IF Bancorp, Inc.
Form 10-K/A
March 17, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended June 30, 2013

OR

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

For the transition period from __________ to __________

Commission File Number: 001-35226

IF BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

(815) 432-2476

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	**Nasdaq Capital Market**

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	¨	Accelerated filer	¨

Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of December 31, 2012 was $55,398,844.

The number of shares outstanding of the registrant s common stock as of September 17, 2013 was 4,570,692.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Registrant s Annual Meeting of Stockholders to be held on November 18, 2013 are incorporated by reference in Part III of this Form 10-K.

Explanatory Note

This Amendment No. 1 to the Form 10-K of IF Bancorp, Inc. (the Company) is being filed solely to correct: (i) the date of the report of the Company s independent registered public accounting firm issued on the Company s June 30, 2013 financial statements; and (ii) the date on the consent of the Company s registered public accounting firm appearing in Exhibit 23.0, in each case included in the Company s Form 10-K filed with the Securities and Exchange Commission on September 23, 2013.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

(3) Exhibits

3.1	Articles of Incorporation of IF Bancorp, Inc. (1)
3.2	Bylaws of IF Bancorp, Inc. (1)
4.1	Specimen Stock Certificate of IF Bancorp, Inc. (1)
10.1	Employment Agreement between Iroquois Federal Savings and Loan Association and Alan D. Martin (2)
10.2	Employment Agreement between IF Bancorp, Inc. and Alan D. Martin (2)
10.3	Change in Control Agreement of Pamela J. Verkler (2)
10.4	Change in Control Agreement of Walter H. Hasselbring, III (2)
10.5	Directors Non Qualified Retirement Plan (1)
10.6	IF Bancorp, Inc. 2012 Equity Incentive Plan (3)
21.0	List of Subsidiaries (1)
23.0	Consent of BKD, LLP
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer (4)
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2013 and 2012, (ii) the Consolidated Statements of Income for the years ended June 30, 2013 and 2012, (iii) the Consolidated Statements of Comprehensive Income for the years ended June 30, 2013 and 2012, (iv) the Consolidated Statements of Stockholders Equity for the years ended June 30, 2013 and 2012, (v) the Consolidated Statements of Cash Flows for the years ended June 30, 2013 and 2012, and (vi) the notes to the Consolidated Financial Statements. *

* Previously filed.

(1) Incorporated by reference to the Company s Registration Statement on Form S-1 (333-172842), as amended, initially filed with the SEC on March 16, 2011.

(2) Incorporated by reference to the Company s Current Report on Form 8-K filed with the SEC on July 14, 2011.

(3) Incorporated by reference to Appendix A to the Company s Definitive Proxy Statement filed with the SEC on October 12, 2012.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IF BANCORP, INC.

Date: March 13, 2014

By: /s/ Alan D. Martin
Alan D. Martin
President and Chief Executive Officer

IF Bancorp, Inc.

Consolidated Financial Statements

Years Ended June 30, 2013 and 2012

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Audit Committee and Board of Directors

IF Bancorp, Inc.

Watseka, Illinois

We have audited the accompanying consolidated balance sheets of IF Bancorp, Inc. (Company) as of June 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income (loss), stockholders equity, and cash flows for the years then ended. The Company s management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. Our audits also include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IF Bancorp, Inc. as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

Decatur, Illinois

September 23, 2013

IF Bancorp, Inc.

Consolidated Balance Sheets

June 30, 2013 and 2012

(in thousands)

Assets

	2013	2012
Cash and due from banks	$ 5,371	$ 7,623
Interest-bearing demand deposits	1,209	570
Cash and cash equivalents	6,580	8,193
Interest-bearing time deposits in banks	250	250
Available-for-sale securities	200,827	223,306
Loans, net of allowance for loan losses of $3,938 and $3,531 at June 30, 2013 and 2012	315,775	258,910
Premises and equipment, net of accumulated depreciation of $5,193 and $5,230 at June 30, 2013 and 2012	4,293	4,355
Federal Home Loan Bank stock, at cost	5,425	4,175
Foreclosed assets held for sale	418	1,268
Accrued interest receivable	1,688	1,861
Bank-owned life insurance	7,757	7,495
Mortgage servicing rights	502	329
Deferred income taxes	3,213	
Other	807	1,188
Total assets	$ 547,535	$ 511,330

