

IF Bancorp, Inc.  
Form 10-K  
September 16, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended June 30, 2016**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**45-1834449**  
**(I.R.S. Employer**  
**Identification No.)**

**201 East Cherry Street, Watseka, Illinois**  
**(Address of principal executive offices)**  
**(815) 432-2476**

**60970**  
**(Zip Code)**

**(Registrant's telephone number, including area code)**

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

| <b>Title of each class</b>  | <b>Name of each exchange on which registered</b> |
|---|--|
| <b>Common Stock, par value \$0.01 per share</b>                         | <b>Nasdaq Capital Market</b>                     |
| <b>Securities registered pursuant to Section 12(g) of the Act: None</b> |  |

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

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

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  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  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.

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of December 31, 2015 was \$55,655,641.

The number of shares outstanding of the registrant's common stock as of September 14, 2016 was 4,004,061.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on November 21, 2016 are incorporated by reference in Part III of this Form 10-K.

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*This report contains certain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather, they are statements based on IF Bancorp, Inc.'s current expectations regarding its business strategies, intended results and future performance. Forward-looking statements are preceded by terms such as expects, believes, anticipates, intends and similar expressions.*

*Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the market area in which IF Bancorp, Inc. operates, as well as nationwide, IF Bancorp, Inc.'s ability to control costs and expenses, competitive products and pricing, loan delinquency rates and changes in federal and state legislation and regulation. For further discussion of factors that may affect the results, see Item 1A. Risk Factors in this Annual Report on Form*

*10-K ( Form 10-K ). These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements.*

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**PART I**

**ITEM 1. BUSINESS**

**General**

IF Bancorp, Inc. ( IF Bancorp or the Company ) is a Maryland corporation formed in March 2011 to become the holding company for Iroquois Federal Savings and Loan Association ( Iroquois Federal or the Association ). On July 7, 2011, the Company completed its initial public offering of common stock in connection with Iroquois Federal's mutual-to-stock conversion, selling 4,496,500 shares of common stock at \$10.00 per share, including 384,900 shares sold to Iroquois Federal's employee stock ownership plan, and raising approximately \$45.0 million of gross proceeds. In addition, the Company issued 314,755 shares of its common stock to the Iroquois Federal Foundation.

The Company is primarily engaged in the business of directing, planning, and coordinating the business activities of Iroquois Federal. The Company's most significant asset is its investment in Iroquois Federal. At June 30, 2016 and 2015, we had consolidated assets of \$595.6 million and \$563.7 million, consolidated deposits of and \$433.7 million and \$415.5 million and consolidated equity of \$84.0 million and \$80.4 million, respectively.

Iroquois Federal is a federally chartered savings association headquartered in Watseka, Illinois. The Association's business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans, multi-family mortgage loans, commercial real estate loans (including farm loans), home equity lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), construction loans and land development loans. We also invest in securities, which historically have consisted primarily of securities issued by the U.S. government, U.S. government agencies and U.S. government-sponsored enterprises, as well as mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises. To a lesser extent, we also invest in municipal obligations.

We offer a variety of deposit accounts, including savings accounts, certificates of deposit, money market accounts, commercial and personal checking accounts, individual retirement accounts and health savings accounts. We also offer alternative delivery channels, including ATMs, online banking and bill pay, mobile banking with mobile deposit and bill pay, ACH origination, remote deposit capture and telephone banking.

In addition to our traditional banking products and services, we offer a full line of property and casualty insurance products through Iroquois Federal's wholly-owned subsidiary, L.C.I. Service Corporation, d/b/a Iroquois Insurance Agency, an insurance agency with offices in Watseka and Danville, Illinois. We also offer annuities, mutual funds, individual and group retirement plans, life, disability and health insurance, individual securities, managed accounts and other financial services at all of our locations through Iroquois Financial, a division of Iroquois Federal. Raymond James Financial Services, Inc. serves as the broker-dealer for Iroquois Financial.

**Available Information**

IF Bancorp, Inc. is a public company, and files interim, quarterly and annual reports with the Securities and Exchange Commission. These respective reports are on file and a matter of public record with the Securities and Exchange Commission and may be read and copied at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information

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regarding issuers that file electronically with the SEC (<http://www.sec.gov>).

IF Bancorp's executive offices are located at 201 East Cherry Street, Watseka, Illinois 60970. Our telephone number at this address is (815) 432-2476, and our website address is [www.iroquoisfed.com](http://www.iroquoisfed.com). Information on our website should not be considered a part of this annual report.

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### **Market Area**

We conduct our operations from our five full-service banking offices located in the municipalities of Watseka, Danville, Clifton, Hoopston and Savoy, Illinois and our loan production and wealth management office in Osage Beach, Missouri. Our primary lending market includes the Illinois counties of Vermilion, Iroquois and Champaign, as well as the adjacent counties in Illinois and Indiana. Our loan production and wealth management office in Osage Beach, Missouri, serves the Missouri counties of Camden, Miller and Morgan.

In recent years Iroquois and Vermilion Counties, our traditional primary market areas, have experienced negative growth, reflecting in part, the economic downturn. However, Champaign County, where our new Savoy branch is located, has experienced population growth. Future business and growth opportunities will be influenced by economic and demographic characteristics of our primary market area and of east central Illinois. According to data from the U.S. Census Bureau, Iroquois County had an estimated population of 29,000 in July 2014, a decrease of 2.8% since April 2010, and Vermilion County had an estimated population of 80,000 in July 2014, a decrease of 2.3% since April 2010, while Champaign County had an estimated population of 207,000 in July 2014, an increase of 3.0% since April 2010. However, unemployment rates in our primary market have decreased significantly over the last two years. According to the Illinois Department of Employment Security, unemployment, on a non-seasonally adjusted basis, between June 2014 and June 2016, decreased from 6.1% to 4.8% in Iroquois County, from 9.3% to 7.1% in Vermilion County and from 7.0% to 5.4% in Champaign County.

The economy in our primary market is fairly diversified, with employment in services, wholesale/retail trade, and government serving as the basis of the Iroquois County, Vermilion County and Champaign County economies. Manufacturing jobs, which tend to be higher paying jobs, are also a large source of employment in Vermilion and Champaign Counties, while Iroquois County is heavily influenced by agriculture and agriculture related businesses such as Incobrasa Industries Ltd., Bunge, ConAgra and Big R Stores. Hospitals and other health care providers, local schools and trucking/distribution businesses also serve as major sources of employment.

Our Osage Beach, Missouri loan production and wealth management office is located in the Lake of the Ozarks region and serves the Missouri counties of Camden, Miller and Morgan. Once known primarily as a resort area, this market is becoming an area of permanent residences and a growing retirement community, providing an excellent market for mortgage loans and our wealth management and financial services business.

### **Competition**

We face intense competition in our market area both in making loans and attracting deposits. We also compete with commercial banks, credit unions, savings institutions, mortgage brokerage firms, finance companies, mutual funds, insurance companies and investment banking firms. Some of our competitors have greater name recognition and market presence that benefit them in attracting customers, and offer certain services that we do not or cannot provide.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices located in Iroquois, Champaign and Vermilion Counties, Illinois. As of June 30, 2015, the latest date for which FDIC data is available, we ranked first of 13 bank and thrift institutions with offices in Iroquois County with a 24.15% deposit market share. As of the same date, we ranked first of 16 bank and thrift institutions with offices in Vermilion County with a 17.90% deposit market share and we ranked 25<sup>th</sup> of 30 bank and thrift institutions with offices in Champaign County, with a 0.23% deposit market share.





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### **Lending Activities**

Our principal lending activity is the origination of one- to four-family residential mortgage loans, multi-family loans, commercial real estate loans (including farm loans), home equity loans and lines of credit, commercial business loans, consumer loans (consisting primarily of automobile loans), and, to a much lesser extent, construction loans and land development loans.

In addition to loans originated by Iroquois Federal, our loan portfolio includes loan purchases which are secured by single family homes located primarily in the Midwest. As of June 30, 2016 and 2015, the amount of such loans equaled \$9.8 million and \$11.5 million, respectively. See [Loan Originations, Purchases, Sales, Participations and Servicing](#).

Our loan portfolio also includes commercial loan participations which are secured by both real estate and other business assets, primarily within 100 miles of our primary lending market. As of June 30, 2016 and 2015, the amount of such loans equaled \$47.7 million and \$27.8 million, respectively. See [Loan Originations, Purchases, Sales, Participations and Servicing](#).

The Association's legal lending limit to any one borrower is 15% of unimpaired capital and surplus. On July 30, 2012 our bank received approval from the Comptroller of the Currency to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one borrower, or small farm loans or extensions of credit to one borrower, in the lesser of the following two amounts: (1) 10% of its capital and surplus; or (2) the percentage of capital and surplus, in excess of 15%, that a state bank is permitted to lend under the state lending limit that is available for loans secured by one- to four-family residential real estate, small business loans, small farm loans or unsecured loans in the state where the main office of the savings association is located. For our association this additional limit (or supplemental limit(s)) for one- to four-family residential real estate, small business, or small farm loans is 10% of our Association's capital and surplus. In addition, the total outstanding amount of the Association's loans or extensions of credit or parts of loans and extensions of credit made to all of its borrowers under the SLLP may not exceed 100% of the Association's capital and surplus. By Association policy, participation of any credit facilities in the SLLP is to be infrequent and all credit facilities are to be with prior Board approval.

We originate a substantial portion of our fixed-rate one- to four-family residential mortgage loans for sale to the Federal Home Loan Bank of Chicago with servicing retained. Total loans sold under this program equaled approximately \$79.1 million and \$73.8 million as of June 30, 2016 and 2015, respectively. See [One- to Four-Family Residential Real Estate Lending](#) below for more information regarding the origination of loans for sale to the Federal Home Loan Bank of Chicago.

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**Loan Portfolio Composition.** The following table sets forth the composition of our loan portfolio, including loans held for sale, by type of loan at the dates indicated. Amounts shown for one- to four-family loans include loans held for sale of approximately \$0, \$93,000, \$313,000, \$492,000 and \$179,000 at June 30, 2016, 2015, 2014, 2013 and 2012, respectively.

|                                  | 2016              |                | 2015              |                | At June 30,<br>2014 |                | 2013              |                | 2012              |                |
|----------------------------------|-------------------|----------------|-------------------|----------------|---------------------|----------------|-------------------|----------------|-------------------|----------------|
|                                  | Amount            | Percent        | Amount            | Percent        | Amount              | Percent        | Amount            | Percent        | Amount            | Percent        |
| (Dollars in thousands)           |                   |                |                   |                |                     |                |                   |                |                   |                |
| Real estate loans:               |                   |                |                   |                |                     |                |                   |                |                   |                |
| One- to four-family (1)          | \$ 149,538        | 33.29%         | \$ 144,887        | 40.18%         | \$ 149,458          | 44.75%         | \$ 146,988        | 45.97%         | \$ 147,337        | 56.13%         |
| Multi-family                     | 84,200            | 18.75          | 58,399            | 16.20          | 61,603              | 18.45          | 58,442            | 18.28          | 38,547            | 14.68          |
| Commercial                       | 119,643           | 26.64          | 103,614           | 28.74          | 83,134              | 24.89          | 74,679            | 23.35          | 32,925            | 12.54          |
| Home equity lines of credit      | 8,138             | 1.81           | 7,713             | 2.14           | 7,824               | 2.34           | 8,228             | 2.57           | 8,994             | 3.43           |
| Construction                     | 19,698            | 4.39           | 471               | 0.13           | 338                 | 0.10           | 2,086             | 0.65           | 7,206             | 2.75           |
| Commercial                       | 57,826            | 12.87          | 37,151            | 10.30          | 23,120              | 6.92           | 19,695            | 6.16           | 13,917            | 5.30           |
| Consumer                         | 10,086            | 2.25           | 8,325             | 2.31           | 8,509               | 2.55           | 9,662             | 3.02           | 13,578            | 5.17           |
| <b>Total loans</b>               | <b>449,129</b>    | <b>100.00%</b> | <b>360,560</b>    | <b>100.00%</b> | <b>333,986</b>      | <b>100.00%</b> | <b>319,780</b>    | <b>100.00%</b> | <b>262,504</b>    | <b>100.00%</b> |
| Less:                            |                   |                |                   |                |                     |                |                   |                |                   |                |
| Unearned fees and discounts, net | 30                |                | 155               |                | 104                 |                | 67                |                | 63                |                |
| Allowance for loan losses        | 5,351             |                | 4,211             |                | 3,958               |                | 3,938             |                | 3,531             |                |
| <b>Total loans, net</b>          | <b>\$ 443,748</b> |                | <b>\$ 356,194</b> |                | <b>\$ 329,924</b>   |                | <b>\$ 315,775</b> |                | <b>\$ 258,910</b> |                |

(1) Includes home equity loans.

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**Loan Portfolio Maturities and Yields.** The following table summarizes the scheduled repayments of our loan portfolio at June 30, 2016. We had no demand loans or loans having no stated repayment schedule or maturity at June 30, 2016.

|                                      | One- to<br>four-family<br>residential real estate (1) |              | Multi-family<br>real estate |              | Commercial<br>real estate |              | Home equity<br>lines of<br>credit |              |
|--------------------------------------|---|--------------|-----------------------------|--------------|---------------------------|--------------|-----------------------------------|--------------|
|                                      | Weighted<br>Average                                   |              | Weighted<br>Average         |              | Weighted<br>Average       |              | Weighted<br>Average               |              |
|                                      | Amount  | Rate         | Amount                      | Rate         | Amount                    | Rate         | Amount                            | Rate         |
|                                      | (Dollars in thousands)                                |              |                             |              |                           |              |                                   |              |
| Due During the Years Ending June 30, |   |              |                             |              |                           |              |                                   |              |
| 2017                                 | \$ 3,540  | 4.77%        | \$ 9,161                    | 4.27%        | \$ 10,867                 | 4.54%        | \$ 444                            | 3.94%        |
| 2018                                 | 1,644   | 5.14         | 5,265                       | 4.17         | 5,591                     | 4.32         | 359                               | 3.47         |
| 2019 to 2020                         | 9,662   | 4.70         | 16,830                      | 4.01         | 48,440                    | 4.03         | 1,524                             | 4.87         |
| 2021 to 2025                         | 21,387  | 4.77         | 33,301                      | 3.68         | 40,503                    | 3.81         | 2,250                             | 4.51         |
| 2026 to 2030                         | 16,934  | 4.19         | 8,984                       | 4.33         | 12,418                    | 4.66         | 2,267                             | 4.05         |
| 2031 and beyond                      | 96,371  | 3.95         | 10,659                      | 3.71         | 1,824                     | 4.43         | 1,294                             | 4.00         |
| <b>Total</b>                         | <b>\$ 149,538</b>                                     | <b>4.17%</b> | <b>\$ 84,200</b>            | <b>3.92%</b> | <b>\$ 119,643</b>         | <b>4.09%</b> | <b>\$ 8,138</b>                   | <b>4.29%</b> |

|                                      | Construction           |              | Commercial          |              | Consumer            |              | Total               |              |
|--------------------------------------|------------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
|                                      | Weighted<br>Average    |              | Weighted<br>Average |              | Weighted<br>Average |              | Weighted<br>Average |              |
|                                      | Amount                 | Rate         | Amount              | Rate         | Amount              | Rate         | Amount              | Rate         |
|                                      | (Dollars in thousands) |              |                     |              |                     |              |                     |              |
| Due During the Years Ending June 30, |                        |              |                     |              |                     |              |                     |              |
| 2017                                 | \$ 2,736               | 3.30%        | \$ 20,350           | 4.06%        | \$ 2,396            | 4.13%        | \$ 49,494           | 4.21%        |
| 2018                                 | 1,523                  | 4.25         | 7,475               | 4.76         | 767                 | 6.89         | 22,624              | 4.56         |
| 2019 to 2020                         | 11,082                 | 3.74         | 9,753               | 4.16         | 2,873               | 5.56         | 100,164             | 4.13         |
| 2021 to 2025                         | 3,932                  | 3.91         | 19,606              | 4.40         | 3,863               | 3.84         | 124,842             | 4.05         |
| 2026 to 2030                         |                        |              | 642                 | 3.27         | 187                 | 3.00         | 41,432              | 4.33         |
| 2031 and beyond                      | 425                    | 3.96         |                     |              |                     |              | 110,573             | 3.93         |
| <b>Total</b>                         | <b>\$ 19,698</b>       | <b>3.76%</b> | <b>\$ 57,826</b>    | <b>4.27%</b> | <b>\$ 10,086</b>    | <b>4.26%</b> | <b>\$ 449,129</b>   | <b>4.11%</b> |

(1) Includes home equity loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at June 30, 2016 that are contractually due after June 30, 2017.

|                             | <b>Due After June 30, 2017</b> |                   |                   |
|-----------------------------|--------------------------------|-------------------|-------------------|
|                             | <b>Fixed</b>                   | <b>Adjustable</b> | <b>Total</b>      |
|                             | <b>(In thousands)</b>          |                   |                   |
| <b>Real estate loans:</b>   |                                |                   |                   |
| One- to four-family (1)     | \$ 50,507                      | \$ 95,491         | \$ 145,998        |
| Multi-family                | 49,438                         | 25,601            | 75,039            |
| Commercial                  | 80,160                         | 28,616            | 108,776           |
| Home equity lines of credit | 3,229                          | 4,465             | 7,694             |
| Construction                | 14,081                         | 2,881             | 16,962            |
| Commercial                  | 24,678                         | 12,798            | 37,476            |
| Consumer                    | 7,690                          |                   | 7,690             |
| <b>Total loans</b>          | <b>\$ 229,783</b>              | <b>\$ 169,852</b> | <b>\$ 399,635</b> |

(1) Includes home equity loans.

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***One- to Four-Family Residential Mortgage Loans.*** At June 30, 2016, \$149.5 million, or 33.3% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer residential mortgage loans that conform to Fannie Mae and Freddie Mac underwriting standards (conforming loans) as well as non-conforming loans. We generally underwrite our one- to four-family residential mortgage loans based on the applicant's employment and credit history and the appraised value of the subject property. We also offer loans through various agency programs, such as the Mortgage Partnership Finance Program of the Federal Home Loan Bank of Chicago, which are originated for sale.

We currently offer fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments. We also offer adjustable-rate mortgage loans that generally provide an initial fixed interest rate of one to seven years and annual interest rate adjustments thereafter, that amortize over a period up to 30 years. We offer one- to four-family residential mortgage loans with loan-to-value ratios up to 102%. Private mortgage insurance or participation in a government sponsored program is required for all one- to four-family residential mortgage loans with loan-to-value ratios exceeding 90%. One- to four-family residential mortgage loans with loan-to-value ratios between 80% and 90%, require private mortgage insurance unless waived by management. At June 30, 2016, fixed-rate one- to four-family residential mortgage loans totaled \$53.1 million, or 35.5% of our one- to four-family residential mortgage loans, and adjustable-rate one- to four-family residential mortgage loans totaled \$96.4 million, or 64.5% of our one- to four-family residential mortgage loans.

Our one- to four-family residential mortgage loans are generally conforming loans. We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency for Fannie Mae and Freddie Mac, which for our primary market area is currently \$417,000 for single-family homes. At June 30, 2016, our average one- to four-family residential mortgage loan had a principal balance of \$85,000. We also originate loans above the lending limit for conforming loans, which we refer to as jumbo loans. At June 30, 2016, \$34.4 million, or 23.0%, of our total one- to four-family residential loans had principal balances in excess of \$417,000. Most of our jumbo loans are originated with a seven-year fixed-rate term and a balloon payment, with up to a 30 year amortization schedule. Occasionally we will originate fixed-rate jumbo loans with terms of up to 15 years.

We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgage loans. In recent years there has been increased demand for long-term fixed-rate loans, as market rates have dropped and remained near historic lows. As a result, we have sold a substantial majority of our fixed-rate one- to four-family residential mortgage loans with terms of 15 years or greater. We sell fixed-rate residential mortgages to the Federal Home Loan Bank of Chicago, with servicing retained, under its Mortgage Partnership Finance Program. Since December 2008, we have sold loans to the Federal Home Loan Bank of Chicago (FHLBC) under its Mortgage Partnership Finance Xtra Program. Total mortgages sold under this program were approximately \$8.9 million and \$10.1 million for the years ended June 30, 2016 and 2015, respectively. In October 2015, we began to also sell loans to FHLBC under its Mortgage Partnership Finance Original Program. Total loans sold under this program were approximately \$7.1 million for the year ended June 30, 2016. Generally, however, we retain in our portfolio 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 that we have originated in recent years due to the favorable long-term rates for borrowers.

We currently offer several types of adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period of one to seven years. We offer adjustable-rate mortgage loans that are fully amortizing. After the initial fixed period, the interest rate on adjustable-rate mortgage loans generally resets every year based upon the weekly average of a one-year U.S. Treasury Securities rate plus an applicable margin, subject to periodic and lifetime limitations on interest rate changes. The adjustable rate mortgage loans we are currently offering

have a 2% maximum annual rate change up or down, and a 6% lifetime cap. In our portfolio are also adjustable rate mortgage loans with a 1% maximum annual rate change up or down, and a 5% lifetime cap up from the initial rate. Interest rate changes are further limited by floors. After the initial fixed period, the interest rate will generally have a floor that is ½ percent below the initial rate, but no less than 3.0%, on the one and three year adjustable-rate mortgage loans, and equal to the initial rate, but no less than 4.0% on our five and seven year adjustable-rate mortgage loans.

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Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans, primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default and higher rates of delinquency. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Since changes in the interest rates on adjustable-rate mortgages may be limited by an initial fixed-rate period or by the contractual limits on periodic interest rate adjustments, adjustable-rate loans may not adjust as quickly to increases in interest rates as our interest-bearing liabilities.

In addition to traditional one- to four-family residential mortgage loans, we offer 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 that we use to underwrite one- to four-family residential mortgage loans. Home equity loans may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of the existing first mortgage loan. Our home equity loans are primarily originated with fixed rates of interest with terms of up to 10 years, fully amortized. At June 30, 2016, approximately \$1.1 million, or 0.25% of our one- to four-family mortgage loans were home equity loans secured by a second mortgage.

Home equity loans secured by second mortgages have greater risk than one- to four-family residential mortgage loans or home equity loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity loans, decreases in real estate values could adversely affect the value of property used as collateral for our loans.

We do not offer or purchase loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan.

We require title insurance on all of our one- to four-family residential mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. We also require flood insurance, as applicable. We do not conduct environmental testing on residential mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

***Commercial Real Estate and Multi-family Real Estate Loans.*** At June 30, 2016, \$119.6 million, or 26.6% of our loan portfolio consisted of commercial real estate loans, and \$84.2 million, or 18.8% of our loan portfolio consisted of multi-family (which we consider to be five or more units) residential real estate loans. At June 30, 2016, substantially all of our commercial real estate and multi-family real estate loans were secured by properties located in Illinois, Indiana and Missouri.

Our commercial real estate mortgage loans are primarily secured by office buildings, owner-occupied businesses, retail rentals, churches, and farm loans secured by real estate. At June 30, 2016, loans secured by commercial real estate had an average loan balance of \$516,000. We originate commercial real estate loans with balloon and adjustable rates of up to seven years with amortization up to 25 years. At June 30, 2016, \$32.7 million or 27.3% of our commercial real estate loans had adjustable rates. The rates on our adjustable-rate commercial real estate loans are generally based on the prime rate of interest plus an applicable margin, and generally have a specified floor.



We originate multi-family loans with balloon and adjustable rates for terms of up to seven years with amortization up to 25 years. At June 30, 2016, \$25.9 million or 30.7% of our multi-family loans had adjustable rates. The rates on our adjustable-rate multi-family loans are generally tied to the prime rate of interest plus or minus an applicable margin and generally have a specified floor.

In underwriting commercial real estate and multi-family real estate loans, we consider a number of factors, which include the projected net cash flow to the loan's debt service requirement (generally requiring a minimum

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ratio of 120%), 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. Commercial real estate and multi-family real estate loans are originated in amounts up to 80% of the appraised value or the purchase price of the property securing the loan, whichever is lower. 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.

Commercial real estate and multi-family real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate and multi-family real estate loans, however, entail greater credit risks compared to the one- to four-family residential mortgage loans we originate, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate and multi-family real estate than for one- to four-family residential properties.

At June 30, 2016, our largest commercial real estate loan had an outstanding balance of \$6.8 million, was secured by a commercial building, and was performing in accordance with its terms. At that date, our largest multi-family real estate loan had a balance of \$8.8 million, was secured by three apartment buildings, and was performing in accordance with its terms.

***Home Equity Lines of Credit.*** In addition to traditional one- to four-family residential mortgage loans and home equity loans, we offer 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 that we use to underwrite one- to four-family residential mortgage loans. The majority of home equity lines of credit we originate are secured by a first mortgage or by properties upon which we hold the first mortgage. Our home equity lines of credit are originated with either fixed or adjustable rates and may be underwritten with a loan-to-value ratio of up to 90% when combined with the principal balance of an existing first mortgage loan. Fixed-rate lines of credit are generally based on the prime rate of interest plus an applicable margin and have monthly payments of 1.5% of the outstanding balance. Adjustable-rate home equity lines of credit are based on the prime rate of interest plus or minus an applicable margin and require interest paid monthly. Both fixed and adjustable rate home equity lines of credit have balloon terms of five years. At June 30, 2016 we had \$8.1 million, or 1.8% of our total loan portfolio in home equity lines of credit. At that date we had \$5.6 million of undisbursed funds related to home equity lines of credit.

Home equity lines of credit secured by second mortgages have greater risk than one- to four-family residential mortgage loans secured by first mortgages. We face the risk that the collateral will be insufficient to compensate us for loan losses and costs of foreclosure. When customers default on their loans, we attempt to foreclose on the property and resell the property as soon as possible to minimize foreclosure and carrying costs. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from those customers. Particularly with respect to our home equity lines of credit, decreases in real estate values could adversely affect the value of property securing the loan.

***Commercial Business Loans.*** We also originate commercial non-mortgage business (term) loans and adjustable lines of credit. At June 30, 2016, we had \$57.8 million of commercial business loans outstanding, representing 12.9% of our total loan portfolio. At that date, we also had \$24.3 million of unused lines of credit on such loans. These loans are generally originated to small- and medium-sized companies in our primary market area. Our 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. We also offer agriculture loans that are not secured by real estate.

In underwriting commercial business loans, we generally lend up to 80% of the appraised value or purchase price of the collateral securing the loan, whichever is lower. The commercial business loans that we offer have fixed

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interest rates or adjustable rates indexed to the prime rate of interest plus an applicable margin, and with terms ranging from one to seven years. Our commercial business loan portfolio consists primarily of secured loans. When making commercial business loans, we consider the financial statements, lending history and debt service capabilities of the borrower (generally requiring a minimum ratio of 120%), the projected cash flows of the business and the value of the collateral, if any. Virtually all of our loans are guaranteed by the principals of the borrower.

Commercial business loans generally have a greater credit risk than one- to four-family residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. We seek to minimize these risks through our underwriting standards.

At June 30, 2016, our largest commercial business loan outstanding was for \$5.9 million and was secured by business equipment and assets. At June 30, 2016, this loan was performing in accordance with its terms.

***Construction Loans.*** We also originate construction loans for one- to four-family residential properties and commercial real estate properties, including multi-family properties. At June 30, 2016, \$19.7 million, or 4.4%, of our total loan portfolio, consisted of construction loans, which were secured by one- to four-family residential real estate, multi-family real estate properties and commercial real estate properties.

Construction loans for one- to four-family residential properties are originated with a maximum loan to value ratio of 85% and are generally interest-only loans during the construction period which typically does not exceed 12 months. After this time period, the loan converts to permanent, amortizing financing following the completion of construction. Construction loans for commercial real estate are made in accordance with a schedule reflecting the cost of construction, and are generally limited to an 80% loan-to-completed appraised value ratio. We generally require that a commitment for permanent financing be in place prior to closing the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property.

Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

At June 30, 2016, all of the construction loans that we originated were for one- to four-family residential properties, multi-family real estate properties and commercial real estate properties. The largest of such construction loans at June 30, 2016 was for a commercial property and had a principal balance of \$5.8 million. This loan was performing in accordance with its terms at June 30, 2016.

***Loan Originations, Purchases, Participations, Sales and Servicing.*** Lending activities are conducted primarily by our loan personnel operating in each office. All loans that we originate are underwritten pursuant to our standard

policies and procedures. In addition, our one- to four-family residential mortgage loans generally incorporate Fannie Mae, Freddie Mac or Federal Home Loan Bank of Chicago underwriting guidelines, as applicable. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed- or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment which typically results in decreased loan demand. Most of our

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commercial real estate and commercial business loans are generated by our internal business development efforts and referrals from professional contacts. Most of our originations of one- to four-family residential mortgage loans, consumer loans and home equity loans and lines of credit are generated by existing customers, referrals from realtors, residential home builders, walk-in business and from our website.

Consistent with our interest rate risk strategy, in the low interest rate environment that has existed in recent years, we have sold on a servicing-released basis a substantial majority of the conforming, fixed-rate one- to four-family residential mortgage loans with maturities of 15 years or greater that we have originated.

