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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 31, 2018

OR

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

Commission File No. 001-35226

IF Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**45-1834449**
(State or other jurisdiction of	**(I.R.S. Employer**

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

(815) 432-2476

(Registrant s telephone number)

N/A

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

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

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

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

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

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

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

The Registrant had 3,604,908 shares of common stock, par value $0.01 per share, issued and outstanding as of February 4, 2019.

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Part I. Financial Information

Item 1. Financial Statements

IF Bancorp, Inc.

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amount)

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Condensed Consolidated Statements of Income (Unaudited)

(Dollars in thousands except per share amounts)

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

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

(Dollars in thousands)

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Condensed Consolidated Statement of Stockholders Equity (Unaudited)

(Dollars in thousands, except per share amounts)

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

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Condensed Consolidated Statement of Cash Flows (Unaudited)

(Dollars in thousands)

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

IF Bancorp, Inc.

Form 10-Q (Unaudited)

(Table dollar amounts in thousands)

Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Financial Statement Presentation

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

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with instructions for Form 10 Q and Regulation S X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ from these estimates. In the opinion of management, the preceding unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial condition of the Company as of December 31, 2018 and June 30, 2018, and the results of its operations for the three month and six month periods ended December 31, 2018 and 2017. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended June 30, 2018. The results of operations for the three month and six month periods ended December 31, 2018 are not necessarily indicative of the results that may be expected for the entire year.

Note 2: New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

Note 3: Stock-based Compensation

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

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

A summary of ESOP shares at December 31, 2018 and June 30, 2018 are as follows (dollars in thousands):

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

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

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

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

The following table summarizes stock option activity for the six months ended December 31, 2018 (dollars in thousands):

	Options	Weighted-Average Exercise Price/Share		Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value	
Outstanding, June 30, 2018	153,143	$	16.63			
Granted						
Exercised						
Forfeited						
Outstanding, December 31, 2018	153,143	$	16.63	4.9	$	534(1)
Exercisable, December 31, 2018	108,571	$	16.63	4.9	$	379(1)

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

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

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

	Shares	Weighted-Average Grant-Date Fair Value	
Balance, June 30, 2018	60,375	$	16.79
Granted			
Forfeited			
Earned and issued	10,062		16.79
Balance, December 31, 2018	50,313	$	16.79

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

Note 4: Earnings Per Common Share (EPS)

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

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

The Company announced a stock repurchase plan on December 5, 2018, which allowed the Company to repurchase up to 290,356 shares of its common stock, or approximately 7.5% of its then current outstanding shares. As of December 31, 2018, 255,000 shares were repurchased under this plan at an average price of $21.30.

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

Note 5: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
December 31, 2018:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 24,781	$ 4	$ (389)	$ 24,396
Mortgage-backed:				
GSE residential	97,711	36	(2,604)	95,143
Small Business Administration	5,340		(65)	5,275
State and political subdivisions	2,726	108		2,834
	$ 130,558	$ 148	$ (3,058)	$ 127,648
June 30, 2018:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 24,757	$	$ (835)	$ 23,922
Mortgage-backed:				
GSE residential	100,534	24	(3,499)	97,059
Small Business Administration	1,965		(74)	1,891
State and political subdivisions	2,980	144		3,124
	$ 130,236	$ 168	$ (4,408)	$ 125,996

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

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

The amortized cost and fair value of available-for-sale securities at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale Securities	
	Amortized Cost	**Fair Value**
Within one year	$ 1,150	$ 1,193
One to five years	10,058	9,815
Five to ten years	18,232	18,106
After ten years	3,407	3,391
	32,847	32,505
Mortgage-backed securities	97,711	95,143
Totals	$ 130,558	$ 127,648

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

The carrying value of securities sold under agreement to repurchase amounted to $2,840,000 at December 31, 2018 and $2,281,000 at June 30, 2018. At December 31, 2018, approximately $905,000 of our repurchase agreements had an overnight maturity, while the remaining $1.9 million in repurchase agreements had a term of 30 to 90 days. All of our repurchase agreements were secured by U.S. Government, federal agency and GSE securities. The right of offset for a repurchase agreement resembles a secured borrowing, whereby the collateral pledged by the Company would be used to settle the fair value of the repurchase agreement should the Company be in default. The collateral is held by the Company in a segregated custodial account. In the event the collateral fair value falls below stipulated levels, the Company will pledge additional securities. The Company closely monitors collateral levels to ensure adequate levels are maintained.

