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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended June 30, 2013

OR

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

For the transition period from __________ to __________

Commission File Number: 001-35226

IF BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

(815) 432-2476

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

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

Large accelerated filer ¨	Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE:

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

Explanatory Note

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

(3) Exhibits

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

* Previously filed.

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

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

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

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

SIGNATURES

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

IF BANCORP, INC.

Date: March 13, 2014

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

IF Bancorp, Inc.

Consolidated Financial Statements

Years Ended June 30, 2013 and 2012

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

Audit Committee and Board of Directors

IF Bancorp, Inc.

Watseka, Illinois

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

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

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

/s/ BKD, LLP

Decatur, Illinois

September 23, 2013

IF Bancorp, Inc.

Consolidated Balance Sheets

June 30, 2013 and 2012

(in thousands)

Assets

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

See Notes to Consolidated Financial Statements

Liabilities and Stockholders Equity

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

IF Bancorp, Inc.

Consolidated Statements of Income

Years Ended June 30, 2013 and 2012

(in thousands)

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

See Notes to Consolidated Financial Statements

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

IF Bancorp, Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years Ended June 30, 2013 and 2012

(in thousands)

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

IF Bancorp, Inc.

Consolidated Statements of Stockholders Equity

Years Ended June 30, 2013 and 2012

(in thousands)

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

IF Bancorp, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30, 2013 and 2012

(in thousands)

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

See Notes to Consolidated Financial Statements

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

Supplemental disclosure of noncash financing activities

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

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

Nature of Operations

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

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

Principles of Consolidation

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

Operating Segment

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

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

Use of Estimates

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

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

Interest-bearing Deposits in Banks

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

Cash Equivalents

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

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

Securities

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

Loans Held for Sale

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

Loans

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

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

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

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

Allowance for Loan Losses

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

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

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

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

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

Premises and Equipment

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

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

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

Federal Home Loan Bank Stock

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

Foreclosed Assets Held for Sale

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

Bank-owned Life Insurance

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

Fee Income

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

Mortgage Servicing Rights

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

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

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

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

Transfers of Financial Assets

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

Income Taxes

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

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

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

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

The Company files consolidated income tax returns with its subsidiary.

Earnings Per Share

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

Comprehensive Income (Loss)

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

Transfers between Fair Value Hierarchy Levels

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

Recent and Future Accounting Requirements

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

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

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

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

The new amendments require an organization to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 2: The Conversion

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

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

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

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

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Note 3: Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 4: Loans and Allowance for Loan Losses

Classes of loans at June 30, include:

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

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

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

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

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

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

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

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

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

One-to four-family Residential Mortgage Loans

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

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

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

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Commercial Real Estate and Multi-Family Real Estate Loans

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

Home Equity Lines of Credit

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

Commercial Business Loans

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

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

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Real Estate Construction Loans

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

Consumer Loans

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

The loan portfolio includes a concentration of loans secured by commercial real estate properties amounting to $133,121,000 and $71,472,000 as of June 30, 2013 and 2012, respectively. Generally, these loans are collateralized by multi-family and nonresidential properties. The loans are expected to be repaid from cash flows or from proceeds from the sale of the properties of the borrower.

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

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

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

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

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

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

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

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

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

Allowance for Loan Losses

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

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

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

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

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changes in the volume and severity of past due loans, the volume of non-accrual loans, the volume of troubled debt restructured and other loan modifications, and the volume and severity of adversely classified loans; (7) changes in the quality of the loan review system; (8) changes in the value of the underlying collateral for collateral-dependent loans; (9) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and (10) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current environment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Real Estate Loans				
June 30, 2013	**One-to four-family**	**Multi-family**	**Commercial**	**Home Equity Lines of Credit**	**Construction**
Pass	$ 142,607	$ 56,554	$ 74,115	$ 8,228	$ 2,497
Watch	483	182	370		
Substandard	4,131	1,706	148		
Doubtful			46		
Loss					
Total	$ 147,221	$ 58,442	$ 74,679	$ 8,228	$ 2,497