From time to time, we purchase loan participations in commercial loans in which we are not the lead lender secured by real estate and other business assets, primarily within 100 miles of our primary lending area. In these circumstances, we follow our customary loan underwriting and approval policies. We have sufficient capital to take advantage of these opportunities to purchase loan participations, as well as strong relationships with other community banks in our primary market area and throughout Illinois that may desire to sell participations, and we may increase our purchases of participations in the future as a growth strategy. At June 30, 2016 and 2015, the amount of commercial loan participations totaled \$47.7 million and \$27.8 million, respectively, of which \$19.3 million and \$8.8 million, at June 30, 2016 and 2015 were outside our primary market area.

We sell a portion of our fixed-rate residential mortgage loans to the Federal Home Loan Bank of Chicago under its Mortgage Partnership Finance Xtra and Mortgage Partnership Finance Original programs. We retain servicing on all loans sold under these programs. During the years ended June 30, 2016 and 2015, we sold \$16.0 million and \$10.1 million of loans to the Federal Home Loan Bank of Chicago under these programs. Prior to December 2008, we also retained some credit risk associated with loans sold to the Federal Home Loan Bank of Chicago. For additional information regarding retained risk associated with these loans, see Allowance for Loan Losses Other Credit Risk.

***Loan Approval Procedures and Authority.*** Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan and the value of the collateral that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower. We will also evaluate a guarantor when a guarantee is provided as part of the loan.

Iroquois Federal's policies and loan approval limits are established by our Board of Directors. Our 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 and other secured loans up to \$300,000, and unsecured loans up to \$100,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to \$1,000,000 and unsecured loans up to \$300,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman, and up to four other Board members.

We generally require appraisals from certified or licensed third party appraisers of all real property securing loans. When appraisals are ordered, they are done so through an agency independent of the Association or by staff independent of the loan approval process, in order to maintain a process free of any influence or pressure from any party that has an interest in the transaction.

## **Non-performing and Problem Assets**

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For all of our loans, once a loan is 15 days delinquent, a past due notice is mailed. Past due notices continue to be mailed monthly in the event the account is not brought current. Prior to the time a loan is 30 days past due, we attempt to contact the borrower by telephone. Thereafter we continue with follow-up calls. Generally, once a loan becomes 90 days delinquent, if no work-out efforts have been pursued, we commence the foreclosure or repossession process. A summary report of all loans 90 days or more past due and all criticized and classified loans is provided monthly to our Board of Directors.

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Loans are evaluated for non-accrual status when payment of principal and/or interest is 90 days or more past due. Loans are also placed on non-accrual status when it is determined collection of principal or interest is in doubt or if the collateral is in jeopardy. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received and only after the loan is returned to accrual status. The loans are typically returned to accrual status if unpaid principal and interest are repaid so that the loan is current.



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**Non-Performing Assets.** The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At June 30, 2016, 2015, 2014, 2013 and 2012, we had troubled debt restructurings of approximately \$2.3 million, \$2.6 million, \$2.9 million, \$3.3 million and \$3.8 million, respectively. At the dates presented, we had no loans that were delinquent 120 days or greater and that were still accruing interest.

|   | 2016                   | 2015            | At June 30,<br>2014 | 2013            | 2012            |
|---|------------------------|-----------------|---------------------|-----------------|-----------------|
|   | (Dollars in thousands) |                 |                     |                 |                 |
| <b>Non-accrual loans:</b>   |                        |                 |                     |                 |                 |
| <b>Real estate loans:</b>   |                        |                 |                     |                 |                 |
| One- to four-family (1)   | \$ 1,604               | \$ 2,724        | \$ 2,146            | \$ 3,439        | \$ 3,667        |
| Multi-family  | 185                    | 240             | 296                 | 353             | 1,477           |
| Commercial  | 63                     | 46              | 55                  | 194             | 95              |
| Home equity lines of credit   | 316                    |                 | 28                  |                 |                 |
| <b>Construction</b>   |                        |                 |                     |                 |                 |
| Commercial  | 9                      | 21              | 29                  | 242             | 2               |
| Consumer  |                        | 14              | 30                  | 64              | 113             |
| <b>Total non-accrual loans</b>  | <b>2,177</b>           | <b>3,045</b>    | <b>2,584</b>        | <b>4,292</b>    | <b>5,354</b>    |
| <b>Loans delinquent 90 days or greater and still accruing:</b>                |                        |                 |                     |                 |                 |
| <b>Real estate loans:</b>   |                        |                 |                     |                 |                 |
| One- to four-family (1)   | 4                      | 15              | 182                 | 30              |                 |
| Multi-family  |                        |                 |                     |                 |                 |
| Commercial  |                        |                 |                     |                 |                 |
| Home equity line of credit  |                        |                 |                     |                 |                 |
| <b>Construction</b>   |                        |                 |                     |                 |                 |
| Commercial  |                        |                 |                     |                 |                 |
| Consumer  | 8                      | 7               |                     |                 |                 |
| <b>Total loans delinquent 90 days or greater and still accruing</b>           | <b>12</b>              | <b>22</b>       | <b>182</b>          | <b>30</b>       |                 |
| <b>Total non-performing loans</b>   | <b>2,189</b>           | <b>3,067</b>    | <b>2,766</b>        | <b>4,322</b>    | <b>5,354</b>    |
| Performing troubled debt restructurings                                       | 2,084                  | 1,855           | 1,959               | 2,015           | 310             |
| <b>Total non-performing loans and performing troubled debt restructurings</b> | <b>\$ 4,273</b>        | <b>\$ 4,922</b> | <b>\$ 4,725</b>     | <b>\$ 6,337</b> | <b>\$ 5,664</b> |
| <b>Other real estate owned and foreclosed assets:</b>                         |                        |                 |                     |                 |                 |
| <b>Real estate loans:</b>   |                        |                 |                     |                 |                 |
| One- to four-family (1)   | 338                    | 50              | 416                 | 414             | 1,246           |
| Multi-family  |                        |                 |                     |                 |                 |

|  |                 |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Commercial   |                 |                 | 20              |                 |                 |
| Home equity lines of credit                                |                 |                 |                 |                 | 22              |
| Construction   |                 |                 |                 |                 |                 |
| Commercial   |                 |                 |                 | 4               |                 |
| Consumer   |                 |                 |                 |                 |                 |
| <b>Total other real estate owned and foreclosed assets</b> | <b>338</b>      | <b>50</b>       | <b>436</b>      | <b>418</b>      | <b>1,268</b>    |
| <b>Total non-performing assets</b>                         | <b>\$ 2,527</b> | <b>\$ 3,117</b> | <b>\$ 3,202</b> | <b>\$ 4,740</b> | <b>\$ 6,622</b> |
| <b>Ratios:</b>   |                 |                 |                 |                 |                 |
| Non-performing loans to total loans                        | 0.49%           | 0.85%           | 0.82%           | 1.35%           | 2.03%           |
| Non-performing assets to total assets                      | 0.42%           | 0.55%           | 0.58%           | 0.87%           | 1.30%           |

(1) Includes home equity loans.

For the years ended June 30, 2016 and 2015, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was \$140,000 and \$155,000, respectively. We recognized no interest income on such loans for the years ended June 30, 2016 and 2015.

At June 30, 2016, our non-accrual loans totaled \$2.2 million. These non-accrual loans consisted primarily of fourteen one- to four-family residential loans with aggregate principal balances totaling \$1.6 million and specific allowances of \$6,000, three commercial real estate loans with aggregate principal balances totaling \$63,000 and aggregate specific allowances of \$14,000, two multi-family loans with aggregate principal balances totaling

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\$185,000 with no specific allowances, one commercial business loan with a principal balance of \$9,000 and no specific allowance, and one home equity line of credit with a principal balance of \$316,000 and no specific allowance.

***Troubled Debt Restructurings.*** Troubled debt restructurings are defined under ASC 310-40 to include loans for which either a portion of interest or principal has been forgiven, or for loans modified at interest rates or on terms materially less favorable than current market rates. We periodically modify loans to extend the term or make other concessions to help borrowers stay current on their loans and to avoid foreclosure. At June 30, 2016 and 2015, we had \$2.3 million and \$2.6 million, respectively, of troubled debt restructurings. At June 30, 2016 our troubled debt restructurings consisted of \$984,000 of residential one- to four-family mortgage loans, \$9,000 of commercial business loans, \$1.3 million of multi-family real estate loans, \$9,000 of commercial real estate loans, and \$11,000 of home equity line of credit loans, all of which were impaired.

For the years ended June 30, 2016 and 2015, gross interest income that would have been recorded had our troubled debt restructurings been performing in accordance with their original terms was \$34,000 and \$54,000, respectively. We recognized interest income of \$123,000 and \$97,000 on such modified loans for the years ended June 30, 2016 and 2015, respectively.

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**Delinquent Loans.** The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

|  | 60 to 89 Days |          | 90 Days or Greater |          | Total  |          |
|--|---------------|----------|--------------------|----------|--------|----------|
|  | Number        | Amount   | Number             | Amount   | Number | Amount   |
| <b>Loans Delinquent For</b>                      |               |          |                    |          |        |          |
| <b>90 Days or</b>                                |               |          |                    |          |        |          |
| <b>60 to 89 Days</b>                             |               |          |                    |          |        |          |
| <b>Greater</b>                                   |               |          |                    |          |        |          |
| <b>Total</b>                                     |               |          |                    |          |        |          |
| <b>Number Amount Number Amount Number Amount</b> |               |          |                    |          |        |          |
| <b>(Dollars in thousands)</b>                    |               |          |                    |          |        |          |
| <b>At June 30, 2016</b>                          |               |          |                    |          |        |          |
| Real estate loans:                               |               |          |                    |          |        |          |
| One- to four-family (1)                          | 6             | 148      | 9                  | 1,489    | 15     | 1,637    |
| Multi-family                                     |               |          |                    |          |        |          |
| Commercial                                       | 2             | 97       | 1                  | 27       | 3      | 124      |
| Home equity lines of credit                      |               |          | 1                  | 316      | 1      | 316      |
| Construction                                     |               |          |                    |          |        |          |
| Commercial                                       | 1             | 100      |                    |          | 1      | 100      |
| Consumer   | 1             | 5        | 1                  | 8        | 2      | 13       |
| Total loans                                      | 10            | \$ 350   | 12                 | \$ 1,840 | 22     | \$ 2,190 |
| <b>At June 30, 2015</b>                          |               |          |                    |          |        |          |
| Real estate loans:                               |               |          |                    |          |        |          |
| One- to four-family (1)                          | 14            | 724      | 17                 | 2,279    | 31     | 3,003    |
| Multi-family                                     | 1             | 31       |                    |          | 1      | 31       |
| Commercial                                       | 3             | 137      |                    |          | 3      | 137      |
| Home equity lines of credit                      |               |          |                    |          |        |          |
| Construction                                     |               |          |                    |          |        |          |
| Commercial                                       | 1             | 21       |                    |          | 1      | 21       |
| Consumer   |               |          | 3                  | 21       | 3      | 21       |
| Total loans                                      | 19            | \$ 913   | 20                 | \$ 2,300 | 39     | \$ 3,213 |
| <b>At June 30, 2014</b>                          |               |          |                    |          |        |          |
| Real estate loans:                               |               |          |                    |          |        |          |
| One- to four-family (1)                          | 14            | 876      | 14                 | 1,500    | 28     | 2,376    |
| Multi-family                                     |               |          |                    |          |        |          |
| Commercial                                       | 1             | 349      |                    |          | 1      | 349      |
| Home equity lines of credit                      | 2             | 36       |                    |          | 2      | 36       |
| Construction                                     |               |          |                    |          |        |          |
| Commercial                                       |               |          |                    |          |        |          |
| Consumer   | 4             | 33       |                    |          | 4      | 33       |
| Total loans                                      | 21            | \$ 1,294 | 14                 | \$ 1,500 | 35     | \$ 2,794 |

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At June 30, 2013

Real estate loans:

|                             |    |        |    |          |    |          |
|-----------------------------|----|--------|----|----------|----|----------|
| One- to four-family (1)     | 14 | 827    | 17 | 2,472    | 31 | 3,299    |
| Multi-family                |    |        |    |          |    |          |
| Commercial                  |    |        | 1  | 46       | 1  | 46       |
| Home equity lines of credit | 1  | 8      |    |          | 1  | 8        |
| Construction                |    |        |    |          |    |          |
| Commercial                  | 2  | 15     |    |          | 2  | 15       |
| Consumer                    | 9  | 50     | 4  | 44       | 13 | 94       |
| Total loans                 | 26 | \$ 900 | 22 | \$ 2,562 | 48 | \$ 3,462 |

At June 30, 2012

Real estate loans:

|                             |    |          |    |          |    |          |
|-----------------------------|----|----------|----|----------|----|----------|
| One- to four-family (1)     | 13 | 1,057    | 11 | 1,949    | 24 | 3,006    |
| Multi-family                |    |          |    |          |    |          |
| Commercial                  |    |          |    |          |    |          |
| Home equity lines of credit | 2  | 57       | 1  | 7        | 3  | 64       |
| Construction                |    |          |    |          |    |          |
| Commercial                  | 1  | 11       |    |          | 1  | 11       |
| Consumer                    | 4  | 23       | 3  | 40       | 7  | 63       |
| Total loans                 | 20 | \$ 1,148 | 15 | \$ 1,996 | 35 | \$ 3,144 |

(1) Includes home equity loans.

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Total delinquent loans decreased by \$1.0 million to \$2.2 million at June 30, 2016 from \$3.2 million at June 30, 2015. The decrease in delinquent loans was due primarily to a decrease of \$790,000 in one- to four-family loans delinquent 90 days or more, and a decrease of \$576,000 in one- to four-family loans delinquent 60 to 89 days, partially offset by an increase of \$316,000 in home equity lines of credit delinquent 90 days or more.

**Foreclosed Assets Held for Sale.** Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. When property is acquired it is recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in fair value result in charges to expense after acquisition. In addition, we could repossess certain collateral, including automobiles and other titled vehicles, called other repossessed assets. At June 30, 2016, we had \$338,000 in foreclosed assets compared to \$50,000 as of June 30, 2015. Foreclosed assets at June 30, 2016, consisted of \$338,000 in residential real estate property, while foreclosed assets at June 30, 2015, consisted of \$50,000 in residential real estate property.

**Classification of Assets.** Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as watch.

When we classify assets as either substandard or doubtful, we undertake an impairment analysis which may result in allocating a portion of our general loss allowances to a specific allowance for such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. When we classify a problem asset as loss, we charge off the asset. For other classified assets, we provide a specific allowance for that portion of the asset that is considered uncollectible. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of the Comptroller of the Currency, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

The following table sets forth our amounts of classified assets, assets designated as watch and total criticized assets (classified assets and loans designated as watch) as of the date indicated. Amounts shown at June 30, 2016 and 2015, include approximately \$2.2 million and \$3.1 million of nonperforming loans, respectfully. The related specific valuation allowance in the allowance for loan losses for such nonperforming loans was \$20,000 and \$83,000 at June 30, 2016 and 2015, respectively. Substandard assets shown include foreclosed assets held for sale.

**At June 30,**  
**2016            2015**  
**(In thousands)**

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|                         |           |          |
|-------------------------|-----------|----------|
| Classified assets:      |           |          |
| Substandard             | \$ 3,656  | \$ 6,492 |
| Doubtful                |           |          |
| Loss                    |           |          |
| Total classified assets | 3,656     | 6,492    |
| Watch                   | 7,754     | 2,753    |
| Total criticized assets | \$ 11,410 | \$ 9,245 |

At June 30, 2016, substandard assets consisted of \$2.3 million of one- to four-family residential mortgage loans, \$349,000 in multi-family loans, \$356,000 of commercial real estate loans, \$327,000 in home equity lines of credit, \$9,000 of commercial business loans, \$13,000 of consumer loans, and \$338,000 of foreclosed assets held for sale. At June 30, 2016, watch assets consisted of \$350,000 of one- to four-family residential mortgage loans, \$1.3 million of multi-family loans, \$3.5 million of commercial real estate loans, and \$2.6 million in commercial business loans. At June 30, 2016, no assets were classified as doubtful or loss.

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***Other Loans of Concern.*** At June 30, 2016, there were no other loans or other assets that are not disclosed in the text or tables above where known information about the possible credit problems of borrowers caused us to have serious doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in disclosure of such loans in the future.

***Other Credit Risk.*** We also have some credit risk associated with fixed-rate residential loans that we sold to the Federal Home Loan Bank of Chicago between 2000 and December 2008, and again starting in October 2015, under its Mortgage Partnership Finance (MPF) Original Program. However, while we retain the servicing of these loans and receive both service fees and credit enhancement fees, they are not our assets. We sold \$7.1 million in loans under this program in the year ended June 30, 2016, and we continue to service approximately \$12.2 million of these loans, for which our maximum potential credit risk is approximately \$411,000. From June 2000 to June 30, 2016, we experienced only \$91,000 in actual losses under the MPF Original Program. We have also sold loans to the Federal Home Loan Bank of Chicago since December 2008 under its Mortgage Partnership Finance Xtra Program. Unlike loans sold under the MPF Original Program, we do not retain any credit risk with respect to loans sold under the MPF Xtra Program.

**Allowance for Loan Losses**

The allowance for loan losses represents one of the most significant estimates within our financial statements and regulatory reporting. Because of this, we have developed, maintained, and documented a comprehensive, systematic, and consistently applied process for determining the allowance for loan losses, in accordance with GAAP, our stated policies and procedures, management's best judgment and relevant supervisory guidance.

Our allowance for loan losses is the amount considered necessary to reflect probable incurred losses in our loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis, and more frequently if warranted. We analyze the collectability of loans held for investment and maintain an allowance that is appropriate and determined in accordance with GAAP. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our 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 our review for identified problem loans; and (2) a general allowance based on estimated credit losses inherent in the remainder of the loan portfolio.

In performing the allowance for loan loss review, we have divided our credit portfolio into several separate homogeneous and non-homogeneous categories within the following groups:

Mortgage Loans: one- to four-family residential first lien loans originated by Iroquois Federal; one- to four-family residential first lien loans purchased from a separate origination company; one- to four-family residential junior lien loans; home equity lines of credit; multi-family residential loans on properties with five or more units; non-residential real estate loans; and loans on land under current development or for future development.

Consumer Loans (unsecured or secured by other than real estate): loans secured by deposit accounts; loans for home improvement; educational loans; automobile loans; mobile home loans; loans on other



security; and unsecured loans.

Commercial Loans (unsecured or secured by other than real estate): secured loans and unsecured loans.

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***Determination of Specific Allowances for Identified Problem Loans.*** We establish a specific allowance when loans are determined to be impaired. Loss is measured by determining the present value of expected future cash flows, the loan's observable market value, or, for collateral-dependant loans, the fair value of the collateral adjusted for market conditions and selling expenses. 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 our 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, we consider the extent of any past due and unpaid property taxes applicable to the property serving as collateral on the mortgage.

***Determination of General Allowance for Remainder of the Loan Portfolio.*** We establish 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. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends and management's evaluation of the collectability of the loan 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, 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-dependant 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 our policy allows for a general valuation allowance on certain smaller-balance, homogenous pools of loans classified as substandard, we have historically evaluated every loan classified as substandard, regardless of size, for impairment as part of our review for establishing specific allowances. Our policy also allows for a 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 general allowances calculated on our non-classified loans.

In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review our allowance for loan losses. Such agency may require that we recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is 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. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The allowance for loan losses increased \$1.2 million to \$5.4 million at June 30, 2016, from \$4.2 million at June 30, 2015. The increase was a result of an increase in outstanding loans and was necessary in order to bring the allowance for loan losses to a level that reflects management's estimate of the probable loss in the Company's loan portfolio at June 30, 2016.

As noted above, in its quarterly evaluation of the adequacy of its allowance for loan losses, the Company employs historical data including past due percentages, charge-offs, and recoveries. The Company's allowance methodology weights the most recent twelve-quarter period's net charge-offs and uses this information as one of the primary factors for evaluation of allowance adequacy. The most recent four-quarter net charge-offs are given a higher weight of 50%, while quarters 5-8 are given a 30% weight and quarters 9-12 are given only a 20% weight. The average net charge-offs in each period are calculated as net charge-offs by portfolio type for the period as a percentage of the quarter end balance of respective portfolio type over the same period. As the Company and the industry have seen increases in loan defaults in the past several years, the Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation.

The following table sets forth the Company's weighted average historical net charge-offs as of June 30, 2016, and June 30, 2015:

| Portfolio segment      | June 30, 2016                                     | June 30, 2015                                    |
|------------------------|---|--|
|                        | Net charge-offs<br>12 quarter weighted historical | Net charge-offs<br>4 quarter weighted historical |
| Real Estate:           |   |  |
| One- to four-family    | 0.13%   | 0.01%  |
| Multi-family           | %   | (0.09)%  |
| Commercial             | 0.01%   | 0.02%  |
| HELOC                  | 0.32%   | 0.15%  |
| Construction           | %   | %  |
| Commercial business    | 0.04%   | 0.13%  |
| Consumer               | (0.02)%   | (0.04)%  |
| Entire portfolio total | 0.06%   | %  |

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in financial conditions of individual borrowers; changes in local, regional, and national economic conditions; the Company's historical loss experience; and changes in market conditions for property pledged to the Company as collateral. As noted above, the Company has identified specific qualitative factors that address these issues and assigns a percentage to each factor based on management's judgement. The qualitative factors are applied to the allowance for loan losses based upon the following percentages by loan type:

| Portfolio segment   | Qualitative factor applied at<br>June 30, 2016 | Qualitative factor applied at<br>June 30, 2015 |
|---------------------|--|--|
|                     | Real Estate:                                   |  |
| One- to four-family | 0.68%  | 0.81%  |
| Multi-family        | 1.45%  | 1.54%  |
| Commercial          | 1.24%  | 1.23%  |

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|                        |       |       |
|------------------------|-------|-------|
| HELOC                  | 0.88% | 0.95% |
| Construction           | 1.15% | 0.65% |
| Commercial business    | 1.93% | 1.87% |
| Consumer               | 0.87% | 0.94% |
| Entire portfolio total | 1.13% | 1.15% |

At June 30, 2016, the amount of our allowance for loan losses attributable to these qualitative factors was approximately \$5.1 million, as compared to \$4.2 million at June 30, 2015. The general increase in qualitative factors was attributable primarily to significant loan growth from 2015 to 2016.

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

The following table sets forth activity in our allowance for loan losses at and for the periods indicated.

|  | <b>At or For the Fiscal Years Ended June 30,</b> |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  | <b>2016</b>                                      | <b>2015</b> | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|  | <b>(Dollars in thousands)</b>                    |             |             |             |             |
| Balance at beginning of period               | \$ 4,211   | \$ 3,958    | \$ 3,938    | \$ 3,531    | \$ 3,149    |
| Charge-offs:                                 |  |             |             |             |             |
| Real estate loans:                           |  |             |             |             |             |
| One- to four-family (1)                      | (188)  | (231)       | (418)       | (78)        | (651)       |
| Multi-family                                 |  |             |             |             |             |
| Commercial                                   | (3)  |             | (28)        | (45)        | (48)        |
| Home equity lines of credit                  | (32)   | (35)        | (16)        | (8)         | (35)        |
| Construction                                 |  |             |             |             |             |
| Commercial                                   |  |             | (38)        | (50)        | (29)        |
| Consumer                                     | (10)   | (12)        | (38)        | (69)        | (88)        |
| Total charge-offs                            | (233)  | (278)       | (538)       | (250)       | (851)       |
| Recoveries:                                  |  |             |             |             |             |
| Real estate loans:                           |  |             |             |             |             |
| One- to four-family (1)                      | 5  | 29          | 50          | 49          | 71          |
| Multi-family                                 |  |             |             |             |             |
| Commercial                                   |  |             |             |             |             |
| Home equity lines of credit                  |  | 13          |             |             |             |
| Construction                                 |  |             |             |             |             |
| Commercial                                   |  |             |             |             |             |
| Consumer                                     | 2  | 29          | 6           | 13          | 37          |
| Total recoveries                             | 7  | 71          | 56          | 62          | 108         |
| Net charge-offs                              | (226)  | (207)       | (482)       | (188)       | (743)       |
| Provision for loan losses                    | 1,366  | 460         | 502         | 595         | 1,125       |
| Balance at end of period                     | \$ 5,351   | \$ 4,211    | \$ 3,958    | \$ 3,938    | \$ 3,531    |
| Ratios:                                      |  |             |             |             |             |
| Net charge-offs to average loans outstanding | 0.05%  | 0.01%       | 0.15%       | 0.07%       | 0.30%       |

|  |         |         |         |        |        |
|--|---------|---------|---------|--------|--------|
| Allowance for loan losses to non-performing loans at end of period | 244.39% | 137.30% | 143.10% | 91.12% | 65.95% |
| Allowance for loan losses to total loans at end of period          | 1.19%   | 1.17%   | 1.18%   | 1.23%  | 1.34%  |

(1) Includes home equity loans.

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**Allocation of Allowance for Loan Losses.** The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

|                             | 2016                                       |  | At June 30,<br>2015                        |  | 2014                                       |  |
|-----------------------------|--|--|--|--|--|--|
|                             | Percent<br>of<br>Loans in Each<br>Category | Percent<br>of<br>Loans in Each<br>Category | Percent<br>of<br>Loans in Each<br>Category | Percent<br>of<br>Loans in Each<br>Category | Percent<br>of<br>Loans in Each<br>Category | Percent<br>of<br>Loans in Each<br>Category |
|                             | Allowance for<br>Loan<br>Losses            | to<br>Total<br>Loans                       | Allowance for<br>Loan<br>Losses            | to<br>Total<br>Loans                       | Allowance for<br>Loan<br>Losses            | to<br>Total<br>Loans                       |
| (Dollars in thousands)      |  |  |  |  |  |  |
| Real estate loans:          |  |  |  |  |  |  |
| One- to four-family (1)     | \$ 1,198                                   | 33.3%                                      | \$ 1,216                                   | 40.2%                                      | \$ 1,391                                   | 44.6%                                      |
| Multi-family                | 1,202                                      | 18.8                                       | 827  | 16.2                                       | 842  | 18.4                                       |
| Commercial                  | 1,399                                      | 26.6                                       | 1,246                                      | 28.8                                       | 968  | 24.8                                       |
| Home equity lines of credit | 94   | 1.8  | 85   | 2.1  | 111  | 2.3  |
| Construction                | 227  | 4.4  | 6  | 0.1  | 10   | 0.5  |
| Commercial                  | 1,140                                      | 12.9                                       | 744  | 10.3                                       | 543  | 6.9  |
| Consumer                    | 91   | 2.2  | 87   | 2.3  | 93   | 2.5  |
| Total allocated allowance   | 5,351                                      |  | 4,211                                      |  | 3,958                                      |  |
| Unallocated                 |  |  |  |  |  |  |
| Total                       | \$ 5,351                                   | 100.0%                                     | \$ 4,211                                   | 100.0%                                     | \$ 3,958                                   | 100.0%                                     |

(1) Includes home equity loans.

|                         | 2013                                    |   | At June 30,<br>2012                     |   |
|-------------------------|---|---|---|---|
|                         | Percent of<br>Loans in Each<br>Category | Percent of<br>Loans in Each<br>Category | Percent of<br>Loans in Each<br>Category | Percent of<br>Loans in Each<br>Category |
|                         | Allowance for<br>Loan<br>Losses         | to<br>Total<br>Loans                    | Allowance for<br>Loan<br>Losses         | to<br>Total<br>Loans                    |
| (Dollars in thousands)  |   |   |   |   |
| Real estate loans:      |   |   |   |   |
| One- to four-family (1) | \$ 1,616                                | 46.0%                                   | \$ 1,940                                | 55.9%                                   |
| Multi-family            | 797                                     | 18.2                                    | 679                                     | 14.6                                    |



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|                                  |                 |               |                 |               |
|----------------------------------|-----------------|---------------|-----------------|---------------|
| Commercial                       | 838             | 23.3          | 245             | 12.5          |
| Home equity lines of credit      | 90              | 2.6           | 81              | 3.4           |
| Construction                     | 24              | 0.8           | 78              | 3.2           |
| Commercial                       | 431             | 6.1           | 347             | 5.3           |
| Consumer                         | 104             | 3.0           | 139             | 5.1           |
| <b>Total allocated allowance</b> | <b>3,900</b>    |               | <b>3,509</b>    |               |
| Unallocated                      | 38              |               | 22              |               |
| <b>Total</b>                     | <b>\$ 3,938</b> | <b>100.0%</b> | <b>\$ 3,531</b> | <b>100.0%</b> |

(1) Includes home equity loans.

Net charge-offs increased from \$207,000 for the year ended June 30, 2015 to \$226,000 for the year ended June 30, 2016, with most of the charge-offs during both periods involving one- to four-family residential real estate loans. In addition, non-performing loans decreased by \$878,000 during the year ended June 30, 2016.

The allowance for loan losses increased \$1.2 million, or 27.1%, to \$5.4 million at June 30, 2016 from \$4.2 million at June 30, 2015. The increase was based on the amount of charge-offs, an increase in the loan portfolio and the change in loan portfolio composition. At June 30, 2016, the allowance for loan losses represented 1.19% of total loans compared to 1.17% of total loans at June 30, 2015.