There were no sales of available-for-sale securities for the six months ended December 31, 2018. Gross gains of $20,000, and gross losses of $7,000, resulting from sales of available-for-sale securities were realized for the six month period ended December 31, 2017. The tax provision applicable to these net realized gains amounted to approximately $4,000. No gross gains or gross losses resulting from sales of available-for-sale securities were realized for the three month periods ended December 31, 2018 and 2017.

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

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

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Description of Securities	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
December 31, 2018:						
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 8,218	$ (49)	$ 14,844	$ (340)	$ 23,062	$ (389)
Mortgage-backed:						
GSE residential	13,341	(116)	73,113	(2,488)	86,454	(2,604)
Small Business Administration	3,391	(16)	1,885	(49)	5,276	(65)
Total temporarily impaired securities	$ 24,950	$ (181)	$ 89,842	$ (2,877)	$ 114,792	$ (3,058)
June 30, 2018:						
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 15,541	$ (439)	$ 8,381	$ (396)	$ 23,922	$ (835)
Mortgage-backed:						
GSE residential	59,478	(1,836)	33,889	(1,663)	93,367	(3,499)
Small Business Administration			1,891	(74)	1,891	(74)
Total temporarily impaired securities	$ 75,019	$ (2,275)	$ 44,161	$ (2,133)	$ 119,180	$ (4,408)

The unrealized losses on the Company s investment in residential mortgage-backed securities and U.S. Government and federal agency and Government sponsored enterprises at December 31, 2018 and June 30, 2018, were mostly the result of a decline in market value that was attributable to changes in interest rates and not credit quality, and the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2018 and June 30, 2018.

Note 6: Loans and Allowance for Loan Losses

Classes of loans include:

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

Unearned fees and discounts, net				(161)
Allowance for loan losses		6,319		5,945
Loans, net	$	494,240	$	476,480

The Company believes that sound loans are a necessary and desirable means of employing funds available for investment. Recognizing the Company s obligations to its depositors and to the communities it serves, authorized personnel are expected to seek to develop and make sound, profitable loans that resources permit and that opportunity affords. The Company maintains lending policies and procedures designed to focus our lending efforts on the types, locations, and duration of loans most appropriate for our business model and markets. The Company s lending activity includes the origination of one- to four-family residential mortgage loans, multi-family loans, commercial real estate loans, commercial business loans, home equity lines of credit, and to a lesser extent, consumer loans (consisting primarily of automobile loans), construction loans and land loans. The primary lending market includes the Illinois counties of Vermilion, Iroquois, Champaign and Kankakee, as well as the adjacent counties in Illinois and Indiana. The Company also has a loan production and wealth management office in Osage Beach, Missouri, which serves the Missouri counties of Camden, Miller, and Morgan. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid from cash flows of the borrowers or from proceeds from the sale of selected assets of the borrowers.

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

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

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

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

One- to four-family Residential Mortgage Loans

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

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

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

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

Commercial Real Estate and Multi-Family Real Estate Loans

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

Home Equity Lines of Credit

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

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Commercial Business Loans

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

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

Real Estate Construction Loans

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

Consumer Loans

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

Loan Concentration

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to $277,225,000 and $260,671,000 as of December 31, 2018 and June 30, 2018, respectively. Generally, these loans are collateralized by multi-family and nonresidential properties. The loans are expected to be repaid from cash flows or from proceeds from the sale of the properties of the borrower.

Purchased Loans and Loan Participations

The Company s loans receivable included purchased loans of $5,206,000 and $5,855,000 at December 31, 2018 and June 30, 2018, respectively. All of these purchased loans are secured by single family homes located out of our primary market area, but still primarily in the Midwest. The Company s loans receivable also include commercial loan participations of $31,348,000 and $32,874,000 at December 31, 2018 and June 30, 2018, respectively, of which $10,408,000 and $11,009,000, at December 31, 2018 and June 30, 2018 were outside our primary market area.