See Notes to Consolidated Financial Statements

Liabilities and Stockholders Equity

	2013	2012
Liabilities		
Deposits		
Demand	$ 12,820	$ 10,605
Savings, NOW and money market	131,779	133,688
Certificates of deposit	188,775	188,692
Brokered certificates of deposit	37,829	11,500
Total deposits	371,203	344,485
Repurchase agreements	1,674	
Federal Home Loan Bank advances	87,500	75,000
Advances from borrowers for taxes and insurance	966	955
Deferred income taxes		128
Accrued post-retirement benefit obligation	2,344	2,183
Accrued interest payable	44	43
Other	2,055	1,887
Total liabilities	465,786	424,681
Commitments and Contingencies		
Stockholders Equity		
Common stock, $.01 par value, 100,000,000 shares authorized, 4,570,692 and 4,811,255 shares issued and outstanding at June 30, 2013 and 2012, respectively	46	48
Additional paid-in capital	46,451	46,371
Unearned ESOP shares, at cost, 346,410 and 365,655 shares at June 30, 2013 and 2012, respectively	(3,464)	(3,656)
Retained earnings	39,101	38,728
Accumulated other comprehensive income (loss), net of tax	(385)	5,158
Total stockholders equity	81,749	86,649
Total liabilities and stockholders equity	$ 547,535	$ 511,330

IF Bancorp, Inc.

Consolidated Statements of Income

Years Ended June 30, 2013 and 2012

(in thousands)

	2013	2012
Interest Income		
Interest and fees on loans	$ 12,445	$ 12,177
Securities		
Taxable	5,023	5,680
Tax-exempt	116	120
Federal Home Loan Bank dividends	15	4
Deposits with financial institutions	11	20
Total interest and dividend income	17,610	18,001
Interest Expense		
Deposits	2,234	2,876
Federal Home Loan Bank advances and repurchase agreements	865	908
Total interest expense	3,099	3,784
Net Interest Income	14,511	14,217
Provision for Loan Losses	595	1,125
Net Interest Income After Provision for Loan Losses	13,916	13,092
Noninterest Income		
Customer service fees	547	600
Other service charges and fees	271	223
Insurance commissions	704	690
Brokerage commissions	616	521
Net realized gains on sales of available-for-sale securities	724	523
Mortgage banking income, net	673	317
Bank-owned life insurance income, net	262	259
Other	692	572
Total noninterest income	4,489	3,705

See Notes to Consolidated Financial Statements

	2013	2012
Noninterest Expense		
Compensation and benefits	$ 7,892	$ 7,189
Office occupancy	513	449
Equipment	943	720
Federal deposit insurance	291	287
Stationary, printing and office	165	161
Advertising	343	317
Professional services	381	325
Supervisory examination	141	162
Audit and accounting services	160	204
Organizational dues and subscriptions	48	48
Insurance bond premiums	115	105
Telephone and postage	282	227
(Gain) Loss on foreclosed assets, net	55	(36)
Charitable contributions	16	3,611
Other	1,293	1,069
Total noninterest expense	12,638	14,838
Income Before Income Tax	5,767	1,959
Provision for Income Taxes	2,057	559
Net Income	$ 3,710	$ 1,400
Earnings Per Share:		
Basic and diluted	$ .86	$ .32
Dividends Paid Per Share	$	$

IF Bancorp, Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years Ended June 30, 2013 and 2012

(in thousands)

	2013	2012
Net Income	$ 3,710	$ 1,400
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $(3,083) and $2,143 for 2013 and 2012, respectively	(5,045)	3,463
Less: reclassification adjustment for realized gains included in net income, net of taxes of $292 and $211 for 2013 and 2012, respectively	432	312
	(5,477)	3,151
Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of $(44) and $(65) for 2013 and 2012, respectively	(66)	(106)
Other comprehensive income (loss), net of tax	(5,543)	3,045
Comprehensive Income (Loss)	$ (1,833)	$ 4,445

IF Bancorp, Inc.

