:</b>						
U.S. Government and federal agency and Government sponsored enterprises (GSE's)	\$ 16,717	\$ (234)	\$	\$	\$ 16,717	\$ (234)
Mortgage-backed:						
GSE residential	56,297	(498)			56,297	(498)
Small Business Administration	2,032	(16)			2,032	(16)
Total temporarily impaired securities	\$ 75,046	\$ (748)	\$	\$	\$ 75,046	\$ (748)

The unrealized losses on the Company's investment in residential mortgage-backed securities and U.S. Government and federal agency and Government sponsored enterprises at March 31, 2018 and June 30, 2017, 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 March 31, 2018 and June 30, 2017.

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

Classes of loans include:

	March 31, 2018	June 30, 2017
Real estate loans:		
One-to four-family, including home equity loans	\$ 135,888	\$ 140,647
Multi-family	93,890	87,228

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Commercial	137,979	133,841
Home equity lines of credit	7,363	7,520
Construction	14,930	7,421
Commercial	66,003	62,392
Consumer	7,794	7,905
<b>Total loans</b>	<b>463,847</b>	<b>446,954</b>
Less:		
Unearned fees and discounts, net	(198)	(203)
Allowance for loan losses	5,703	6,835
<b>Loans, net</b>	<b>\$ 458,342</b>	<b>\$ 440,322</b>

## **Table of Contents**

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

The Company conducts internal loan reviews that validate the loans against the Company's loan policy quarterly for mortgage, consumer, and small commercial loans on a sample basis, and all larger commercial loans on an annual basis. The Company also receives independent loan reviews performed by a third party on larger commercial loans to be performed semi-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 credit, real estate construction, commercial business loans, and consumer loans.



## **Table of Contents**

### *One-to four-family Residential Mortgage Loans*

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

The Company offers USDA Rural Development loans which are originated and sold servicing released.

The Company offers FHA and VA loans to its customers through the wholesale lending market. It facilitates the transaction by submitting the complete loan package, furnishing credit and financial information, and performing such other services required for the closing and funding of the loan. The Company is not the originating lender or servicer of those loans.

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

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

### *Commercial Real Estate and Multi-Family Real Estate Loans*

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

### *Home Equity Lines of Credit*

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

underwriting including the value of the underlying real estate and the debt to income ratio and credit history of the borrower.

*Commercial Business Loans*

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



## **Table of Contents**

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 and multi-family real estate properties amounting to \$244,239,000 and \$227,359,000 as of March 31, 2018 and June 30, 2017, respectively. Generally, these loans are collateralized by multi-family and nonresidential properties. The loans are expected to be repaid from cash flows or from proceeds from the sale of the properties of the borrower.

### *Purchased Loans and Loan Participations*

The Company's loans receivable included purchased loans of \$6,305,000 and \$7,599,000 at March 31, 2018 and June 30, 2017, respectively. All of these purchased loans are secured by single family homes located out of our primary market area primarily in the Midwest. The Company's loans receivable also include commercial loan participations of \$29,609,000 and \$38,531,000 at March 31, 2018 and June 30, 2017, respectively, of which \$7,608,000 and \$10,322,000, at March 31, 2018 and June 30, 2017 were outside our primary market area.

**Table of Contents***Allowance for Loan Losses*

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

**Three Months Ended March 31, 2018**  
**Real Estate Loans**

	<b>One-to Four- Family</b>	<b>Multi- Family</b>	<b>Commercial</b>	<b>Home Equity Lines of Credit</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 2,517	\$ 1,460	\$ 1,535	\$ 78
Provision charged to expense	36	(20)	30	(5)
Losses charged off	(1,528)			
Recoveries				
Balance, end of period	\$ 1,025	\$ 1,440	\$ 1,565	\$ 73
Ending balance: individually evaluated for impairment	\$ 36	\$	\$ 4	\$
Ending balance: collectively evaluated for impairment	\$ 989	\$ 1,440	\$ 1,561	\$ 73
<b>Loans:</b>				
Ending balance	\$ 135,888	\$ 93,890	\$ 137,979	\$ 7,363
Ending balance: individually evaluated for impairment	\$ 8,156	\$ 1,346	\$ 71	\$ 30
Ending balance: collectively evaluated for impairment	\$ 127,732	\$ 92,544	\$ 137,908	\$ 7,333

**Three Months Ended March 31, 2018 (Continued)**

	<b>Construction</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Total</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 124	\$ 1,341	\$ 67	\$ 7,122
Provision charged to expense	45	23	1	110
Losses charged off				(2)
Recoveries				(1,530)
Balance, end of period	\$ 169	\$ 1,364	\$ 67	\$ 5,703

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Ending balance: individually evaluated for impairment	\$	\$	31	\$	1	\$	72
---	----	----	----	----	---	----	----

Ending balance: collectively evaluated for impairment	\$	169	\$	1,333	\$	66	\$	5,631
---	----	-----	----	-------	----	----	----	-------

**Loans:**

Ending balance	\$	14,930	\$	66,003	\$	7,794	\$	463,847
----------------	----	--------	----	--------	----	-------	----	---------

Ending balance: individually evaluated for impairment	\$		\$	61	\$	5	\$	9,669
---	----	--	----	----	----	---	----	-------

Ending balance: collectively evaluated for impairment	\$	14,930	\$	65,942	\$	7,789	\$	454,178
---	----	--------	----	--------	----	-------	----	---------

**Nine Months Ended March 31, 2018**

**Real Estate Loans**

	<b>One-to Four-Family</b>	<b>Multi-Family</b>	<b>Commercial</b>	<b>Home Equity Lines of Credit</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 2,519	\$ 1,336	\$ 1,520	\$ 76
Provision charged to expense	78	104	45	22
Losses charged off	(1,572)			(25)
Recoveries				

Balance, end of period	\$	1,025	\$	1,440	\$	1,565	\$	73
------------------------	----	-------	----	-------	----	-------	----	----

Ending balance: individually evaluated for impairment	\$	36	\$		\$	4	\$	
---	----	----	----	--	----	---	----	--

Ending balance: collectively evaluated for impairment	\$	989	\$	1,440	\$	1,561	\$	73
---	----	-----	----	-------	----	-------	----	----

**Loans:**

Ending balance	\$	135,888	\$	93,890	\$	137,979	\$	7,363
----------------	----	---------	----	--------	----	---------	----	-------

Ending balance: individually evaluated for impairment	\$	8,156	\$	1,346	\$	71	\$	30
---	----	-------	----	-------	----	----	----	----

Ending balance: collectively evaluated for impairment	\$	127,732	\$	92,544	\$	137,908	\$	7,333
---	----	---------	----	--------	----	---------	----	-------

**Table of Contents**

<b>Nine Months Ended March 31, 2018 (Continued)</b>				
	<b>Construction</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Total</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 75	\$ 1,242	\$ 67	\$ 6,835
Provision charged to expense	94	122	3	468
Losses charged off			(10)	(1,607)
Recoveries			7	7
Balance, end of period	\$ 169	\$ 1,364	\$ 67	\$ 5,703
Ending balance: individually evaluated for impairment	\$	\$ 31	\$ 1	\$ 72
Ending balance: collectively evaluated for impairment	\$ 169	\$ 1,333	\$ 66	\$ 5,631
<b>Loans:</b>				
Ending balance	\$ 14,930	\$ 66,003	\$ 7,794	\$ 463,847
Ending balance: individually evaluated for impairment	\$	\$ 61	\$ 5	\$ 9,669
Ending balance: collectively evaluated for impairment	\$ 14,930	\$ 65,942	\$ 7,789	\$ 454,178
<b>Year Ended June 30, 2017</b>				
<b>Real Estate Loans</b>				
	<b>One-to Four-Family</b>	<b>Multi-Family</b>	<b>Commercial</b>	<b>Home Equity Lines of Credit</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of year	\$ 1,198	\$ 1,202	\$ 1,399	\$ 94
Provision charged to expense	1,521	134	129	(18)
Losses charged off	(232)		(8)	
Recoveries	32			
Balance, end of year	\$ 2,519	\$ 1,336	\$ 1,520	\$ 76
Ending balance: individually evaluated for impairment	\$ 1,527	\$	\$ 6	\$
Ending balance: collectively evaluated for impairment	\$ 992	\$ 1,336	\$ 1,514	\$ 76
<b>Loans:</b>				
Ending balance	\$ 140,647	\$ 87,228	\$ 133,841	\$ 7,520

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Ending balance: individually evaluated for impairment	\$ 10,034	\$ 1,390	\$ 25	\$ 57
---	-----------	----------	-------	-------

Ending balance: collectively evaluated for impairment	\$ 130,613	\$ 85,838	\$ 133,816	\$ 7,463
---	------------	-----------	------------	----------