June 30, 2013, (Continued)	**Commercial**	**Consumer**	**Total**
Pass	$ 18,443	$ 9,598	$ 312,042
Watch	1,010		2,045
Substandard	242	64	6,291
Doubtful			46
Loss			
Total	$ 19,695	$ 9,662	$ 320,424

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	Real Estate Loans				
June 30, 2012	**One-to four-family**	**Multi-family**	**Commercial**	**Home Equity Lines of Credit**	**Construction**
Pass	$ 143,180	$ 37,069	$ 32,830	$ 8,986	$ 8,396
Watch	612				
Substandard	3,894	1,478	95	8	
Doubtful					
Loss					
Total	$ 147,686	$ 38,547	$ 32,925	$ 8,994	$ 8,396

June 30, 2012, (Continued)	**Commercial**	**Consumer**	**Total**
Pass	$ 12,739	$ 13,465	$ 256,665
Watch	1,176		1,788
Substandard	2	113	5,590
Doubtful			
Loss			
Total	$ 13,917	$ 13,578	$ 264,043

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 non-accrual or charged-off at the earlier date if collection of principal and interest is considered doubtful.

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

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The following tables present the Company s loan portfolio aging analysis as of June 30, 2013 and 2012:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
June 30, 2013							
Real estate loans:							
One-to four-family	$ 2,502	$ 827	$ 2,472	$ 5,801	$ 141,420	$ 147,221	$ 30
Multi-family					58,442	58,442	
Commercial	343		46	389	74,290	74,679	
Home equity lines of credit	144	8		152	8,076	8,228	
Construction					2,497	2,497	
Commercial		15		15	19,680	19,695	
Consumer	105	50	44	199	9,463	9,662	
Total	$ 3,094	$ 900	$ 2,562	$ 6,556	$ 313,868	$ 320,424	$ 30
June 30, 2012							
Real estate loans:							
One-to four-family	$ 2,290	$ 1,057	$ 1,949	$ 5,296	$ 142,390	$ 147,686	$
Multi-family					38,547	38,547	
Commercial	176			176	32,749	32,925	
Home equity lines of credit	75	57	7	139	8,855	8,994	
Construction					8,396	8,396	
Commercial	28	11		39	13,878	13,917	
Consumer	185	23	40	248	13,330	13,578	
Total	$ 2,754	$ 1,148	$ 1,996	$ 5,898	$ 258,145	$ 264,043	$

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 $3.2 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, 2013 and 2012:

June 30, 2013	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific allowance:						
Real estate loans:						
One-to four-family	$ 2,375	$ 2,375	$	$ 2,405	$ 14	$ 19
Multi-family	1,706	1,706		1,773	3	5
Commercial	148	148		154	6	7
Home equity lines of credit						
Construction						
Commercial	204	204		233	13	14
Consumer	2	2		3		
Loans with a specific allowance:						
Real estate loans:						
One-to four-family	1,725	1,725	403	1,741	6	9
Multi-family						
Commercial	46	46	8	70		
Home equity lines of credit						
Construction						
Commercial	38	38	5	40		1
Consumer	62	62	25	75	2	3
Total:						
Real estate loans:						
One-to four-family	4,100	4,100	403	4,146	20	28
Multi-family	1,706	1,706		1,773	3	5
Commercial	194	194	8	224	6	7
Home equity lines of credit						
Construction						
Commercial	242	242	5	273	13	15
Consumer	64	64	25	78	2	3
Total	$ 6,306	$ 6,306	$ 441	$ 6,494	$ 44	$ 58

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	June 30, 2012					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized Cash Basis
Loans without a specific allowance:						
Real estate loans:						
One-to four-family	$ 1,563	$ 1,563	$	$ 1,573	$ 4	$ 5
Multi-family						
Commercial						
Home equity lines of credit						
Construction						
Commercial						
Consumer	14	14		17	1	1
Loans with a specific allowance:						
Real estate loans:						
One-to four-family	2,215	2,215	684	2,259	25	32
Multi-family	1,478	1,478	253	1,495	23	32
Commercial	95	95	49	98		
Home equity lines of credit						
Construction						
Commercial	2	2	1	3		
Consumer	99	99	41	113	3	4
Total:						
Real estate loans:						
One-to four-family	3,778	3,778	684	3,832	29	37
Multi-family	1,478	1,478	253	1,495	23	32
Commercial	95	95	49	98		
Home equity lines of credit						
Construction						
Commercial	2	2	1	3		
Consumer	113	113	41	130	4	5
Total	$ 5,466	$ 5,466	$ 1,028	$ 5,558	$ 56	$ 74