Consolidated Statements of Stockholders Equity

Years Ended June 30, 2013 and 2012

(in thousands)

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, July 1, 2011	$	$	$	$ 37,328	$ 2,113	$ 39,441
Net income				1,400		1,400
Other comprehensive income					3,045	3,045
Common stock issued in initial public offering, 4,811,255 shares, net of issuance costs of $1,725	48	46,340				46,388
Acquisition of ESOP shares, 384,900 shares			(3,849)			(3,849)
ESOP shares earned, 19,245 shares		31	193			224
Balance, June 30, 2012	48	46,371	(3,656)	38,728	5,158	86,649
Net income				3,710		3,710
Other comprehensive income (loss)					(5,543)	(5,543)
Stock repurchase, 240,563 shares	(2)			(3,337)		(3,339)
ESOP shares earned, 19,245 shares		80	192			272
Balance, June 30, 2013	$ 46	$ 46,451	$ (3,464)	$ 39,101	$ (385)	$ 81,749

IF Bancorp, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30, 2013 and 2012

(in thousands)

	2013	2012
Operating Activities		
Net income	$ 3,710	$ 1,400
Items not requiring (providing) cash		
Depreciation	447	430
Provision for loan losses	595	1,125
Amortization of premiums and discounts on securities	1,293	1,172
Deferred income taxes	78	(1,402)
Net realized gains on loan sales	(673)	(317)
Net realized gains on sales of available-for-sale securities	(724)	(523)
(Gain) loss on foreclosed real estate held for sale	55	(36)
Bank-owned life insurance income, net	(262)	(259)
Originations of loans held for sale	(22,687)	(16,423)
Proceeds from sales of loans held for sale	23,187	16,819
ESOP compensation expense	272	224
Contribution of stock to the Foundation		3,148
Changes in		
Accrued interest receivable	173	(177)
Other assets	382	988
Accrued interest payable	1	(115)
Post retirement benefit obligation	51	80
Other liabilities	168	7
Net cash provided by operating activities	6,066	6,141
Investing Activities		
Purchases of available-for-sale securities	(159,881)	(199,033)
Proceeds from the sales of available-for-sale securities	147,917	67,306
Proceeds from maturities and paydowns of available-for-sale securities	25,022	103,128
Net change in loans	(57,518)	(21,332)
Purchase of FHLB stock owned	(1,250)	(1,054)
Purchase of premises and equipment	(383)	(689)
Proceeds from the sale of foreclosed assets	851	795
Net cash used in investing activities	(45,242)	(50,879)

See Notes to Consolidated Financial Statements

	2013	2012
Financing Activities		
Net increase (decrease) in demand deposits, money market, NOW and savings accounts	$ 306	$ (94,390)
Net increase (decrease) in certificates of deposit, including brokered certificates	26,411	(5,190)
Net increase in advances from borrowers for taxes and insurance	11	114
Proceeds from Federal Home Loan Bank advances	588,000	557,500
Repayment of Federal Home Loan Bank advances	(575,500)	(505,000)
Net increase in repurchase agreements	1,674	
Proceeds from issuance of common stock, net of costs		43,240
Stock issuance from employee stock ownership plan purchase		(3,849)
Stock purchase per stock repurchase plan	(3,339)	
Net cash provided by (used in) financing activities	37,563	(7,575)
(Decrease) in Cash and Cash Equivalents	(1,613)	(52,313)
Cash and Cash Equivalents, Beginning of Year	8,193	60,506
Cash and Cash Equivalents, End of Year	$ 6,580	$ 8,193
Supplemental Cash Flows Information		
Interest paid	$ 3,098	$ 3,899
Income taxes paid (net of refunds)	$ 2,165	$ 2,169
Foreclosed assets acquired in settlement of loans	$ 58	$ 1,317

Supplemental disclosure of noncash financing activities

With the initial public offering in July 2011, the Company loaned $3,849 to the Employee Stock Ownership Plan, which was used to acquire 384,900 shares of the Company s common stock. The loan is secured by the shares purchased and is shown as unearned ESOP shares in the consolidated balance sheets. Payments on the loan in the fiscal year ended June 30, 2013, were $262 which included $143 in principal and $119 in interest. In addition, the Company donated 314,755 shares valued at $3,148 to a charitable foundation in July 2011.

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

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

Nature of Operations

IF Bancorp, Inc., a Maryland corporation (the Company), became the holding company for Iroquois Federal Savings and Loan Association (the Association) upon completion of the Association s conversion from the mutual form of organization to the stock holding company form of organization (the Conversion) on July 7, 2011. For more information regarding the Conversion, see Note 2 of these notes to condensed consolidated financial statements.