Year Ended June 30, 2017 (Continued)

	Construction	Commercial	Consumer	Total
<b>Allowance for loan losses:</b>				
Balance, beginning of year	\$ 227	\$ 1,140	\$ 91	\$ 5,351
Provision charged to expense	(152)	102	5	1,721
Losses charged off			(35)	(275)
Recoveries			6	38

Balance, end of year	\$ 75	\$ 1,242	\$ 67	\$ 6,835
----------------------	-------	----------	-------	----------

Ending balance: individually evaluated for impairment	\$	\$	\$	\$ 1,533
---	----	----	----	----------

Ending balance: collectively evaluated for impairment	\$ 75	\$ 1,242	\$ 67	\$ 5,302
---	-------	----------	-------	----------

**Loans:**

Ending balance	\$ 7,421	\$ 62,392	\$ 7,905	\$ 446,954
----------------	----------	-----------	----------	------------

Ending balance: individually evaluated for impairment	\$	\$ 89	\$	\$ 11,595
---	----	-------	----	-----------

Ending balance: collectively evaluated for impairment	\$ 7,421	\$ 62,303	\$ 7,905	\$ 435,359
---	----------	-----------	----------	------------

**Table of Contents**

**Three Months Ended March 31, 2017**  
**Real Estate Loans**

	<b>One-to Four- Family</b>	<b>Multi- Family</b>	<b>Commercial</b>	<b>Home Equity Lines of Credit</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 1,205	\$ 1,284	\$ 1,386	\$ 91
Provision charged to expense	158	(87)	24	
Losses charged off	(203)			
Recoveries				
Balance, end of period	\$ 1,160	\$ 1,197	\$ 1,410	\$ 91
Ending balance: individually evaluated for impairment	\$	\$	\$ 7	\$
Ending balance: collectively evaluated for impairment	\$ 1,160	\$ 1,197	\$ 1,403	\$ 91
<b>Loans:</b>				
Ending balance	\$ 144,718	\$ 78,288	\$ 121,227	\$ 7,452
Ending balance: individually evaluated for impairment	\$ 2,298	\$ 1,406	\$ 27	\$ 9
Ending balance: collectively evaluated for impairment	\$ 142,420	\$ 76,882	\$ 121,200	\$ 7,443

**Three Months Ended March 31, 2017 (Continued)**  
**Construction Commercial Consumer Total**

	<b>Construction</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Total</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 284	\$ 1,060	\$ 77	\$ 5,387
Provision charged to expense	20	78	(1)	192
Losses charged off			(11)	(214)
Recoveries			1	1
Balance, end of period	\$ 304	\$ 1,138	\$ 66	\$ 5,366
Ending balance: individually evaluated for impairment	\$	\$	\$	\$ 7
Ending balance: collectively evaluated for impairment	\$ 304	\$ 1,138	\$ 66	\$ 5,359
<b>Loans:</b>				
Ending balance	\$ 25,647	\$ 57,801	\$ 8,010	\$ 443,143

Ending balance: individually evaluated for impairment	\$	\$	93	\$	\$	3,833		
Ending balance: collectively evaluated for impairment	\$	25,647	\$	57,708	\$	8,010	\$	439,310

**Nine Months Ended March 31, 2017**  
**Real Estate Loans**

	<b>One-to Four- Family</b>	<b>Multi- Family</b>	<b>Commercial</b>	<b>Home Equity Lines of Credit</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 1,198	\$ 1,202	\$ 1,399	\$ 94
Provision charged to expense	138	(5)	19	(3)
Losses charged off	(203)		(8)	
Recoveries	27			
Balance, end of period	\$ 1,160	\$ 1,197	\$ 1,410	\$ 91
Ending balance: individually evaluated for impairment	\$	\$	\$ 7	\$
Ending balance: collectively evaluated for impairment	\$ 1,160	\$ 1,197	\$ 1,403	\$ 91
<b>Loans:</b>				
Ending balance	\$ 144,718	\$ 78,288	\$ 121,227	\$ 7,452
Ending balance: individually evaluated for impairment	\$ 2,298	\$ 1,406	\$ 27	\$ 9
Ending balance: collectively evaluated for impairment	\$ 142,420	\$ 76,882	\$ 121,200	\$ 7,443

**Table of Contents**

	<b>Nine Months Ended March 31, 2017</b>			
	<b>(Continued)</b>			
	<b>Construction</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Total</b>
<b>Allowance for loan losses:</b>				
Balance, beginning of period	\$ 227	\$ 1,140	\$ 91	\$ 5,351
Provision charged to expense	77	(2)	1	225
Losses charged off			(31)	(242)
Recoveries			5	32
Balance, end of period	\$ 304	\$ 1,138	\$ 66	\$ 5,366
Ending balance: individually evaluated for impairment	\$	\$	\$	\$ 7
Ending balance: collectively evaluated for impairment	\$ 304	\$ 1,138	\$ 66	\$ 5,359
<b>Loans:</b>				
Ending balance	\$ 25,647	\$ 57,801	\$ 8,010	\$ 443,143
Ending balance: individually evaluated for impairment	\$	\$ 93	\$	\$ 3,833
Ending balance: collectively evaluated for impairment	\$ 25,647	\$ 57,708	\$ 8,010	\$ 439,310



## **Table of Contents**

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

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

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

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

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

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

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

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

---

**Table of Contents**

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 of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

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

**Construction Real Estate:** Construction real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes,

general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

**Table of Contents**

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

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

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

	Real Estate Loans							Total
	One-to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit	Construction	Commercial	Consumer	
<b>March 31, 2018:</b>								
Pass	\$ 127,454	\$ 93,765	\$ 136,805	\$ 7,340	\$ 14,930	\$ 63,260	\$ 7,755	\$ 451,309
Watch	589		1,103			1,729	34	3,455
Substandard	1,558	125	71	23		953	4	2,734
Doubtful	6,287					61	1	6,349
Loss								
<b>Total</b>	<b>\$ 135,888</b>	<b>\$ 93,890</b>	<b>\$ 137,979</b>	<b>\$ 7,363</b>	<b>\$ 14,930</b>	<b>\$ 66,003</b>	<b>\$ 7,794</b>	<b>\$ 463,847</b>

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

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

All interest accrued but not collected for loans that are placed on non-accrual or charged off are reversed against interest income. The interest on these loans is accounted for on a cash basis or cost-recovery method, until qualifying

for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**Table of Contents**

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Total Loans 90 Days Past Due & Accruing
<b>March 31, 2018:</b>							
Real estate loans:							
One-to four-family	\$ 963	\$ 625	\$ 6,891	\$ 8,479	\$ 127,409	\$ 135,888	\$ 327
Multi-family			5	5	93,885	93,890	
Commercial	372	85	52	509	137,470	137,979	
Home equity lines of credit	35	1		36	7,327	7,363	
Construction	699			699	14,231	14,930	
Commercial	112		72	184	65,819	66,003	11
Consumer	30	44		74	7,720	7,794	
Total	\$ 2,211	\$ 755	\$ 7,020	\$ 9,986	\$ 453,861	\$ 463,847	\$ 338

	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
<b>June 30, 2017:</b>							
Real estate loans:							
One-to four-family	\$ 1,016	\$ 158	\$ 540	\$ 1,714	\$ 138,933	\$ 140,647	\$ 155
Multi-family					87,228	87,228	
Commercial	4	84		88	133,753	133,841	
Home equity lines of credit	2		24	26	7,494	7,520	
Construction					7,421	7,421	
Commercial					62,392	62,392	
Consumer	59	6		65	7,840	7,905	
Total	\$ 1,081	\$ 248	\$ 564	\$ 1,893	\$ 445,061	\$ 446,954	\$ 155

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

Impairment is measured on a loan-by-loan basis by either the present value of the expected future cash flows, the loan's observable market value, or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. 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 \$2.9 million in troubled debt restructurings that were classified as impaired.