Allowance for Loan Losses

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

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

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

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

	Six Months Ended December 31, 2018			
	Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of period	$ 997	$ 1,650	$ 1,604	$ 91
Provision charged to expense	25	18	200	12
Losses charged off				
Recoveries	1			
Balance, end of period	$ 1,023	$ 1,668	$ 1,804	$ 103
Ending balance: individually evaluated for impairment	$	$	$ 2	$ 15
Ending balance: collectively evaluated for impairment	$ 1,023	$ 1,668	$ 1,802	$ 88
Loans:				
Ending balance	$ 130,800	$ 108,391	$ 158,226	$ 8,913
Ending balance: individually evaluated for impairment	$ 1,458	$ 1,200	$ 38	$ 38
Ending balance: collectively evaluated for impairment	$ 129,342	$ 107,191	$ 158,188	$ 8,875

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

	Year Ended June 30, 2018			
	Real Estate Loans			
	One- to Four-Family	Multi-Family	Commercial	Home Equity Lines of Credit
Allowance for loan losses:				
Balance, beginning of year	$ 2,519	$ 1,336	$ 1,520	$ 76
Provision charged to expense	85	314	84	39
Losses charged off	(1,608)			(24)
Recoveries	1			
Balance, end of year	$ 997	$ 1,650	$ 1,604	$ 91
Ending balance: individually evaluated for impairment	$	$	$ 3	$
Ending balance: collectively evaluated for impairment	$ 997	$ 1,650	$ 1,601	$ 91
Loans:				
Ending balance	$ 134,977	$ 107,436	$ 140,944	$ 9,058
	$ 7,904	$ 1,329	$ 50	$ 26

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Total Loans 90 Days Past Due & Accruing
June 30, 2018:							
Real estate loans:							

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

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

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

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

The following tables present impaired loans:

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

Construction					
Commercial	6	6	6	8	8
Consumer					

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

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

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

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

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

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

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

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

The following table presents the recorded balance, at original cost, of troubled debt restructurings, all of which were performing according to the terms of the restructuring as of December 31, 2018, except for four one- to four-family real estate loans for $158,000, and two commercial real estate loans for $12,000. As of December 31, 2018, all loans listed were on nonaccrual except for twelve one- to four-family residential loans totaling $1.4 million, one multi-family loan for $1.2 million, two home equity lines of credit totaling $23,000, and one consumer loan for $3,000. All loans listed as of June 30, 2018 were on nonaccrual except for thirteen one- to four-family residential loans totaling $1.6 million, one multi-family loan for $1.2 million, two home equity lines of credit for $26,000, and one consumer loan for $4,000.

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

TDR Modifications

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

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

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

TDR s with Defaults

The Company had six TDRs, comprised of four one- to four-family residential loans totaling $158,000 and two commercial real estate loans totaling $12,000, that were in default as of December 31, 2018, and were restructured in prior periods. No restructured loans were in foreclosure at December 31, 2018. The Company had six TDRs, four one- to four-family residential loans for $169,000, one commercial real estate loan for $3,000, and one commercial business loan for $30,000 that were in default as of June 30, 2018, and were restructured in prior years. No restructured loans were in foreclosure at June 30, 2018. The Company defines a default as any loan that becomes 90 days or more past due.

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

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

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

Note 7: Federal Home Loan Bank Stock

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

Note 8: Accumulated Other Comprehensive Income (Loss)

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

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

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

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

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

Note 10: Income Taxes

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

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

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

Note 11: Regulatory Capital

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

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

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

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

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a Community Bank Leverage Ratio (the ratio of a bank s tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A qualifying community bank that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered well capitalized under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution s risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. A financial institution can elect to be subject to this new definition.

As of December 31, 2018, the Association was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Association has to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events that management believes have changed the Association s prompt corrective action category.

Note 12: Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

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

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

Recurring Measurements

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

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2018:				
Available-for-sale securities:				
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 24,396	$	$ 24,396	$
Mortgage-backed: GSE residential	95,143		95,143	
Small Business Administration	5,275		5,275	
State and political subdivisions	2,834		2,834	
Mortgage servicing rights	896			896

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
June 30, 2018:				
Available-for-sale securities:				

U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 23,922	$	$ 23,922	$
Mortgage-backed: GSE residential	97,059		97,059	
Small Business Administration	1,891		1,891	
State and political subdivisions	3,124		3,124	
Mortgage servicing rights	866			866

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

Available-for-Sale Securities

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

Mortgage Servicing Rights

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

Level 3 Reconciliation

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

	Mortgage Servicing Rights	
Balance, July 1, 2018	$	866
Total realized and unrealized gains and losses included in net income		(4)
Servicing rights that result from asset transfers		85
Payments received and loans refinanced		(51)
Balance, December 31, 2018	$	896
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$	(4)

Realized and unrealized gains and losses for items reflected in the table above are included in net income in the consolidated statements of income as noninterest income.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and June 30, 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018:				
Impaired loans (collateral-dependent)	$	$	$	$
June 30, 2018:				