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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The following table presents the Company s nonaccrual loans at June 30, 2013 and 2012:

	2013	2012
Real estate loans		
One-to four-family, including home equity loans	$ 3,439	$ 3,667
Multi-family	353	1,477
Commercial	194	95
Home equity lines of credit		
Construction		
Commercial	242	2
Consumer	64	113
Total	$ 4,292	$ 5,354

Included in certain loan categories in the impaired loans are troubled debt restructurings (TDR), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. TDRs are considered impaired at the time of restructuring and may be returned to accrual status after considering the borrower s sustained repayment performance for a reasonable period of at least six months, and typically are returned to performing status after twelve months, unless impairment still exists.

When loans and leases are modified into a TDR, the Company evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, and uses the current fair value of the collateral, less selling costs for collateral dependent loans. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

Beginning with the quarter ended September 30, 2011, the Company adopted ASU 2011-02. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for those receivables newly identified as impaired. As a result of adopting ASU 2011-02, the Company reassessed all restructurings that occurred on or after July 1, 2011, the beginning of our current fiscal year, for identification as TDRs. The Company identified no loans as troubled debt restructurings for which the allowance for loan losses had previously been measured under a general allowance for credit losses methodology. Therefore, there was no additional impact to the allowance for loan losses as a result of the adoption.

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The following table presents the recorded balance, at original cost, of troubled debt restructurings, all of which were performing according to the terms of the restructuring, as of June 30, 2013 and 2012. As of June 30, 2013 all loans listed were on nonaccrual except for eight, one-to four-family residential loans totaling $661,000, and one multi-family loan for $1.4 million. As of June 30, 2012 all loans listed were on nonaccrual except for four, one- to four-family residential loans totaling $310,000.

	June 30, 2013	June 30, 2012
Real estate loans		
One-to four-family	$ 1,808	$ 2,146
Home equity lines of credit		
Multi-family	1,379	1,478
Commercial	46	95
Total real estate loans	3,233	3,719
Construction		
Commercial	39	2
Consumer	2	32
Total	$ 3,274	$ 3,753

The following table represents loans modified as troubled debt restructurings during the years ending June 30, 2013, and 2012:

	Year Ended June 30, 2013		Year Ended June 30, 2012	
	Number of Modifications	Recorded Investment	Number of Modifications	Recorded Investment
Real estate loans:				
One-to four-family	2	$ 176	13	$ 949
Home equity lines of credit				
Multi-family	1	25	1	1,478
Commercial				
Total real estate loans	3	201	14	2,427
Construction				
Commercial	1	38		
Consumer loans			1	8

Total	4	$	239	15	$	2,435

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During the year ended June 30, 2013, the Company modified two one-to four-family residential real estate loans, with a recorded investment of $176,000, which were deemed TDRs. One of the modifications included a one year rate adjustment while the other did not include the lowering of the interest rate. Both of the modifications, totaling $176,000 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 $60,000, based upon the fair value of the collateral.

The Company modified one multi-family residential real estate loan during 2013, which had recorded investment of $25,000 prior to modification and was deemed a TDR. The modification resulted in an extended maturity date without a change in interest rate, which resulted in no specific allowance based upon the fair value of the collateral.

The Company modified one commercial business loan during 2013, which had recorded investment of $38,000 prior to modification and was deemed a TDR. The modification resulted in an extended maturity date without a change in interest rate, which resulted in a specific allowance of $5,000 based upon the fair value of the collateral.

The Company had three TDRs, all one-to four-family residential loans totaling $460,000, that were in default as of June 30, 2013, and were restructured in prior years. All three loans are currently in foreclosure. A fourth loan, a commercial real estate loan for $46,000, defaulted during 2013 and is currently in foreclosure. 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.