## Investments

We conduct investment transactions in accordance with our Board-approved investment policy. The investment policy is reviewed at least annually by the Budget and Investment Committee of the Board, and any changes to the policy are subject to ratification by the full Board of Directors. This policy dictates that investment decisions give consideration to the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, minimizing exposure to credit risk, potential returns and consistency

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with our interest rate risk management strategy. Authority to make investments under approved guidelines is delegated to our Investment Committee, comprised of our President and Chief Executive Officer, our Senior Executive Vice President and Chief Financial Officer, our Executive Vice President and Community President, and our Senior Vice President and Controller. All investments are reported to the Board of Directors for ratification at the next regular Board meeting.

Our current investment policy permits us to invest only in investment quality securities permitted by Office of the Comptroller of the Currency regulations, including U.S. Treasury or Government guaranteed securities, U.S. Government agency securities, securities issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, bank-qualified municipal securities, bank-qualified money market instruments, and bank-qualified corporate bonds. We do not engage in speculative trading. As of June 30, 2016, we held no asset-backed securities other than mortgage-backed securities. As a federal savings and loan association, Iroquois Federal is generally not permitted to invest in equity securities, although this general restriction does not apply to IF Bancorp, which may acquire up to 5% of voting securities of any company without regulatory approval.

ASC 320-10, Investment Debt and Equity Securities requires that, at the time of purchase, we designate a security as held to maturity, available-for-sale, or trading, depending on our ability and intent. Securities available for sale are reported at fair value, while securities held to maturity are reported at amortized cost. All of our securities are available for sale. We do not maintain a trading portfolio.

***U.S. Government and Agency Debt Securities.*** While U.S. Government and federal agency securities generally provide lower yields than other investments, including mortgage-backed securities and interest-earning certificates of deposit, we maintain these investments, to the extent appropriate, for liquidity purposes and as collateral for borrowings.

***Mortgage-Backed Securities.*** We invest in mortgage-backed securities insured or guaranteed by the U.S. Government or U.S. Government-sponsored enterprises. Mortgage-backed securities are created by pooling mortgages and issuing a security with an interest rate that is less than the interest rate on the underlying mortgages. Some securities pools are guaranteed as to payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Finally, mortgage-backed securities are assigned lower risk weightings for purposes of calculating our risk-based capital level. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments.

***Municipal Obligations.*** Iroquois Federal's investment policy allows it to purchase municipal securities of credit-worthy issuers, and does not permit it to invest more than 10% of Iroquois Federal's capital in the bonds of any single municipal issuer. At June 30, 2016, we held \$4.0 million of municipal securities, all of which were issued by local governments and school districts within our market area.

***Federal Home Loan Bank Stock.*** At June 30, 2016, we held \$5.4 million of Federal Home Loan Bank of Chicago common stock in connection with our borrowing activities totaling \$67.0 million. The common stock of the Federal Home Loan Bank is carried at cost and classified as a restricted equity security.

***Bank-Owned Life Insurance.*** We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses. At June 30, 2016, we had \$8.6 million invested in bank-owned life insurance, which was 12.0% of our Tier 1 capital plus our allowance for loan losses.

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**Investment Securities Portfolio.** The following table sets forth the composition of our investment securities portfolio at the dates indicated, excluding Federal Home Loan Bank of Chicago stock, federally insured interest-earning time deposits and bank-owned life insurance. As of June 30, 2016, 2015 and 2014 all of such securities were classified as available for sale.

|   | 2016              |                   | At June 30,<br>2015 |                   | 2014              |                   |
|---|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
|   | Amortized<br>Cost | Fair Value        | Amortized<br>Cost   | Fair Value        | Amortized<br>Cost | Fair Value        |
| (In thousands)  |                   |                   |                     |                   |                   |                   |
| Securities available for sale:  |                   |                   |                     |                   |                   |                   |
| U.S. government, federal agency and<br>government-sponsored enterprises | \$ 87,193         | \$ 90,105         | \$ 105,742          | \$ 107,938        | \$ 112,511        | \$ 114,662        |
| U.S. government sponsored<br>mortgage-backed securities                 | 26,418            | 27,245            | 59,213              | 58,840            | 67,033            | 66,732            |
| State and political subdivisions  | 3,431             | 3,978             | 3,585               | 3,852             | 3,022             | 3,192             |
| <b>Total</b>  | <b>\$ 117,042</b> | <b>\$ 121,328</b> | <b>\$ 168,540</b>   | <b>\$ 170,630</b> | <b>\$ 182,566</b> | <b>\$ 184,586</b> |

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**Portfolio Maturities and Yields.** The composition and maturities of the investment securities portfolio at June 30, 2016 are summarized in the following table. At such date, all of our securities were available for sale. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. The yields on municipal securities have not been adjusted to a tax-equivalent basis.

|   | One Year or<br>Less           |                  | More than<br>One<br>Year through<br>Five<br>Years |                  | More than<br>Five<br>Years through<br>Ten<br>Years |                  | More than Ten<br>Years        |                  | Total Securities  |               |                              |
|---|-------------------------------|------------------|---|------------------|--|------------------|-------------------------------|------------------|-------------------|---------------|------------------------------|
|   | Weighted<br>Amortized<br>Cost | Average<br>Yield | Weighted<br>Amortized<br>Cost                     | Average<br>Yield | Weighted<br>Amortized<br>Cost                      | Average<br>Yield | Weighted<br>Amortized<br>Cost | Average<br>Yield | Amortized<br>Cost | Fair<br>Value | Weighted<br>Average<br>Yield |
|   | (Dollars in thousands)        |                  |   |                  |  |                  |                               |                  |                   |               |                              |
| U.S. government,<br>federal agency and<br>government-sponsored<br>enterprises | \$ 14,139                     | 3.16%            | \$ 39,624   | 2.55%            | \$ 33,430  | 2.27%            | \$                            | %                | \$ 87,193         | \$ 90,105     | 2.54%                        |
| U.S. government<br>sponsored<br>mortgage-backed<br>securities                 |                               |                  |   |                  |  |                  | 26,418                        | 2.54             | 26,418            | 27,245        | 2.54                         |
| State and political<br>subdivisions   | 36                            | 3.63             | 1,459   | 5.50             | 63   | 4.83             | 1,873                         | 3.25             | 3,431             | 3,978         | 4.24                         |
| Total   | \$ 14,175                     | 3.16%            | \$ 41,083   | 2.65%            | \$ 33,493  | 2.27%            | \$ 28,291                     | 2.59%            | \$ 117,042        | \$ 121,328    | 2.59%                        |

**Table of Contents****Sources of Funds**

**General.** Deposits traditionally have been our primary source of funds for our lending and investment activities. We also borrow from the Federal Home Loan Bank of Chicago, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are the proceeds from the sale of loans originated for sale, scheduled loan payments, maturing investments, loan prepayments, retained earnings and income on other earning assets.

**Deposits.** We generate deposits primarily from the areas in which our branch offices are located. We rely on our competitive pricing, convenient locations and customer service to attract and retain both retail and commercial deposits.

We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, certificates of deposit, money market accounts, commercial and personal checking accounts, individual retirement accounts and health savings accounts. From time to time we utilize brokered certificates of deposit or internet funding. At June 30, 2016, we had \$41.6 million in brokered certificates of deposit and \$3.2 million in internet funding.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies, including the cost of alternate sources of funds, and market interest rates, liquidity requirements, interest rates paid by competitors and our deposit growth goals.

The following tables set forth the distribution of our average total deposit accounts, by account type, for the periods indicated.

|                                  | For the Fiscal Year Ended<br>June 30, 2016 |                |   | For the Fiscal Year Ended<br>June 30, 2015 |                |                             |
|----------------------------------|--|----------------|---|--|----------------|-----------------------------|
|                                  | Average<br>Balance                         | Percent        | Weighted<br>Average<br>Rate<br>(Dollars in thousands) | Average<br>Balance                         | Percent        | Weighted<br>Average<br>Rate |
| <b>Deposit type:</b>             |  |                |   |  |                |                             |
| Noninterest bearing demand       | \$ 18,760                                  | 4.51%          | 0.00%   | \$ 15,351                                  | 3.75%          | 0.00%                       |
| Interest-bearing checking or NOW | 40,852                                     | 9.82           | 0.09  | 36,177                                     | 8.84           | 0.09                        |
| Savings accounts                 | 38,399                                     | 9.24           | 0.13  | 35,480                                     | 8.68           | 0.17                        |
| Money market accounts            | 72,118                                     | 17.34          | 0.19  | 59,570                                     | 14.57          | 0.19                        |
| Certificates of deposit          | 245,699                                    | 59.09          | 0.88  | 262,372                                    | 64.16          | 0.85                        |
| <b>Total deposits</b>            | <b>\$ 415,828</b>                          | <b>100.00%</b> | <b>0.57%</b>  | <b>\$ 408,950</b>                          | <b>100.00%</b> | <b>0.60%</b>                |

**For the Fiscal Year Ended  
June 30, 2014  
Percent**

|                                  | <b>Average<br/>Balance</b>        | <b>Weighted<br/>Average<br/>Rate</b> |              |
|----------------------------------|-----------------------------------|--------------------------------------|--------------|
|                                  | <b>(Dollars in<br/>thousands)</b> |                                      |              |
| <b>Deposit type:</b>             |                                   |                                      |              |
| Noninterest bearing demand       | \$ 13,831                         | 3.55%                                | 0.00%        |
| Interest-bearing checking or NOW | 34,342                            | 8.81                                 | 0.10         |
| Savings accounts                 | 33,383                            | 8.56                                 | 0.22         |
| Money market accounts            | 59,035                            | 15.14                                | 0.24         |
| Certificates of deposit          | 249,340                           | 63.94                                | 0.83         |
| <b>Total deposits</b>            | <b>\$ 389,931</b>                 | <b>100.00%</b>                       | <b>0.59%</b> |

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As of June 30, 2016, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to \$100,000 was approximately \$103.1 million. The following table sets forth the maturity of those certificates as of June 30, 2016.

|                                      | <b>At<br/>June 30, 2016<br/>(In thousands)</b> |
|--------------------------------------|--|
| Three months or less                 | \$ 26,046                                      |
| Over three months through six months | 15,485   |
| Over six months through one year     | 23,296   |
| Over one year to three years         | 28,292   |
| Over three years                     | 9,986  |
| <br>Total                            | <br>\$ 103,105                                 |

The following table sets forth the amount of our certificates of deposit classified by interest rate as of the dates indicated.

|                       | <b>2016</b>           | <b>At June 30,<br/>2015</b> | <b>2014</b>    |
|-----------------------|-----------------------|-----------------------------|----------------|
|                       | <b>(In thousands)</b> |                             |                |
| <b>Interest Rate:</b> |                       |                             |                |
| Less than 2.00%       | \$ 257,237            | \$ 242,965                  | \$ 248,970     |
| 2.00% to 2.99%        | 747                   | 4,647                       | 6,280          |
| 3.00% to 3.99%        |                       |                             |                |
| 4.00% to 4.99%        |                       |                             |                |
| 5.00% to 5.99%        |                       |                             |                |
| <br>Total             | <br>\$ 257,984        | <br>\$ 247,612              | <br>\$ 255,250 |

**Borrowings.** Our borrowings consist of advances from the Federal Home Loan Bank of Chicago and repurchase agreements. At June 30, 2016, we had access to additional Federal Home Loan Bank of Chicago advances of up to \$115.6 million based on our collateral. The following table sets forth information concerning balances and interest rates on our borrowings and repurchase agreements at the dates and for the periods indicated.

|  | <b>At or For the Fiscal Years Ended June 30,</b> |             |             |
|--|--|-------------|-------------|
|  | <b>2016</b>                                      | <b>2015</b> | <b>2014</b> |
|  | <b>(Dollars in thousands)</b>                    |             |             |
| <b>Federal Home Loan Bank of Chicago</b> |  |             |             |
| Balance at end of period                 | \$ 67,000  | \$ 58,000   | \$ 56,750   |



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|   |          |          |          |
|---|----------|----------|----------|
| Average balance during period                   | 64,000   | 48,875   | 81,229   |
| Maximum outstanding at any month end            | 75,500   | 58,000   | 97,000   |
| Weighted average interest rate at end of period | 1.57%    | 1.36%    | 1.37%    |
| Average interest rate during period             | 1.43%    | 1.60%    | 0.99%    |
| <u>Repurchase Agreements</u>                    |          |          |          |
| Balance at end of period                        | \$ 4,392 | \$ 4,024 | \$ 2,324 |
| Average balance during period                   | 5,111    | 3,398    | 2,165    |
| Maximum outstanding at any month end            | 5,776    | 4,403    | 2,830    |
| Weighted average interest rate at end of period | 0.45%    | 0.40%    | 0.35%    |
| Average interest rate during period             | 0.42%    | 0.35%    | 0.36%    |

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### **Personnel**

At June 30, 2016, we had 94 full-time employees and 1 part-time employee, none of whom is represented by a collective bargaining unit. We believe that our relationship with our employees is good.

### **Subsidiaries**

IF Bancorp conducts its principal business activities through its wholly-owned subsidiary, Iroquois Federal Savings and Loan Association. The Iroquois Federal Savings and Loan Association has one wholly-owned subsidiary, L.C.I. Service Corporation, an insurance agency with offices in Watseka and Danville, Illinois.

## **REGULATION AND SUPERVISION**

### **General**

Iroquois Federal is examined and supervised by the Office of the Comptroller of the Currency ( OCC ) and is subject to examination by the Federal Deposit Insurance Corporation ( FDIC ). This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC 's deposit insurance fund and depositors, and not for the protection of stockholders. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Iroquois Federal also is a member of and owns stock in the Federal Home Loan Bank of Chicago, which is one of the twelve regional banks in the Federal Home Loan Bank System. Iroquois Federal is also regulated to a lesser extent by the Board of Governors of the Federal Reserve System (the Federal Reserve Board ) governing reserves to be maintained against deposits and other matters. Iroquois Federal must comply with the consumer protection regulations issued by the Consumer Financial Protections Bureau. The OCC examines Iroquois Federal and prepares reports for the consideration of its Board of Directors on any operating deficiencies. Iroquois Federal 's relationship with its depositors and borrowers is also regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts, the form and content of Iroquois Federal 's mortgage documents and certain consumer protection matters.

As a savings and loan holding company, IF Bancorp is required to comply with the rules and regulations of the Federal Reserve Board and to file certain reports with and is subject to examination by the Federal Reserve Board. IF Bancorp is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Set forth below are certain material regulatory requirements that are applicable to Iroquois Federal and IF Bancorp. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on Iroquois Federal and IF Bancorp. Any change in these laws or regulations, whether by Congress or the applicable regulatory agencies, could have a material adverse impact on IF Bancorp, Iroquois Federal and their operations.

### **Dodd-Frank Act**

The Dodd-Frank Act made significant changes to the regulatory structure for depository institutions and their holding companies, as well as changes that affect the lending, investments and other operations of all depository institutions. The Dodd-Frank Act required the Federal Reserve Board to set minimum capital levels for both bank holding companies and savings and loan holding companies that are as stringent as those required for the insured depository

subsidiaries, and the components of Tier 1 capital for holding companies were restricted to capital instruments that were then currently considered to be Tier 1 capital for insured depository institutions. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect upon passage, and directed the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

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The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Iroquois Federal, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets are still examined for compliance by their applicable bank regulators. The new legislation also weakened the federal preemption available for national banks and federal savings associations, and gave state attorneys general the ability to enforce applicable federal consumer protection laws.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than on total deposits. The legislation also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not. Further, the legislation requires that originators of securitized loans retain a percentage of the risk for transferred loans, directs the Federal Reserve Board to regulate pricing of certain debit card interchange fees and contains a number of reforms related to mortgage originations.

Many provisions of the Dodd-Frank Act involve delayed effective dates and/or require implementing regulations or have not been issued in final form. The full impact on our operations cannot yet fully be assessed. However, the Dodd-Frank Act has increased regulatory burden and compliance, operating and interest expense for Iroquois Federal and IF Bancorp, and is likely to continue to do so.

## **Federal Banking Regulation**

**Business Activities.** A federal savings bank derives its lending and investment powers from the Home Owners Loan Act, as amended, and the regulations of the OCC. Under these laws and regulations, Iroquois Federal may invest in mortgage loans secured by residential and nonresidential real estate, commercial business loans and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. While Iroquois Federal may originate, invest in, sell, or purchase unlimited loans on the security of residential real estate, certain types of lending, such as commercial and consumer lending, is subject to an aggregate limit calculated as a specified percentage of Iroquois Federal's total capital assets. The Dodd-Frank Act authorized, for the first time, the payment of interest on commercial checking accounts. Iroquois Federal may also establish subsidiaries that may engage in certain activities not otherwise permissible for Iroquois Federal, including real estate investment and securities and insurance brokerage.

**Capital Requirements.** Federal regulations require savings associations to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of regulations implementing recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

As noted, the risk-based capital standards for savings associations require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by

a risk-weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual

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preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated other comprehensive income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the OCC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual associations where necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a capital conservation buffer consisting of 2.5% of common equity Tier 1 capital to risk-weighted asset above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

At June 30, 2016, Iroquois Federal's capital exceeded all applicable requirements. See Historical and Pro Forma Regulatory Capital Compliance.

***Loans to One Borrower.*** Generally, a federal savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate.

On July 30, 2012 Iroquois Federal received approval from the OCC to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one borrower, or small farm loans or extensions of credit to one borrower, in the lesser of the following two amounts: (1) 10% of its capital and surplus; or (2) the percentage of capital and surplus, in excess of 15%, that a state bank is permitted to lend under the state lending limit that is available for loans secured by one- to four-family residential real estate, small business loans, small farm loans or unsecured loans in the state where the main office of the savings association is located. For Iroquois Federal, this additional limit (or supplemental limit) for one- to four-family residential real estate, small business, or small farm loans is 10% of its capital and surplus. In addition, the total outstanding amount of Iroquois Federal's loans or extensions of credit or parts of loans and extensions of credit made to all of Iroquois Federal's borrowers under the SLLP may not exceed 100% of Iroquois Federal's capital and surplus. Iroquois Federal uses the supplemental limit for its loans to one borrower infrequently, and all such credit facilities must receive prior approval by the Board of Directors.

As of June 30, 2016, Iroquois Federal was in compliance with its loans-to-one borrower limitations.

***Qualified Thrift Lender Test.*** As a federal savings bank, Iroquois Federal must satisfy the qualified thrift lender, or QTL, test. Under the QTL test, Iroquois Federal must maintain at least 65% of its portfolio assets in qualified thrift investments in at least nine months of the most recent 12 months. Portfolio assets generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings institution's business. A savings bank that fails the qualified thrift lender test must operate under specified restrictions specified in the Home Owners Loan Act. The Dodd-Frank Act made noncompliance with the QTL Test potentially subject to agency enforcement action for a violation of law. At June 30, 2016, Iroquois Federal held 71.85% of its portfolio assets in qualified thrift investments,

and satisfied the QTL Test.

**Capital Distributions.** Federal regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the capital account. A savings bank must file an application for approval of a capital distribution if:

the total capital distributions for the applicable calendar year exceed the sum of the savings bank's net income for that year to date plus the savings bank's retained net income for the preceding two years;

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the savings bank would not be at least adequately capitalized (as defined in the prompt corrective action regulations discussed below) following the distribution;

the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or

the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a holding company, such as Iroquois Federal, must still file a notice with the Federal Reserve Board (with a copy to the OCC) at least 30 days before the Board of Directors declares a dividend or approves a capital distribution.

The Federal Reserve Board, upon consultation with OCC, may disapprove a notice or application if:

the savings bank would be undercapitalized following the distribution;

the proposed capital distribution raises safety and soundness concerns; or

the capital distribution would violate a prohibition contained in any statute, regulation, agreement with a federal banking regulatory agency or condition, imposed in connection with an application or notice.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to satisfy any applicable regulatory capital requirement. A federal savings bank also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its conversion to stock form. In addition, beginning in 2016, Iroquois Federal's ability to pay dividends will be limited if Iroquois Federal does not have the capital conservation buffer required by the new capital rules, which may limit the ability of IF Bancorp to pay dividends to its stockholders. See Capital Requirements.

***Community Reinvestment Act and Fair Lending Laws.*** All federal savings banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings bank, the OCC is required to assess the association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. Iroquois Federal received a satisfactory Community Reinvestment Act rating in its most recent federal examination.

***Transactions with Related Parties.*** A federal savings bank's authority to engage in transactions with its affiliates is limited by federal regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing Regulation W. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as Iroquois Federal. IF Bancorp is an affiliate of Iroquois Federal because of its control of



Iroquois Federal. In general, transactions between an insured depository institution and its affiliate are subject to certain quantitative and collateral requirements. In addition, federal regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. Federal regulations require savings banks to maintain detailed records of all transactions with affiliates.

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Iroquois Federal's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders

be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features (subject to an exception for bank-wide lending programs available to all employees); and

not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Iroquois Federal's capital.

In addition, extensions of credit in excess of certain limits must be approved by Iroquois Federal's Board of Directors. Extensions of credit to executive officers are subject to additional restrictions, including limits on various types of loans.

**Enforcement.** The OCC has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all institution-affiliated parties, including stockholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1 million per day. The FDIC also has the authority to terminate deposit insurance or to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the OCC, the FDIC has authority to take action under specified circumstances.

**Standards for Safety and Soundness.** Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

**Prompt Corrective Action Regulations.** Federal law requires, among other things, that federal bank regulatory authorities take prompt corrective action with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The Federal Deposit Insurance Corporation has adopted regulations to implement the prompt corrective action legislation. For this purpose, a savings bank is placed in one of the five categories based on the savings bank's capital:

Well Capitalized - a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater.

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*Adequately Capitalized* a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater.

*Undercapitalized* - a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%.

*Significantly Undercapitalized* - a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%.

*Critically Undercapitalized* - a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

At June 30, 2016, Iroquois Federal met the criteria for being considered well-capitalized.

***Insurance of Deposit Accounts.*** The Deposit Insurance Fund of the FDIC insures deposits at FDIC-insured financial institutions such as Iroquois Federal. Deposit accounts in Iroquois Federal are insured by the FDIC generally up to a maximum of \$250,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund.

Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other risk factors. Rates are based on each institution's risk category and certain specified risk adjustments. Stronger institutions pay lower rates while riskier institutions pay higher rates.

The FDIC issued a final rule that redefined the assessment base used for calculating deposit insurance assessments effective April 1, 2011. Under the rule, assessments are based on an institution's average consolidated total assets minus average tangible equity instead of total deposits. The final rule revised the assessment rate schedule to establish assessments ranging from 2.5 to 45 basis points.

In addition to the FDIC assessments, the Financing Corporation ( FICO ) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended June 30, 2016, the annualized FICO assessment was equal to 0.56 of a basis point of total assets less tangible capital.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of Iroquois Federal. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

***Prohibitions Against Tying Arrangements.*** Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

***Federal Home Loan Bank System.*** Iroquois Federal is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central

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credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Chicago, Iroquois Federal is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of June 30, 2016, Iroquois Federal was in compliance with this requirement.

### **Federal Reserve System**

Federal Reserve Board regulations require savings banks to maintain noninterest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At June 30, 2016, Iroquois Federal was in compliance with these reserve requirements.

### **Other Regulations**

Interest and other charges collected or contracted for by Iroquois Federal are subject to state usury laws and federal laws concerning interest rates. Iroquois Federal's operations are also subject to federal laws applicable to credit transactions, such as the:

Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;

Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;

fair lending laws;

Unfair or Deceptive Acts or Practices laws and regulations;

Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

Truth in Savings Act; and

Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

In addition, the Consumer Financial Protection Bureau issues regulations and standards under these federal consumer protection laws that affect our consumer businesses. These include regulations setting ability to repay and qualified mortgage standards for residential mortgage loans and mortgage loan servicing and originator compensation standards. Iroquois Federal is evaluating recent regulations and proposals, and devotes significant compliance, legal and operational resources to compliance with consumer protection regulations and standards.

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The operations of Iroquois Federal also are subject to the:

Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

Check Clearing for the 21<sup>st</sup> Century Act (also known as Check 21), which gives substitute checks, such as digital check images and copies made from that image, the same legal standing as the original paper check;

The USA PATRIOT Act, which requires savings banks to, among other things, establish broadened anti-money laundering compliance programs, and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to opt out of the sharing of certain personal financial information with unaffiliated third parties.

### **Holding Company Regulation**

**General.** IF Bancorp is a unitary savings and loan holding company within the meaning of Home Owners' Loan Act. As such, IF Bancorp is registered with the Federal Reserve Board and is subject to regulations, examinations, supervision and reporting requirements applicable to savings and loan holding companies. In addition, the Federal Reserve Board has enforcement authority over IF Bancorp and any future non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

**Permissible Activities.** Under present law, the business activities of IF Bancorp are generally limited to those activities permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act of 1956, as amended, provided certain conditions are met (including electing such status), or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to regulatory approval, and certain additional activities authorized by federal regulations. As of June 30, 2016, IF



Bancorp, Inc. has not elected financial holding company status.

Federal law prohibits a savings and loan holding company, including IF Bancorp, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior regulatory approval. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a non-subsidiary company engaged in activities that are not closely related to banking or financial in nature, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

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The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

the approval of interstate supervisory acquisitions by savings and loan holding companies; and

the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

**Capital.** Savings and loan holding companies historically have not been subject to consolidated regulatory capital requirements. The Dodd-Frank Act, however, required the Federal Reserve Board to establish for all depository institution holding companies minimum consolidated capital requirements that are as stringent as those required for the insured depository subsidiaries. However, pursuant to legislation passed in December 2014, the FRB has extended the applicability of the Small Bank Holding Company exception to its consolidated capital requirements to savings and loan holding companies and increased the threshold for the exception to \$1.0 billion, effective May 15, 2015. As a result, savings and loan holding companies with less than \$1.0 billion in consolidated assets are generally not subject to the capital requirements unless otherwise advised by the FRB.

**Source of Strength.** The Dodd-Frank Act extended the source of strength doctrine to savings and loan holding companies. The Federal Reserve Board has issued regulations requiring that all bank and savings and loan holding companies serve as a source of managerial and financial strength to their subsidiary savings and loan associations by providing capital, liquidity and other support in times of financial stress.

**Dividends.** The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies and savings and loan holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate or earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a savings and loan holding company to pay dividends may be restricted if a subsidiary savings and loan association becomes undercapitalized. The policy statement also states that a savings and loan holding company should inform the Federal Reserve Board supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the savings and loan holding company is experiencing financial weaknesses or if the repurchase or redemption would result in a net reduction, as of the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of IF Bancorp to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

**Acquisition.** Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect control of a savings and loan holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the company's outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in control of the company. A change in control definitively occurs upon the

acquisition of 25% or more of the company's outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

### **Federal Securities Laws**

IF Bancorp common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. IF Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

The registration under the Securities Act of 1933 of shares of common stock issued in the stock offering does not cover the resale of those shares. Shares of common stock purchased by persons who are not our affiliates

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may be resold without registration. Shares purchased by our affiliates are subject to the resale restrictions of Rule 144 under the Securities Act of 1933. If we meet the current public information requirements of Rule 144 under the Securities Act of 1933, each affiliate of ours that complies with the other conditions of Rule 144, including those that require the affiliate's sale to be aggregated with those of other persons, would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of 1% of our outstanding shares, or the average weekly volume of trading in the shares during the preceding four calendar weeks. In the future, we may permit affiliates to have their shares registered for sale under the Securities Act of 1933.

**Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: (i) they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; (ii) they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and (iii) they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

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**Table of Contents****ITEM 1A. RISK FACTORS**

**Because we intend to continue to originate commercial real estate, multi-family and commercial business loans, our credit risk may increase, and continued downturns in the local real estate market or economy could adversely affect our earnings.**

We intend to continue originating commercial real estate, multi-family and commercial business loans. At June 30, 2016, \$119.6 million, or 26.6%, of our total loan portfolio consisted of commercial real estate loans, \$84.2 million, or 18.8%, of our total loan portfolio consisted of multi-family loans, and \$57.8 million, or 12.9%, of our total loan portfolio consisted of commercial business loans. These categories of loans have increased significantly since June 30, 2009, when \$23.8 million, or 10.5%, of our total loan portfolio consisted of commercial real estate loans, \$14.8 million, or 6.6%, of our total loan portfolio consisted of multi-family loans, and \$9.3 million, or 4.1%, of our total loan portfolio consisted of commercial business loans. We expect each of these loan categories to continue to increase as a percentage of our total loan portfolio. Commercial real estate, multi-family and commercial business loans generally have more risk than the one- to four-family residential real estate loans that we originate. Because the repayment of commercial real estate, multi-family and commercial business loans depends on the successful management and operation of the borrower's properties or businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate, multi-family and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. In addition, a downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower's business, thereby increasing the risk of nonperforming loans. As our commercial real estate, multi-family and commercial business loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase.