**Table of Contents**

The following tables present impaired loans:

	Three Months Ended March 31, 2018			Nine Months Ended March 31, 2018		
	Unpaid Recorded Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Average Interest Recognized	Average Investment in Impaired Loans	Average Interest Recognized
<b>March 31, 2018:</b>						
Loans without a specific valuation allowance						
Real estate loans:						
One-to four-family	\$ 8,105	\$ 8,105	\$ 8,949	\$ 12	\$ 12	\$ 8,973
Multi-family	1,346	1,346	1,353	21	21	1,368
Commercial	67	67	90		1	96
Home equity line of credit	30	30	30	1	1	31
Construction						
Commercial						
Consumer	4	4	4			5
Loans with a specific valuation allowance						
Real estate loans:						
One-to four-family	51	51	36	53		53
Multi-family						
Commercial	4	4	4	4		5
Home equity line of credit						
Construction						
Commercial	61	61	31	61		72
Consumer	1	1	1	1		2
Total:						
Real estate loans:						
One-to four-family	8,156	8,156	36	9,002	12	12
Multi-family	1,346	1,346		1,353	21	21
Commercial	71	71	4	94		1
Home equity line of credit	30	30		30	1	1
Construction						
Commercial	61	61	31	61		72
Consumer	5	5	1	5		7
	\$ 9,669	\$ 9,669	\$ 72	\$ 10,545	\$ 34	\$ 35
						\$ 10,605
						\$ 107
						\$ 110

**Table of Contents**

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

**Table of Contents**

	Three Months Ended March 31, 2017					Nine Months Ended March 31, 2017				
	Unpaid Recorded Balance	Principal Balance	Specific Allowance	Average Impaired Loans	Average Interest Recognized	Cash Basis	Average Impaired Loans	Average Interest Recognized	Cash Basis	
<b>March 31, 2017:</b>										
Loans without a specific valuation allowance										
Real estate loans:										
One-to four-family	\$ 2,298	\$ 2,298	\$	\$ 2,316	\$ 12	\$ 11	\$ 2,336	\$ 27	\$ 35	
Multi-family	1,406	1,406		1,415	22	22	1,429	53	68	
Commercial	20	20		21			23			
Home equity line of credit	9	9		9			10	1	1	
Construction								(1)		
Commercial	93	93		97			89			
Consumer										
Loans with a specific valuation allowance										
Real estate loans:										
One-to four-family										
Multi-family										
Commercial	7	7	7	7			8			
Home equity line of credit										
Construction										
Commercial										
Consumer										
Total:										
Real estate loans:										
One-to four-family	2,298	2,298		2,316	12	11	2,336	27	35	
Multi-family	1,406	1,406		1,415	22	22	1,429	53	68	
Commercial	27	27	7	28			31			
Home equity line of credit	9	9		9			10	1	1	
Construction								(1)		
Commercial	93	93		97			89			
Consumer										
	\$ 3,833	\$ 3,833	\$ 7	\$ 3,865	\$ 34	\$ 33	\$ 3,895	\$ 80	\$ 104	

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 March 31, 2018 and June 30, 2017:

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

	<b>March 31, 2018</b>	<b>June 30, 2017</b>
Mortgages on real estate:		
One-to four-family	\$ 7,400	\$ 9,105
Multi-family	125	146
Commercial	71	25
Home equity lines of credit		24
Construction loans		
Commercial business loans	61	84
Consumer loans	1	
<b>Total</b>	<b>\$ 7,658</b>	<b>\$ 9,384</b>

**Table of Contents**

At March 31, 2018 and June 30, 2017, the Company had a number of loans that were modified in troubled debt restructurings (TDRs) and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following table presents the recorded balance, at original cost, of troubled debt restructurings. As of March 31, 2018 all loans listed were on nonaccrual except for eleven, one-to four-family residential loans totaling \$750,000, one multi-family loan for \$1.2 million, three home equity lines of credit totaling \$30,000, and one consumer loan for \$5,000. All loans listed as of June 30, 2017 were on nonaccrual except for fourteen, one-to four-family residential loans totaling \$929,000, one multi-family loan for \$1.2 million, three home equity lines of credit for \$33,000, and one consumer loan for \$5,000.

	March 31, 2018	June 30, 2017
<b>Real estate loans</b>		
One-to four-family	\$ 1,612	\$ 1,759
Multi-family	1,220	1,244
Commercial	19	6
Home equity lines of credit	30	33
 Total real estate loans	 2,881	 3,042
<b>Construction</b>		
Commercial	61	84
Consumer loans	5	5
 Total	 \$ 2,947	 \$ 3,131

**TDR Modifications**

During the nine month period ended March 31, 2018, two one-to four-family loans totaling \$62,000 and one commercial real estate loan for \$15,000 were modified as TDRs.

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

During the nine month period ended March 31, 2017, the Company modified as TDRs three one-to four-family loans totaling \$844,000 and one commercial business loan with a recorded investment of \$92,000.

**TDRs with Defaults**

The Company had four TDRs, including three one-to four-family residential loans totaling \$167,000, and one commercial business loan for \$31,000 that were in default as of March 31, 2018, and were restructured in prior periods. No loans were in foreclosure at March 31, 2018. The Company had one TDR, a one-to four-family residential loan for \$155,000 that was in default as of June 30, 2017, and was restructured in prior years. No loans were in foreclosure at June 30, 2017. The Company defines a default as any loan that becomes 90 days or more past due.

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

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

**Table of Contents**

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 March 31, 2018, the carrying value of foreclosed residential real estate properties as a result of obtaining physical possession was \$108,000. In addition, as of March 31, 2018, we had residential mortgage loans and home equity loans with a carrying value of \$292,000 collateralized by residential real estate property for which formal foreclosure proceedings were in process.

**Note 7: Federal Home Loan Bank Stock**

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. The Company owned \$2,205,000 of Federal Home Loan Bank stock as of March 31, 2018 and \$2,543,000 as of June 30, 2017. The FHLB provides liquidity and funding through advances.

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

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

	March 31, 2018	June 30, 2017
Net unrealized losses on securities available-for-sale	\$ (3,519)	\$ (29)
Net unrealized postretirement health benefit plan obligations	(521)	(574)
	(4,040)	(603)
Tax effect	1,152	236
<b>Total</b>	<b>\$ (2,888)</b>	<b>\$ (367)</b>

**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 nine month periods ended March 31, 2018 and 2017, were as follows:

	<b>Amounts Reclassified from AOCI</b>				<b>Affected Line Item in the Condensed</b>
	<b>Three Months Ended March 31,</b>		<b>Nine Months Ended March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>Consolidated Statements of Income</b>
Realized gains (losses) on available-for-sale securities	\$	\$	\$ 13	\$ 117	Net realized gains on sale of available-for-sale securities

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Amortization of defined benefit pension items:					Components are included in computation of net periodic pension cost
Actuarial losses	\$ 18	\$ 8	\$ 41	\$ 26	
Prior service costs	\$ (8)	\$ (12)	\$ (25)	\$ (36)	
<b>Total reclassified amount before tax</b>	<b>10</b>	<b>(4)</b>	<b>29</b>	<b>107</b>	
Tax expense	3	1	8	42	Provision for Income Tax
<b>Total reclassification out of AOCI</b>	<b>\$ 7</b>	<b>\$ (3)</b>	<b>\$ 21</b>	<b>\$ 65</b>	<b>Net Income</b>



**Table of Contents****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:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Computed at the statutory rate*	\$ 352	\$ 450	\$ 1,032	\$ 1,788
Decrease resulting from				
Tax exempt interest	(9)	(12)	(28)	(36)
Cash surrender value of life insurance	(18)	(23)	(86)	(68)
State income taxes	82	49	230	214
Adjustment of deferred tax asset and tax rate change for enacted changes in tax laws	(137)		1,318	
Other	10	15	31	44
Actual expense	\$ 280	\$ 479	\$ 2,497	\$ 1,942

\* Statutory tax rate of 27.6% (blended rate) for year ended June 30, 2018 and 34.0% for year ended June 30, 2017

**Note 11: Regulatory Capital**

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

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

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

There are a number of changes in what constitutes regulatory capital, some of which are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Association does not use any

of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CETI will be deducted from capital. The Association has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on our regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (increased from 100%) for certain high volatility commercial real estate

**Table of Contents**

acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in non-accrual status; a 20% (increased from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (increased from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk weights (0% to 600%) for equity exposures.

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

**Note 12: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, 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 or liabilities
  
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; 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 or liabilities
  
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

**Table of Contents****Recurring Measurements**

The following table presents the fair value measurements of assets recognized in the accompanying condensed consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2018 and June 30, 2017:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2018:</b>				
Available-for-sale securities:				
US Government and federal agency	\$ 22,519	\$	\$ 22,519	\$
Mortgage-backed securities GSE residential	94,134		94,134	
Small Business Administration	1,928		1,928	
State and political subdivisions	3,140		3,140	
Mortgage servicing rights	791			791

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

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 condensed consolidated 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 March 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 March 31, 2018 or June 30, 2017. If quoted market prices are not

**Table of Contents**

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 March 31, 2018 or June 30, 2017.