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Note 5: Premises and Equipment

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

	2013	2012
Land	$ 824	$ 824
Buildings and improvements	5,376	5,338
Furniture and equipment	3,286	3,423
	9,486	9,585
Less accumulated depreciation	5,193	5,230
Net premises and equipment	$ 4,293	$ 4,355

Note 6: 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 $74,730,000 and $66,721,000 at June 30, 2013 and 2012, respectively.

Custodial escrow balances in connection with the foregoing loan servicing were $783,000 and $693,000 at June 30, 2013 and 2012, respectively.

The aggregate fair value of capitalized mortgage servicing rights at June 30, 2013 and 2012 was $502,000 and $329,000, 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:

	2013	2012
Fair value, beginning of period	$ 329	$ 408
Additions:		
Servicing assets resulting from asset transfers	175	101
Subtractions		
Payments received and loans refinanced	(112)	(51)
Changes in fair value, due to changes in valuation inputs or assumptions	110	(129)
Fair value, end of period	$ 502	$ 329

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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 7: Interest-bearing Deposits

Interest-bearing deposits in denominations of $100,000 or more were $132,183,000 at June 30, 2013 and $134,521,000 on June 30, 2012.

The following table represents interest expense by deposit type:

	2013	2012
Savings, NOW, and Money Market	$ 303	$ 354
Certificates of deposit	1,843	2,502
Brokered certificates of deposit	88	20
Total deposit interest expense	$ 2,234	$ 2,876

At June 30, 2013, the scheduled maturities of time deposits are as follows:

2014	149,421
2015	51,551
2016	18,957
2017	4,971
2018	1,704
	$ 226,604

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Note 8: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances totaled $87,500,000 and $75,000,000 as of June 30, 2013 and 2012, respectively. The Federal Home Loan Bank advances are secured by mortgage, multi-family, and HELOC loans totaling $170,715,000 at June 30, 2013. Advances at June 30, 2013, at interest rates from 0.15 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, 2013, are:

2014	71,500
2015	
2016	
2017	15,000
2018	1,000
	$ 87,500

Note 9: Repurchase Agreements

Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by U.S. Government and federal agency and Government sponsored enterprises and such collateral is held by the Company s safekeeping agent. The maximum amount of outstanding agreements at any month end during 2013 and 2012 totaled $1,691,000 and $0, respectively, and the monthly average of such agreements totaled $692,000 and $0 for 2013 and 2012, respectively. The agreements at June 30, 2013, matured July 5, 2013, and were subsequently renewed.

Note 10: Income Taxes

The Company and its subsidiary file income tax returns in the U.S. federal jurisdiction and the States of Illinois and Missouri. The Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2008. During the years ended June 30, 2013 and 2012, the Company did not recognize expense for interest or penalties.

The provision for income taxes includes these components:

	2013	2012
Taxes currently payable	$ 1,979	$ 1,961
Deferred income taxes	78	(1,402)
Income tax expense	$ 2,057	$ 559

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

	2013	2012
Computed at the statutory rate (34%)	$ 1,961	$ 666
Increase (decrease) resulting from		
Tax exempt interest	(16)	(16)
Cash surrender value of life insurance	(89)	(88)
State income taxes	369	90
Other	(168)	(93)
Actual tax expense	$ 2,057	$ 559
Tax rate as a percentage of pre-tax income	35.7%	28.5%

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

	2013	2012
Deferred tax assets		
Allowance for loan losses	$ 1,592	$ 1,422
Reserve for uncollectible interest	49	41
Accrued retirement liability	911	863
Deferred compensation	275	260
Deferred loan fees	111	114
Charitable foundation contribution	943	1,264
Postretirement health plan	33	15
Unrealized losses on available-for-sale securities	198	
	4,112	3,979
Deferred tax liabilities		
Depreciation	(382)	(384)
Unrealized gains on available-for-sale securities		(3,177)
Federal Home Loan Bank stock dividends	(313)	(313)
Mortgage servicing rights	(202)	(132)
Other	(2)	(101)
	(899)	(4,107)
Net deferred tax asset (liability)	$ 3,213	$ (128)

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Retained earnings at June 30, 2013 and 2012, 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 June 30, 2013 and 2012.