**If our non-performing loans and other non-performing assets increase, our earnings will decrease.**

At June 30, 2016, our non-performing assets (which consist of non-accrual loans, loans 90 days or more delinquent, and real estate owned) totaled \$2.5 million. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans, and we must establish reserves or take charge-offs for probable losses on non-performing loans. Reserves are established through a current period charge to income in the provision for loan losses. There are also legal fees associated with the resolution of problem assets. Additionally, our real estate owned results in carrying costs such as taxes, insurance and maintenance fees. Further, the resolution of non-performing assets requires the active involvement of management, which can distract us from the overall supervision of operations and other income-producing activities of Iroquois Federal. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance accordingly by recording a provision for loan losses.

**If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.**

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable losses in our loan portfolio, requiring us to make additions to our allowance for loan losses. Our allowance for loan losses was 1.19% of total loans at June 30, 2016. Additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our financial condition and results of operations.

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**A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.**

The Financial Accounting Standards Board has adopted Accounting Standard Update 2016-13, which will be effective for IF Bancorp and Iroquois Federal for the first quarter of the fiscal year ending June 30, 2020. This standard, often referred to as CECL (reflecting a current expected credit loss model), will require companies to recognize an allowance for credit losses based on estimates of losses expected to be realized over the contractual lives of the loans. Under current U.S. GAAP, companies generally recognize credit losses only when it is probable that a loss has been incurred as of the balance sheet date. This new standard will require us to collect and review increased types and amounts of data for us to determine the appropriate level of the allowance for loan losses, and may require us to increase our allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

**Future changes in interest rates could reduce our profits.**

Our profitability largely depends on our net interest income, which can be negatively affected by changes in interest rates. Net interest income is the difference between:

the interest income we earn on our interest-earning assets, such as loans and securities; and

the interest expense we incur on our interest-bearing liabilities, such as deposits and borrowings.

The interest rates on our loans are generally fixed for a longer period of time than the interest rates on our deposits. Like many savings institutions, our focus on deposits as a source of funds, which either have no stated maturity or shorter contractual maturities than mortgage loans, results in our liabilities having a shorter average duration than our assets. For example, as of June 30, 2016, 39.1% of our loans had remaining maturities of, or reprice after, 5 years or longer, while 59.5% of our certificates of deposit had remaining maturities of, or reprice in, one year or less. This imbalance can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest we earn on our assets, such as loans and investments, may not increase as rapidly as the interest we pay on our liabilities, such as deposits. In a period of declining market interest rates, the interest income we earn on our assets may decrease more rapidly than the interest expense we incur on our liabilities, as borrowers prepay mortgage loans and mortgage-backed securities and callable investment securities are called or prepaid, thereby requiring us to reinvest these cash flows at lower interest rates. See Management's Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A decline in interest rates generally results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

We evaluate interest rate sensitivity using a model that estimates the change in our net portfolio value over a range of interest rate scenarios, also known as a rate shock analysis. Net portfolio value is the discounted present value of

expected cash flows from assets, liabilities and off-balance sheet contracts. See Management's Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

**Historically low interest rates may adversely affect our net interest income and profitability.**

During the past several years it has been the policy of the Board of Governors of the Federal Reserve System to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, market rates on the loans we have originated and the yields on securities we have purchased have been at lower levels than as available prior to 2009. Consequently, the average yield on our



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interest earning assets has decreased to 3.71% for the year ended June 30, 2016 from 5.29% for the year ended June 30, 2009. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets. This has resulted in increases in net interest income in the short term. However, our ability to lower our interest expense is limited at these interest rate levels while the average yield on our interest-earning assets may continue to decrease. Accordingly, our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) may decrease, which may have an adverse affect on our profitability.

**The State of Illinois has significant financial difficulties, and this could adversely impact certain of our borrowers and the economic vitality of the state, which would have a negative impact on our business.**

The State of Illinois has significant financial difficulties, including material pension funding shortfalls. The State of Illinois debt rating has been downgraded and its executive and legislative branches of government have been unable to reach agreement on a budget for the current fiscal year. These issues could impact the economic vitality of the state and the businesses operating there, encourage businesses to leave the State of Illinois, discourage new employers from starting or moving businesses to the state, and could result in an increase in the Illinois state income tax rate. In addition, population outflow from the State of Illinois could affect our ability to attract and retain customers.

Some of the markets we are in include significant university and healthcare presence, which rely heavily on state funding and contracts. Payment delays by the State of Illinois to its vendors and government sponsored entities may have significant, negative effects on our markets, which could in turn adversely affect our financial condition and results of operations. In addition, adverse changes in agribusiness and capital goods exports could materially adversely affect downstate Illinois markets, which are heavily reliant upon these industries. Delays in the payment of accounts receivable owed to borrowers that are employed by or who do business with these industries or the State of Illinois could impair their ability to repay their loans when due and negatively impact our business.

**Increased interest rates and changes in secondary mortgage market conditions could reduce our earnings from our mortgage banking operations.**

Our mortgage banking income varies with movements in interest rates, and increases in interest rates could negatively affect our ability to originate loans in the same volume as we have in past years. In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for residential mortgage loans and increased investor yield requirements for these loans. These conditions may fluctuate or worsen in the future. In light of current conditions, there is greater risk in retaining mortgage loans pending their sale to investors. As a result, a prolonged period of secondary market illiquidity may reduce our loan mortgage production volume and could have a material adverse effect on our financial condition and results of operations.

**A portion of our loan portfolio consists of loan participations secured by properties outside of our primary market area. Loan participations may have a higher risk of loss than loans we originate because we are not the lead lender and we have limited control over credit monitoring.**

We occasionally purchase loan participations secured by properties outside of our primary market area in which we are not the lead lender. Although we underwrite these loan participations consistent with our general underwriting criteria, loan participations may have a higher risk of loss than loans we originate because we rely on the lead lender to monitor the performance of the loan. Moreover, our decision regarding the classification of a loan participation and loan loss provisions associated with a loan participation is made in part based upon information provided by the lead lender. A lead lender also may not monitor a participation loan in the same manner as we would for loans that we originate. At June 30, 2016, our loan participations totaled \$47.7 million, or 10.6% of our gross loans, most of which are within 100 miles of our primary lending market and consist primarily of multi-family, commercial real estate and

commercial loans.

Additionally, we expect to continue to use loan participations as a way to effectively deploy our capital. If our underwriting of these participation loans is not sufficient, our non-performing loans may increase and our earnings may decrease.

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**We have in the past purchased loans originated by other banks and mortgage companies, some of which have experienced a higher rate of losses than loans that we originate. If we continue to experience losses on these loans, our earnings will decrease.**

In addition to loans that we originate, at June 30, 2016, our loan portfolio included \$9.8 million of purchased loans. These loans were primarily purchased from three vendors: Irwin Mortgage Corporation (now serviced by the Association); Mid America Bank (now serviced by PNC Bank); and Countrywide Financial (now serviced by Bank of America). Of these loans, \$2.6 million were purchased from Countrywide and have experienced a significantly higher rate of losses than loans that we originate. As of June 30, 2016, the loans purchased from Countrywide consisted of 6 loans secured by one- to four-family residential loans, primarily in the Chicago market area. Of these 6 loans, 3 are classified as substandard and have specific allowances of \$4,000. The other 3 loans are performing in accordance with their original terms. If we experience additional losses on these loans, our earnings will decrease.

**Government responses to economic conditions may adversely affect our operations, financial condition and earnings.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act has changed the bank regulatory framework, created an independent consumer protection bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and established more stringent capital standards for savings associations and savings and loan holding companies, subject to a transition period. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of the Dodd-Frank Act and regulatory actions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These risks could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance.

**We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.**

We are subject to extensive regulation, supervision, and examination by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Federal regulations govern the activities in which we may engage, and are primarily for the protection of depositors and the Deposit Insurance Fund. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operations of a savings association, the classification of assets by a savings association, and the adequacy of a savings association's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations or legislation, could have a material impact on our results of operations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. Any legislative, regulatory or policy changes adopted in the future could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Further, we expect any such new laws, rules or regulations will add to our compliance costs and place additional demands on our management team.

**The short-term and long-term impact of the changing regulatory capital requirements and capital rules is uncertain.**

In July, 2013, the federal banking agencies approved a rule that substantially amended the regulatory risk-based capital rules applicable to Iroquois Federal and If Bancorp. The rule implements the Basel III regulatory capital

reforms and changes required by the Dodd-Frank Act.

The amended capital requirements include new minimum risk-based capital and leverage ratios, which were effective for Iroquois Federal and IF Bancorp on January 1, 2015, and refined the definition of what constitutes capital for purposes of calculating these ratios. The new minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The new rule also

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established a capital conservation buffer of 2.5% above the new regulatory minimum capital ratios, and when fully effective in 2019, will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such activities.

The application of more stringent capital requirements for Iroquois Federal and IF Bancorp could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as the inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements.

**Strong competition within our market areas may limit our growth and profitability.**

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, credit unions, mortgage brokerage firms, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market areas. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected.

**We face significant operational risks because the financial services business involves a high volume of transactions.**

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory standards or customer attrition due to potential negative publicity. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and/or suffer damage to our reputation.

**Cyber-attacks or other security breaches could adversely affect our operations, net income or reputation.**

We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf.

Information security risks have generally increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial and other transactions and the increased sophistication and activities of perpetrators of cyber-attacks and mobile phishing. Mobile phishing, a means

for identity thieves to obtain sensitive personal information through fraudulent e-mail, text or voice mail, is an emerging threat targeting the customers of popular financial entities. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses.

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If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss.

Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit us to confirm the third party's compliance with the terms of the agreement. As information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

### **Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings.**

Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur and may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource some of our data processing to certain third-party providers. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any systems failures, interruptions, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

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We operate from our main office, four branch offices, an administrative office, and a data center located in Iroquois, Vermilion, Champaign and Kankakee Counties, Illinois, and our loan production and wealth management office in Osage Beach, Missouri. The net book value of our premises, land and equipment was \$4.6 million at June 30, 2016. The following tables set forth information with respect to our banking offices, including the expiration date of leases with respect to leased facilities. We have signed a purchase agreement on a property located at 421 Brown Boulevard, Bourbonnais, Illinois in Kankakee County, with the expectation that it may be used for a new branch sometime in the future, subject to regulatory notice requirements.

| <b>Location</b>                                      | <b>Year<br/>Opened</b> | <b>Owned/<br/>Leased</b>         |
|--|------------------------|----------------------------------|
| <b>Main Office:</b>                                  |                        |                                  |
| 201 East Cherry Street<br>Watseka, Illinois 60970    | 1964                   | Owned                            |
| <b>Branches:</b>                                     |                        |                                  |
| 619 North Gilbert Street<br>Danville, Illinois 61832 | 1973                   | Owned                            |
| 175 East Fourth Street<br>Clifton, Illinois 60927    | 1977                   | Owned                            |
| 511 South Chicago Road<br>Hoopeston, Illinois 60942  | 1979                   | Owned                            |
| 108 Arbours Drive<br>Savoy, Illinois 61874           | 2014                   | Owned                            |
| <b>Loan Production Office:</b>                       |                        |                                  |
| 3535 Highway 54<br>Osage Beach, Missouri 65065       | 2006                   | Owned                            |
| <b>Administrative Office:</b>                        |                        |                                  |
| 204 East Cherry Street<br>Watseka, Illinois 60970    | 2001                   | Owned                            |
| <b>Data Center:</b>                                  |                        |                                  |
| 819 East 4000 South Road<br>Kankakee, Illinois 60901 | 2012                   | Leased<br>(expires May 30, 2018) |
| <b>Champaign Satellite Office:</b>                   |                        |                                  |



2917 Crossing Court, Suite B2

2015

Leased

Champaign, Illinois 61822

(expires May 14, 2017)

**ITEM 3. LEGAL PROCEEDINGS**

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

**Table of Contents****ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market and Dividend Information.**

The Company's common stock is listed on the Nasdaq Capital Market (NASDAQ) under the trading symbol IROQ. The following table sets forth the high and low sales prices of the Company's common stock as reported by NASDAQ, as well as dividends paid, during the periods indicated.

|                            | <b>High</b> | <b>Low</b> | <b>Dividend</b> |
|----------------------------|-------------|------------|-----------------|
| <b><u>Fiscal 2016:</u></b> |             |            |                 |
| First Quarter              | \$ 17.43    | \$ 16.35   | \$ 0.05         |
| Second Quarter             | \$ 18.77    | \$ 16.94   |                 |
| Third Quarter              | \$ 19.97    | \$ 17.25   | \$ 0.08         |
| Fourth Quarter             | \$ 19.01    | \$ 17.70   |                 |

|                            | <b>High</b> | <b>Low</b> | <b>Dividend</b> |
|----------------------------|-------------|------------|-----------------|
| <b><u>Fiscal 2015:</u></b> |             |            |                 |
| First Quarter              | \$ 17.49    | \$ 16.48   | \$ 0.05         |
| Second Quarter             | \$ 16.97    | \$ 16.50   |                 |
| Third Quarter              | \$ 17.43    | \$ 16.50   | \$ 0.05         |
| Fourth Quarter             | \$ 17.25    | \$ 16.36   |                 |

**Holder.**

As of September 8, 2016, there were 396 holders of record of the Company's common stock.

**Dividends.**

The Company paid dividends of \$0.05 per share in October 2015 and \$0.08 per share in April 2016. The payment of dividends in the future will depend upon a number of factors, including capital requirements, the Company's financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. In addition, the Company's ability to pay dividends is dependent on dividends received from Iroquois Federal. No assurances can be given that dividends will continue to be paid, or that, if paid, will not be reduced. For more information regarding restrictions on the payment of cash dividends by the Company and by Iroquois Federal, see Business Regulation and Supervision Holding Company Regulation Dividends and Regulation and Supervision Federal Savings Institution Regulation Capital Distributions.

**Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.**

Not applicable.

**Table of Contents****Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

The following table provides information regarding the Company's purchase of its common stock during the quarter ended June 30, 2016.

| <b>Period</b>    | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</b> | <b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b> |
|------------------|---|-------------------------------------|---|---|
| 4/1/16 - 4/30/16 |   | \$                                  |   | 200,703   |
| 5/1/16 - 5/31/16 |   |                                     |   | 200,703   |
| 6/1/16 - 6/30/16 |   |                                     |   | 200,703   |
| Total            |   | \$                                  |   |   |

- (1) The Company announced a new stock repurchase plan on February 5, 2016. Under the new plan, the Company may repurchase up to 200,703 shares of its common stock, or approximately 5% of its outstanding shares. The Company completed its prior repurchase plan on December 21, 2015. Under the prior plan, the Company repurchased 210,313 shares of its common stock at an average price per share of \$16.68.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

|  | 2016           | 2015       | At June 30,<br>2014 | 2013       | 2012       |
|--|----------------|------------|---------------------|------------|------------|
|  | (In thousands) |            |                     |            |            |
| <b>Selected Financial Condition Data:</b>  |                |            |                     |            |            |
| Total assets                               | \$ 595,565     | \$ 563,668 | \$ 551,343          | \$ 547,535 | \$ 511,330 |
| Cash and cash equivalents                  | 6,449          | 13,224     | 12,731              | 6,580      | 8,193      |
| Investment securities available for sale   | 121,328        | 170,630    | 184,586             | 200,827    | 223,306    |
| Federal Home Loan Bank of Chicago stock    | 5,425          | 5,425      | 5,425               | 5,425      | 4,175      |
| Loans held for sale                        |                | 93         | 313                 | 492        | 179        |
| Loans receivable, net                      | 443,748        | 356,101    | 329,611             | 315,283    | 258,731    |
| Real estate owned                          | 338            | 50         | 436                 | 418        | 1,268      |
| Bank-owned life insurance                  | 8,555          | 8,289      | 8,025               | 7,757      | 7,495      |
| Deposits                                   | 433,708        | 415,544    | 404,593             | 371,203    | 344,485    |
| Federal Home Loan Bank of Chicago advances | 67,000         | 58,000     | 56,750              | 87,500     | 75,000     |
| Total equity                               | 83,972         | 80,436     | 82,086              | 81,749     | 86,649     |

|   | For the Fiscal Year Ended June 30, |           |           |           |           |
|---|------------------------------------|-----------|-----------|-----------|-----------|
|   | 2016                               | 2015      | 2014      | 2013      | 2012      |
|   | (In thousands)                     |           |           |           |           |
| <b>Selected Operating Data:</b>                     |                                    |           |           |           |           |
| Interest income                                     | \$ 20,373                          | \$ 18,895 | \$ 18,961 | \$ 17,610 | \$ 18,001 |
| Interest expense                                    | 3,313                              | 3,226     | 3,148     | 3,099     | 3,784     |
| Net interest income                                 | 17,060                             | 15,669    | 15,813    | 14,511    | 14,217    |
| Provision for loan losses                           | 1,366                              | 460       | 502       | 595       | 1,125     |
| Net interest income after provision for loan losses | 15,694                             | 15,209    | 15,311    | 13,916    | 13,092    |
| Noninterest income                                  | 4,095                              | 3,320     | 3,068     | 4,489     | 3,705     |
| Noninterest expense                                 | 14,209                             | 13,420    | 13,040    | 12,638    | 14,838    |
| Income before income tax expense                    | 5,580                              | 5,109     | 5,339     | 5,767     | 1,959     |
| Income tax expense                                  | 2,014                              | 1,835     | 1,862     | 2,057     | 559       |
| Net income  | \$ 3,566                           | \$ 3,274  | \$ 3,477  | \$ 3,710  | \$ 1,400  |

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**At or For the Fiscal Years Ended June 30,**  
**2016      2015      2014      2013      2012**

**Selected Financial Ratios and Other Data:****Performance Ratios:**

|   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| Return on average assets (net income as a percentage of average total assets) | 0.62%   | 0.60%   | 0.62%   | 0.70%   | 0.28%   |
| Return on average equity (net income as a percentage of average equity)       | 4.35%   | 3.92%   | 4.26%   | 4.34%   | 1.66%   |
| Interest rate spread (1)  | 3.00%   | 2.87%   | 2.83%   | 2.75%   | 2.89%   |
| Net interest margin (2)   | 3.11%   | 2.98%   | 2.94%   | 2.86%   | 3.04%   |
| Efficiency ratio (3)  | 67.17%  | 70.67%  | 69.06%  | 66.52%  | 82.79%  |
| Dividend payout ratio   | 13.54%  | 12.05%  | 11.90%  |         |         |
| Noninterest expense to average total assets                                   | 2.49%   | 2.45%   | 2.33%   | 2.37%   | 3.01%   |
| Average interest-earning assets to average interest-bearing liabilities       | 117.85% | 117.98% | 117.24% | 118.59% | 118.82% |
| Average equity to average total assets  | 14.33%  | 15.21%  | 14.61%  | 16.03%  | 17.09%  |

**Asset Quality Ratios:**

|   |         |         |         |        |        |
|---|---------|---------|---------|--------|--------|
| Non-performing assets to total assets             | 0.42%   | 0.55%   | 0.58%   | 0.87%  | 1.30%  |
| Non-performing loans to total loans               | 0.49%   | 0.85%   | 0.82%   | 1.35%  | 2.03%  |
| Allowance for loan losses to non-performing loans | 244.39% | 137.30% | 143.10% | 91.12% | 65.95% |
| Allowance for loan losses to total loans          | 1.19%   | 1.17%   | 1.18%   | 1.23%  | 1.34%  |
| Net charge-offs (recoveries) to average loans     | 0.05%   | 0.01%   | 0.15%   | 0.07%  | 0.30%  |

**Capital Ratios:**

|   |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| Total capital (to risk-weighted assets):                |       |       |       |       |       |
| Company   | 19.7% | 23.2% | 26.3% | 27.9% | 33.3% |
| Association   | 16.1% | 19.3% | 21.9% | 21.6% | 24.3% |
| Tier 1 capital (to risk-weighted assets):               |       |       |       |       |       |
| Company   | 18.5% | 22.0% | 25.1% | 26.6% | 32.1% |
| Association   | 14.9% | 18.2% | 20.7% | 20.3% | 23.0% |
| Common Equity Tier 1 Capital (to risk-weighted assets): |       |       |       |       |       |
| Company (4)   | 18.5% | 22.0% | %     | %     | %     |
| Association (4)   | 14.9% | 18.2% | %     | %     | %     |
| Tier 1 capital (to adjusted total assets):              |       |       |       |       |       |
| Company   | 14.4% | 14.5% | 14.7% | 15.0% | 16.1% |
| Association   | 11.1% | 11.9% | 12.1% | 11.4% | 11.6% |
| Tangible capital (to adjusted total assets):            |       |       |       |       |       |
| Company   | 14.4% | 14.5% | 14.7% | 15.0% | 16.1% |
| Association   | 11.1% | 11.9% | 12.1% | 11.4% | 11.6% |

**Other Data:**

|                                |    |    |    |    |    |
|--------------------------------|----|----|----|----|----|
| Number of full service offices | 5  | 5  | 5  | 4  | 4  |
| Full time equivalent employees | 95 | 98 | 95 | 92 | 92 |

(1) The interest rate spread represents the difference between the weighted-average yield on interest-earning assets

and the weighted-average cost of interest-bearing liabilities for the period.

- (2) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.
- (3) The efficiency ratio represents noninterest expense as a percentage of the sum of net interest income and noninterest income.
- (4) The common equity Tier 1 capital is a new capital requirement adopted by the OCC, which became effective for the Association in January, 2015.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

**Overview**

We have grown our organization to \$595.6 million in assets at June 30, 2016 from \$377.2 million in assets at June 30, 2009. We have increased our assets primarily in investment securities and loan growth.

Historically, we operated as a traditional thrift institution. As recently as June 30, 2009, approximately 72.4% of our loan portfolio consisted of longer-term, one- to four-family residential real estate loans. However, in recent years, we have increased our focus on the origination of commercial real estate loans, multi-family real estate loans and commercial business loans, which generally provide higher returns than one- to four-family residential mortgage loans, have shorter durations and are often originated with adjustable rates of interest. As a result, our net interest rate spread (the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities) increased to 3.00% for the year ended June 30, 2016 from 2.53% for the year ended June 30, 2009. During this same period, many financial institutions have experienced interest rate spread compression. This contributed to a corresponding increase in net interest income (the difference between interest income and interest expense) to \$17.1 million for the fiscal year ended June 30, 2016 from \$9.5 million for the fiscal year ended June 30, 2009.

Our emphasis on conservative loan underwriting has resulted in relatively low levels of non-performing assets. Our non-performing assets totaled \$2.5 million or 0.42% of total assets at June 30, 2016.

Other than our loans for the construction of one- to four-family residential properties and the draw portion of our home equity lines of credit, we do not offer interest only mortgage loans on one- to four-family residential properties (where the borrower pays interest but no principal for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer subprime loans (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation). We also do not own any private label mortgage-backed securities that are collateralized by Alt-A, low or no documentation or subprime mortgage loans.

The Association's legal lending limit to any one borrower is 15% of unimpaired capital and surplus. On July 30, 2012 the Association received approval from the Office of the Comptroller of the Currency to participate in the Supplemental Lending Limits Program (SLLP). This program allows eligible savings associations to make additional residential real estate loans or extensions of credit to one borrower, small business loans or extensions of credit to one borrower, or small farm loans or extensions of credit to one borrower. For our association this additional limit (or supplemental limit(s)) for one- to four-family residential real estate, small business, or small farm loans is 10% of our Association's capital and surplus. In addition, the total outstanding amount of the Association's loans or extensions of credit or parts of loans and extensions of credit made to all of its borrowers under the SLLP may not exceed 100% of the Association's capital and surplus. By Association policy, participation of any credit facilities in the SLLP is to be infrequent and all credit facilities are to be with prior Board approval.

All of our mortgage-backed securities have been issued by Freddie Mac, Fannie Mae or Ginnie Mae, U.S. government-sponsored enterprises. These entities guarantee the payment of principal and interest on our mortgage-backed securities.



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

In April, 2014 we opened a new branch office at 108 Arbours Drive, Savoy, Illinois, in Champaign County.

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**Critical Accounting Policies**

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

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

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

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

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

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

***Income Tax Accounting.*** The provision for income taxes is based upon income in our consolidated financial statements, rather than amounts reported on our income tax return. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on our deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date. Under GAAP, a valuation allowance is required to be recognized if it is more likely than not that a deferred tax asset will not be realized. The determination as to whether we will be able to realize the deferred tax assets is highly subjective and dependent upon judgment concerning our evaluation of both positive and negative evidence, our forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. Positive evidence includes the existence of taxes paid in available carryback years as well as the probability that taxable income will be generated in future periods, while negative evidence includes any cumulative losses in the current year and prior two years and general business and economic trends. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. Any required valuation allowance would result in

additional income tax expense in the period and could have a significant impact on our future earnings. Positions taken in our tax returns may be subject to challenge by the taxing authorities upon examination. The benefit of an uncertain tax position is initially recognized in the financial statements only when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Differences between our position and the position of tax authorities could result in a reduction of a tax benefit or an increase to a tax liability, which could adversely affect our future income tax expense.

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The Company established a charitable foundation at the time of its mutual-to-stock conversion and donated to it cash and shares of common stock for a total value of approximately \$3.6 million. The Company established a deferred tax asset associated with this charitable contribution. No valuation allowance has been established, as it appears that the Company will be able to deduct the contribution, which is subject to limitations each year, during the five year carry-forward period which ends June 30, 2017. Management continues to monitor its taxable income projections through June 30, 2017, to determine whether a valuation allowance is needed.

We believe our tax policies and practices are critical accounting policies because the determination of our tax provision and current and deferred tax assets and liabilities have a material impact on our net income and the carrying value of our assets. We believe our tax liabilities and assets are properly recorded in the consolidated financial statements at June 30, 2016 and no valuation allowance was necessary.

**Comparison of Financial Condition at June 30, 2016 and June 30, 2015**

Total assets increased \$31.9 million, or 5.7%, to \$595.6 million at June 30, 2016 from \$563.7 million at June 30, 2015. The increase was primarily due to an \$87.6 million increase in net loans, partially offset by a \$6.8 million decrease in cash and cash equivalents and a \$49.3 million decrease in investment securities.

Net loans receivable, including loans held for sale, increased by \$87.6 million, or 24.6%, to \$443.7 million at June 30, 2016 from \$356.2 million at June 30, 2015. The increase in net loans receivable during this period was due primarily to a \$25.8 million, or 44.2%, increase in multi-family loans, a \$20.7 million, or 55.7%, increase in commercial business loans, a \$4.7 million, or 3.2%, increase in one- to four-family loans, a \$16.0 million, or 15.5%, increase in commercial real estate loans, a \$1.8 million, or 21.2%, increase in consumer loans, a \$19.2 million, or 4082.2%, increase in construction loans, and a \$425,000, or 5.5%, increase in home equity lines of credit.

Investment securities, consisting entirely of securities available for sale, decreased \$49.3 million, or 28.9%, to \$121.3 million at June 30, 2016 from \$170.6 million at June 30, 2015. The decrease was primarily due to the sale of securities to fund loan growth. We had no held-to-maturity securities at June 30, 2016 or June 30, 2015.

Compared to June 30, 2015, as of June 30, 2016, other assets increased \$516,000 to \$895,000, other real estate increased \$288,000 to \$338,000, and interest receivable increased \$130,000 to \$1.8 million, while premises and equipment decreased \$214,000 to \$4.6 million, deferred income taxes decreased \$503,000 to \$1.7 million and mortgage servicing rights decreased \$65,000 to \$440,000. Federal Home Loan Bank stock was \$5.4 million at both June 30, 2016 and 2015. The increase in other assets resulted from an increase in accounts receivable general due to the payoff of a purchased loan late in June for which we had not yet received the proceeds from the servicing bank as of June 30, 2016. The increase in other real estate was due to the addition of one residential real estate property, and the increase in interest receivable was mostly due to the increase in the loan portfolio. The decrease in premises and equipment was primarily due to normal depreciation and the decrease in deferred income taxes was mostly due to an increase in the unrealized gain on sale of available-for sale securities. Mortgage servicing rights decreased due to a reduction in both the balance of FHLB MPF Xtra loans serviced and the market value of the servicing.

At June 30, 2016, our investment in bank-owned life insurance was \$8.6 million, an increase of \$266,000 from \$8.3 million at June 30, 2015. We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is non-taxable. Federal regulations generally limit our investment in bank-owned life insurance to 25% of the Association's Tier 1 capital plus our allowance for loan losses. At June 30, 2016, our investment of \$8.6 million in bank-owned life insurance was 12.0% of our Tier 1 capital plus our allowance for loan losses.

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Deposits increased \$18.2 million, or 4.4%, to \$433.7 million at June 30, 2016 from \$415.5 million at June 30, 2015. Certificates of deposit, excluding brokered certificates of deposit, increased \$8.3 million, or 4.0%, to \$216.3 million, savings, NOW, and money market accounts increased \$5.9 million, or 3.9%, to \$156.7 million, brokered certificates of deposit increased \$2.1 million, or 5.3%, to \$41.6 million, and noninterest bearing demand accounts increased \$1.9 million, or 10.8%, to \$19.0 million. Repurchase agreements increased \$368,000 to \$4.4 million.

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Advances from the Federal Home Loan Bank of Chicago increased \$9.0 million, or 15.5%, to \$67.0 million at June 30, 2016 from \$58.0 million at June 30, 2015.