**Mortgage Servicing Rights**

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

**Level 3 Reconciliation**

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

	<b>Mortgage Servicing Rights</b>
Balance, July 1, 2017	\$ 710
Total realized and unrealized gains and losses included in net income	37
Servicing rights that result from asset transfers	116
Payments received and loans refinanced	(72)
Balance, March 31, 2018	\$ 791
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	\$ 37

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 March 31, 2018 and June 30, 2017:

	<b>Fair Value Measurements Using</b>			
	<b>Quoted Prices</b>	<b>Significant</b>		<b>Significant</b>
	<b>Active Markets</b>	<b>Other</b>	<b>Unobservable</b>	
	<b>for Identical</b>	<b>Observable</b>	<b>Inputs</b>	
	<b>Assets</b>	<b>Inputs</b>	<b>(Level 3)</b>	
	<b>Fair Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>March 31, 2018:</b>				
Impaired loans (collateral-dependent)	\$ 45	\$	\$	\$ 45
<b>June 30, 2017:</b>				
Impaired loans (collateral-dependent)	\$ 6,287	\$	\$	\$ 6,287

**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Impaired loans (collateral-dependent)	\$ (68)	\$ 7	\$ (68)	\$ 14

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying condensed consolidated 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.



**Table of Contents****Unobservable (Level 3) Inputs**

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at March 31, 2018 and June 30, 2017.

	<b>Fair Value at March 31, 2018</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
Mortgage servicing rights		Discounted cash flow	Discount rate	9.5% - 10.5% (9.5%)
			Constant prepayment rate	8.5% - 27.2% (8.5%)
	\$ 791		Probability of default	0.1% - 0.3% (0.3%)
Impaired loans (collateral-dependent)		Market comparable 45 properties	Marketability discount	0.0% - 25.0% (10.0%)
	<b>Fair Value at June 30, 2017</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
Mortgage servicing rights		Discounted cash flow	Discount rate	9.5% - 10.5% (9.5%)
			Constant prepayment rate	9.5% - 31.1% (9.6%)
	\$ 710		Probability of default	0.00% - 0.32% (.31%)
Impaired loans (collateral-dependent)		Market comparable 6,287 properties	Marketability discount	7.0% (7.0%)

**Table of Contents****Fair Value of Financial Instruments**

The following tables present estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2018 and June 30, 2017.

	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>March 31, 2018:</b>				
Financial assets				
Cash and cash equivalents	\$ 9,977	\$ 9,977	\$	\$
Interest-bearing time deposits in banks	1,750	1,750		
Loans, net of allowance for loan losses	458,342			449,852
Federal Home Loan Bank stock	2,205		2,205	
Accrued interest receivable	2,006		2,006	
Financial liabilities				
Deposits	478,806		218,344	259,192
Repurchase agreements	2,734		2,734	
Federal Home Loan Bank advances	49,000		48,808	
Advances from borrowers for taxes and insurance	1,110		1,110	
Accrued interest payable	148	0	148	
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans				
Lines of credit				

**Table of Contents**

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

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

**Cash and Cash Equivalents, Interest-Bearing Time Deposits in Banks, Federal Home Loan Bank Stock, Accrued Interest Receivable, Accrued Interest Payable, Repurchase Agreements 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.



**Table of Contents**

**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.

---

**Table of Contents**

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

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

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

**Overview**

On July 7, 2011 we completed our initial public offering of common stock in connection with Iroquois Federal Savings and Loan Association's (the Association) mutual-to-stock conversion, selling 4,496,500 shares of common stock at \$10.00 per share, including 384,900 shares sold to the Association's employee stock ownership plan, and raising approximately \$45.0 million of gross proceeds. In addition, we issued 314,755 shares of our common stock to the Iroquois Federal Foundation bringing the total shares issued in connection with the conversion to 4,811,255. The 314,755 shares donated to the foundation were valued at \$3,147,550 (\$10.00 per share) at the time of the conversion. This \$3,147,550 and a \$450,000 cash donation to the foundation were both expensed during the quarter ended September 30, 2011.

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

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

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets, and the interest paid on our interest-bearing liabilities, consisting primarily of savings and transaction accounts, certificates of deposit, repurchase agreements, and Federal Home Loan Bank of Chicago advances. Our results of operations also are affected by our provision for loan losses, noninterest income and

noninterest expense. Noninterest income consists primarily of customer service fees, brokerage commission income, insurance commission income, net realized gains on loan sales, mortgage banking income, and income on bank-owned life insurance. Noninterest expense consists primarily of compensation and benefits, occupancy and equipment, data processing, professional fees, marketing, office supplies, federal deposit insurance premiums, and foreclosed assets. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

---

**Table of Contents**

Our net interest rate spread (the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities) was 2.82% and 3.03% for the nine months ended March 31, 2018 and 2017, respectively. Net interest income decreased to \$13.2 million, or \$17.6 million on an annualized basis, for the nine months ended March 31, 2018, from \$13.3 million, or \$17.8 million on an annualized basis, for the nine months ended March 31, 2017.

Our emphasis on conservative loan underwriting has resulted in relatively low levels of non-performing assets. However, in June 2017, one large credit in the amount of \$7.8 million, secured by 45 one- to four-family properties, was moved to non-performing when the borrower became involved in litigation, and subsequently filed for bankruptcy protection. The properties securing this loan are all existing homes that were acquired by the borrower to be renovated and resold. As of March 31, 2018, we have accrued real estate taxes of \$527,000 and we have charged off \$1.5 million of this credit to reflect the net realizable value of the properties. Our non-performing loans totaled \$8.0 million, or 1.7% of total loans at March 31, 2018 and \$9.5 million, or 2.1% of total loans at June 30, 2017. Our non-performing assets totaled \$8.3 million or 1.3% of total assets at March 31, 2018, and \$10.0 million, or 1.7% of total assets at June 30, 2017.

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

Our net income for the nine months ended March 31, 2018 was \$1.2 million, compared to a net income of \$3.3 million for the nine months ended March 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 federal corporate income tax rate from 35% to 21% effective January 1, 2018, which resulted in the downward adjustment to our DTA. The decrease in net income for the nine months ended March 31, 2018 was also impacted by a \$1.2 million increase in noninterest expense, a \$243,000 increase in the provision for loan losses and a \$166,000 decrease in net interest income, partially offset by a \$104,000 increase in noninterest income. Excluding the \$1.3 million impact of the adjustment to the DTA, the Company's net income for the nine months ended March 31, 2018 would have been \$2.6 million, or a decrease of \$758,000 from the nine months ended March 31, 2017. Management believes that presenting net income on a non-GAAP basis excluding the impact of the adjustment to the DTA in the 2017 period provides useful information for evaluating the Company's operating results and any related trends that may be affecting the Company's business. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP.

Management's discussion and analysis of the financial condition and results of operations at and for the three and nine months ended March 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

---

**Table of Contents**

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

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

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

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

**Comparison of Financial Condition at March 31, 2018 and June 30, 2017**

Total assets increased \$33.8 million, or 5.8%, to \$619.3 million at March 31, 2018 from \$585.5 million at June 30, 2017. The increase was primarily due to an \$18.0 million increase in net loans, a \$10.1 million increase in investment securities, a \$3.5 million increase in premises and equipment and a \$2.2 million increase in cash and cash equivalents.

Net loans receivable, including loans held for sale, increased by \$18.0 million, or 4.1%, to \$458.3 million at March 31, 2018 from \$440.3 million at June 30, 2017. The increase in net loans receivable during this period was due primarily to a \$6.7 million, or 7.6%, increase in multi-family loans, a \$7.5 million, or 101.2%, increase in construction loans, a \$3.6 million, or 5.8%, increase in commercial business loans, and a \$4.1 million, or 3.1%, increase in commercial real estate loans, partially offset by a \$4.8 million, or 3.4%, decrease in one-to four-family loans, a

\$111,000, or 1.4%, decrease in consumer loans, and a \$157,000, or 2.1%, decrease in home equity lines of credit.

---

**Table of Contents**

Investment securities, consisting entirely of securities available for sale, increased \$10.1 million, or 9.1%, to \$121.7 million at March 31, 2018 from \$111.6 million at June 30, 2017. We had no securities classified as held to maturity at March 31, 2018 or June 30, 2017.

Between June 30, 2017 and March 31, 2018, premises and equipment increased \$3.5 million to \$9.4 million, accrued interest receivable increased \$467,000 to \$2.0 million, and mortgage servicing rights increased \$81,000 to \$791,000, while Federal Home Loan Bank stock decreased \$338,000 to \$2.2 million, deferred income taxes decreased \$149,000 to \$3.6 million, and foreclosed assets held for sale decreased \$102,000 to \$327,000. The increase in premises and equipment was primarily due to the purchase of a building in Champaign, Illinois, with the intent to open a branch office, and the increase in accrual interest receivable was due to increases in both the average balance of loans and securities, while the increase in mortgage servicing rights was due to an increase in both the valuation and in the loan balances serviced. The decrease in Federal Home Loan Bank stock was the result of a lower stock requirement due to a reduced balance of Federal Home Loan Bank advances, and the decrease in deferred income taxes was mostly due to a decrease in the tax rate under the Tax Act, while the decrease in foreclosed assets held for sale resulted from the sale of residential real estate property.