The Company owns 100% of the outstanding shares of the capital stock of the Association. The Association is primarily engaged in providing a full range of banking and financial services to individual and corporate customers within a 100-mile radius of its locations in Watseka, Danville, Clifton, and Hoopeston, Illinois and Osage Beach, Missouri. The principal activity of the Association s wholly-owned subsidiary, L.C.I. Service Corporation (L.C.I.), is the sale of property and casualty insurance. The Company is primarily engaged in the business of directing, planning, and coordinating the business activities of the Association. The Company and Association are subject to competition from other financial institutions. The Company and Association are also subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Principles of Consolidation

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

Operating Segment

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

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

Use of Estimates

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

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

Interest-bearing Deposits in Banks

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

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of noninterest bearing deposits and interest bearing demand deposits.

The Company s interest bearing deposits are held at the FHLB and Federal Reserve Bank and are fully guaranteed for the entire amount in the account.

Securities

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

Loans Held for Sale

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

Loans

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

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

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

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

Allowance for Loan Losses

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

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

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price or the fair value of the collateral if the loan is collateral dependent.

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

Premises and Equipment

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

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

Buildings and improvements	35-40 years
Equipment	3-5 years

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

Bank-owned Life Insurance

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

Fee Income

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

Mortgage Servicing Rights

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

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

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

Transfers of Financial Assets

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

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon

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settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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

The Company files consolidated income tax returns with its subsidiary.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weight-average number of common shares outstanding during each year.

Comprehensive Income (Loss)

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

Transfers between Fair Value Hierarchy Levels

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

Recent and Future Accounting Requirements

FASB ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*

In February 2013, the FASB issued ASU 2013-02 to improve the transparency of reporting reclassifications out of accumulated other comprehensive income.

Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income.

The amendments in the Update do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this Update requires is already required to be disclosed elsewhere in the financial statements under U.S. Generally Accepted Accounting Principles (U.S. GAAP).

The new amendments require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the impact of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods.

The amendments were effective for reporting periods beginning after December 15, 2012. The effect of applying this standard is reflected in Note 11 Other Comprehensive Income (Loss).

FASB ASU 2013-01. Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The Update clarifies the scope of transactions that are subject to the disclosures about offsetting.

The Update clarifies that ordinary trade receivables and receivables are not in the scope of Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, Update 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in FASB Accounting Standards Codification® or subject to a master netting arrangement or similar agreement.

Issued in December 2011, Update 2011-11 was the result of a joint project with the International Accounting Standards Board. Its objective was to improve transparency and comparability between U.S. GAAP and International Financial Reporting Standards by requiring enhanced disclosures about financial instruments and derivative instruments that are either (1) offset on the statement of financial position or (2) subject to an enforceable master netting arrangement or similar agreement.

The Board undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard s broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. The Company does not expect the adoption of this pronouncement to have an impact to the Company s financial statements.

FASB ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*

The eligibility criteria for offsetting are different in international financial reporting standards (IFRS) and U.S. generally accepted accounting principles (GAAP). Offsetting, otherwise known as netting, is the presentation of assets and liabilities as a single amount in the statements of financial position (balance sheet). Unlike IFRS, U.S. GAAP allows companies the option to present net in the balance sheets derivatives that are subject to a legally enforceable netting arrangement with the same party where rights to set-off are only available in the event of default or bankruptcy.

To address these differences between IFRS and U.S. GAAP, in January 2011 the FASB and the IASB (the Boards) issued an exposure draft that proposed new criteria for netting, which were narrower than the current conditions in the U.S. GAAP. Nevertheless, in response to feedback from their respective stakeholders, the Boards decided to retain their existing offsetting models. Instead, the Boards have issued common disclosure requirements related to offsetting arrangements to allow investors to better compare financial statements prepared in accordance with IFRS or U.S. GAAP.

The amendments to the FASB Accounting Standards Codification in the ASU require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Coinciding with the release of ASU No. 2011-11, the IASB has issued Disclosures Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). This amendment requires disclosures about the offsetting of financial assets and financial liabilities common to those in ASU No. 2011-11.

An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. If applicable the Company with provide the disclosures required by those amendments retrospectively for all comparative periods presented.

FASB ASU 2013-04 *Liabilities (Topic 405): Obligations Resulting From Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*.