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.

Note 11: Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related taxes were as follows:

	2013	2012
Unrealized gains (losses) on available-for-sale securities	$ (8,128)	$ 5,606
Less reclassification adjustment for realized gains included in income	724	523
	(8,852)	5,083
Postretirement health plan		
Amortization of transition obligation	32	33
Amortization of prior service cost	(48)	(48)
Change in net gain (loss)	(94)	(156)
	(110)	(171)
Other comprehensive income (loss), before tax effect	(8,962)	4,912
Less tax expense (benefit)	(3,419)	1,867
Other comprehensive income (loss)	$ (5,543)	$ 3,045

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

	2013	2012
Net unrealized gains on securities available for sale	$ (492)	$ 8,360
Net unrealized postretirement health benefit plan obligations	(152)	(42)
	(644)	8,318
Tax effect	259	(3,160)
Net-of-tax amount	$ (385)	$ 5,158

Note 12: 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, 2013 and 2012, were as follows:

	Amounts Reclassified from AOCI		Affected Line Item in the Condensed Consolidated Statements of Income
	2013	2012	
Unrealized gains on available-for-sale securities	$ 724	$ 523	Net realized gains on sale of available-for- sale securities
Amortization of defined benefit pension items			Components are included in computation of net periodic pension cost
Transition obligation	$ 32	$ 33	
Prior service costs	$ (48)	$ (48)	
Total reclassified amount before tax	708	508	
Tax expense	(285)	(193)	Provision for Income Tax
Total reclassification out of AOCI	$ 423	$ 315	Net Income

Note 13: 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 consolidated 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 regulatory accounting practices. The Association s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Association s regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Association to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of June 30, 2013 and 2012, that the Association meets all capital adequacy requirements to which they are subject.

As of June 30, 2013, 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 amounts and 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.

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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**
As of June 30, 2013						
Total capital (to risk-weighted assets)						
Company	$ 85,940	27.9%	$ N/A	N/A	$ N/A	N/A
Association	66,467	21.6%	24,669	8.0%	30,836	10.0%
Tier 1 capital (to risk-weighted assets)						
Company	82,084	26.6%	N/A	N/A	N/A	N/A
Association	62,611	20.3%	N/A	N/A	18,502	6.0%
Tier 1 capital (to adjusted total assets)						
Company	82,084	15.0%	N/A	N/A	N/A	N/A
Association	62,611	11.4%	16,408	3.0%	27,346	5.0%
Tangible capital (to adjusted total assets)						
Company	82,084	15.0%	N/A	N/A	N/A	N/A
Association	62,611	11.4%	8,204	1.5%	N/A	N/A
As of June 30, 2012						
Total capital (to risk-weighted assets)	$ 61,771	24.3%	$ 20,340	8.0%	$ 25,426	10.0%
Tier I capital (to risk-weighted assets)	58,588	23.0%	N/A	N/A	15,255	6.0%
Tier I capital (to adjusted total assets)	58,588	11.6%	15,186	3.0%	25,310	5.0%
Tangible capital (to adjusted total assets)	58,588	11.6%	7,593	1.5%	N/A	N/A

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

	2013	2012
Association equity	$ 62,276	$ 63,780
Less net unrealized gains	(294)	5,183
Less disallowed servicing amounts	50	33
Less postretirement benefit plan	(91)	(24)
Tier 1 capital	62,611	58,588
Plus allowance for loan losses subject to limit	3,856	3,183
Total risk-based capital	$ 66,467	$ 61,771

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.

Note 14: Related Party Transactions

At June 30, 2013 and 2012, 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:

	2013	2012
Balance, beginning of year	$ 4,651	$ 5,319
New loans	1,392	475
Repayments	(1,009)	(1,143)
Balance, end of year	$ 5,034	$ 4,651

Deposits from related parties held by the Company at June 30, 2013 and 2012 totaled $888,000 and $1,645,000, 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 15: 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 $66,000 to the plan in fiscal year 2013.