At March 31, 2018, our investment in bank-owned life insurance was \$8.7 million, a decrease of \$86,000 from \$8.8 million at June 30, 2017. The decrease in bank-owned life insurance was due to a decrease in cash surrender value of the bank-owned life insurance as a result of a benefit claim. We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses, and that limit totaled \$19.5 million at March 31, 2018.

Deposits increased \$39.7 million, or 9.0%, to \$478.8 million at March 31, 2018 from \$439.1 million at June 30, 2017. Certificates of deposit, excluding brokered certificates of deposit, increased \$14.1 million, or 6.7%, to \$223.1 million, savings, NOW, and money market accounts increased \$23.1 million, or 13.5%, to \$194.3 million, brokered certificates of deposit decreased \$1.4 million, or 3.7%, to \$37.3 million, and noninterest bearing demand accounts increased \$3.9 million, or 19.5%, to \$24.1 million. Repurchase agreements increased \$551,000, or 25.2%, to \$2.7 million. Borrowings, which consisted solely of advances from the Federal Home Loan Bank of Chicago, decreased \$4.5 million, or 8.4%, to \$49.0 million at March 31, 2018 from \$53.5 million at June 30, 2017.

Advances from borrowers for taxes and insurance increased \$356,000, or 47.2%, to \$1.1 million at March 31, 2018, from \$754,000 at June 30, 2017. Accrued interest payable increased \$93,000, or 169.1%, to \$148,000 at March 31, 2018, from \$55,000 at June 30, 2017. The increase in advances from borrowers for taxes and insurance was attributable to the timing of the payment of real estate taxes and insurance, while the increase in accrued interest payable resulted from increases in both the average balance and average cost of interest-bearing liabilities.

Total equity decreased \$2.4 million, or 2.8%, to \$81.6 million at March 31, 2018 from \$84.0 million at June 30, 2017. Equity decreased due to a \$2.5 million decrease in accumulated other comprehensive income (loss), net of tax, the repurchase of 49,000 shares of common stock at an aggregate cost of approximately \$980,000, and the payment of approximately \$756,000 in dividends to our shareholders, partially offset by net income of \$1.2 million and ESOP and stock equity plan activity of \$454,000. The decrease in other accumulated comprehensive income (loss) was primarily due to unrealized depreciation on available-for-sale securities, net of taxes. The Company adopted ASU 2018-02, which allowed for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company announced a stock repurchase plan on February 5, 2016, whereby the Company could repurchase up to 200,703 shares of its common stock, or approximately 5% of its then current outstanding shares. There were 49,000 shares of the Company's common stock repurchased by the

Company during the nine months ended March 31, 2018, and there were 78,050 shares yet to be repurchased under the plan as of March 31, 2018.

---

**Table of Contents****Comparison of Operating Results for the Nine Months Ended March 31, 2018 and 2017**

**General.** Net income decreased \$2.1 million to \$1.2 million for the nine months ended March 31, 2018, from \$3.3 million for the nine months ended March 31, 2017. The decrease in net income was primarily due to a decrease in net interest income, an increase in provision for loan losses, an increase in noninterest expense and an increase in income tax expense, partially offset by an increase in noninterest income.

**Net Interest Income.** Net interest income decreased by \$166,000, or 1.2%, to \$13.2 million for the nine months ended March 31, 2018 from \$13.3 million for the nine months ended March 31, 2017. The decrease was due to an increase of \$968,000 in interest expense, partially offset by an increase of \$802,000 in interest and dividend income. A \$26.8 million, or 4.8%, increase in the average balance of interest earning assets was partially offset by a \$21.9 million, or 4.6%, increase in the average balance of interest bearing liabilities. Our interest rate spread decreased by 21 basis points to 2.82% for the nine months ended March 31, 2018, compared to 3.03% for the nine months ended March 31, 2017, while our net interest margin decreased by 18 basis points to 2.97% for the nine months ended March 31, 2018 compared to 3.15% for the nine months ended March 31, 2017.

**Interest and Dividend Income.** Interest and dividend income increased \$802,000, or 5.0%, to \$16.8 million for the nine months ended March 31, 2018 from \$16.0 million for the nine months ended March 31, 2017. The increase in interest and dividend income was primarily due to a \$666,000 increase in interest income on loans, a \$72,000 increase in interest on securities, and a \$64,000 increase in other interest income. The increase in interest income on loans resulted from a \$21.4 million, or 4.8%, increase in the average balance of loans to \$466.4 million for the nine months ended March 31, 2018. The increase in interest income on securities was due to a \$4.8 million, or 4.3%, increase in the average balance of securities to \$115.3 million, partially offset by a 2 basis point decrease in the average yield of securities to 2.46% from 2.48%. The increase in other interest income was a result of a 78 basis point increase in the average yield in other investments, including Federal Home Loan Bank stock dividends and deposits with other financial institutions, to 2.40% from 1.62%, and a \$642,000 increase in the average balance of other investments.

**Interest Expense.** Interest expense increased \$968,000, or 36.1%, to \$3.7 million for the nine months ended March 31, 2018, from \$2.7 million for the nine months ended March 31, 2017. The increase was primarily due to an increase in the average balance of interest-bearing liabilities and higher market rates during the nine months ended March 31, 2018.

Interest expense on interest-bearing deposits increased by \$987,000, or 47.1%, to \$3.1 million for the nine months ended March 31, 2018 from \$2.1 million for the nine months ended March 31, 2017. This increase was due to an increase of \$29.9 million in the average balance of interest-bearing deposits to \$437.6 million for the nine months ended March 31, 2018, from \$407.7 million for the nine months ended March 31, 2017, as well as, a 25 basis point increase in the average cost of interest-bearing deposits to 0.94% for the nine months ended March 31, 2018 from 0.69% for the nine months ended March 31, 2017.

Interest expense on borrowings decreased \$19,000, or 3.2%, to \$568,000 for the nine months ended March 31, 2018 from \$587,000 for the nine months ended March 31, 2017. This decrease was due to a decrease in the average balance of borrowings to \$62.8 million for the nine months ended March 31, 2018, from \$70.7 million for the nine months ended March 31, 2017, partially offset by an 11 basis point increase in the average cost of such borrowings to 1.21% for the nine months ended March 31, 2018 from 1.10% for the nine months ended March 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 \$468,000 for the nine months ended March 31, 2018,

compared to a provision for loan losses of \$225,000 for the nine months ended March 31, 2017. The allowance for loan losses was \$5.7 million, or 1.23% of total loans, at March 31, 2018, compared to \$5.4 million, or 1.21% of total loans, at March 31, 2017, and \$6.8 million, or 1.53% of total loans, at June 30, 2017. Non-performing loans decreased to \$8.0 million during the nine month period ended March 31, 2018. During the nine months ended March 31, 2018, net charge-offs of \$1.6 million were recorded, while during the nine months ended March 31, 2017, net charge-offs of \$210,000 were recorded. Of the \$1.6 million charged off in the nine months ended March 31, 2018, \$1.5 million related to the one large credit discussed under -overview above.

**Table of Contents**

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

	<b>Nine Months Ended March 31, 2018</b>	<b>Year Ended June 30, 2017</b>
Allowance to non-performing loans	71.33%	71.66%
Allowance to total loans outstanding at the end of the period	1.23%	1.53%
Net charge-offs to average total loans outstanding during the period, annualized	0.46%	0.05%
Total non-performing loans to total loans	1.72%	2.13%
Total non-performing assets to total assets	1.34%	1.70%

**Noninterest Income.** Noninterest income increased \$104,000, or 3.5%, to \$3.1 million for the nine months ended March 31, 2018 compared to \$3.0 million for the nine months ended March 31, 2017. The increase was primarily due to an increase in bank-owned life insurance, net, an increase in other service charges and fees, and an increase in brokerage commissions, mostly offset by a decrease in net realized gains on the sale of securities available for sale, a decrease in mortgage banking income, net, a decrease in insurance commissions, and a decrease in customer service fees. For the nine months ended March 31, 2018, bank-owned life insurance, net increased \$110,000 to \$311,000, brokerage commissions increased \$224,000 to \$644,000, and other service charges and fees increased \$76,000 to \$262,000, while net realized gains on the sale of securities available for sale decreased \$104,000 to \$13,000, mortgage banking income, net decreased \$93,000 to \$256,000, insurance commissions decreased \$76,000 to \$472,000, and customer service fees decreased \$99,000 to \$296,000. The increase in bank-owned life insurance, net, was due to a benefit claim, the increase in other service charges and fees was due to an increase in the number of loan fees, and the increase in brokerage commissions was due to a change in the timing of commission payments. The decrease in net realized gains on the sale of available-for-sale securities was a result of a larger amount of securities sold at a gain in the nine months ended March 31, 2017, than in the nine months ended March 31, 2018, and the decrease in mortgage banking income, net, was a result of a higher valuation of mortgage servicing rights in the nine months ended March 31, 2017, than in the nine months ended March 31, 2018. The decrease in insurance commissions was the result of higher contingency commissions earned in the nine months ended March 31, 2017, and the decrease in customer service fees was the result of waiving customer fees during the month of our core system conversion which occurred in the nine months ended March 31, 2018.