On February 28, 2013, FASB issued ASU 2013-40. The amendments in this Update provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this Update is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount of reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors.

The guidance in this Update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. This Accounting Standards Update is the final version of Proposed Accounting Standard Update EITF12D Liabilities (Topic 405) which has been deleted.

The amendments in this Update are effective for fiscal years beginning after December 31, 2013. Early adoption is permitted. The Company will adopt the methodologies prescribed by this ASU by the date required, and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

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Note 2: The Conversion

On March 8, 2011, the Association s Board of Directors adopted a Plan of Conversion (Plan), as amended on March 8, 2011, to convert from the mutual form of organization to the capital stock form of organization (the Conversion). The Company was formed in March 2011 to become the savings and loan holding company of the Association upon consummation of the Conversion. In the Conversion, the Association became a wholly owned subsidiary of the Company, and the Company issued and sold shares of its common stock, par value $0.01 per share, to eligible members of the Association. A total of 4,811,255 shares of common stock were issued in the offering. A total of 4,496,500 shares were sold on July 7, 2011 in the Conversion at $10 per share, raising $44,965,000 of gross proceeds. The Company also donated 7% of the shares sold in the offering, or a total of 314,755 shares, to a newly established charitable foundation (the Foundation). The Association also contributed $450,000 in cash to the Foundation. The 314,755 donated shares were valued at $3,147,550 ($10.00 per share) at the time of the consummation of the Conversion. This $3,147,550 and the $450,000 cash donation were both expensed during the quarter ended September 30, 2011.

The subscription offering resulted in the receipt of $113 million in subscriptions including transfers from deposit accounts, ESOP, and 401(k) accounts, which was in excess of the maximum amount of shares to be offered under the Plan. At June 30, 2011, $113 million was held in escrow and reflected in deposits. During the quarter ended September 30, 2011, the Association refunded approximately $68.9 million to subscribers. The Company established an employee stock ownership plan that purchased 8% of the total shares issued in the offering, or 384,900 shares, for a total of $3,849,000. IF Bancorp, Inc. s common stock began trading on the NASDAQ Capital Market under the symbol IROQ on July 8, 2011.

The cost of the Conversion and issuing the capital stock were deferred and deducted from the proceeds of the offering on July 7, 2011. The total amount of the conversion costs was approximately $1.73 million and was netted from the Conversion proceeds.

In accordance with applicable regulations, at the time of the Conversion the Association substantially restricted its retained earnings by establishing a liquidation account. The liquidation account will be maintained for the benefit of eligible holders who continue to maintain their accounts at the Association after the Conversion. The liquidation account will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder s interest in the liquidation account. In the event of a complete liquidation of the Association, and only in such event, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held. The Association may not pay dividends if those dividends would reduce equity capital below the required liquidation account amount.

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Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale Securities:				
June 30, 2013:				
U.S. Government and federal agency and Government-sponsored enterprises (GSEs)	$ 121,162	$ 3,543	$ (2,372)	$ 122,333
Mortgage-backed-GSE residential	76,407	465	(2,263)	74,609
State and political subdivisions	3,750	175	(40)	3,885
	$ 201,319	$ 4,183	$ (4,675)	$ 200,827
June 30, 2012:				
U.S. Government and federal agency and Government-sponsored enterprises (GSEs)	$ 155,124	$ 5,834	$	$ 160,958
Mortgage-backed-GSE residential	56,601	2,268	(2)	58,867
State and political subdivisions	3,221	260		3,481
	$ 214,946	$ 8,362	$ (2)	$ 223,306

With the exception of U.S. Government and federal agency and GSE securities and Mortgage-backed-GSE residential securities with a book value of $121,162,000 and $76,407,000, respectively and a market value of $122,333,000 and $74,609,000, respectively at June 30, 2013, the Company held no securities at June 30, 2013 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at June 30, 2013 and 2012 were issued by government sponsored enterprises.

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The amortized cost and fair value of available-for-sale securities at June 30, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 991	$ 998
One to five years	63,308	66,862
Five to ten years	60,549	58,292
After ten years	64	66
	124,912	126,218
Mortgage-backed securities	76,407	74,609
Totals	$ 201,319	$ 200,827

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $49,416,000 at June 30, 2013 and $56,298,000 at June 30, 2012.