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

	2013	2012
Change in benefit obligation		
Beginning of year	$ 2,149	$ 1,911
Service cost	38	47
Interest cost	79	92
Actuarial gain	146	164
Benefits paid	(68)	(65)
End of year	$ 2,344	$ 2,149

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Significant balances, costs and assumptions are:

	Postretirement Plan 2013	Postretirement Plan 2012
Benefit obligation	$ 2,344	$ 2,149
Fair value of plan assets		
Funded status	$ (2,344)	$ (2,149)
Accumulated benefit obligation	$ 2,344	$ 2,149

Amounts recognized in the consolidated balance sheets:

Accrued benefit cost	$ 2,344	$ 2,183

Components of net periodic benefit cost:

	2013	2012
Service cost	$ 38	$ 47
Interest cost	79	92
Amortization of prior service credit	(48)	(48)
Amortization of transition amount	33	33
Amortization of (Gain) or Loss	1	
	$ 103	$ 124

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

	2013	2012
Net gain	$ 368	$ 224
Prior service credit	(225)	(273)
Transition obligation	58	91
Net (gain) loss	$ 201	$ 42

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Other significant balances and costs are:

	2013	2012
Employer contribution	$ 68	$ 56
Benefits paid	68	56
Benefit costs	103	124

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 $(12,000), $48,000 and $(33,000), respectively.

A discount rate of 3.75% was used in both 2013 and 2012 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:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 1	$ (1)
Effect on postretirement benefit obligation	66	(82)

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013 and 2012, respectively. The rate was assumed to decrease gradually to 5% by the year 2024 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, 2013:

2014	86
2015	98
2016	113
2017	118
2018	128
2019-2023	716

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The Company has a 401(k) plan covering substantially all employees. The Company matches 25% of the first 5% of employee s contribution. Employer contributions charged to expense for 2013 and 2012 were $48,000 and $45,000, 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, 2013 and 2012 were $426,000 and $393,000, 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 and will be evaluated on an annual basis. The deferred compensation charged to expense totaled $51,000 and $143,000 for the year ended June 30, 2013 and 2012, respectively. The agreements accrued liability of $656,000 and $644,000 as of June 30, 2013 and 2012, respectively, is included in other liabilities in the consolidated balance sheets. The following benefit payments are expected to be paid for these agreements:

2014	65
2015	65
2016	65
2017	65
2018	67
Thereafter	2,711
	$ 3,038

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

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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 shares 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, 2013 and 2012 are as follows (dollars in thousands):

	June 30, 2013	June 30, 2012
Allocated shares	19,245	
Shares committed for release	19,245	19,245
Unearned shares	346,410	365,655
Total ESOP shares	384,900	384,900
Fair value of unearned ESOP shares (1)	$ 5,293	$ 4,841

(1) Based on closing price of $15.28 and $13.24 per share on June 30, 2013, and 2012, respectively.

Note 16: Earnings Per Share (EPS)

Basic and diluted earnings per common share are presented for the years ended June 30, 2013 and 2012. Earnings per share data for year ended June 30, 2012 is from the date of conversion on July 7, 2011, to June 30, 2012. The factors used in the earnings per common share computation follow:

	Year Ended June 30, 2013	Year Ended June 30, 2012
Net income	$ 3,710	$ 1,400
Weighted average shares outstanding	4,677,069	4,811,255
Less: Average unallocated ESOP shares	(356,033)	(375,278)
Average shares outstanding	4,321,036	4,435,977
Basic and diluted earnings per common share	$ .86	$ .32

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There were no potential dilutive common shares for the periods presented. There were no common shares outstanding prior to July 8, 2011.

A stock repurchase program was adopted on September 12, 2012. Under the repurchase program, the Company could repurchase up to 240,563 shares of its common stock, or approximately 5% of the then current outstanding shares. As of June 30, 2013, 240,563 shares were repurchased at an average price of $13.88 per share.