**Noninterest Expense.** Noninterest expense increased \$1.2 million, or 11.2%, to \$12.0 million for the nine months ended March 31, 2018 from \$10.8 million for the nine months ended March 31, 2017. The largest components of this increase were other expenses, which increased \$616,000, or 64.5%, compensation and benefits, which increased \$223,000, or 3.1%, office occupancy, which increased \$125,000, or 28.2%, equipment expense, which increased \$101,000, or 11.6%, advertising expense, which increased \$74,000, or 28.1% and telephone and postage expense which increased \$48,000, or 31.4%. The other expenses increased as a result of the accrual of real estate taxes on a large credit in bankruptcy. Compensation and benefits increased due to increased staffing changes including additional staff for the Bourbonnais office that opened in June 2017, normal salary increases and increased medical costs. Office occupancy, equipment expense, advertising, and telephone and postage expense all increased as a result of the addition of the new Bourbonnais office. Equipment and postage also increased as a result of our core system conversion which occurred in the nine months ended March 31, 2018.

**Income Tax Expense.** We recorded a provision for income tax of \$2.5 million for the nine months ended March 31, 2018, compared to a provision for income tax of \$1.9 million for the nine months ended March 31, 2017, reflecting



effective tax rates of 66.8% and 36.9%, respectively. The effective tax rate for the nine months ended March 31, 2018, reflects the impact of the adjustment to the DTA, as discussed above under [Overview](#) .

---

**Table of Contents****Comparison of Operating Results for the Three Months Ended March 31, 2018 and 2017**

**General.** Net income increased \$150,000 to \$994,000 net income for the three months ended March 31, 2018 from an \$844,000 net income for the three months ended March 31, 2017. The increase was primarily due to an increase in interest income, an increase in noninterest income, a decrease in provision for loan losses, and a decrease in income tax expense, partially offset by an increase in interest expense and an increase in noninterest expense.

**Net Interest Income.** Net interest income decreased \$52,000 to \$4.3 million for the three months ended March 31, 2018 from \$4.4 million for the three months ended March 31, 2017. The decrease was the result of an increase of \$472,000 in interest expense, partially offset by an increase of \$420,000 in interest and dividend income. We had a \$35.2 million, or 6.3%, increase in the average balance of interest earning assets, partially offset by a \$29.3 million, or 6.2%, increase in average balance of interest bearing liabilities. Our interest rate spread decreased by 27 basis points to 2.70% for the three months ended March 31, 2018 from 2.97% for the three months ended March 31, 2017, and our net interest margin decreased by 22 basis points to 2.87% for the three months ended March 31, 2018 from 3.09% for the three months ended March 31, 2017.

**Interest and Dividend Income.** Interest and dividend income increased \$420,000, or 8.0%, to \$5.7 million for the three months ended March 31, 2018 from \$5.3 million for the three months ended March 31, 2017. The increase in interest and dividend income was mostly due to a \$330,000 increase in interest income on loans, which resulted from a \$22.9 million, or 5.2%, increase in the average balance of loans to \$466.7 million for the three months ended March 31, 2018, from \$443.8 million for the three months ended March 31, 2017, and by a 9 basis point, or 2.2%, increase in the average yield on loans to 4.16% from 4.07%. Interest income on securities increased \$64,000, or 9.2%, as the average yield on securities increased 5 basis points to 2.50% for the three months ended March 31, 2018, from 2.45% for the three months ended March 31, 2017, and the average balance of securities increased \$8.2 million, to \$122.0 million, for the three months ended March 31, 2018, from \$113.8 million for the three months ended March 31, 2017.

**Interest Expense.** Interest expense increased \$472,000, or 52.6%, to \$1.4 million for the three months ended March 31, 2018 from \$898,000 for the three months ended March 31, 2017. The increase was primarily due to an increase in the average balance of deposits and increases in the average cost of deposits and the average cost of borrowings, partially offset by a decrease in the average balance of borrowings.

Interest expense on interest-bearing deposits increased by \$454,000, or 63.4%, to \$1.2 million for the three months ended March 31, 2018 from \$716,000 for the three months ended March 31, 2017. This increase was due to a 35 basis point, or 49.8%, increase in the average cost of interest-bearing deposits to 1.05% for the three months ended March 31, 2018 from 0.70% for the three months ended March 31, 2017, as well as a \$38.8 million, or 9.5%, increase in the average balance of interest-bearing deposits to \$446.7 million for the three months ended March 31, 2018 from \$407.8 million for the three months ended March 31, 2017.

Interest expense on borrowings increased by \$18,000, or 9.9%, to \$200,000 for the three months ended March 31, 2018 from \$182,000 for the three months ended March 31, 2017. This increase was due to a 30 basis point, or 28.4%, increase in the average cost of borrowings to 1.36% for the three months ended March 31, 2018 from 1.06% for the three months ended March 31, 2017, partially offset by a decrease in the average balance of borrowings of \$9.5 million, or 13.9%, to \$58.7 million for the three months ended March 31, 2018, from \$68.2 million for the three months ended March 31, 2017.

**Provision for Loan Losses.** We recorded a provision for loan losses of \$110,000 for the three months ended March 31, 2018, compared to a provision for loan losses of \$192,000 for the three months ended March 31, 2017.

During the three months ended March 31, 2018 and 2017, \$1.5 million and \$213,000 in net charge-offs were recorded, respectively.

***Noninterest Income.*** Noninterest income increased \$98,000, or 11.7%, to \$937,000 for the three months ended March 31, 2018 from \$839,000 for the three months ended March 31, 2017. The increase was primarily due to an increase in brokerage commissions and in increase in mortgage banking income, partially offset by a decrease in customer service fees and a decrease in insurance commissions. For the three months ended March 31, 2018, brokerage commissions increased \$112,000 to \$239,000 and mortgage banking income, net increased \$56,000 to \$121,000, while customer

---

**Table of Contents**

service fees decreased \$42,000 to \$75,000 and insurance commissions decreased \$69,000 to \$129,000. The increase in brokerage commissions was due to a change in the timing of commission payments and the increase in mortgage banking income reflects an increase in number of loans sold to the Federal Home Loan Bank of Chicago in the three months ended March 31, 2018. The decrease in customer service fees was due to a lower number of customer service fees collected during the three months ended March 31, 2018, and the decrease in insurance commissions was the result of higher contingency commissions earned in the three months ended March 31, 2017.

**Noninterest Expense.** Noninterest expense increased \$177,000, or 4.8%, to \$3.9 million for the three months ended March 31, 2018 from \$3.7 million for the three months ended March 31, 2017. The largest components of this increase were office occupancy, which increased \$60,000, or 41.1%, equipment expense, which increased \$37,000, or 13.3%, loss on foreclosed assets, which increased \$31,000, or 442.9%, and advertising, which increased \$16,000, or 15.0%. Office occupancy, equipment expense, and advertising all increased as a result of the addition of the new Bourbonnais office. The increase in loss on foreclosed assets was due to losses on sale of two residential real estate properties in the three months ended March 31, 2018.

**Income Tax Expense.** We recorded a provision for income tax of \$280,000 for the three months ended March 31, 2018, compared to a provision for income tax of \$479,000 for the three months ended March 31, 2017, reflecting effective tax rates of 22.0% and 36.2%, respectively.

**Asset Quality**

At March 31, 2018, our non-accrual loans totaled \$7.7 million, including \$7.4 million in one-to four-family loans, \$125,000 in multi-family loans, \$71,000 in commercial real estate loans, \$61,000 in commercial business loans and \$1,000 in consumer loans. At March 31, 2018, we had three one- to four-family loan for \$327,000 and one commercial business loan for \$11,000, which were delinquent 90 days or greater and still accruing interest.