Total equity increased \$3.5 million, or 4.4%, to \$84.0 million at June 30, 2016 from \$80.4 million at June 30, 2015. Equity increased due to net income of \$3.6 million, ESOP and stock equity plan activity of \$690,000, and an increase in accumulated other comprehensive income, net of tax, of \$1.2 million, partially offset by a decrease due to the repurchase of 83,313 shares of the Company's common stock at an aggregate cost of approximately \$1.4 million and the payment of dividends to our shareholders. The increase due to stock equity plan activity was the result of the full vesting of one participant's restricted stock and stock options due to disability, the exercising of options by one participant, and the vesting of restricted stock awards. The increase in other accumulated comprehensive income was primarily due to an increase in unrealized gains on securities available for sale. A stock repurchase program was adopted on May 21, 2015, which authorized the Company to repurchase up to 210,313 shares of its common stock, or approximately 5% of then current outstanding shares. As of June 30, 2016, all 210,313 shares were repurchased, 83,313 of which were repurchased during the fiscal year ended June 30, 2016. The Board of Directors adopted another stock repurchase program on February 5, 2016, which authorized the Company to repurchase up to 200,703 shares of its common stock, or approximately 5% of its then current outstanding shares. No shares were repurchased under this program as of June 30, 2016.

**Comparison of Operating Results for the Years Ended June 30, 2016 and 2015**

**General.** Net income increased \$292,000, or 8.9%, to \$3.6 million net income for the year ended June 30, 2016 from \$3.3 million net income for the year ended June 30, 2015. The increase was primarily due to an increase in net interest income and an increase in noninterest income, partially offset by an increase in noninterest expense and an increase in provision for loan losses.

**Net Interest Income.** Net interest income increased by \$1.4 million, or 8.9%, to \$17.1 million for the year ended June 30, 2016 from \$15.7 million for the year ended June 30, 2015. The increase was due to an increase of \$1.5 million in interest and dividend income, partially offset by an increase of \$87,000 in interest expense. The increase in net interest income was primarily the result of an increase in the average balance of interest earning assets and higher average yields on interest earning assets. We had a \$23.4 million, or 4.4%, increase in the average balance of interest earning assets, partially offset by a \$20.3 million, or 4.6%, increase in the average balance of interest bearing liabilities. Our interest rate spread increased 13 basis points to 3.00% for the year ended June 30, 2016 from 2.87% for the year ended June 30, 2015, and our net interest margin increased by 13 basis points to 3.11% for the year ended June 30, 2016 from 2.98% for the year ended June 30, 2015.

**Interest and Dividend Income.** Interest and dividend income increased \$1.5 million, or 7.8%, to \$20.4 million for the year ended June 30, 2016 from \$18.9 million for the year ended June 30, 2015. The increase in interest income was due to an increase in interest income on loans, partially offset by a decrease in interest income on securities. An increase of \$2.7 million, or 19.1%, in interest on loans resulted from a \$74.5 million, or 21.7%, increase in the average balance of loans to \$417.9 million for the year ended June 30, 2016, partially offset by a 9 basis point, or 2.1%, decrease in the average yield on loans to 4.08% from 4.17%. Interest on securities decreased \$1.3 million, or 28.6%, mostly due to a \$49.2 million decrease in the average balance of securities to \$123.7 million at June 30, 2016 from \$173.0 million at June 30, 2015, while the average yield on securities was 2.62% for both the year ended June 30, 2016 and the year ended June 30, 2015. The decrease in the average yield on loans reflected a reduction in the interest rates charged on loans originated during the period versus the average yield on loans in the portfolio.

**Interest Expense.** Interest expense increased \$87,000, or 2.7%, to \$3.3 million for the year ended June 30, 2016 from \$3.2 million for the year ended June 30, 2015. The increase was primarily due to increased average balances of

deposits and borrowings, partially offset by lower market interest rates during the period.

Interest expense on interest-bearing deposits decreased \$58,000, or 2.4%, and was \$2.4 million for both the year ended June 30, 2016, and for the year ended June 30, 2015. This decrease was primarily due to an increase in the average balance of interest-bearing deposits to \$397.1 million for the year ended June 30, 2016, from \$393.6 million for the year ended June 30, 2015, partially offset by a 2 basis point, or 3.2% decrease in the average cost of interest-bearing deposits to 0.60% from 0.62%.

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Interest expense on borrowings, including FHLB advances and repurchase agreements, increased \$145,000, or 18.3%, to \$938,000 for the year ended June 30, 2016 from \$793,000 for the year ended June 30, 2015. This increase was due to a \$16.8 million, or 32.2%, increase in the average balance of borrowings to \$69.1 million for the year ended June 30, 2016 from \$52.3 million for the year ended June 30, 2015, partially offset by a 16 basis point decrease in the average cost of such borrowings to 1.36% for the year ended June 30, 2016 from 1.52% for the year ended June 30, 2015.

**Provision for Loan Losses.** We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb probable credit losses inherent in our loan portfolio. We recorded a provision for loan losses of \$1.4 million for the year ended June 30, 2016, compared to a provision for loan losses of \$460,000 for the year ended June 30, 2015. The allowance for loan losses was \$5.4 million, or 1.19% of total loans, at June 30, 2016, compared to \$4.2 million, or 1.17% of total loans, at June 30, 2015. Non-performing loans decreased during the year ended June 30, 2016, to \$2.2 million. During the year ended June 30, 2016 and 2015, \$226,000 and \$207,000, respectively, in net charge-offs were recorded.

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

|  | <b>Year Ended<br/>June 30, 2016</b> | <b>Year Ended<br/>June 30, 2015</b> |
|--|-------------------------------------|-------------------------------------|
| Allowance to non-performing loans  | 244.39%                             | 137.30%                             |
| Allowance to total loans outstanding at the end of the period                    | 1.19%                               | 1.17%                               |
| Net charge-offs to average total loans outstanding during the period, annualized | 0.05%                               | 0.01%                               |
| Total non-performing loans to total loans  | 0.49%                               | 0.85%                               |
| Total non-performing assets to total assets                                      | 0.42%                               | 0.55%                               |

**Noninterest Income.** Noninterest income increased \$775,000, or 23.3%, to \$4.1 million for the year ended June 30, 2016 from \$3.3 million for the year ended June 30, 2015. The increase was primarily due to increases in net realized gains on the sale of available-for-sale securities, gains on sale of loans, customer service fees, and other service charges and fees, partially offset by decreases in insurance commissions, brokerage commissions, and mortgage banking income, net. For the year ended June 30, 2016, net realized gains (losses) on the sale of available-for-sale securities increased to \$620,000 from (\$24,000), gains on sale of loans increased to \$216,000 from \$123,000, customer service fees increased to \$532,000 from \$506,000, and other service charges and fees increased to \$212,000 from \$122,000, while insurance commissions decreased to \$666,000 from \$720,000, brokerage commissions decreased to \$672,000 from \$732,000 and mortgage banking income, net, decreased to \$126,000 from \$185,000. The increase in net realized gains on the sale of available-for-sale securities was a result of a larger amount of securities sold at a gain in the year ended June 30, 2016, compared to the year ended June 30, 2015. The increase in gains on sale of loans was primarily due to an increase in the number of loans sold to the Federal Home Loan Bank of Chicago in the year ended June 30, 2016, and the increase in customer service fees and other service charges and fees was due to an increase in the number of loan fees and an increase in the fee amount. The decrease in insurance commissions is primarily due to higher contingency commissions in the year ended June 30, 2015, the decrease in brokerage commissions reflects decreased activity due to movement in market interest rates, and the decrease in mortgage banking income, net, was due to a reduction in the value of mortgage servicing rights.



**Noninterest Expense.** Noninterest expense increased \$789,000, or 5.9%, to \$14.2 million for the year ended June 30, 2016 from \$13.4 million for the year ended June 30, 2015. The largest components of this increase were compensation and benefits, which increased \$497,000, or 5.9%, telephone and postage which increased \$54,000, or 21.1%, and audit and accounting services, which increased \$37,000, or 36.6%. Increased medical insurance costs, normal salary increases, and stock equity plan expenses primarily accounted for the increase in compensation and benefits expense. The increase in audit and accounting was due to additional services received during the year ended June 30, 2016, while the increase in telephone and postage was a result of updates to our telephone system. These increases were partially offset by a decrease in the loss on foreclosed assets, net.

**Income Tax Expense.** We recorded a provision for income tax of \$2.0 million for the year ended June 30, 2016, compared to a provision for income tax of \$1.8 million for the year ended June 30, 2015, reflecting effective tax rates of 36.1% and 35.9%, respectively.

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**Asset Quality and Allowance for Loan Losses**

For information regarding asset quality and allowance for loan loss activity, see Item 1. Business Non-performing and Problem Assets and Item 1. Business Allowance for Loan Losses.

**Average Balances and Yields**

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

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|  | For the Fiscal Years Ended June 30, |               |                |                                   |               |                |                                   |               |                |
|--|-------------------------------------|---------------|----------------|-----------------------------------|---------------|----------------|-----------------------------------|---------------|----------------|
|  | 2016                                |               |                | 2015                              |               |                | 2014                              |               |                |
|  | Average<br>Outstanding<br>Balance   | Interest      | Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest      | Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest      | Yield/<br>Rate |
|  | (Dollars in thousands)              |               |                |                                   |               |                |                                   |               |                |
| <b>Interest-earning assets:</b>                                      |                                     |               |                |                                   |               |                |                                   |               |                |
| Loans:   |                                     |               |                |                                   |               |                |                                   |               |                |
| Real estate loans:   |                                     |               |                |                                   |               |                |                                   |               |                |
| One- to four-family (1)  | \$ 149,752                          | \$ 6,164      | 4.12%          | \$ 146,802                        | \$ 6,123      | 4.17%          | \$ 148,047                        | \$ 6,215      | 4.20%          |
| Multi-family   | 77,544                              | 3,029         | 3.91           | 57,526                            | 2,303         | 4.00           | 60,213                            | 2,452         | 4.07           |
| Commercial   | 114,137                             | 4,644         | 4.07           | 90,891                            | 3,699         | 4.07           | 78,695                            | 3,185         | 4.05           |
| Home equity lines of credit  | 7,882                               | 328           | 4.16           | 7,855                             | 334           | 4.25           | 7,827                             | 328           | 4.19           |
| Construction loans   | 10,046                              | 372           | 3.70           | 1,113                             | 44            | 3.95           | 1,835                             | 67            | 3.65           |
| Commercial business loans  | 49,372                              | 2,086         | 4.23           | 30,733                            | 1,378         | 4.48           | 21,124                            | 993           | 4.70           |
| Consumer loans   | 9,193                               | 432           | 4.70           | 8,512                             | 440           | 5.17           | 9,107                             | 521           | 5.72           |
| <b>Total loans</b>   | <b>417,926</b>                      | <b>17,055</b> | <b>4.08</b>    | <b>343,432</b>                    | <b>14,321</b> | <b>4.17</b>    | <b>326,848</b>                    | <b>13,761</b> | <b>4.21</b>    |
| Securities:  |                                     |               |                |                                   |               |                |                                   |               |                |
| U.S. government, federal agency and government-sponsored enterprises | 88,017                              | 2,310         | 2.62           | 106,432                           | 2,860         | 2.69           | 124,809                           | 3,069         | 2.46           |
| U.S. government sponsored mortgage-backed securities                 | 32,213                              | 848           | 2.63           | 63,046                            | 1,586         | 2.52           | 76,177                            | 2,048         | 2.69           |
| State and political subdivisions                                     | 3,496                               | 78            | 2.23           | 3,492                             | 84            | 2.41           | 3,184                             | 46            | 1.44           |
| <b>Total securities</b>  | <b>123,726</b>                      | <b>3,236</b>  | <b>2.62</b>    | <b>172,970</b>                    | <b>4,530</b>  | <b>2.62</b>    | <b>204,170</b>                    | <b>5,163</b>  | <b>2.53</b>    |
| <b>Other</b>   | <b>7,757</b>                        | <b>82</b>     | <b>1.06</b>    | <b>9,634</b>                      | <b>44</b>     | <b>0.46</b>    | <b>7,703</b>                      | <b>37</b>     | <b>0.48</b>    |
| <b>Total interest-earning assets</b>                                 | <b>549,409</b>                      | <b>20,373</b> | <b>3.71</b>    | <b>526,036</b>                    | <b>18,895</b> | <b>3.59</b>    | <b>538,721</b>                    | <b>18,961</b> | <b>3.52</b>    |
| <b>Noninterest-earning assets</b>                                    | <b>22,380</b>                       |               |                | <b>22,784</b>                     |               |                | <b>19,875</b>                     |               |                |
| <b>Total assets</b>  | <b>\$ 571,789</b>                   |               |                | <b>\$ 548,820</b>                 |               |                | <b>\$ 558,596</b>                 |               |                |

**Interest-bearing liabilities:**

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|   |           |           |       |           |           |       |           |           |       |
|---|-----------|-----------|-------|-----------|-----------|-------|-----------|-----------|-------|
| Interest-bearing checking or NOW                                | \$ 40,852 | 37        | 0.09  | \$ 36,177 | 33        | 0.09  | \$ 34,342 | 35        | 0.10  |
| Savings accounts  | 38,399    | 50        | 0.13  | 35,480    | 60        | 0.17  | 33,383    | 72        | 0.22  |
| Money market accounts   | 72,118    | 138       | 0.19  | 59,570    | 116       | 0.19  | 59,035    | 140       | 0.24  |
| Certificates of deposit   | 245,699   | 2,150     | 0.88  | 262,372   | 2,224     | 0.85  | 249,340   | 2,075     | 0.83  |
| Total interest-bearing deposits                                 | 397,068   | 2,375     | 0.60  | 393,599   | 2,433     | 0.62  | 376,100   | 2,322     | 0.62  |
| Federal Home Loan Bank advances and repurchase agreements       | 69,111    | 938       | 1.36  | 52,273    | 793       | 1.52  | 83,394    | 826       | 0.99  |
| Total interest-bearing liabilities                              | 466,179   | 3,313     | 0.71  | 445,872   | 3,226     | 0.72  | 459,494   | 3,148     | 0.69  |
| Noninterest-bearing liabilities                                 | 23,645    |           |       | 19,489    |           |       | 17,493    |           |       |
| Total liabilities   | 489,824   |           |       | 465,361   |           |       | 476,987   |           |       |
| Equity  | 81,965    |           |       | 83,459    |           |       | 81,609    |           |       |
| Total liabilities and equity                                    | 571,789   |           |       | 548,820   |           |       | 558,596   |           |       |
| Net interest income   |           | \$ 17,060 |       |           | \$ 15,669 |       |           | \$ 15,813 |       |
| Net interest rate spread (2)                                    |           |           | 3.00% |           |           | 2.87% |           |           | 2.83% |
| Net interest-earning assets (3)                                 | \$ 83,230 |           |       | \$ 80,164 |           |       | \$ 79,227 |           |       |
| Net interest margin (4)   |           |           | 3.11% |           |           | 2.98% |           |           | 2.94% |
| Average interest-earning assets to interest-bearing liabilities |           | 118%      |       |           | 118%      |       |           | 117%      |       |

(1) Includes home equity loans.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

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

|   | Fiscal Years Ended June 30,<br>2016 vs. 2015 |                                       |   | Fiscal Years Ended June<br>30,<br>2015 vs. 2014 |                                       |                                 |
|---|--|---------------------------------------|---|---|---------------------------------------|---------------------------------|
|   | Increase (Decrease)<br>Due to<br>Volume      | Increase (Decrease)<br>Due to<br>Rate | Total<br>Increase<br>(Decrease)<br>(In thousands) | Increase (Decrease)<br>Due to<br>Volume         | Increase (Decrease)<br>Due to<br>Rate | Total<br>Increase<br>(Decrease) |
| <b>Interest-earning assets:</b>           |  |                                       |   |   |                                       |                                 |
| Loans                                     | \$ 3,049                                     | \$ (315)                              | \$ 2,734  | \$ 692  | \$ (132)                              | \$ 560                          |
| Securities                                | (1,294)                                      |                                       | (1,294)   | (812)   | 179                                   | (633)                           |
| Other                                     | (10)   | 48                                    | 38  | 9   | (2)                                   | 7                               |
| <b>Total interest-earning assets</b>      | <b>\$ 1,745</b>                              | <b>\$ (267)</b>                       | <b>\$ 1,478</b>                                   | <b>\$ (111)</b>                                 | <b>\$ 45</b>                          | <b>\$ (66)</b>                  |
| <b>Interest-bearing liabilities:</b>      |  |                                       |   |   |                                       |                                 |
| Interest-bearing checking or NOW          | \$ 4   | \$                                    | \$ 4  | \$ 2  | \$ (4)                                | \$ (2)                          |
| Savings accounts                          | 5  | (15)                                  | (10)  | 5   | (17)                                  | (12)                            |
| Certificates of deposit                   | (149)  | 75                                    | (74)  | 91  | 58                                    | 149                             |
| Money market accounts                     | 22   |                                       | 22  | 1   | (25)                                  | (24)                            |
| <b>Total interest-bearing deposits</b>    | <b>(118)</b>                                 | <b>60</b>                             | <b>(58)</b>                                       | <b>99</b>                                       | <b>12</b>                             | <b>111</b>                      |
| Federal Home Loan Bank advances           | 236  | (91)                                  | 145   | (400)   | 367                                   | (33)                            |
| <b>Total interest-bearing liabilities</b> | <b>\$ 118</b>                                | <b>\$ (31)</b>                        | <b>\$ 87</b>                                      | <b>\$ (301)</b>                                 | <b>\$ 379</b>                         | <b>\$ 78</b>                    |
| <b>Change in net interest income</b>      | <b>\$ 1,627</b>                              | <b>\$ (236)</b>                       | <b>\$ 1,391</b>                                   | <b>\$ 190</b>                                   | <b>\$ (334)</b>                       | <b>\$ (144)</b>                 |

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**Management of Market Risk**

**General.** Because the majority of our assets and liabilities are sensitive to changes in interest rates, our most significant form of market risk is interest rate risk. We are vulnerable to an increase in interest rates to the extent that our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established an Asset/Liability Management Committee pursuant to our Interest Rate Risk Management Policy that is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

As part of our ongoing asset-liability management, we currently use the following strategies to manage our interest rate risk:

- (i) sell the majority of our long-term, fixed-rate one- to four-family residential mortgage loans that we originate;
- (ii) lengthen the weighted average maturity of our liabilities through retail deposit pricing strategies and through longer-term wholesale funding sources such as brokered certificates of deposit and fixed-rate advances from the Federal Home Loan Bank of Chicago;
- (iii) invest in shorter- to medium-term investment securities and interest-earning time deposits;
- (iv) originate commercial mortgage loans, including multi-family loans and land loans, commercial loans and consumer loans, which tend to have shorter terms and higher interest rates than one- to four-family residential mortgage loans, and which generate customer relationships that can result in larger noninterest-bearing demand deposit accounts; and
- (v) maintain adequate levels of capital.

We currently do not engage in hedging activities, such as futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligations, residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

In addition, changes in interest rates can affect the fair values of our financial instruments. For additional information regarding the fair values of our assets and liabilities, see Note 17 to the Notes to our Consolidated Financial Statements.

**Interest Rate Risk Analysis**

We also perform an interest rate risk analysis that assesses our earnings at risk and our value at risk (or net economic value of equity at risk). Earnings at risk represents the underlying threat to earnings associated with the continual

repricing of a financial institution's various assets and liabilities in differing amounts, at different times, at different interest rate levels, all within the context of a continually changing, global interest rate environment. Our analysis of our earnings at risk is completed monthly on our net interest income for periods extending twelve and twenty-four months forward. Simulations include a base line analysis with no change in the current interest rate environment and alternative interest rate possibilities including rising and falling interest rates of 100, 200, 300, and 400 basis points in interest rates under ramp, shock, static and dynamic rate environments to generate the estimated impact on net interest income. Value at risk represents the threat to the underlying value of a financial institution's various assets and liabilities, and consequently its capital, given the potential for change in the interest rate structure in which these financial instruments might either reprice, or fail to reprice, in an environment of constantly changing interest rates. Our analysis of our value at risk is completed quarterly and the calculation measures the net effect on the market value of the bank's equity position when quantifying the impact when interest rates rise and fall for the range of -400 basis points to +400 basis points. Details of our general ledger along with key data from each deposit, loan, investment, and borrowing are downloaded into our forecasting model, which takes into account both market and internal trends. Historical testing is done internally on a regular basis to confirm the validity of the model, while third-party testing is done periodically. Details of our interest rate risk analysis are reviewed by the Asset/Liability Management Committee and presented to the Board on a quarterly basis.

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The tables below illustrate the simulated impact of rate shock scenarios up to 400 basis points over a two-year period on our earnings at risk for net interest income. The earnings at risk tables show net interest income decreasing in a rising rate environment. The net economic value of equity at risk table below sets forth our calculation of the estimated changes in our net economic value of equity at June 30, 2016 resulting from immediate rate shocks ranging from -400 basis points to +400 basis points.

**Earnings at Risk**

| Change in Interest Rates (basis points) | % Change in Net Interest Income |         |
|---|---------------------------------|---------|
|   | 6/30/17                         | 6/30/18 |
| +400                                    | (11.37)                         | (12.71) |
| +300                                    | (7.90)                          | (8.70)  |
| +200                                    | (4.75)                          | (5.16)  |
| +100                                    | (2.53)                          | (2.94)  |
| 0                                       |                                 |         |
| -100                                    | (0.23)                          | (0.12)  |
| -200                                    | (2.74)                          | (3.00)  |
| -300                                    | (5.13)                          | (5.43)  |
| -400                                    | (6.41)                          | (6.72)  |

**Net Economic Value of Equity (NEVE) at Risk**

| Change in Interest Rates (basis points) | Estimated NEVE | % Change NEVE |
|---|----------------|---------------|
| +400                                    | 63,018         | (16.46)       |
| +300                                    | 67,147         | (10.99)       |
| +200                                    | 71,199         | (5.61)        |
| +100                                    | 75,145         | (0.38)        |
| 0                                       | 75,434         |               |
| -100                                    | 70,789         | (6.16)        |
| -200                                    | 70,595         | (6.41)        |
| -300                                    | 71,306         | (5.47)        |
| -400                                    | 71,711         | (4.94)        |

**Liquidity and Capital Resources**

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan sales and repayments, advances from the Federal Home Loan Bank of Chicago, and maturities of securities. We also utilize brokered certificates of deposit, internet funding, borrowings from the Federal Reserve, and sales of securities, when appropriate. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. For the years ended June 30, 2016 and 2015, our liquidity ratio averaged 21.4% and 31.6% of our total assets,



respectively. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of June 30, 2016.

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

Our most liquid assets are cash and cash equivalents. The levels of these assets are affected by our operating, financing, lending and investing activities during any given period. At June 30, 2016, cash and cash equivalents totaled \$6.4 million.

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Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Statements of Cash Flows included in our financial statements.

At June 30, 2016, we had \$17.6 million in loan commitments outstanding, and \$56.9 million in unused lines of credit to borrowers. Certificates of deposit due within one year of June 30, 2016 totaled \$147.8 million, or 34.1% of total deposits. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before June 30, 2016. Additionally, it is our intention as we continue to grow our commercial real estate portfolio, to emphasize lower cost deposit relationships with these commercial loan customers and thereby replace the higher cost certificates with lower cost deposits. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activity is originating loans. During the years ended June 30, 2016 and 2015, we originated \$203.0 million and \$146.1 million of loans, respectively.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We had a net increase in total deposits of \$18.2 million for the year ended June 30, 2016, and a net increase in total deposits of \$11.0 million for the year ended June 30, 2015. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Chicago, which provides an additional source of funds. Federal Home Loan Bank advances were \$67.0 million at June 30, 2016. At June 30, 2016, we had the ability to borrow up to an additional \$115.6 million from the Federal Home Loan Bank of Chicago and an additional \$34.2 million from the Federal Reserve based upon current collateral pledged.

Iroquois Federal is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2016, Iroquois Federal exceeded all regulatory capital requirements. Iroquois Federal is considered well capitalized under regulatory guidelines. See Note 12 Regulatory Matters of the notes to the financial statements included in this Annual Report on Form 10-K.

## **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

**Commitments.** As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. For additional information, see Note 19 Commitments and Credit Risk of the notes to the financial statements included in this Annual Report on Form 10-K.

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

## **Recent Accounting Pronouncements**

For a discussion of the impact of recent and future accounting pronouncements, see Note 1 of the notes to our consolidated financial statements beginning on page F-1 of this Annual Report on Form 10-K.

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**Impact of Inflation and Changing Prices**

Our financial statements and related notes have been prepared in accordance with U.S. GAAP. U.S. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on our performance than the effects of inflation.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information covered by this item is incorporated herein by reference to Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operation*.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.**

The Company's President and Chief Executive Officer, its Chief Financial Officer, and other members of its senior management team have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)), as of June 30, 2016. Based on such evaluation, the President and Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this report, were adequate and effective to provide reasonable assurance that information required to be disclosed by the Company, including Iroquois Federal, in reports that are filed or submitted under the Exchange Act, is (1) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (2) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely discussions regarding required disclosures.

**Changes in Internal Controls Over Financial Reporting.**

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting.**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2016, utilizing the framework established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of June 30, 2016 is effective.

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Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information relating to the directors and officers of the Company, information regarding compliance with Section 16(a) of the Exchange Act and information regarding the audit committee and audit committee financial expert is incorporated herein by reference to the Company's Proxy Statement for the Registrant's Annual Meeting of Stockholders, to be held on November 21, 2016 (the Proxy Statement) under the captions Proposal 1 Election of Directors, Executive Officers, Section 16(a) Beneficial Ownership Reporting Compliance, Nominating Committee Procedures Procedures to be Followed by Stockholders, Corporate Governance Committees of the Board of Directors and Audit Committee is incorporated herein by reference.

The Company has adopted a code of ethics that applies to its principal executive officer, the principal financial officer and principal accounting officer. The Code of Ethics is posted on the Company's Internet Web site.

**ITEM 11. EXECUTIVE COMPENSATION**

The information regarding executive compensation, compensation committee interlocks and insider participation is incorporated herein by reference to the Proxy Statement under the captions Executive Officers Executive Compensation and Director Compensation.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS**

Information required by this item regarding security ownership of management and certain other beneficial owners is incorporated herein by reference to the section captioned Stock Ownership in the Proxy Statement. Management of the Company knows of no arrangements, including any pledge by any person or securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

The following table sets forth information as of June 30, 2016 about Company common stock that may be issued upon the exercise of options under the IF Bancorp, Inc. 2012 Equity Incentive Plan. The plan was approved by the Company's stockholders.

| Plan Category | Number of securities issued upon the exercise of outstanding options, warrants and rights | Weighted-average price of exercise of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) |
|---------------|---|--|---|
|               |   |  |   |
|               | 164,143   | \$ 16.63   | 314,125   |

|  |                |                 |                |
|--|----------------|-----------------|----------------|
| Equity compensation plans approved by security holders     |                |                 |                |
| Equity compensation plans not approved by security holders | N/A            | N/A             | N/A            |
| <b>Total</b>   | <b>164,143</b> | <b>\$ 16.63</b> | <b>314,125</b> |

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information relating to certain relationships and related transactions and director independence is incorporated herein by reference to the Proxy Statement under the captions Transactions with Related Persons and Proposal 1 Election of Directors.



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**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information relating to the principal accounting fees and expenses is incorporated herein by reference to the Proxy Statement under the captions Proposal III Ratification of Independent Registered Public Accounting Firm Audit Fees and Pre-Approval of Services by the Independent Registered Public Accounting Firm.

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**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. <sup>(1)</sup>
  - 3.2 Bylaws of IF Bancorp, Inc. <sup>(1)</sup>
  - 4.1 Specimen Stock Certificate of IF Bancorp, Inc. <sup>(1)</sup>
  - 10.1 Employment Agreement between Iroquois Federal Savings and Loan Association and Walter H. Hasselbring, III <sup>(2)</sup>
  - 10.2 Employment Agreement between IF Bancorp, Inc. and Walter H. Hasselbring, III <sup>(2)</sup>
  - 10.3 Change in Control Agreement of Pamela J. Verkler <sup>(3)</sup>
  - 10.4 Change in Control Agreement of Thomas J. Chamberlain <sup>(3)</sup>
  - 10.5 Amendment One to Employment Agreement between Iroquois Federal Savings and Loan Association and Walter H. Hasselbring, III <sup>(4)</sup>
  - 10.6 Amendment One to Employment Agreement between IF Bancorp, Inc. and Walter H. Hasselbring, III <sup>(4)</sup>
  - 10.7 Directors Non Qualified Retirement Plan <sup>(1)</sup>
  - 10.8 IF Bancorp, Inc. 2012 Equity Incentive Plan <sup>(5)</sup>
  - 21.0 List of Subsidiaries <sup>(1)</sup>
  - 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 <sup>(6)</sup>
  - 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2016 and 2015, (ii) the Consolidated Statements of Income for the years ended June 30, 2016 and 2015, (iii) the Consolidated Statements of Comprehensive Income (Loss) for the years ended June 30, 2016 and 2015, (iv) the Consolidated Statements of Stockholders Equity for the years ended June 30, 2016 and 2015, (v) the Consolidated Statements of Cash Flows for the years ended June 30, 2016 and 2015, and (vi) the notes to the Consolidated Financial Statements.