Gross gains of $829,000 and $532,000 and gross losses of $105,000 and $9,000 resulting from sales of available-for-sale securities were realized for 2013 and 2012, respectively. The tax provision applicable to these net realized gains amounted to approximately $292,000 and $211,000, respectively.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2013, was $110,127,000, which is approximately 55% of the Company s available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates. There were $2,069,000 of investments with unrealized losses as of June 30, 2012.

Management believes the declines in fair value for these securities are temporary.

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The following table shows the Company s gross unrealized investment losses and the fair value of the Company s investments with unrealized losses that are deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2013:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government and federal agency and Government sponsored enterprises (GSE s)	$ 55,825	$ (2,372)	$	$	$ 55,825	$ (2,372)
Mortgage-backed:						
GSE residential	50,172	(2,263)			50,172	(2,263)
State and political subdivisions	1,022	(40)			1,022	(40)
Total temporarily impaired securities	$ 107,019	$ (4,675)	$	$	$ 107,019	$ (4,675)

The unrealized losses on the Company s investment in residential mortgage-backed securities, state and political subdivisions, and U.S. Government and federal agency and Government sponsored enterprises were caused by interest rate increases. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2013.

Note 4: Loans and Allowance for Loan Losses

Classes of loans at June 30, include:

	2013	**2012**
Real estate loans		
One-to four-family, including home equity loans	$ 147,221	$ 147,686
Multi-family	58,442	38,547
Commercial	74,679	32,925
Home equity lines of credit	8,228	8,994
Construction	2,497	8,396
Commercial	19,695	13,917
Consumer	9,662	13,578
	320,424	264,043
Less		
Unearned fees and discounts, net	67	63

Loans in process	644	1,539
Allowance for loan losses	3,938	3,531
Loans, net	$ 315,775	$ 258,910

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The Company had loans held for sale included in one-to four-family real estate loans totaling $492,000 and $179,000 as of June 30, 2013 and 2012, respectively.

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

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

The Company s policies and loan approval limits are established by the Board of Directors. The loan officers generally have authority to approve one-to four-family residential mortgage loans up to $100,000, other secured loans up to $50,000, and unsecured loans up to $10,000. Managing Officers (those with designated loan approval authority), generally have authority to approve one-to four-family residential mortgage loans up to $300,000, other secured loans up to $300,000, and

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unsecured loans up to $100,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one-to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to $1,000,000 in aggregate loans or $750,000 for individual loans, and unsecured loans up to $300,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman, the President, and up to four other Board members. At no time is a borrower s total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Company s directors, are reviewed for compliance with regulatory guidelines and the board of directors at least annually.

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

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

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

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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, farm loans secured by real estate and churches. 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 are subject to specific regulations, the Company typically underwrites its home equity lines of credit to conform to widely accepted standards. Several factors are considered in underwriting including the value of the underlying real estate and the debt to income and credit history of the borrower.

Commercial Business Loans

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

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

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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 to 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 centrally 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.

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to $133,121,000 and $71,472,000 as of June 30, 2013 and 2012, 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.

The Company s loans receivable included purchased loans of $15,692,000 and $17,248,000 at June 30, 2013 and 2012, respectively. All of these purchased loans are secured by single family homes located out of our primary market area primarily in the Midwest. The Company s loans receivable also include commercial loan participations of $27,695,000 and $16,229,000 at June 30, 2013 and 2012, respectively, of which $9,803,000 and $7,300,000, at June 30, 2013 and 2012 were outside of our primary market area. These participation loans are secured by real estate and other business assets.

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2013 and 2012:

	2013 Real Estate Loans				
	One-to four-family	**Multi-family**	**Commercial**	**Home Equity Lines of Credit**	**Construction**
Allowance for loan losses:					
Balance, beginning of year	$ 1,940	$ 679	$ 245	$ 81	$ 78
Provision charged to expense	(295)	118	638	17	(54)
Losses charged off	(78)		(45)	(8)	
Recoveries	49				
Balance, end of period	$ 1,616	$ 797	$ 838	$ 90	$ 24
Ending balance: individually evaluated for impairment	$ 403	$	$ 8	$	$
Ending balance: collectively evaluated for impairment	$ 1,213	$ 797	$ 830	$ 90	$ 24
Loans:					
Ending balance	$ 147,221	$ 58,442	$ 74,679	$ 8,228	$ 2,497
Ending balance: individually evaluated for impairment	$ 4,100	$ 1,706	$ 194	$	$
Ending balance: collectively evaluated for impairment	$ 143,121	$ 56,736	$ 74,485	$ 8,228	$ 2,497