At March 31, 2018, \$2.7 million in loans were classified as substandard, \$6.3 million in loans were classified as doubtful and no loans were classified as loss. Loans classified as substandard consisted of \$1.6 million in one-to four-family loans, \$125,000 in multi-family loans, \$71,000 in commercial real estate loans, \$23,000 in home equity lines of credit, \$953,000 in commercial business loans, and \$4,000 in consumer loans. Loans classified as doubtful consisted of \$6.3 million in one-to four-family loans, \$61,000 in commercial business loans, and \$1,000 in consumer loans.

At March 31, 2018, watch assets consisted of \$589,000 in one-to four-family loans, \$1.1 million in commercial real estate loans, \$1.7 million in commercial business loans and \$34,000 in consumer loans.

**Troubled Debt Restructurings.** Troubled debt restructurings include loans for which economic concessions have been granted to borrowers with financial difficulties. We periodically modify loans to extend the term or make other concessions to help borrowers stay current on their loans and to avoid foreclosure. At March 31, 2018 and June 30, 2017, we had \$2.9 million and \$3.1 million, respectively, of troubled debt restructurings. At March 31, 2018 our troubled debt restructurings consisted of \$1.6 million in one-to four-family loans, \$1.2 million in multi-family loans, \$19,000 in commercial real estate loans, \$30,000 in home equity lines of credit, \$61,000 in commercial business loans, and \$5,000 in consumer loans.

At March 31, 2018, we had \$327,000 in foreclosed assets compared to \$429,000 as of June 30, 2017. Foreclosed assets at March 31, 2018 consisted of \$108,000 in residential real estate properties and \$219,000 in commercial non-occupied property, while foreclosed assets at June 30, 2017 consisted of \$210,000 in residential real estate properties and \$219,000 in commercial non-occupied property.



**Table of Contents****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 nine-month periods ended March 31, 2018 and 2017:

	<b>Nine months ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Balance, beginning of period	\$ 6,835	\$ 5,351
Loans charged off Real estate loans:		
One-to four-family	(1,572)	(203)
Multi-family		
Commercial		(8)
HELOC	(25)	
Construction		
Commercial business		
Consumer	(10)	(31)
Gross charged off loans	(1,607)	(242)
Recoveries of loans previously charged off Real estate loans:		
One-to four-family		27
Multi-family		
Commercial		
HELOC		
Construction		
Commercial business		
Consumer	7	5
Gross recoveries of charged off loans	7	32
Net charge offs	(1,600)	(210)
Provision charged to expense	468	225
Balance, end of period	\$ 5,703	\$ 5,366

The allowance for loan losses has been calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Company's loans. Management considers such factors as the repayment status of a loan, the estimated net fair value of the underlying collateral, the borrower's intent and ability to repay the loan, local economic

conditions, and the Company's historical loss ratios. We maintain the allowance for loan losses through the provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. The allowance for loan losses decreased \$1.1 million to \$5.7 million at March 31, 2018, from \$6.8 million at June 30, 2017. The decrease was the result of a \$1.6 million charge off, partially offset by a \$468,000 provision which was necessary in order to bring the allowance for loan losses to a level that reflects management's estimate of the probable loss in the Company's loan portfolio at March 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

**Table of Contents**

net charge-offs by portfolio type for the period as a percentage of the quarter end balance of respective portfolio type over the same period. As the Company and the industry have seen increases in loan defaults in the past several years, the Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation. The following table sets forth the Company's weighted average historical net charge-offs as of March 31, 2018 and June 30, 2017:

<b>Portfolio segment</b>	<b>March 31, 2018 Net charge-offs 12 quarter weighted historical</b>	<b>June 30, 2017 Net charge-offs 12 quarter weighted historical</b>
Real Estate:		
One-to four-family	0.66%	0.12%
Multi-family	0.00%	0.00%
Commercial	0.00%	0.00%
HELOC	0.26%	0.17%
Construction	0.00%	0.00%
Commercial business	0.00%	0.00%
Consumer	0.04%	0.05%
<b>Total portfolio</b>	<b>0.20%</b>	<b>0.05%</b>

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in financial conditions of individual borrowers; changes in local, regional, and national economic conditions; the Company's historical loss experience; and changes in market conditions for property pledged to the Company as collateral. The Company has identified specific qualitative factors that address these issues and subjectively assigns a percentage to each factor. At March 31, 2018, these qualitative factors included: (1) management's assumptions regarding the minimal level of risk for a given loan category; (2) changes in lending policies and procedures, including changes in underwriting standards, and charge-off and recovery practices not considered elsewhere in estimating credit losses; (3) changes in international, national, regional and local economics and business conditions and developments that affect the collectability of the portfolio, including the conditions of various market segments; (4) changes in the nature and volume of the portfolio and in the terms of loans; (5) changes in the experience, ability, and depth of the lending officers and other relevant staff; (6) changes in the volume and severity of past due loans, the volume of non-accrual loans, the volume of troubled debt restructured and other loan modifications, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependent loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.



**Table of Contents**

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

<b>Portfolio segment</b>	<b>Qualitative factor applied at March 31, 2018</b>	<b>Qualitative factor applied at June 30, 2017</b>
Real Estate:		
One-to four-family	0.12%	0.64%
Multi-family	1.56%	1.56%
Commercial	1.20%	1.20%
HELOC	0.74%	0.84%
Construction	1.13%	1.01%
Commercial business	2.02%	1.99%
Consumer	0.73%	0.76%
<b>Total portfolio</b>	<b>1.04%</b>	<b>1.17%</b>

At March 31, 2018, the amount of our allowance for loan losses attributable to these qualitative factors was approximately \$4.8 million, as compared to \$5.2 million at June 30, 2017. The general decrease in qualitative factors was attributable primarily to actual losses versus minimum expected losses already factored.

While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio, the increase in troubled debt restructurings and the potential changes in market conditions, our level of nonperforming assets and resulting 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 March 31, 2018, the nine months ended March 31, 2018 and the year ended June 30, 2017, our liquidity ratio averaged 20.6%, 19.5% and 19.0% of our total assets, respectively. We believe that we had enough sources of liquidity to satisfy our short- and long-term liquidity needs as of March 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 March 31, 2018, cash and cash equivalents totaled \$10.0 million. Interest-bearing time deposits which can offer additional sources of liquidity, totaled

\$1.8 million at March 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 \$1.6 million and \$5.1 million for the nine months ended March 31, 2018 and 2017, respectively. Net cash

**Table of Contents**

provided by (used in) investing activities consisted primarily of disbursements for loan originations and the purchase of securities and Federal Home Loan Bank stock, offset by net cash provided by principal collections on loans, proceeds from maturing securities, the sale of securities, the redemption of Federal Home Loan Bank stock, and pay downs on mortgage-backed securities. Net cash provided by (used in) investing activities was \$(34.1) million and \$11.2 million for the nine months ended March 31, 2018 and 2017, respectively. Net cash provided by (used in) financing activities consisted primarily of the activity in deposit accounts, FHLB Advances, dividends paid, and stock repurchases. The net cash provided by (used in) financing activities was \$34.7 million and \$(5.9) million for the nine months ended March 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 March 31, 2018 and June 30, 2017.

	<b>March 31, 2018</b>	<b>June 30, 2017</b>
	<b>(Dollars in thousands)</b>	
Commitments to fund loans	\$ 2,250	\$ 25,353
Lines of credit	42,841	42,682

At March 31, 2018, certificates of deposit due within one year of March 31, 2018 totaled \$154.1 million, or 32.2% 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 March 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 \$49.0 million at March 31, 2018. At March 31, 2018, we had the ability to borrow up to an additional \$159.6 million from the Federal Home Loan Bank of Chicago and also had the ability to borrow \$21.7 million from the Federal Reserve based on current collateral pledged.

During the nine months ended March 31, 2018, 49,000 shares were repurchased as part of the stock repurchase program that was announced by the Company on February 5, 2016, which allowed the Company to repurchase up to 200,703 shares of its common stock, or approximately 5% of the then current outstanding shares. Repurchases are made at management's discretion at prices management considers to be attractive and in the best interests of both the Company and its stockholders, subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. The repurchase plan may be suspended, terminated, or modified at any time for any reason, including market conditions, the cost of purchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. The repurchase program does not obligate the Company to purchase any particular number of shares. As of March 31, 2018, the Company had repurchased 122,653 shares, and the maximum number of shares that may yet be purchased under the plan was 78,050.

The Association is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets

by assigning balance sheet assets and off-balance sheet items to broad risk categories. The OCC's prompt corrective action standards changed effective January 1, 2015. Under the new standards, in order to be considered well-capitalized, the Association must have a Tier 1 capital to total assets ratio of 5.0% (unchanged), a common equity Tier 1 to risk-weighted assets ratio (CET1) 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.