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- (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 December 1, 2015.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 14, 2011.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on May 31, 2016.
- (5) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the SEC on October 12, 2012.
- (6) 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.

Table of Contents**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: September 14, 2016

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signatures   | Title  | Date                  |
|--|--|-----------------------|
| /s/ Walter H. Hasselbring, III<br>Walter H. Hasselbring, III | President, Chief Executive Officer and<br>Director (Principal Executive Officer)                               | September 14,<br>2016 |
| /s/ Pamela J. Verkler<br>Pamela J. Verkler                   | Senior Executive Vice President and Chief<br>Financial Officer (Principal Financial and<br>Accounting Officer) | September 14,<br>2016 |
| /s/ Gary Martin<br>Gary Martin                               | Chairman of the Board  | September 14,<br>2016 |
| /s/ Alan D. Martin<br>Alan D. Martin                         | Director   | September 14,<br>2016 |
| /s/ Joseph A. Cowan<br>Joseph A. Cowan                       | Director   | September 14,<br>2016 |
| /s/ Wayne A. Lehmann<br>Wayne A. Lehmann                     | Director   | September 14,<br>2016 |
| /s/ Frank J. Simutis<br>Frank J. Simutis                     | Director   | September 14,<br>2016 |

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/s/ Dennis C. Wittenborn

Director

September 14,  
2016

Dennis C. Wittenborn

/s/ Rodney E. Yergler

Director

September 14,  
2016

Rodney E. Yergler

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**IF Bancorp, Inc.**

**Consolidated Financial Statements**

**Years Ended June 30, 2016 and 2015**

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**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, 2016 and 2015, and the related consolidated statements of income, comprehensive income, 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, 2016 and 2015, 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 16, 2016

**Table of Contents****IF Bancorp, Inc.****Consolidated Balance Sheets****June 30, 2016 and 2015****(in thousands)****Assets**

|  | <b>2016</b>       | <b>2015</b>       |
|--|-------------------|-------------------|
| Cash and due from banks  | \$ 5,451          | \$ 12,473         |
| Interest-bearing demand deposits   | 998               | 751               |
| Cash and cash equivalents  | 6,449             | 13,224            |
| Interest-bearing time deposits in banks  | 252               | 250               |
| Available-for-sale securities  | 121,328           | 170,630           |
| Loans, net of allowance for loan losses of \$5,351 and \$4,211 at June 30, 2016 and 2015, respectively                 | 443,748           | 356,194           |
| Premises and equipment, net of accumulated depreciation of \$5,925 and \$5,717 at June 30, 2016 and 2015, respectively | 4,586             | 4,800             |
| Federal Home Loan Bank stock, at cost  | 5,425             | 5,425             |
| Foreclosed assets held for sale  | 338               | 50                |
| Accrued interest receivable  | 1,803             | 1,673             |
| Bank-owned life insurance  | 8,555             | 8,289             |
| Mortgage servicing rights  | 440               | 505               |
| Deferred income taxes  | 1,746             | 2,249             |
| Other  | 895               | 379               |
| <b>Total assets</b>  | <b>\$ 595,565</b> | <b>\$ 563,668</b> |

*See Notes to Consolidated Financial Statements*



**Table of Contents****Liabilities and Stockholders Equity**

|   | <b>2016</b>       | <b>2015</b>       |
|---|-------------------|-------------------|
| <b>Liabilities</b>  |                   |                   |
| Deposits  |                   |                   |
| Demand  | \$ 19,036         | \$ 17,173         |
| Savings, NOW and money market   | 156,688           | 150,759           |
| Certificates of deposit   | 216,343           | 208,051           |
| Brokered certificates of deposit  | 41,641            | 39,561            |
| <b>Total deposits</b>   | <b>433,708</b>    | <b>415,544</b>    |
| Repurchase agreements   | 4,392             | 4,024             |
| Federal Home Loan Bank advances   | 67,000            | 58,000            |
| Advances from borrowers for taxes and insurance   | 932               | 955               |
| Accrued post-retirement benefit obligation  | 2,967             | 2,654             |
| Accrued interest payable  | 59                | 65                |
| Other   | 2,535             | 1,990             |
| <b>Total liabilities</b>  | <b>511,593</b>    | <b>483,232</b>    |
| <b>Commitments and Contingencies</b>  |                   |                   |
| <b>Stockholders Equity</b>  |                   |                   |
| Common stock, \$.01 par value, 100,000,000 shares authorized, 4,014,061 and 4,079,274 shares issued and outstanding at June 30, 2016 and 2015, respectively | 40                | 41                |
| Additional paid-in capital  | 47,535            | 47,009            |
| Unearned ESOP shares, at cost, 288,675 and 307,920 shares at June 30, 2016 and 2015, respectively   | (2,887)           | (3,079)           |
| Retained earnings   | 37,095            | 35,466            |
| Accumulated other comprehensive income, net of tax  | 2,189             | 999               |
| <b>Total stockholders equity</b>  | <b>83,972</b>     | <b>80,436</b>     |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 595,565</b> | <b>\$ 563,668</b> |

**Table of Contents****IF Bancorp, Inc.****Consolidated Statements of Income****Years Ended June 30, 2016 and 2015****(in thousands)**

|  | <b>2016</b>   | <b>2015</b>   |
|--|---------------|---------------|
| <b>Interest Income</b>   |               |               |
| Interest and fees on loans   | \$ 17,055     | \$ 14,321     |
| Securities   |               |               |
| Taxable  | 3,088         | 4,380         |
| Tax-exempt   | 148           | 150           |
| Federal Home Loan Bank dividends                                     | 67            | 30            |
| Deposits with financial institutions                                 | 15            | 14            |
| Total interest and dividend income                                   | 20,373        | 18,895        |
| <b>Interest Expense</b>  |               |               |
| Deposits   | 2,375         | 2,433         |
| Federal Home Loan Bank advances and repurchase agreements            | 938           | 793           |
| Total interest expense   | 3,313         | 3,226         |
| <b>Net Interest Income</b>   | <b>17,060</b> | <b>15,669</b> |
| <b>Provision for Loan Losses</b>                                     | <b>1,366</b>  | <b>460</b>    |
| <b>Net Interest Income After Provision for Loan Losses</b>           | <b>15,694</b> | <b>15,209</b> |
| <b>Noninterest Income</b>  |               |               |
| Customer service fees  | 532           | 506           |
| Other service charges and fees                                       | 212           | 122           |
| Insurance commissions  | 666           | 720           |
| Brokerage commissions  | 672           | 732           |
| Net realized gains (losses) on sale of available-for-sale securities | 620           | (24)          |
| Mortgage banking income, net   | 126           | 185           |
| Gain on sale of loans  | 216           | 123           |
| Bank-owned life insurance income, net                                | 266           | 264           |
| Other  | 785           | 692           |
| Total noninterest income   | 4,095         | 3,320         |

*See Notes to Consolidated Financial Statements*



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|                                       | <b>2016</b> | <b>2015</b> |
|---------------------------------------|-------------|-------------|
| <b>Noninterest Expense</b>            |             |             |
| Compensation and benefits             | \$ 8,971    | \$ 8,474    |
| Office occupancy                      | 584         | 565         |
| Equipment                             | 983         | 995         |
| Federal deposit insurance             | 313         | 301         |
| Stationary, printing and office       | 188         | 184         |
| Advertising                           | 352         | 386         |
| Professional services                 | 485         | 515         |
| Supervisory examination               | 154         | 149         |
| Audit and accounting services         | 138         | 101         |
| Organizational dues and subscriptions | 49          | 50          |
| Insurance bond premiums               | 130         | 119         |
| Telephone and postage                 | 310         | 256         |
| Loss on foreclosed assets, net        |             | 106         |
| Other                                 | 1,552       | 1,219       |
| <br>                                  |             |             |
| Total noninterest expense             | 14,209      | 13,420      |
| <br>                                  |             |             |
| <b>Income Before Income Tax</b>       | 5,580       | 5,109       |
| <br>                                  |             |             |
| <b>Provision for Income Taxes</b>     | 2,014       | 1,835       |
| <br>                                  |             |             |
| <b>Net Income</b>                     | \$ 3,566    | \$ 3,274    |
| <br>                                  |             |             |
| <b>Earnings Per Share:</b>            |             |             |
| Basic                                 | \$ 0.96     | \$ 0.83     |
| Diluted                               | \$ 0.95     | \$ 0.83     |
| <br>                                  |             |             |
| <b>Dividends Paid Per Share</b>       | \$ 0.13     | \$ 0.10     |

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**IF Bancorp, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended June 30, 2016 and 2015**  
(in thousands)

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| <b>Net Income</b>  | \$ 3,566    | \$ 3,274    |
| <b>Other Comprehensive Income (Loss)</b>   |             |             |
| Unrealized appreciation on available-for-sale securities, net of taxes of \$1,078 and \$19 for 2016 and 2015, respectively   | 1,738       | 27          |
| Less: reclassification adjustment for realized gains (losses) included in net income, net of taxes of \$243 and \$(10) for 2016 and 2015, respectively                             | 377         | (14)        |
|  | 1,361       | 41          |
| Postretirement health plan amortization of transition obligation and prior service cost and change in net loss, net of taxes of \$(102) and \$(83) for 2016 and 2015, respectively | (171)       | (123)       |
| Other comprehensive income (loss), net of tax  | 1,190       | (82)        |
| <b>Comprehensive Income</b>  | \$ 4,756    | \$ 3,192    |

*See Notes to Consolidated Financial Statements*

Table of Contents**IF Bancorp, Inc.****Consolidated Statements of Stockholders Equity****Years Ended June 30, 2016 and 2015**

(in thousands)

|  | Common<br>Stock | Additional<br>Paid-In<br>Capital | Unearned<br>ESOP<br>Shares | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total     |
|--|-----------------|----------------------------------|----------------------------|----------------------|---|-----------|
| <b>Balance, July 1, 2014</b>                                 | 44              | 46,689                           | (3,272)                    | 37,544               | 1,081   | 82,086    |
| Net income   |                 |                                  |                            | 3,274                |   | 3,274     |
| Other comprehensive loss                                     |                 |                                  |                            |                      | (82)  | (82)      |
| Dividends on common stock, \$0.10 per share                  |                 |                                  |                            | (403)                |   | (403)     |
| Stock equity plan  |                 | 203                              |                            |                      |   | 203       |
| Stock repurchase, 298,383 shares, average price \$16.60 each | (3)             |                                  |                            | (4,949)              |   | (4,952)   |
| ESOP shares earned, 19,245 shares                            |                 | 117                              | 193                        |                      |   | 310       |
| <b>Balance, June 30, 2015</b>                                | 41              | 47,009                           | (3,079)                    | 35,466               | 999   | 80,436    |
| Net income   |                 |                                  |                            | 3,566                |   | 3,566     |
| Other comprehensive income                                   |                 |                                  |                            |                      | 1,190   | 1,190     |
| Dividends on common stock, \$0.13 per share                  |                 |                                  |                            | (484)                |   | (484)     |
| Stock equity plan  |                 | 377                              |                            | (28)                 |   | 349       |
| Stock repurchase, 83,313 shares, average price \$17.11 each  | (1)             |                                  |                            | (1,425)              |   | (1,426)   |
| ESOP shares earned, 19,245 shares                            |                 | 149                              | 192                        |                      |   | 341       |
| <b>Balance, June 30, 2016</b>                                | \$ 40           | \$ 47,535                        | \$ (2,887)                 | \$ 37,095            | \$ 2,189  | \$ 83,972 |

*See Notes to Consolidated Financial Statements*

**Table of Contents****IF Bancorp, Inc.****Consolidated Statements of Cash Flows****Years Ended June 30, 2016 and 2015****(in thousands)**

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| <b>Operating Activities</b>  |             |             |
| Net income   | \$ 3,566    | \$ 3,274    |
| Items not requiring (providing) cash                                   |             |             |
| Depreciation   | 428         | 430         |
| Provision for loan losses  | 1,366       | 460         |
| Amortization of premiums and discounts on securities                   | 322         | 569         |
| Deferred income taxes  | (230)       | (135)       |
| Net realized gains on loan sales                                       | (216)       | (123)       |
| Net realized (gains) losses on sales of available-for-sale securities  | (620)       | 24          |
| Loss on foreclosed real estate held for sale                           |             | 106         |
| Bank-owned life insurance income, net                                  | (266)       | (264)       |
| Originations of loans held for sale                                    | (15,463)    | (9,793)     |
| Proceeds from sales of loans held for sale                             | 15,837      | 10,136      |
| ESOP compensation expense  | 341         | 310         |
| Stock equity plan expense  | 330         | 203         |
| Changes in   |             |             |
| Accrued interest receivable  | (130)       | 115         |
| Other assets   | (516)       | 110         |
| Accrued interest payable   | (6)         | (31)        |
| Post retirement benefit obligation                                     | 40          | 61          |
| Other liabilities  | 545         | (120)       |
| Net cash provided by operating activities                              | 5,328       | 5,332       |
| <b>Investing Activities</b>  |             |             |
| Net change in interest bearing time deposits                           | (2)         |             |
| Purchases of available-for-sale securities                             | (25,000)    | (49,003)    |
| Proceeds from the sales of available-for-sale securities               | 51,541      | 50,773      |
| Proceeds from maturities and paydowns of available-for-sale securities | 25,255      | 11,663      |
| Net change in loans  | (89,349)    | (27,248)    |
| Purchase of premises and equipment                                     | (214)       | (106)       |
| Proceeds from the sale of foreclosed assets                            | 48          | 578         |
| Net cash used in investing activities                                  | (37,721)    | (13,343)    |

*See Notes to Consolidated Financial Statements*





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|   | <b>2016</b>     | <b>2015</b>      |
|---|-----------------|------------------|
| <b>Financing Activities</b>   |                 |                  |
| Net increase in demand deposits, money market, NOW and savings accounts             | \$ 7,792        | \$ 18,589        |
| Net increase (decrease) in certificates of deposit, including brokered certificates | 10,372          | (7,638)          |
| Net decrease in advances from borrowers for taxes and insurance                     | (23)            | (42)             |
| Proceeds from Federal Home Loan Bank advances                                       | 266,500         | 269,000          |
| Repayment of Federal Home Loan Bank advances  | (257,500)       | (267,750)        |
| Net increase in repurchase agreements   | 368             | 1,700            |
| Dividends paid  | (484)           | (403)            |
| Stock purchase per stock repurchase plan  | (1,426)         | (4,952)          |
| Stock equity plan activity  | 19              |                  |
| <b>Net cash provided by financing activities</b>                                    | <b>25,618</b>   | <b>8,504</b>     |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                             | <b>(6,775)</b>  | <b>493</b>       |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                                 | <b>13,224</b>   | <b>12,731</b>    |
| <b>Cash and Cash Equivalents, End of Year</b>                                       | <b>\$ 6,449</b> | <b>\$ 13,224</b> |
| <b>Supplemental Cash Flows Information</b>  |                 |                  |
| Interest paid   | \$ 3,319        | \$ 3,257         |
| Income taxes paid (net of refunds)  | \$ 2,182        | \$ 1,761         |
| Foreclosed assets acquired in settlement of loans                                   | \$ 337          | \$ 298           |

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**IF Bancorp, Inc.**

**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**(Table dollar amounts in thousands)**

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

***Nature of Operations***

IF Bancorp, Inc., ( IF Bancorp or the Company ) is a Maryland corporation whose principal activity is the ownership and management of its wholly-owned subsidiary, Iroquois Federal Savings and Loan Association ( Iroquois Federal or the Association ).

The Association provides a full range of banking and financial services to individual and corporate customers from our five full-service banking offices located in the municipalities of Watseka, Danville, Clifton, Hoopston and Savoy, Illinois and our loan production and wealth management office in Osage Beach, Missouri. Our primary lending market includes the Illinois counties of Vermilion, Iroquois, and Champaign, as well as the adjacent counties in Illinois and Indiana. Our loan production and wealth management office in Osage Beach, Missouri, serves the Missouri counties of Camden, Miller and Morgan. 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.

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***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.

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 six months 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, 2016 and 2015, cash equivalents consisted primarily of noninterest bearing deposits and interest bearing demand deposits.

***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.

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***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.



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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 |
| Furniture and 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.

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***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.

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.



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***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 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.

Tax positions 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 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. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2012.

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.



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***Earnings Per Share***

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each year. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and restricted stock awards and are determined using the treasury stock method.

***Comprehensive Income***

Comprehensive income 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.

***Stock-based Compensation Plans***

At June 30, 2016, the Company has stock-based compensation plans (stock options and restricted stock) which are described more fully in Note 15.

***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***

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides a five-step revenue recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and must be applied either retrospectively or using the modified retrospective approach. Early adoption is not permitted. Management does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

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

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intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which amends the existing standards for lease accounting effectively bringing most leases onto the balance sheets of the related lessees by requiring them to recognize a right-of-use asset and a corresponding lease liability, while leaving lessor accounting largely unchanged with only targeted changes incorporated into the update. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods with early adoption permitted. The Company is currently evaluating the pending adoption of ASU 2016-02 and its impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718)-Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. The Company is currently evaluating the pending adoption of ASU 2016-09 and its impact on the Company's consolidated financial statements.

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. The Corporation has not yet determined the impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

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

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| <b>Available-for-sale Securities:</b>   |                   |                              |                               |               |
| June 30, 2016:  |                   |                              |                               |               |
| U.S. Government and federal agency and<br>Government sponsored enterprises (GSEs) | \$ 87,193         | \$ 2,912                     | \$                            | \$ 90,105     |
| Mortgage-backed:  |                   |                              |                               |               |
| GSE residential   | 26,418            | 827                          |                               | 27,245        |
| State and political subdivisions  | 3,431             | 547                          |                               | 3,978         |
|   | \$ 117,042        | \$ 4,286                     | \$                            | \$ 121,328    |
| June 30, 2015:  |                   |                              |                               |               |
| U.S. Government and federal agency and<br>Government sponsored enterprises (GSEs) | \$ 105,742        | \$ 2,283                     | \$ (87)                       | \$ 107,938    |
| Mortgage-backed:  |                   |                              |                               |               |
| GSE residential   | 59,213            | 531                          | (904)                         | 58,840        |
| State and political subdivisions  | 3,585             | 267                          |                               | 3,852         |
|   | \$ 168,540        | \$ 3,081                     | \$ (991)                      | \$ 170,630    |

With the exception of U.S. Government and federal agency and GSE securities and Mortgage-backed-GSE residential securities with a book value of \$87,193,000 and \$26,418,000, respectively, and a market value of \$90,105,000 and \$27,245,000, respectively at June 30, 2016, the Company held no securities at June 30, 2016 with a book value that exceeded 10% of total equity.

All mortgage-backed securities at June 30, 2016 and 2015 were issued by government sponsored enterprises.

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The amortized cost and fair value of available-for-sale securities at June 30, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

|                            | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
|----------------------------|---------------------------|-----------------------|
| Within one year            | \$ 14,175                 | \$ 14,329             |
| One to five years          | 41,083                    | 43,576                |
| Five to ten years          | 33,493                    | 33,960                |
| After ten years            | 1,873                     | 2,218                 |
|                            | 90,624                    | 94,083                |
| Mortgage-backed securities | 26,418                    | 27,245                |
| <b>Totals</b>              | <b>\$ 117,042</b>         | <b>\$ 121,328</b>     |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$64,180,000 at June 30, 2016 and \$58,260,000 at June 30, 2015.

Gross gains of \$808,000 and \$516,000 and gross losses of \$188,000 and \$540,000 resulting from sales of available-for-sale securities were realized for 2016 and 2015, respectively. The tax provision (credit) applicable to these net realized gains (losses) amounted to approximately \$243,000 and \$(10,000), 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, 2016 and 2015, was \$0 and \$49,541,000, respectively, which is approximately 0% and 29.0% of the Company's available-for-sale investment portfolio. These declines in fair value at June 30, 2015, resulted from increases in market interest rates and were temporary. There were no securities reported at less than historical cost at June 30, 2016.

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The following table shows the Company's gross unrealized investment losses and the fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and 2015:

| Description of Securities   | Less Than 12 Months |                   | 12 Months or More |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>June 30, 2016:</b>   |                     |                   |                   |                   |            |                   |
| Total temporarily impaired securities   | \$                  | \$                | \$                | \$                | \$         | \$                |
| <b>June 30, 2015:</b>   |                     |                   |                   |                   |            |                   |
| U.S. Government and federal agency and Government sponsored enterprises (GSE's) | \$ 9,913            | \$ (87)           | \$                | \$                | \$ 9,913   | \$ (87)           |
| Mortgage-backed:  |                     |                   |                   |                   |            |                   |
| GSE residential   | 20,875              | (322)             | 18,753            | (582)             | 39,628     | (904)             |
| Total temporarily impaired securities   | \$ 30,788           | \$ (409)          | \$ 18,753         | \$ (582)          | \$ 49,541  | \$ (991)          |

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 June 30, 2015, were caused by interest rate increases. The decline in market value 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 June 30, 2015. The Company had no unrealized investment losses at June 30, 2016.



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Classes of loans at June 30, include:

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Real estate loans                                |             |             |
| One- to four-family, including home equity loans | \$ 149,538  | \$ 144,887  |
| Multi-family                                     | 84,200      | 58,399      |
| Commercial                                       | 119,643     | 103,614     |
| Home equity lines of credit                      | 8,138       | 7,713       |
| Construction                                     | 19,698      | 471         |
| Commercial                                       | 57,826      | 37,151      |
| Consumer   | 10,086      | 8,325       |
|  | 449,129     | 360,560     |
| Less   |             |             |
| Unearned fees and discounts, net                 | 30          | 155         |
| Allowance for loan losses                        | 5,351       | 4,211       |
| Loans, net                                       | \$ 443,748  | \$ 356,194  |

The Company had loans held for sale included in one- to four-family real estate loans totaling \$0 and \$93,000 as of June 30, 2016 and 2015, 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 lending activity includes the origination of one- to four-family residential mortgage loans, multi-family loans, commercial real estate loans, home equity lines of credits, commercial business loans, consumer (consisting primarily of automobile loans), construction loans and land loans. The primary lending market includes the Illinois counties of Vermilion, Iroquois and Champaign, as well as the adjacent counties in Illinois and Indiana. The Company also has a loan production and wealth management office in Osage Beach, Missouri, which serves the Missouri counties of Camden, Miller, and Morgan. Generally, loans are collateralized by assets, primarily real estate, of the borrowers and guaranteed by individuals. The loans are expected to be repaid from cash flows of the borrowers or from proceeds from the sale of selected assets of the borrowers.



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

The Company's policies and loan approval limits are established by the Board of Directors. The loan officers generally have authority to approve one- to four-family residential mortgage loans up to \$100,000, other secured loans up to \$50,000, and unsecured loans up to \$10,000. Managing Officers (those with designated loan approval authority), generally have authority to approve one- to four-family residential mortgage loans up to \$300,000, other secured loans up to \$300,000, and unsecured loans up to \$100,000. In addition, any two individual officers may combine their loan authority limits to approve a loan. Our Loan Committee may approve one- to four-family residential mortgage loans, commercial real estate loans, multi-family real estate loans and land loans up to \$1,000,000 and unsecured loans up to \$300,000. All loans above these limits must be approved by the Operating Committee, consisting of the Chairman, and up to four other Board members. At no time is a borrower's total borrowing relationship to exceed our regulatory lending limit. Loans to related parties, including executive officers and the Company's directors, are reviewed for compliance with regulatory guidelines and the Board of Directors at least annually.

The Company conducts internal loan reviews that validate the loans against the Company's loan policy quarterly for mortgage, consumer, and small commercial loans on a sample basis, and all larger commercial loans on an annual basis. The Company also receives independent loan reviews performed by a third party on larger commercial loans to be performed 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, Audit Committee and the Board of Directors.

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

*One- to four-family Residential Mortgage Loans*

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

*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.



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*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.

*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.



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**(Table dollar amounts in thousands)**

*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 Concentrations*

The loan portfolio includes a concentration of loans secured by commercial real estate properties, including commercial real estate construction loans, amounting to \$222,395,000 and \$162,013,000 as of June 30, 2016 and 2015, 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 \$9,772,000 and \$11,489,000 at June 30, 2016 and 2015, 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 \$47,731,000 and \$27,821,000 at June 30, 2016 and 2015, respectively, of which \$19,303,000 and \$8,814,000, at June 30, 2016 and 2015 were outside of our primary market area. These participation loans are secured by real estate and other business assets.



**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

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, 2016 and 2015:

|   | <b>2016</b>                    |                     |                   |  |                     |
|---|--------------------------------|---------------------|-------------------|--|---------------------|
|   | <b>Real Estate Loans</b>       |                     |                   |  |                     |
|   | <b>One-to four-<br/>family</b> | <b>Multi-family</b> | <b>Commercial</b> | <b>Home Equity<br/>Lines of Credit</b> | <b>Construction</b> |
| <b>Allowance for loan losses:</b>                     |                                |                     |                   |  |                     |
| Balance, beginning of year                            | \$ 1,216                       | \$ 827              | \$ 1,246          | \$ 85                                  | \$ 6                |
| Provision charged to expense                          | 165                            | 375                 | 156               | 41                                     | 221                 |
| Losses charged off                                    | (188)                          |                     | (3)               | (32)                                   |                     |
| Recoveries  | 5                              |                     |                   |  |                     |
| Balance, end of period                                | \$ 1,198                       | \$ 1,202            | \$ 1,399          | \$ 94                                  | \$ 227              |
| Ending balance: individually evaluated for impairment | \$ 6                           | \$                  | \$ 14             | \$                                     | \$                  |
| Ending balance: collectively evaluated for impairment | \$ 1,192                       | \$ 1,202            | \$ 1,385          | \$ 94                                  | \$ 227              |
| <b>Loans:</b>   |                                |                     |                   |  |                     |
| Ending balance  | \$ 149,538                     | \$ 84,200           | \$ 119,643        | \$ 8,138                               | \$ 19,698           |
| Ending balance: individually evaluated for impairment | \$ 2,405                       | \$ 1,457            | \$ 63             | \$ 327                                 | \$                  |
| Ending balance: collectively evaluated for impairment | \$ 147,133                     | \$ 82,743           | \$ 119,580        | \$ 7,811                               | \$ 19,698           |

|                                   | <b>2016 (Continued)</b> |                 |                          |
|-----------------------------------|-------------------------|-----------------|--------------------------|
|                                   | <b>Commercial</b>       | <b>Consumer</b> | <b>Unallocated Total</b> |
| <b>Allowance for loan losses:</b> |                         |                 |                          |
| Balance, beginning of year        | \$ 744                  | \$ 87           | \$ 4,211                 |

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|   |           |           |            |
|---|-----------|-----------|------------|
| Provision charged to expense                          | 396       | 12        | 1,366      |
| Losses charged off                                    |           | (10)      | (233)      |
| Recoveries  |           | 2         | 7          |
| Balance, end of year                                  | \$ 1,140  | \$ 91     | \$ 5,351   |
| Ending balance: individually evaluated for impairment | \$        | \$        | \$ 20      |
| Ending balance: collectively evaluated for impairment | \$ 1,140  | \$ 91     | \$ 5,331   |
| <b>Loans:</b>   |           |           |            |
| Ending balance  | \$ 57,826 | \$ 10,086 | \$ 449,129 |
| Ending balance: individually evaluated for impairment | \$ 9      | \$        | \$ 4,261   |
| Ending balance: collectively evaluated for impairment | \$ 57,817 | \$ 10,086 | \$ 444,868 |

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

|   | <b>2015</b>                    |                     |                   |                        |                     |
|---|--------------------------------|---------------------|-------------------|------------------------|---------------------|
|   | <b>Real Estate Loans</b>       |                     |                   | <b>Home Equity</b>     |                     |
|   | <b>One-to four-<br/>family</b> | <b>Multi-family</b> | <b>Commercial</b> | <b>Lines of Credit</b> | <b>Construction</b> |
| <b>Allowance for loan losses:</b>                     |                                |                     |                   |                        |                     |
| Balance, beginning of year                            | \$ 1,391                       | \$ 842              | \$ 968            | \$ 111                 | \$ 10               |
| Provision charged to expense                          | 27                             | (15)                | 278               | (4)                    | (4)                 |
| Losses charged off                                    | (231)                          |                     |                   | (35)                   |                     |
| Recoveries  | 29                             |                     |                   | 13                     |                     |
| Balance, end of period                                | \$ 1,216                       | \$ 827              | \$ 1,246          | \$ 85                  | \$ 6                |
| Ending balance: individually evaluated for impairment | \$ 57                          | \$                  | \$ 25             | \$                     | \$                  |
| Ending balance: collectively evaluated for impairment | \$ 1,159                       | \$ 827              | \$ 1,221          | \$ 85                  | \$ 6                |
| <b>Loans:</b>   |                                |                     |                   |                        |                     |
| Ending balance  | \$ 145,064                     | \$ 58,399           | \$ 103,614        | \$ 7,713               | \$ 987              |
| Ending balance: individually evaluated for impairment | \$ 3,274                       | \$ 1,537            | \$ 46             | \$ 8                   | \$                  |
| Ending balance: collectively evaluated for impairment | \$ 141,790                     | \$ 56,862           | \$ 103,568        | \$ 7,705               | \$ 987              |

|                                   | <b>2015 (Continued)</b> |                 |                    |              |
|-----------------------------------|-------------------------|-----------------|--------------------|--------------|
|                                   | <b>Commercial</b>       | <b>Consumer</b> | <b>Unallocated</b> | <b>Total</b> |
| <b>Allowance for loan losses:</b> |                         |                 |                    |              |
| Balance, beginning of year        | \$ 543                  | \$ 93           | \$                 | \$ 3,958     |
| Provision charged to expense      | 201                     | (23)            | \$                 | 460          |
| Losses charged off                |                         | (12)            | \$                 | (278)        |
| Recoveries                        |                         | 29              | \$                 | 71           |
| Balance, end of year              | \$ 744                  | \$ 87           | \$                 | \$ 4,211     |

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|   |    |        |    |       |    |  |    |         |
|---|----|--------|----|-------|----|--|----|---------|
| Ending balance: individually evaluated for impairment | \$ |        | \$ | 9     | \$ |  | \$ | 91      |
| Ending balance: collectively evaluated for impairment | \$ | 744    | \$ | 78    | \$ |  | \$ | 4,120   |
| <b>Loans:</b>   |    |        |    |       |    |  |    |         |
| Ending balance  | \$ | 37,151 | \$ | 8,325 | \$ |  | \$ | 361,253 |
| Ending balance: individually evaluated for impairment | \$ | 21     | \$ | 21    | \$ |  | \$ | 4,907   |
| Ending balance: collectively evaluated for impairment | \$ | 37,130 | \$ | 8,304 | \$ |  | \$ | 356,346 |

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**June 30, 2016 and 2015**

**(Table dollar amounts in thousands)**

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 that the loan balance is confirmed as uncollectible. 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.