	2013 (Continued)			
	Commercial	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses:				
Balance, beginning of year	$ 347	$ 139	$ 22	$ 3,531
Provision charged to expense	134	21	16	595
Losses charged off	(50)	(69)		(250)
Recoveries		13		62
Balance, end of year	$ 431	$ 104	$ 38	$ 3,938
Ending balance: individually evaluated for impairment	$ 5	$ 25	$	$ 441
Ending balance: collectively evaluated for impairment	$ 426	$ 79	$ 38	$ 3,497

Loans:				
Ending balance	$ 19,695	$ 9,662	$	$ 320,424
Ending balance: individually evaluated for impairment	$ 242	$ 64	$	$ 6,306
Ending balance: collectively evaluated for impairment	$ 19,453	$ 9,598	$	$ 314,118

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	2012 Real Estate Loans One-to four-family	Multi-family	Commercial	Home Equity Lines of Credit	Construction
Allowance for loan losses:					
Balance, beginning of year	$ 1,987	$ 250	$ 232	$ 120	$ 30
Provision charged to expense	533	429	61	(4)	48
Losses charged off	(651)		(48)	(35)	
Recoveries	71				
Balance, end of period	$ 1,940	$ 679	$ 245	$ 81	$ 78
Ending balance: individually evaluated for impairment	$ 684	$ 253	$ 49	$	$
Ending balance: collectively evaluated for impairment	$ 1,256	$ 426	$ 196	$ 81	$ 78
Loans:					
Ending balance	$ 147,686	$ 38,547	$ 32,925	$ 8,994	$ 8,396
Ending balance: individually evaluated for impairment	$ 3,778	$ 1,478	$ 95	$	$
Ending balance: collectively evaluated for impairment	$ 143,908	$ 37,069	$ 32,830	$ 8,994	$ 8,396

	2012 (Continued) Commercial	Consumer	Unallocated	Total
Allowance for loan losses:				
Balance, beginning of year	$ 352	$ 169	$ 9	$ 3,149
Provision charged to expense	24	21	13	1,125
Losses charged off	(29)	(88)		(851)
Recoveries		37		108
Balance, end of year	$ 347	$ 139	$ 22	$ 3,531
Ending balance: individually evaluated for impairment	$ 1	$ 41	$	$ 1,028
Ending balance: collectively evaluated for impairment	$ 346	$ 98	$ 22	$ 2,503
Loans:				
Ending balance	$ 13,917	$ 13,578	$	$ 264,043
Ending balance: individually evaluated for impairment	$ 2	$ 113	$	$ 5,466

Ending balance: collectively evaluated for impairment	$ 13,915	$ 13,465	$	$ 258,577

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

Allowance for Loan Losses

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

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

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

The Company establishes a general allowance for loans that are not deemed impaired to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, has not been allocated to particular problem assets. The general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on the Company s historical loss experience and management s evaluation of the collectability of the loan portfolio. The allowance is then adjusted for qualitative factors that, in management s judgment, affect the collectability of the portfolio as of the evaluation date. These qualitative factors may include:
(1) Management s assumptions regarding the minimal level of risk for a given loan category; (2) changes in lending policies and procedures, including changes in underwriting standards, and charge-off and recovery practices not considered elsewhere in estimating credit losses;
(3) changes in international, national, regional and local economics and business conditions and developments that affect the collectability of the portfolio, including the conditions of various market segments; (4) changes in the nature and volume of the portfolio and in the terms of loans;
(5) changes in the experience, ability, and depth of the lending officers and other relevant staff; (6)

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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 the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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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.

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The following tables present the credit risk profile of the Company s loan portfolio, as of June 30, 2013 and 2012, based on rating category and payment activity:

	Real Estate Loans				
June 30, 2013	**One-to four-family**	**Multi-family**	**Commercial**	**Home Equity Lines of Credit**	**Construction**
Pass	$ 142,607	$ 56,554	$ 74,115	$ 8,228	$ 2,497
Watch	483	182	370		
Substandard	4,131	1,706	148		
Doubtful			46		
Loss					
Total	$ 147,221				