**Table of Contents**

	<b>March 31, 2018</b>	<b>June 30, 2017</b>	<b>Minimum to Be Well Capitalized</b>
	<b>Actual</b>	<b>Actual</b>	
<b>Tier 1 capital to total assets</b>			
Association	11.7%	12.0%	5.0%
Company	13.7%	14.3%	N/A
<b>Common equity tier 1 to risk-weighted assets</b>			
Association	15.6%	15.7%	6.5%
Company	18.2%	18.8%	N/A
<b>Tier 1 capital to risk-weighted assets</b>			
Association	15.6%	15.7%	8.0%
Company	18.2%	18.8%	N/A
<b>Total capital to risk-weighted assets</b>			
Association	16.8%	16.9%	10.0%
Company	19.4%	20.1%	N/A

**Table of Contents****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 March 31,					
	2018			2017		
	Average Balance	Interest Expense	Income/Yield/ Cost	Average Balance	Interest Expense	Yield/ Cost
	(Dollars in thousands)					
<b>Assets</b>						
Loans	\$ 466,703	\$ 4,849	4.16%	\$ 443,781	\$ 4,519	4.07%
<b>Securities:</b>						
U.S. government, federal agency and government-sponsored enterprises	22,541	130	2.31%	74,839	452	2.42%
<b>Mortgage-backed:</b>						
GSE-residential	96,431	616	2.56%	35,675	228	2.56%
State and political subdivisions	2,981	16	2.15%	3,275	18	2.20%
Total securities	121,953	762	2.50%	113,789	698	2.45%
Other	10,443	64	2.45%	6,295	38	2.41%
Total interest-earning assets	599,099	5,675	3.79%	563,865	5,255	3.73%
Non-interest earning assets	15,368			18,798		
Total assets	\$ 614,467			\$ 582,663		
<b>Liabilities and Stockholders Equity</b>						
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking or NOW	\$ 46,882	16	0.14%	\$ 45,794	11	0.10%
Savings accounts	44,442	27	0.24%	40,427	12	0.12%
Money market accounts	97,412	250	1.03%	75,487	53	0.28%
Certificates of deposit	257,944	877	1.36%	246,135	640	1.04%
Total interest-bearing deposits	446,680	1,170	1.05%	407,843	716	0.70%
Federal Home Loan Bank Advances and repurchase agreements	58,717	200	1.36%	68,224	182	1.06%
Total interest-bearing liabilities	505,397	1,370	1.08%	476,067	898	0.75%
Noninterest-bearing liabilities	27,088			23,520		

Edgar Filing: IF Bancorp, Inc. - Form 10-Q

Total liabilities	532,485	499,587
Stockholders' equity	81,982	83,076
Total liabilities and stockholders' equity	\$ 614,467	\$ 582,663

**Table of Contents**

	For the Three Months Ended March 31, 2018			2017		
	Average Balance	Interest Income/Yield/ Expense Cost		Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Net interest income		\$ 4,305			\$ 4,357	
Interest rate spread (1)			2.70%			2.97%
Net interest margin (2)			2.87%			3.09%
Net interest-earning assets (3)	\$ 93,702			\$ 87,798		
Average interest-earning assets to interest-bearing liabilities	119%			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.

	For the Nine Months Ended March 31, 2018			2017		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
<b>Assets</b>						
Loans	\$ 466,419	\$ 14,512	4.15%	\$ 445,040	\$ 13,846	4.15%
Securities:						
U.S. government, federal agency and government-sponsored enterprises	21,217	377	2.37%	75,689	1,414	2.49%
Mortgage-backed:						
GSE-residential	90,914	1,701	2.49%	31,454	587	2.49%
State and political subdivisions	3,144	50	2.12%	3,361	55	2.18%
Total securities	115,275	2,128	2.46%	110,504	2,056	2.48%
Other	9,620	173	2.40%	8,978	109	1.62%
Total interest-earning assets	591,314	16,813	3.79%	564,522	16,011	3.78%
Non-interest earning assets	18,602			21,241		
Total assets	\$ 609,916			\$ 585,763		



**Table of Contents**

	For the Nine Months Ended March 31,					
	Average Balance	2018 Interest Income/ Expense	Yield/ Cost	Average Balance	2017 Interest Income/ Expense	Yield/ Cost
(Dollars in thousands)						
<b>Liabilities and Stockholders Equity</b>						
Interest-bearing liabilities:						
Interest-bearing checking or NOW	\$ 46,483	37	0.11%	\$ 43,539	30	0.09%
Savings accounts	42,734	56	0.17%	39,757	36	0.12%
Money market accounts	94,737	558	0.79%	73,859	122	0.22%
Certificates of deposit	253,648	2,431	1.28%	250,552	1,908	1.02%
<b>Total interest-bearing deposits</b>	<b>437,602</b>	<b>3,082</b>	<b>0.94%</b>	<b>407,707</b>	<b>2,096</b>	<b>0.69%</b>
Federal Home Loan Bank Advances and repurchase agreements	62,764	568	1.21%	70,735	586	1.10%
<b>Total interest-bearing liabilities</b>	<b>500,366</b>	<b>3,650</b>	<b>0.97%</b>	<b>478,442</b>	<b>2,682</b>	<b>0.75%</b>
Noninterest-bearing liabilities	25,878			23,992		
<b>Total liabilities</b>	<b>526,244</b>			<b>502,434</b>		
Stockholders equity	83,672			83,329		
<b>Total liabilities and stockholders equity</b>	<b>\$ 609,916</b>			<b>\$ 585,763</b>		
Net interest income		\$ 13,163			\$ 13,329	
Interest rate spread (1)			2.82%			3.03%
Net interest margin (2)			2.97%			3.15%
Net interest-earning assets (3)	\$ 90,948			\$ 86,080		
Average interest-earning assets to interest-bearing liabilities		118%			118%	

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

**Table of Contents****Rate/Volume Analysis**

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total 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 March 31, 2018 vs. 2017			Nine Months Ended March 31, 2018 vs. 2017		
	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)
<b>(In thousands)</b>						
<b>Interest-earning assets:</b>						
Loans	\$ (818)	\$ 1,148	\$ 330	\$ 666	\$	\$ 666
Securities	(70)	134	64	98	(26)	72
Other	21	5	26	12	52	64
<b>Total interest-earning assets</b>	<b>\$ (867)</b>	<b>\$ 1,287</b>	<b>\$ 420</b>	<b>\$ 776</b>	<b>\$ 26</b>	<b>\$ 802</b>
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking or NOW	\$ 2	\$ 3	\$ 5	\$ 6	\$ 1	\$ 7
Savings accounts	9	6	15	5	15	20
Certificates of deposit	248	(12)	236	40	483	523
Money market accounts	113	84	197	50	386	436
<b>Total interest-bearing deposits</b>	<b>372</b>	<b>81</b>	<b>453</b>	<b>101</b>	<b>885</b>	<b>986</b>
Federal Home Loan Bank advances and repurchase agreements	(129)	148	19	(93)	75	(18)
<b>Total interest-bearing liabilities</b>	<b>\$ 243</b>	<b>\$ 229</b>	<b>\$ 472</b>	<b>\$ 8</b>	<b>\$ 960</b>	<b>\$ 968</b>
<b>Change in net interest income</b>	<b>\$ (1,110)</b>	<b>\$ 1,058</b>	<b>\$ (52)</b>	<b>\$ 768</b>	<b>\$ (934)</b>	<b>\$ (166)</b>

**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 March 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, 2017, as filed with the Securities and Exchange Commission.

**Item 4. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 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 March 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.

**Table of Contents****Part II Other Information****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A.- Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, which could materially affect our business, financial condition or future results of operations. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

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

The following table provides information about purchases by the Company of the quarter ended March 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 that May Be Purchased	
			Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Be Purchased Under the Plans or Programs
1/1/18 - 1/31/18		\$		127,050
2/1/18 - 2/28/18	35,000	20.00	35,000	92,050
3/1/18 - 3/31/18	14,000	20.00	14,000	78,050
Total	49,000	\$ 20.00	49,000	

- (1) The Company announced a stock repurchase plan on February 5, 2016, whereby the Company could repurchase up to 200,703 shares of its common stock, or approximately 5% of the Company's then outstanding shares. There were 49,000 shares of the Company's common stock repurchased by the Company during the three months ended

March 31, 2018, and there were 78,050 shares yet to be repurchased under the plan as of March 31, 2018.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Table of Contents**

**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 March 31, 2018 and June 30, 2017, (ii) the Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2018 and 2017, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended March 31, 2018 and 2017, (iv) the Condensed Consolidated Statements of Stockholders Equity for the nine months ended March 31, 2018 and 2017, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended March 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.

Table of Contents

**SIGNATURES**

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

**IF BANCORP, INC.**

Date: May 10, 2018

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

Date: May 10, 2018

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