***Credit Quality Indicators***

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.





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**(Table dollar amounts in thousands)**

**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.

**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.

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**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, as of June 30, 2016 and 2015, based on rating category and payment activity:

| <b>June 30, 2016</b> | <b>Real Estate Loans</b>       |                     |                   |  |                     |
|----------------------|--------------------------------|---------------------|-------------------|--|---------------------|
|                      | <b>One-to four-<br/>family</b> | <b>Multi-family</b> | <b>Commercial</b> | <b>Home Equity<br/>Lines of Credit</b> | <b>Construction</b> |
| Pass                 | \$ 146,924                     | \$ 82,580           | \$ 115,787        | \$ 7,811                               | \$ 19,698           |
| Watch                | 350                            | 1,271               | 3,500             |  |                     |
| Substandard          | 2,264                          | 349                 | 356               | 327                                    |                     |
| Doubtful             |                                |                     |                   |  |                     |
| Loss                 |                                |                     |                   |  |                     |
| <b>Total</b>         | <b>\$ 149,538</b>              | <b>\$ 84,200</b>    | <b>\$ 119,643</b> | <b>\$ 8,138</b>                        | <b>\$ 19,698</b>    |

| <b>June 30, 2016, (Continued)</b> | <b>Commercial</b> | <b>Consumer</b>  | <b>Total</b>      |
|-----------------------------------|-------------------|------------------|-------------------|
| Pass                              | \$ 55,184         | \$ 10,073        | \$ 438,057        |
| Watch                             | 2,633             |                  | 7,754             |
| Substandard                       | 9                 | 13               | 3,318             |
| Doubtful                          |                   |                  |                   |
| Loss                              |                   |                  |                   |
| <b>Total</b>                      | <b>\$ 57,826</b>  | <b>\$ 10,086</b> | <b>\$ 449,129</b> |



**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Real Estate Loans**

| <b>June 30, 2015</b> | <b>One-<br/>to four-<br/>family</b> | <b>Multi-family</b> | <b>Commercial</b> | <b>Home Equity<br/>Lines of Credit Construction</b> |               |
|----------------------|-------------------------------------|---------------------|-------------------|---|---------------|
| Pass                 | \$ 141,355                          | \$ 57,989           | \$ 99,487         | \$ 7,705  | \$ 471        |
| Watch                | 759                                 | 170                 | 748               |   |               |
| Substandard          | 2,773                               | 240                 | 3,379             | 8   |               |
| Doubtful             |                                     |                     |                   |   |               |
| Loss                 |                                     |                     |                   |   |               |
| <b>Total</b>         | <b>\$ 144,887</b>                   | <b>\$ 58,399</b>    | <b>\$ 103,614</b> | <b>\$ 7,713</b>                                     | <b>\$ 471</b> |

| <b>June 30, 2015, (Continued)</b> | <b>Commercial</b> | <b>Consumer</b> | <b>Total</b>      |
|-----------------------------------|-------------------|-----------------|-------------------|
| Pass                              | \$ 36,054         | \$ 8,304        | \$ 351,365        |
| Watch                             | 1,076             |                 | 2,753             |
| Substandard                       | 21                | 21              | 6,442             |
| Doubtful                          |                   |                 |                   |
| Loss                              |                   |                 |                   |
| <b>Total</b>                      | <b>\$ 37,151</b>  | <b>\$ 8,325</b> | <b>\$ 360,560</b> |

The following tables present the Company's loan portfolio aging analysis as of June 30, 2016 and 2015:

|                             | <b>30-59 Days</b>   |                     | <b>60-89 Days</b>               |                           | <b>Total Loans &gt;<br/>90<br/>Days &amp;<br/>Accruing</b> |                                   |
|-----------------------------|---------------------|---------------------|---------------------------------|---------------------------|--|-----------------------------------|
|                             | <b>Past<br/>Due</b> | <b>Past<br/>Due</b> | <b>Greater Than<br/>90 Days</b> | <b>Total Past<br/>Due</b> | <b>Current</b>   | <b>Total Loans<br/>Receivable</b> |
| <b>June 30, 2016</b>        |                     |                     |                                 |                           |  |                                   |
| Real estate loans:          |                     |                     |                                 |                           |  |                                   |
| One- to four-family         | \$ 2,061            | \$ 148              | \$ 1,489                        | \$ 3,698                  | \$ 145,840   | \$ 149,538                        |
| Multi-family                | 181                 |                     |                                 | 181                       | 84,019   | 84,200                            |
| Commercial                  |                     | 97                  | 27                              | 124                       | 119,519  | 119,643                           |
| Home equity lines of credit | 39                  |                     | 316                             | 355                       | 7,783  | 8,138                             |
| Construction                |                     |                     |                                 |                           | 19,698   | 19,698                            |

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|            |          |        |          |          |            |            |       |
|------------|----------|--------|----------|----------|------------|------------|-------|
| Commercial | 33       | 100    |          | 133      | 57,693     | 57,826     |       |
| Consumer   | 16       | 5      | 8        | 29       | 10,057     | 10,086     | 8     |
| Total      | \$ 2,330 | \$ 350 | \$ 1,840 | \$ 4,520 | \$ 444,609 | \$ 449,129 | \$ 12 |

**June 30, 2015**

Real estate loans:

|                             |          |        |          |          |            |            |       |
|-----------------------------|----------|--------|----------|----------|------------|------------|-------|
| One- to four-family         | \$ 2,129 | \$ 724 | \$ 2,279 | \$ 5,132 | \$ 139,755 | \$ 144,887 | \$ 15 |
| Multi-family                | 174      | 31     |          | 205      | 58,194     | 58,399     |       |
| Commercial                  |          | 137    |          | 137      | 103,477    | 103,614    |       |
| Home equity lines of credit | 19       |        |          | 19       | 7,694      | 7,713      |       |
| Construction                |          |        |          |          | 471        | 471        |       |
| Commercial                  |          | 21     |          | 21       | 37,130     | 37,151     |       |
| Consumer                    | 40       |        | 21       | 61       | 8,264      | 8,325      | 7     |
| Total                       | \$ 2,362 | \$ 913 | \$ 2,300 | \$ 5,575 | \$ 354,985 | \$ 360,560 | \$ 22 |

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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. Significant 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 settlement with the borrowers or guarantors, foreclosure of the underlying collateral, or restructuring. Included in certain loan categories in the impaired loans are \$2.3 million in troubled debt restructurings that were classified as impaired.

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The following tables present impaired loans for year ended June 30, 2016 and 2015:

|  | <b>June 30, 2016</b> |                  |                  |                      |                   |                    |
|--|----------------------|------------------|------------------|----------------------|-------------------|--------------------|
|  | <b>Recorded</b>      | <b>Unpaid</b>    | <b>Specific</b>  | <b>Investment in</b> | <b>Interest</b>   | <b>Interest on</b> |
|  | <b>Balance</b>       | <b>Principal</b> | <b>Allowance</b> | <b>Impaired</b>      | <b>Income</b>     | <b>Cash Basis</b>  |
|  |                      |                  |                  | <b>Loans</b>         | <b>Recognized</b> |                    |
| <b>Loans without a specific allowance:</b> |                      |                  |                  |                      |                   |                    |
| <b>Real estate loans:</b>                  |                      |                  |                  |                      |                   |                    |
| One - to four-family                       | \$ 2,291             | \$ 2,291         | \$               | \$ 2,338             | \$ 32             | \$ 42              |
| Multi-family                               | 1,457                | 1,457            |                  | 1,497                | 67                | 90                 |
| Commercial                                 | 28                   | 28               |                  | 29                   |                   |                    |
| Home equity lines of credit                | 327                  | 327              |                  | 346                  |                   | 2                  |
| <b>Construction</b>                        |                      |                  |                  |                      |                   |                    |
| Commercial                                 | 9                    | 9                |                  | 15                   |                   |                    |
| Consumer                                   |                      |                  |                  | 3                    |                   |                    |
| <b>Loans with a specific allowance:</b>    |                      |                  |                  |                      |                   |                    |
| <b>Real estate loans:</b>                  |                      |                  |                  |                      |                   |                    |
| One - to four-family                       | \$ 114               | \$ 114           | \$ 6             | \$ 117               | \$ 1              | \$ 2               |
| Multi-family                               |                      |                  |                  |                      |                   |                    |
| Commercial                                 | 35                   | 35               | 14               | 40                   |                   |                    |
| Home equity lines of credit                |                      |                  |                  |                      |                   |                    |
| <b>Construction</b>                        |                      |                  |                  |                      |                   |                    |
| Commercial                                 |                      |                  |                  |                      |                   |                    |
| Consumer                                   |                      |                  |                  |                      |                   |                    |
| <b>Total:</b>                              |                      |                  |                  |                      |                   |                    |
| <b>Real estate loans:</b>                  |                      |                  |                  |                      |                   |                    |
| One - to four-family                       | \$ 2,405             | \$ 2,405         | \$ 6             | \$ 2,455             | \$ 33             | \$ 44              |
| Multi-family                               | 1,457                | 1,457            |                  | 1,497                | 67                | 90                 |
| Commercial                                 | 63                   | 63               | 14               | 69                   |                   |                    |
| Home equity lines of credit                | 327                  | 327              |                  | 346                  |                   | 2                  |
| <b>Construction</b>                        |                      |                  |                  |                      |                   |                    |
| Commercial                                 | 9                    | 9                |                  | 15                   |                   |                    |
| Consumer                                   |                      |                  |                  | 3                    |                   |                    |

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|       |          |          |       |          |        |        |
|-------|----------|----------|-------|----------|--------|--------|
| Total | \$ 4,261 | \$ 4,261 | \$ 20 | \$ 4,385 | \$ 100 | \$ 136 |
|-------|----------|----------|-------|----------|--------|--------|

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|  | <b>June 30, 2015</b> |                  |                  |                      |                   |                    |
|--|----------------------|------------------|------------------|----------------------|-------------------|--------------------|
|  | <b>Recorded</b>      | <b>Unpaid</b>    |                  | <b>Average</b>       | <b>Interest</b>   |                    |
|  | <b>Balance</b>       | <b>Principal</b> | <b>Specific</b>  | <b>Investment in</b> | <b>Income</b>     | <b>Interest on</b> |
|  |                      | <b>Balance</b>   | <b>Allowance</b> | <b>Impaired</b>      | <b>Recognized</b> | <b>Cash Basis</b>  |
|  |                      |                  |                  | <b>Loans</b>         |                   |                    |
| <b>Loans without a specific allowance:</b> |                      |                  |                  |                      |                   |                    |
| <b>Real estate loans:</b>                  |                      |                  |                  |                      |                   |                    |
| One- to four-family                        | \$ 2,801             | \$ 2,801         | \$               | \$ 2,851             | \$ 18             | \$ 31              |
| Multi-family                               | 1,537                | 1,537            |                  | 1,573                | 69                | 92                 |
| <b>Commercial</b>                          |                      |                  |                  |                      |                   |                    |
| Home equity lines of credit                | 8                    | 8                |                  | 9                    |                   |                    |
| <b>Construction</b>                        |                      |                  |                  |                      |                   |                    |
| Commercial                                 | 21                   | 21               |                  | 25                   |                   |                    |
| Consumer                                   | 6                    | 6                |                  | 9                    |                   |                    |
| <b>Loans with a specific allowance:</b>    |                      |                  |                  |                      |                   |                    |
| <b>Real estate loans:</b>                  |                      |                  |                  |                      |                   |                    |
| One- to four-family                        | \$ 473               | \$ 473           | \$ 57            | \$ 487               | \$ 6              | \$ 11              |
| Multi-family                               |                      |                  |                  |                      |                   |                    |
| Commercial                                 | 46                   | 46               | 25               | 50                   |                   |                    |
| <b>Home equity lines of credit</b>         |                      |                  |                  |                      |                   |                    |
| <b>Construction</b>                        |                      |                  |                  |                      |                   |                    |
| Commercial                                 |                      |                  |                  |                      |                   |                    |
| Consumer                                   | 15                   | 15               | 9                | 22                   | 1                 | 1                  |
| <b>Total:</b>                              |                      |                  |                  |                      |                   |                    |
| <b>Real estate loans:</b>                  |                      |                  |                  |                      |                   |                    |
| One- to four-family                        | \$ 3,274             | \$ 3,274         | \$ 57            | \$ 3,338             | \$ 24             | \$ 42              |
| Multi-family                               | 1,537                | 1,537            |                  | 1,573                | 69                | 92                 |
| Commercial                                 | 46                   | 46               | 25               | 50                   |                   |                    |
| Home equity lines of credit                | 8                    | 8                |                  | 9                    |                   |                    |
| <b>Construction</b>                        |                      |                  |                  |                      |                   |                    |
| Commercial                                 | 21                   | 21               |                  | 25                   |                   |                    |
| Consumer                                   | 21                   | 21               | 9                | 31                   | 1                 | 1                  |
| <b>Total</b>                               | <b>\$ 4,907</b>      | <b>\$ 4,907</b>  | <b>\$ 91</b>     | <b>\$ 5,026</b>      | <b>\$ 94</b>      | <b>\$ 135</b>      |

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.

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

The following table presents the Company's nonaccrual loans at June 30, 2016 and 2015:

|  | <b>2016</b>     | <b>2015</b>     |
|--|-----------------|-----------------|
| Real estate loans                                |                 |                 |
| One- to four-family, including home equity loans | \$ 1,604        | \$ 2,724        |
| Multi-family                                     | 185             | 240             |
| Commercial                                       | 63              | 46              |
| Home equity lines of credit                      | 316             |                 |
| Construction                                     |                 |                 |
| Commercial                                       | 9               | 21              |
| Consumer   |                 | 14              |
| <b>Total</b>                                     | <b>\$ 2,177</b> | <b>\$ 3,045</b> |

At June 30, 2016 and 2015, 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, as of June 30, 2016 and 2015. With the exception of one one- to four-family loan for \$174,000, all were performing according to the terms of the restructuring as of June 30, 2016, and all loans were performing according to the terms of restructuring as of June 30, 2015. As of June 30, 2016 all loans listed were on nonaccrual except for twelve one- to four-family residential loans totaling \$802,000, one multi-family loan for \$1.3 million, and one home equity line of credit for \$11,000. As of June 30, 2015 all loans listed were on nonaccrual except for nine one- to four-family residential loans totaling \$551,000, one multi-family loan for \$1.3 million, and one home equity line of credit for \$8,000.

|                             | <b>June 30, 2016</b> | <b>June 30, 2015</b> |
|-----------------------------|----------------------|----------------------|
| Real estate loans           |                      |                      |
| One- to four-family         | \$ 984               | \$ 1,307             |
| Multi-family                | 1,272                | 1,297                |
| Commercial                  | 9                    | 12                   |
| Home equity lines of credit | 11                   | 8                    |

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|                         |          |          |
|-------------------------|----------|----------|
| Total real estate loans | 2,276    | 2,624    |
| Construction            |          |          |
| Commercial              | 9        | 21       |
| Consumer                |          |          |
| Total                   | \$ 2,285 | \$ 2,645 |

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

The following table represents loans modified as troubled debt restructurings during the years ending June 30, 2016 and 2015:

|                             | Year Ended June 30,<br>2016   |                        | Year Ended June 30,<br>2015   |                        |
|-----------------------------|-------------------------------|------------------------|-------------------------------|------------------------|
|                             | Number<br>of<br>Modifications | Recorded<br>Investment | Number<br>of<br>Modifications | Recorded<br>Investment |
| Real estate loans:          |                               |                        |                               |                        |
| One- to four-family         |                               | \$                     | 2                             | \$ 27                  |
| Home equity lines of credit | 1                             | 4                      | 1                             | 8                      |
| Multi-family                |                               |                        |                               |                        |
| Commercial                  |                               |                        | 1                             | 12                     |
| Total real estate loans     | 1                             | 4                      | 4                             | 47                     |
| Construction                |                               |                        |                               |                        |
| Commercial                  |                               |                        |                               |                        |
| Consumer loans              |                               |                        |                               |                        |
| Total                       | 1                             | \$ 4                   | 4                             | \$ 47                  |

**2016 Modifications**

During the year ended June 30, 2016, the Company modified one home equity line of credit for \$4,000.

**2015 Modifications**

During the year ended June 30, 2015, the Company modified two one- to four-family residential real estate loans, with a recorded investment of \$27,000, which were deemed TDRs. One of the modifications included a one year increase in the interest rate, while the other did not include an interest rate adjustment. Both of the modifications involved payment adjustments or maturity concessions, and did not result in a write-off of the principal balance. Such loans are considered collateral dependent, and the modifications resulted in specific allowances of \$27,000 based upon the fair value of the collateral.

The Company modified one commercial real estate loan during 2015, which had recorded investment of \$12,000 prior to modification and was deemed a TDR. The modification resulted in an increase in the interest rate. The Company modified one home equity line of credit for \$8,000.

**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****TDRs with Defaults**

The Company had one TDR, a one- to four-family residential loan for \$174,000 that was in default as of June 30, 2016, and was restructured in prior years. No loans were in foreclosure at June 30, 2016. The Company had three TDRs, all one- to four-family residential loans totaling \$450,000 that were in default as of June 30, 2015, and were restructured in the prior years. All of these loans were in foreclosure at June 30, 2015. 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 June 30, 2016, the carrying value of foreclosed residential real estate properties as a result of obtaining physical possession was \$338,000. In addition, as of June 30, 2016, we had residential mortgage loans and home equity loans with a carrying value of \$1.1 million collateralized by residential real estate property for which formal foreclosure proceedings were in process.

**Note 4: Premises and Equipment**

Major classifications of premises and equipment, stated at cost, are as follows:

|                               | <b>2016</b> | <b>2015</b> |
|-------------------------------|-------------|-------------|
| Land                          | \$ 895      | \$ 895      |
| Buildings and improvements    | 6,178       | 6,178       |
| Furniture and equipment       | 3,438       | 3,444       |
|                               | 10,511      | 10,517      |
| Less accumulated depreciation | 5,925       | 5,717       |
| Net premises and equipment    | \$ 4,586    | \$ 4,800    |

**Note 5: Loan Servicing**

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was \$79,109,000 and \$73,823,000 at June 30, 2016 and 2015, respectively.

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

Custodial escrow balances in connection with the foregoing loan servicing were \$931,000 and \$909,000 at June 30, 2016 and 2015, respectively.

The aggregate fair value of capitalized mortgage servicing rights at June 30, 2016 and 2015 was \$440,000 and \$505,000, respectively. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as costs to service, a discount rate, custodial earnings rate, default rates and losses and prepayment speeds.

The following summarizes the activity in mortgage servicing rights measured using the fair value method:

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Fair value, beginning of period  | \$ 505      | \$ 506      |
| Additions:   |             |             |
| Servicing assets resulting from asset transfers                          | 58          | 75          |
| Subtractions:  |             |             |
| Payments received and loans refinanced                                   | (63)        | (65)        |
| Changes in fair value, due to changes in valuation inputs or assumptions | (60)        | (11)        |
| Fair value, end of period  | \$ 440      | \$ 505      |

For purposes of measuring impairment, risk characteristics including product type, investor type, and interest rates, were used to stratify the originated mortgage servicing rights.

**Note 6: Interest-bearing Deposits**

Interest-bearing deposits in denominations of \$100,000 or more were \$178,072,000 at June 30, 2016 and \$161,537,000 at June 30, 2015.

The following table represents interest expense by deposit type:

| <b>2016</b> | <b>2015</b> |
|-------------|-------------|
|-------------|-------------|

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|                                  |          |          |
|----------------------------------|----------|----------|
| Savings, NOW, and Money Market   | \$ 226   | \$ 208   |
| Certificates of deposit          | 1,778    | 2,044    |
| Brokered certificates of deposit | 371      | 181      |
| Total deposit interest expense   | \$ 2,375 | \$ 2,433 |

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Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

At June 30, 2016, the scheduled maturities of time deposits; including brokered time deposits, are as follows:

|                     |            |
|---------------------|------------|
| 2017                | \$ 147,809 |
| 2018                | 44,559     |
| 2019                | 32,945     |
| 2020                | 9,925      |
| 2021 and thereafter | 22,746     |
|                     | \$ 257,984 |

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

The Federal Home Loan Bank advances totaled \$67,000,000 and \$58,000,000 as of June 30, 2016 and 2015, respectively. The Federal Home Loan Bank advances are secured by mortgage, multi-family, commercial real estate, and HELOC loans totaling \$273,978,000 at June 30, 2016. Advances at June 30, 2016, at interest rates from 0.52 to 4.55 percent are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities of Federal Home Loan Bank advances at June 30, 2016, are:

|      |           |
|------|-----------|
| 2017 | \$ 61,000 |
| 2018 | 6,000     |
|      | \$ 67,000 |

**Note 8: Repurchase Agreements**

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The carrying value of securities sold under agreement to repurchase amounted to \$4.4 million at June 30, 2016 and \$4.0 million at June 30, 2015. At June 30, 2016, approximately \$770,000 of our repurchase agreements had an overnight maturity, while the remaining \$3.6 million in repurchase agreements had a term of 30 to 90 days. The maximum amount of outstanding agreements at any month-end during 2016 and 2015 totaled \$5,776,000 and \$4,403,000, respectively, and the monthly average of such agreements totaled \$5,111,000 and \$3,398,000 for 2016 and 2015, respectively. 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.

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Note 9: Income Taxes**

The Company and its subsidiary file income tax returns in the U.S. federal jurisdiction and the States of Illinois and Missouri. During the years ended June 30, 2016 and 2015, the Company did not recognize expense for interest or penalties.

The provision for income taxes includes these components:

|                           | <b>2016</b>     | <b>2015</b>     |
|---------------------------|-----------------|-----------------|
| Taxes currently payable   | \$ 2,244        | \$ 1,970        |
| Deferred income taxes     | (230)           | (135)           |
| <b>Income tax expense</b> | <b>\$ 2,014</b> | <b>\$ 1,835</b> |

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

|  | <b>2016</b>     | <b>2015</b>     |
|--|-----------------|-----------------|
| Computed at the statutory rate (34%)       | \$ 1,897        | \$ 1,737        |
| Increase (decrease) resulting from         |                 |                 |
| Tax exempt interest                        | (50)            | (51)            |
| Cash surrender value of life insurance     | (90)            | (90)            |
| State income taxes                         | 208             | 192             |
| Other                                      | 49              | 47              |
| <b>Actual tax expense</b>                  | <b>\$ 2,014</b> | <b>\$ 1,835</b> |
| Tax rate as a percentage of pre-tax income | 36.1%           | 35.9%           |

**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

|   | <b>2016</b>     | <b>2015</b>     |
|---|-----------------|-----------------|
| <b>Deferred tax assets</b>                        |                 |                 |
| Allowance for loan losses                         | \$ 2,091        | \$ 1,694        |
| Reserve for uncollectible interest                | 90              | 75              |
| Accrued retirement liability                      | 891             | 901             |
| Deferred compensation                             | 395             | 364             |
| Deferred loan fees                                | 186             | 163             |
| Charitable foundation contribution                | 234             | 496             |
| Postretirement health plan                        | 270             | 168             |
| Other   | 44              | 28              |
|   | 4,201           | 3,889           |
| <b>Deferred tax liabilities</b>                   |                 |                 |
| Depreciation                                      | (201)           | (256)           |
| Unrealized gains on available-for-sale securities | (1,677)         | (842)           |
| Federal Home Loan Bank stock dividends            | (304)           | (313)           |
| Mortgage servicing rights                         | (172)           | (203)           |
| Deferred loan expense                             | (100)           | (24)            |
| Other   | (1)             | (2)             |
|   | (2,455)         | (1,640)         |
| <b>Net deferred tax asset</b>                     | <b>\$ 1,746</b> | <b>\$ 2,249</b> |

Retained earnings at both June 30, 2016 and 2015, include approximately \$2,217,000, for which no deferred federal income tax liability has been recognized. These amounts represent an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The deferred income tax liabilities on the preceding amounts that would have been recorded if they were expected to reverse into taxable income in the foreseeable future were approximately \$754,000 at both June 30, 2016 and 2015.



**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

The Company established a charitable foundation at the time of its mutual-to-stock conversion and donated to it shares of common stock equal to 7% of the shares sold in the offering, or 314,755 shares. The donated shares were valued at \$3,147,550 (\$10.00 per share) at the time of conversion. The Association also contributed \$450,000 in cash to the Foundation. The \$3,147,550 and the \$450,000 cash donation, or a total of \$3,597,550 was expensed during the quarter ended September 30, 2011. The Company established a deferred tax asset associated with this charitable contribution. No valuation allowance was deemed necessary as it appears the Company will be able to deduct the contribution, which is subject to limitations each year, during the five year carry forward period, which ends June 30, 2017. Management continues to monitor its taxable income projections through June 30, 2017, to determine whether a valuation allowance is needed.

**Note 10: Accumulated Other Comprehensive Income**

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

|   | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|
| Net unrealized gains on securities available for sale         | \$ 4,286    | \$ 2,090    |
| Net unrealized postretirement health benefit plan obligations | (690)       | (417)       |
|   | 3,596       | 1,673       |
| Tax effect  | (1,407)     | (674)       |
| Net-of-tax amount   | \$ 2,189    | \$ 999      |



**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Note 11: 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 years ended June 30, 2016 and 2015, were as follows:

|  | <b>Amounts Reclassified<br/>From AOCI</b> |             | <b>Affected Line Item in the<br/>Condensed Consolidated<br/>Statements of Income</b> |
|--|---|-------------|--|
|  | <b>2016</b>                               | <b>2015</b> |  |
| Unrealized gains (losses) on available-for-sale securities | \$ 620                                    | \$ (24)     | Net realized gains (losses) on sale of available-for-sale securities                 |
| Amortization of defined benefit pension items:             |   |             |  |
| Transition obligation                                      |   | 24          | Components are included in computation of net periodic pension cost                  |
| Actuarial losses   | (225)                                     | (183)       |  |
| Prior service costs  | (48)                                      | (48)        |  |
| Total reclassified amount before tax                       | 347                                       | (231)       |  |
| Tax expense  | (136)                                     | 93          | Provision for Income Tax   |
| Total reclassification out of AOCI                         | \$ 211                                    | \$ (138)    | Net Income   |

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**IF Bancorp, Inc.**

**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**(Table dollar amounts in thousands)**

**Note 12: Regulatory Matters**

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 possibly additional 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 that involve quantitative measures of the Association's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Association's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Association's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Association to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of June 30, 2016 and 2015, that the Association meets all capital adequacy requirements to which it is subject.

As of June 30, 2016, the most recent notification from regulators categorized the Association as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Association must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Association's category.

**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

The Association's actual capital amounts (in thousands) and ratios are also presented in the table.

|  | Actual    |        | Minimum Capital Requirement |       | Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions |        |
|--|-----------|--------|-----------------------------|-------|--|--------|
|  | Amount    | Ratio  | Amount                      | Ratio | Amount   | Ratio  |
| <b>As of June 30, 2016</b>                             |           |        |                             |       |  |        |
| Total capital (to risk-weighted assets)                | \$ 71,159 | 16.12% | \$ 35,307                   | 8.00% | \$ 44,134  | 10.00% |
| Tier 1 capital (to risk-weighted assets)               | 65,808    | 14.91% | 26,480                      | 6.00% | 35,307   | 8.00%  |
| Common Equity Tier 1 capital (to risk-weighted assets) | 65,808    | 14.91% | 19,860                      | 4.50% | 28,687   | 6.50%  |
| Tier 1 capital (to adjusted total assets)              | 65,808    | 11.09% | 23,737                      | 4.00% | 29,671   | 5.00%  |
| Tangible capital (to adjusted tangible assets)         | 65,808    | 11.09% | 8,901                       | 1.50% | N/A  | N/A    |
| <b>As of June 30, 2015</b>                             |           |        |                             |       |  |        |
| Total capital (to risk-weighted assets)                | \$ 69,697 | 19.33% | \$ 28,842                   | 8.00% | \$ 36,052  | 10.00% |
| Tier 1 capital (to risk-weighted assets)               | 65,486    | 18.16% | 21,631                      | 6.00% | 28,842   | 8.00%  |
| Common Equity Tier 1 capital (to risk-weighted assets) | 65,486    | 18.16% | 16,224                      | 4.50% | 23,434   | 6.50%  |
| Tier 1 capital (to adjusted total assets)              | 65,486    | 11.93% | 21,962                      | 4.00% | 27,452   | 5.00%  |
| Tangible capital (to adjusted tangible assets)         | 65,486    | 11.93% | 8,236                       | 1.50% | N/A  | N/A    |

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Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

The following is a reconciliation of the Association equity amounts included in the consolidated balance sheets to the amounts reflected for regulatory purposes:

|   | <b>2016</b>      | <b>2015</b>      |
|---|------------------|------------------|
| Association equity                              | \$ 67,997        | \$ 66,485        |
| Less net unrealized gains                       | 2,609            | 1,248            |
| Less disallowed servicing amounts               |                  |                  |
| Less postretirement benefit plan                | (420)            | (249)            |
| <b>Tier 1 capital</b>                           | <b>65,808</b>    | <b>65,486</b>    |
| Plus allowance for loan losses subject to limit | 5,351            | 4,211            |
| <b>Total risk-based capital</b>                 | <b>\$ 71,159</b> | <b>\$ 69,697</b> |

The Association's ability to pay dividends on its common stock to the Company is restricted to maintain adequate capital as shown in the previous tables. Additionally, prior regulatory approval is required for the declaration of any dividends generally in excess of the sum of net income for the calendar year and retained net income for the preceding two calendar years.

***Basel III Capital Rules***

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

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

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

**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

There are a number of changes in what constitutes regulatory capital, some of which are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Association does not use any of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CETI will be deducted from capital. The Association has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on our regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (increased from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in non-accrual status; a 20% (increased from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (increased from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk weights (0% to 600%) for equity exposures.

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

**Note 13: Related Party Transactions**

At June 30, 2016 and 2015, the Company had loans outstanding to executive officers, directors, significant members and their affiliates (related parties). Changes in loans to executive officers and directors are summarized as follows:

|                            | <b>2016</b> | <b>2015</b> |
|----------------------------|-------------|-------------|
| Balance, beginning of year | \$ 3,819    | \$ 4,519    |
| New loans                  | 3,293       | 421         |
| Repayments                 | (1,543)     | (1,121)     |
| Balance, end of year       | \$ 5,569    | \$ 3,819    |

Deposits from related parties held by the Company at June 30, 2016 and 2015 totaled \$1,396,000 and \$1,421,000, respectively.

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In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

**Note 14: Employee Benefits**

The Company sponsors a noncontributory postretirement health benefit plan (postretirement plan). The postretirement plan provides medical coverage benefits for former employees and their spouses upon retirement. The postretirement plan has no assets to offset the future liabilities incurred under the postretirement plan. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute \$123,000 to the plan in fiscal year 2017.

The Company uses a June 30 measurement date for the plan. Information about the plan's funded status and pension cost follows:

|                              | <b>2016</b> | <b>2015</b> |
|------------------------------|-------------|-------------|
| Change in benefit obligation |             |             |
| Beginning of year            | \$ 2,654    | \$ 2,387    |
| Service cost                 | 46          | 48          |
| Interest cost                | 111         | 100         |
| Actuarial loss               | 266         | 203         |
| Benefits paid                | (110)       | (84)        |
| End of year                  | \$ 2,967    | \$ 2,654    |

Significant balances, costs and assumptions are:

|                    | <b>Postretirement<br/>Plan</b> |             |
|--------------------|--------------------------------|-------------|
|                    | <b>2016</b>                    | <b>2015</b> |
| Benefit obligation | \$ 2,967                       | \$ 2,654    |



Fair value of plan assets

|                                |            |            |
|--------------------------------|------------|------------|
| Funded status                  | \$ (2,967) | \$ (2,654) |
| Accumulated benefit obligation | \$ 2,967   | \$ 2,654   |

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**(Table dollar amounts in thousands)**

Amounts recognized in the consolidated balance sheets:

|                      |          |          |
|----------------------|----------|----------|
| Accrued benefit cost | \$ 2,967 | \$ 2,654 |
|----------------------|----------|----------|

Components of net periodic benefit cost:

|                                      | <b>2016</b> | <b>2015</b> |
|--------------------------------------|-------------|-------------|
| Service cost                         | \$ 46       | \$ 48       |
| Interest cost                        | 111         | 100         |
| Amortization of prior service credit | (48)        | (48)        |
| Amortization of transition amount    |             | 25          |
| Amortization of (Gain) or Loss       | 26          | 9           |
|                                      | \$ 135      | \$ 134      |

Amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

|                      | <b>2016</b> | <b>2015</b> |
|----------------------|-------------|-------------|
| Net loss             | \$ 772      | \$ 531      |
| Prior service credit | (82)        | (129)       |
|                      | \$ 690      | \$ 402      |

Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

Other significant balances and costs are:

|                       | <b>2016</b> | <b>2015</b> |
|-----------------------|-------------|-------------|
| Employer contribution | \$ 110      | \$ 84       |
| Benefits paid         | 110         | 84          |
| Benefit costs         | 135         | 134         |

Other changes in plan assets and benefit obligations recognized in other comprehensive income are described in Note 11.

The estimated net loss, prior service cost and transition obligation for the postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost of the next fiscal year are \$(44,000), \$48,000, and \$0, respectively.

A discount rate of 4.27% and 4.26% were used for 2016 and 2015, to determine the benefit obligations and benefit costs.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

|   | <b>One-<br/>Percentage-<br/>Point<br/>Increase</b> | <b>One-<br/>Percentage-<br/>Point<br/>Decrease</b> |
|---|--|--|
| Effect on total of service and interest cost components | \$ 4   | \$ (4)   |
| Effect on postretirement benefit obligation             | 36   | (40)   |

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016 and 2015, respectively. The rate was assumed to decrease gradually to 5% by the year 2027 and remain at that level thereafter.

The following postretirement plan benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2016:

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|           |        |
|-----------|--------|
| 2017      | \$ 123 |
| 2018      | 134    |
| 2019      | 148    |
| 2020      | 158    |
| 2021      | 167    |
| 2022-2026 | 981    |

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

The Company has a 401(k) plan covering substantially all employees. The Company matches 25% of the first 5% of an employee's contribution. Employer contributions charged to expense for 2016 and 2015 were \$55,000 and \$57,000, respectively. The plan also includes an Employer Profit Sharing contribution which allows all eligible participants to receive at least 5% of their Plan year salary. The Company's contributions for the plan years ended June 30, 2016 and 2015 were \$404,000 and \$500,000, respectively.

The Company has deferred compensation agreements for directors, which provides benefits payable upon normal retirement age of 72. The present value of the estimated liability under the agreement is being accrued using a discount rate of 6 percent. The deferred compensation charged to expense totaled \$171,000 and \$130,000 for the years ended June 30, 2016 and 2015, respectively. The agreements' accrued liability of \$1.0 million and \$906,000 as of June 30, 2016 and 2015, respectively, is included in other liabilities in the consolidated balance sheets. The following benefit payments are expected to be paid for these agreements:

|            |                 |
|------------|-----------------|
| 2017       | \$ 65           |
| 2018       | 65              |
| 2019       | 85              |
| 2020       | 102             |
| 2021       | 135             |
| Thereafter | 3,168           |
|            | <b>\$ 3,620</b> |

**Note 15: Stock-based Compensation**

In connection with the conversion to stock form, the Association established an ESOP for the exclusive benefit of eligible employees (all salaried employees who have completed at least 1,000 hours of service in a twelve-month period and have attained the age of 21). The ESOP borrowed funds from the Company in an amount sufficient to purchase 384,900 shares (approximately 8% of the Common Stock issued in the stock offering). The loan is secured by the shares purchased and will be repaid by the ESOP with funds from contributions made by the Association and dividends received by the ESOP, with funds from any contributions on ESOP assets. Contributions will be applied to repay interest on the loan first, and 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.

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

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 June 30, 2016 and 2015 are as follows (dollars in thousands):

|   | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|
| Allocated shares                                      | 72,524       | 55,350       |
| Shares committed for release                          | 19,245       | 19,245       |
| Unearned shares                                       | 288,675      | 307,920      |
| <br>Total ESOP shares                                 | <br>380,444  | <br>382,515  |
| <br>Fair value of unearned ESOP shares <sup>(1)</sup> | <br>\$ 5,294 | <br>\$ 5,090 |

<sup>(1)</sup> Based on closing price of \$18.34 and \$16.53 per share on June 30, 2016, and 2015, respectively. During the year ended June 30, 2016, 2,071 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.





Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

On December 10, 2013, the Board of Directors approved grants of 85,500 shares of restricted stock and 167,000 in stock options to be awarded to senior officers and directors of the Association. The restricted stock will vest in equal installments over 10 years and the stock options will vest in equal installments over 7 years, both starting in December 2014. On December 10, 2015, the Board of Directors approved grants of 16,900 shares of restricted stock to be awarded to senior officers and directors of the Association. The restricted stock will vest in equal installments over 8 years, starting in December 2016. As of June 30, 2016, 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 year ended June 30, 2016 (dollars in thousands):

|                            | Shares  | Weighted-Average Exercise Price/Share | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------|---------|---------------------------------------|---|---------------------------|
| Outstanding, June 30, 2015 | 167,000 | 16.63                                 |   |                           |
| Granted                    |         |                                       |   |                           |
| Exercised                  | 2,857   | 16.63                                 |   |                           |
| Forfeited                  |         |                                       |   |                           |
| Outstanding, June 30, 2016 | 164,143 | 16.63                                 | 7.4   | \$ 281 <sup>(1)</sup>     |
| Exercisable, June 30, 2016 | 52,714  | 16.63                                 | 7.4   | \$ 90 <sup>(1)</sup>      |

<sup>(1)</sup> Based on closing price of \$18.34 per share on June 30, 2016.

Intrinsic value for stock options is defined as the difference between the current market value and the exercise price. There were no options granted during the year ended June 30, 2016.

There were 31,714 options that vested during the year ended June 30, 2016 which included 9,429 stock options of one participant that vested due to disability. Another participant exercised 2,857 in stock options during the year ended June 30, 2016. Stock-based compensation expense and related tax benefit was considered nominal for stock options for the year ended June 30, 2016. Total unrecognized compensation cost related to non-vested stock options was \$250,000 at June 30, 2016 and is expected to be recognized over a weighted-average period of 4.4 years.



Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

The following table summarizes non-vested restricted stock activity for the year ended June 30, 2016:

|                        | <b>Shares</b> | <b>Weighted-<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|------------------------|---------------|--|
| Balance, June 30, 2015 | 76,950        | \$ 16.63   |
| Granted                | 16,900        | 17.52  |
| Forfeited              |               |  |
| Earned and issued      |               |  |
| Balance, June 30, 2016 | 93,850        | 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 was \$238,000 and \$142,000, and was recognized in non-interest expense for the year ended June 30, 2016 and 2015, respectively. Unrecognized compensation expense for non-vested restricted stock awards was \$1.3 million and is expected to be recognized over 7.4 years with a corresponding credit to paid-in capital.

**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Note 16: Earnings Per Share ( EPS )**

Basic and diluted earnings per common share are presented for the years ended June 30, 2016 and 2015. The factors used in the earnings per common share computation follow:

|   | <b>Year Ended<br/>June 30, 2016</b> | <b>Year Ended<br/>June 30, 2015</b> |
|---|-------------------------------------|-------------------------------------|
| Net income  | \$ 3,566                            | \$ 3,274                            |
| Basic Weighted average shares outstanding                   | 4,029,809                           | 4,242,742                           |
| Less: Average unallocated ESOP shares                       | (298,298)                           | (317,543)                           |
| Average shares outstanding                                  | 3,731,511                           | 3,925,199                           |
| Diluted effect of restricted stock awards and stock options | 3,111                               | 479                                 |
| Diluted average shares outstanding                          | 3,734,622                           | 3,925,678                           |
| Basic earnings per common share                             | \$ 0.96                             | \$ 0.83                             |
| Diluted earnings per common share                           | \$ 0.95                             | \$ 0.83                             |

The Company announced a stock repurchase plan on May 21, 2015, whereby the Company could repurchase up to 210,313 shares of its common stock, or approximately 5% of the then current outstanding shares. There were 83,313 shares of the Company's common stock repurchased by the Company during the year ended June 30, 2016, which completed the repurchase of all 210,313 shares at an average price of \$16.68 per share. The Company announced another stock repurchase plan on February 5, 2016, which allowed the Company to repurchase up to 200,703 shares of its common stock, or approximately 5% of its then current outstanding shares. As of June 30, 2016, no shares had been repurchased under this plan.

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 will vest over 10 years and the stock options will 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 will vest over 8 years, starting in December 2016. In the year ended June 30, 2016, one participant exercised 2,857 stock options and another participant fully vested their

remaining 9,429 stock options and 5,400 shares of restricted stock due to disability.

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Note 17: 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 consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

|  | <b>Fair Value Measurements Using</b> |                    |                     |
|--|--------------------------------------|--------------------|---------------------|
|  | <b>Quoted Prices</b>                 |                    |                     |
|  | <b>in</b>                            |                    |                     |
|  | <b>Active</b>                        |                    |                     |
|  | <b>Markets</b>                       |                    |                     |
|  | <b>for</b>                           |                    |                     |
|  | <b>Identical</b>                     | <b>Significant</b> | <b>Significant</b>  |
|  | <b>Assets</b>                        | <b>Other</b>       | <b>Unobservable</b> |
|  | <b>(Level</b>                        | <b>Observable</b>  | <b>Inputs</b>       |
|  | <b>1)</b>                            | <b>Inputs</b>      | <b>Inputs</b>       |
|  | <b>Fair Value</b>                    | <b>(Level 2)</b>   | <b>(Level 3)</b>    |
| <b>June 30, 2016:</b>                      |                                      |                    |                     |
| Available-for-sale securities:             |                                      |                    |                     |
| US Government and federal agency           | \$ 90,105                            | \$ 90,105          | \$                  |
| Mortgage-backed securities GSE residential | 27,245                               | 27,245             |                     |
| State and political subdivisions           | 3,978                                | 3,978              |                     |

Mortgage servicing rights

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Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

|  |                       | <b>Fair Value Measurements Using<br/>Quoted Prices<br/>in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> |  |            | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|--|-----------------------|---|--|------------|--|--|
|  | <b>Fair<br/>Value</b> |   |  |            |  |  |
| <b>June 30, 2015:</b>                      |                       |   |  |            |  |  |
| Available-for-sale securities:             |                       |   |  |            |  |  |
| US Government and federal agency           | \$ 107,938            | \$  |  | \$ 107,938 | \$   |  |
| Mortgage-backed securities GSE residential | 58,840                |   |  | 58,840     |  |  |
| State and political subdivisions           | 3,852                 |   |  | 3,852      |  |  |
| Mortgage servicing rights                  | 505                   |   |  |            | 505  |  |

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 year ended June 30, 2016. 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 June 30, 2016 or 2015. 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 June 30, 2016 or 2015.





Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)*****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.

Management measures mortgage servicing rights through the completion of a proprietary model. Inputs to the model are developed by the accounting staff and are reviewed by management. The model is tested annually using baseline data to check its accuracy.

***Level 3 Reconciliation***

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

|  | <b>Mortgage<br/>Servicing Rights</b> |
|--|--------------------------------------|
| Balance, July 1, 2014  | \$ 506                               |
| Total realized and unrealized gains and losses included in net income  | (11)                                 |
| Servicing rights that result from asset transfers  | 75                                   |
| Payments received and loans refinanced   | (65)                                 |
| Balance, June 30, 2015   | 505                                  |
| Total realized and unrealized gains and losses included in net income  | (60)                                 |
| Servicing rights that result from asset transfers  | 58                                   |
| Payments received and loans refinanced   | (63)                                 |
| Balance, June 30, 2016   | \$ 440                               |
| 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 | \$ (60)                              |

the reporting date

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.

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Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)*****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 June 30, 2016 and 2015:

|                                       |                   | <b>Fair Value Measurements Using</b> |    |        |
|---------------------------------------|-------------------|--------------------------------------|----|--------|
|                                       |                   | <b>Quoted Prices</b>                 |    |        |
|                                       |                   | <b>in</b>                            |    |        |
|                                       |                   | <b>Active</b>                        |    |        |
|                                       |                   | <b>Markets</b>                       |    |        |
|                                       |                   | <b>for</b>                           |    |        |
|                                       |                   | <b>Identical</b>                     |    |        |
|                                       |                   | <b>Assets</b>                        |    |        |
|                                       |                   | <b>(Level</b>                        |    |        |
|                                       |                   | <b>1)</b>                            |    |        |
|                                       |                   | <b>Significant</b>                   |    |        |
|                                       |                   | <b>Other</b>                         |    |        |
|                                       |                   | <b>Observable</b>                    |    |        |
|                                       |                   | <b>Inputs</b>                        |    |        |
|                                       |                   | <b>(Level</b>                        |    |        |
|                                       |                   | <b>2)</b>                            |    |        |
|                                       |                   | <b>Significant</b>                   |    |        |
|                                       |                   | <b>Unobservable</b>                  |    |        |
|                                       |                   | <b>Inputs</b>                        |    |        |
|                                       |                   | <b>(Level 3)</b>                     |    |        |
|                                       | <b>Fair Value</b> |                                      |    |        |
| <b>June 30, 2016:</b>                 |                   |                                      |    |        |
| Impaired loans (collateral dependent) | \$ 108            | \$                                   | \$ | \$ 108 |
| <b>June 30, 2015:</b>                 |                   |                                      |    |        |
| Impaired loans (collateral dependent) | \$ 63             | \$                                   | \$ | \$ 63  |

The following table presents (losses)/recoveries recognized on assets measured on a non-recurring basis for the years ended June 30, 2016 and 2015:

|   | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|
| Impaired loans (collateral dependent)                               | \$ 48        | \$ 71        |
| Foreclosed and repossessed assets held for sale                     |              | (20)         |
| <b>Total recoveries on assets measured on a non-recurring basis</b> | <b>\$ 48</b> | <b>\$ 51</b> |

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



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**IF Bancorp, Inc.**

**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**(Table dollar amounts in thousands)**

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

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

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

***Foreclosed Assets***

Foreclosed assets consist primarily of real estate owned. Real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by the senior lending officer. Appraisals are reviewed for accuracy and consistency by the senior lending officer. Appraisers are selected from the list of approved appraisers maintained by management.

**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Unobservable (Level 3) Inputs**

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

|                                       | <b>Fair Value at<br/>June 30, 2016</b>     | <b>Valuation<br/>Technique</b> | <b>Unobservable<br/>Inputs</b> | <b>Range (Weighted<br/>Average)</b> |
|---------------------------------------|--|--------------------------------|--------------------------------|-------------------------------------|
| Mortgage servicing rights             | \$ 440                                     | Discounted cash flow           | Discount rate                  | 9.5% - 10.5% (9.5%)                 |
|                                       |  |                                | Constant prepayment rate       | 12.8% - 13.4% (13.3%)               |
|                                       |  |                                | Probability of default         | 0.06% - 0.32% (0.31%)               |
| Impaired loans (collateral dependent) | 108  | Market comparable properties   | Marketability discount         | 11.8% (11.8%)                       |
|                                       | <b>Fair Value at<br/>June 30,<br/>2015</b> | <b>Valuation<br/>Technique</b> | <b>Unobservable<br/>Inputs</b> | <b>Range (Weighted<br/>Average)</b> |
| Mortgage servicing rights             | \$ 505                                     | Discounted cash flow           | Discount rate                  | 9.5% - 10.5% (9.5%)                 |
|                                       |  |                                | Constant prepayment rate       |                                     |

|                                       |    |                              |                        |                       |
|---------------------------------------|----|------------------------------|------------------------|-----------------------|
|                                       |    |                              |                        | 10.0% - 11.5% (10.7%) |
|                                       |    |                              | Probability of default |                       |
|                                       |    |                              |                        | 0.15% - 0.34% (0.33%) |
| Impaired loans (collateral dependent) | 63 | Market comparable properties | Marketability discount | 0% 11.1% (10.1%)      |

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)*****Fair Value of Financial Instruments***

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015.

|   | <b>Carrying<br/>Amount</b> | <b>Fair Value<br/>Measurements<br/>Using<br/>Quoted Prices in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|---|----------------------------|---|--|--|
| <b>June 30, 2016:</b>                                       |                            |   |  |  |
| <b>Financial assets</b>                                     |                            |   |  |  |
| Cash and cash equivalents                                   | \$ 6,449                   | \$ 6,449  | \$   | \$   |
| Interest-bearing time deposits in banks                     | 252                        | 252   |  |  |
| Loans, net of allowance for loan losses                     | 443,748                    |   |  | 442,366  |
| Federal Home Loan Bank stock                                | 5,425                      |   | 5,425  |  |
| Accrued interest receivable                                 | 1,803                      |   | 1,803  |  |
| <b>Financial liabilities</b>                                |                            |   |  |  |
| Deposits  | 433,708                    |   | 175,724  | 258,445  |
| Repurchase agreements                                       | 4,392                      |   | 4,392  |  |
| Federal Home Loan Bank advances                             | 67,000                     |   | 67,273   |  |
| Advances from borrowers for taxes and insurance             | 932                        |   | 932  |  |
| Accrued interest payable                                    | 59                         |   | 59   |  |
| Unrecognized financial instruments (net of contract amount) |                            |   |  |  |
| Commitments to originate loans                              |                            |   |  |  |
| Lines of credit   |                            |   |  |  |



**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)**

|   | <b>Carrying<br/>Amount</b> | <b>Fair Value<br/>Measurements<br/>Using<br/>Quoted Prices in<br/>Active<br/>Markets<br/>for Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|---|----------------------------|---|--|--|
| <b>June 30, 2015:</b>                                       |                            |   |  |  |
| <b>Financial assets</b>                                     |                            |   |  |  |
| Cash and cash equivalents                                   | \$ 13,224                  | \$ 13,224   | \$   | \$   |
| Interest-bearing time deposits in banks                     | 250                        | 250   |  |  |
| Loans, net of allowance for loan losses                     | 356,194                    |   |  | 357,945  |
| Federal Home Loan Bank stock                                | 5,425                      |   | 5,425  |  |
| Accrued interest receivable                                 | 1,673                      |   | 1,673  |  |
| <b>Financial liabilities</b>                                |                            |   |  |  |
| Deposits  | 415,544                    |   | 167,927  | 247,884  |
| Repurchase agreements                                       | 4,024                      |   | 4,024  |  |
| Federal Home Loan Bank advances                             | 58,000                     |   | 58,833   |  |
| Advances from borrowers for taxes and insurance             | 955                        |   | 955  |  |
| Accrued interest payable                                    | 65                         |   | 65   |  |
| Unrecognized financial instruments (net of contract amount) |                            |   |  |  |
| Commitments to originate loans                              |                            |   |  |  |
| Lines of credit   |                            |   |  |  |

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**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**(Table dollar amounts in thousands)**

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

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

The carrying amount approximates fair value.

***Loans***

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

***Deposits***

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

***Federal Home Loan Bank Advances***

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

***Commitments to Originate Loans and Lines of Credit***

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



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**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**(Table dollar amounts in thousands)**

**Note 18: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

**Note 19: Commitments and Credit Risk**

The Company generates commercial, mortgage and consumer loans and receives deposits from customers located in Watseka, Danville, Clifton, Hoopeston, and Savoy, Illinois and within a 100-mile radius of the Company's various locations. The Company generates commercial, mortgage and consumer loans from its location in Osage Beach, Missouri. The Company's loans are generally secured by specific items of collateral including real property and consumer assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon economic conditions in the Company's various locations.

***Commitments to Originate Loans***

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

At June 30, 2016 and 2015, the Company had outstanding commitments to originate loans aggregating approximately \$17,555,000 and \$32,028,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period. Loan commitments at fixed rates of interest amounted to \$11,160,000 and \$28,058,000 at June 30, 2016 and 2015, respectively, with the remainder subject to adjustable interest rates. The weighted average interest rates for fixed rate loan commitments were 4.10% and 4.09% as of June 30, 2016 and 2015, respectively.

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**IF Bancorp, Inc.**

**Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

**(Table dollar amounts in thousands)**

***Lines of Credit***

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

Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At June 30, 2016, the Company had granted unused lines of credit to borrowers aggregating approximately \$51,298,000 and \$5,618,000 for commercial lines and open-end consumer lines, respectively. At June 30, 2015, the Company had granted unused lines of credit to borrowers aggregating approximately \$27,441,000 and \$5,506,000 for commercial lines and open-end consumer lines, respectively.

***Other Credit Risks***

At June 30, 2016 and 2015, the interest-bearing demand deposits on the consolidated balance sheets represent amounts on deposit with one financial institution, the Federal Home Loan Bank of Chicago.

**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Note 20: Condensed Financial Information (Parent Company Only)**

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company as of and for the years ended June 30, 2016 and 2015:

**Condensed Balance Sheet**

|   | <b>June 30,<br/>2016</b> | <b>June 30,<br/>2015</b> |
|---|--------------------------|--------------------------|
| <b>Assets</b>                                 |                          |                          |
| Cash and due from banks                       | \$ 12,658                | \$ 10,206                |
| Investment in common stock of subsidiary      | 67,997                   | 66,485                   |
| ESOP loan                                     | 3,102                    | 3,260                    |
| Deferred income taxes                         | 234                      | 496                      |
| <br>Total assets                              | <br>\$ 83,991            | <br>\$ 80,447            |
| <b>Liabilities</b>                            |                          |                          |
| Other liabilities                             | \$ 19                    | \$ 11                    |
| <br>Total liabilities                         | <br>19                   | <br>11                   |
| <b>Stockholders Equity</b>                    | <b>83,972</b>            | <b>80,436</b>            |
| <br>Total liabilities and stockholders equity | <br>\$ 83,991            | <br>\$ 80,447            |



Table of Contents**IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Condensed Statement of Income and Comprehensive Income**

|  | <b>Year Ending<br/>June 30,<br/>2016</b> | <b>Year Ending<br/>June 30,<br/>2015</b> |
|--|--|--|
| <b>Income</b>  |  |  |
| Interest on ESOP loan  | \$ 104                                   | \$ 109                                   |
| Deposits with financial institutions   |  |  |
| Total income   | 104                                      | 109                                      |
| <b>Expense</b>   | 175                                      | 149                                      |
| <b>Loss Before Income Tax and Equity in Undistributed Income of Subsidiary</b> | (71)                                     | (40)                                     |
| <b>Benefit for Income Taxes</b>  | (26)                                     | (12)                                     |
| <b>Loss Before Equity in Undistributed Loss of Subsidiary</b>                  | (45)                                     | (28)                                     |
| <b>Equity in Undistributed Income of Subsidiary</b>                            | 3,611                                    | 3,302                                    |
| <b>Net Income</b>  | \$ 3,566                                 | \$ 3,274                                 |
| <b>Comprehensive Income</b>  | \$ 4,756                                 | \$ 3,192                                 |

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**Table of Contents****IF Bancorp, Inc.****Notes to Consolidated Financial Statements****June 30, 2016 and 2015****(Table dollar amounts in thousands)****Condensed Statement of Cash Flows**

|   | <b>Year Ended<br/>June 30,<br/>2016</b> | <b>Year Ended<br/>June 30,<br/>2015</b> |
|---|---|---|
| <b>Cash flows from operating activities</b>           |   |   |
| Net income  | \$ 3,566                                | \$ 3,274                                |
| Items not requiring (providing) cash                  |   |   |
| Deferred income tax                                   | 262                                     | 190                                     |
| Net change in other liabilities                       | 8                                       | 7                                       |
| Earnings from subsidiary                              | (3,611)                                 | (3,302)                                 |
| Net cash provided by operating activities             | 225                                     | 169                                     |
| <b>Cash flows from financing activities</b>           |   |   |
| Stock purchase per stock repurchase plan              | (1,426)                                 | (4,952)                                 |
| Stock equity plan activity                            | 19                                      |   |
| Dividends paid  | (524)                                   | (436)                                   |
| Dividends received                                    | 4,000                                   | 5,000                                   |
| Loan for ESOP   | 158                                     | 153                                     |
| Net cash provided by (used in) financing activities   | 2,227                                   | (235)                                   |
| <b>Net Change in Cash and Cash Equivalents</b>        | <b>2,452</b>                            | <b>(66)</b>                             |
| <b>Cash and Cash Equivalents at Beginning of Year</b> | <b>10,206</b>                           | <b>10,272</b>                           |
| <b>Cash and Cash Equivalents at End of Year</b>       | <b>\$ 12,658</b>                        | <b>\$ 10,206</b>                        |