Note 17: Disclosures about Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012:

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
June 30, 2013:				
Available-for-sale securities:				
US Government and federal agency	$ 122,333	$	$ 122,333	$
Mortgage-backed securities GSE residential	74,609		74,609	
State and political subdivisions	3,885		3,885	
Mortgage servicing rights	502			502

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
June 30, 2012:				
Available-for-sale securities:				
US Government and federal agency	$ 160,958	$	$ 160,958	$
Mortgage-backed securities GSE residential	58,867		58,867	
State and political subdivisions	3,481		3,481	
Mortgage servicing rights	329			329

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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, 2013. 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, 2013 or 2012. 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 subdivision. 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, 2013 or 2012.

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Mortgage Servicing Rights

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

Level 3 Reconciliation

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

	Mortgage Servicing Rights
Balance, July 1, 2011	$ 408
Total realized and unrealized gains and losses included in net income	(129)
Servicing rights that result from asset transfers	101
Payments received and loans refinanced	(51)
Balance, June 30, 2012	329
Total realized and unrealized gains and losses included in net income	110
Servicing rights that result from asset transfers	175
Payments received and loans refinanced	(112)
Balance, June 30, 2013	$ 502
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ 110

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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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, 2013 and 2012:

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
June 30, 2013:				
Impaired loans (collateral dependent)	$ 581	$	$	$ 581
Foreclosed assets	399			399
June 30, 2012:				
Impaired loans (collateral dependent)	$ 2,438	$	$	$ 2,438
Foreclosed assets	279			279

The following table presents (losses)/recoveries recognized on assets measured on a non-recurring basis for the years ended June 30, 2013 and 2012:

	2013	**2012**
Impaired loans (collateral dependent)	$ 550,000	$ (556,000)
Foreclosed and repossessed assets held for sale	(97,000)	(53,000)
Total losses on assets measured on a non-recurring basis	$ 453,000	$ (609,000)

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

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

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

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

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.

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Unobservable (Level 3) Inputs

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

	Fair Value at June 30, 2013	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 502	Discounted cash flow	Discount rate	10.5% - 11.5% (10.5%)
			Constant prepayment rate	10.7% - 12.68% (11.74%)
			Probability of default	.20% - .35% (.34%)
Impaired loans (collateral dependent)	581	Market comparable properties	Marketability discount	16% - 24% (23%)
Foreclosed assets	399	Market comparable properties	Comparability adjustments (%)	16% (16%)

	Fair Value at June 30, 2012	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 329	Discounted cash flow	Discount rate	10.5% -11.5% (10.5%)
			Constant prepayment rate	16.9% - 22.4% (21.0%)
			Probability of default	.29% - .32% (.32%)
Collateral-dependent impaired loans	2,438	Market comparable properties	Marketability discount	0% -24% (15%)

Foreclosed assets	279	Market comparable properties	Comparability adjustments (%)	12% - 24% (19%)

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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, 2013 and 2012.

	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013:				
Financial assets				
Cash and cash equivalents	$ 6,580	$ 6,580	$	$
Interest-bearing time deposits in banks	250	250		
Loans, net of allowance for loan losses	315,775			319,624
Federal Home Loan Bank stock	5,425		5,425	
Accrued interest receivable	1,688		1,688	
Financial liabilities				
Deposits	371,203		115,560	226,908
Repurchase agreements	1,674		1,674	
Federal Home Loan Bank advances	87,500		89,336	
Advances from borrowers for taxes and insurance	966		966	
Accrued interest payable	44		44	
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans				
Lines of credit				

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	Carrying Amount	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012:				
Financial assets				
Cash and cash equivalents	$ 8,193	$ 8,193	$	$
Interest-bearing time deposits in banks	250	250		
Loans, net of allowance for loan losses	258,910			262,954
Federal Home Loan Bank stock	4,175		4,175	
Accrued interest receivable	1,861		1,861	
Financial liabilities				
Deposits	344,485		144,293	200,893
Federal Home Loan Bank advances	75,000		77,496	
Advances from borrowers for taxes and insurance	955		955	
Accrued interest payable	43		43	
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans				
Lines of credit				

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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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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. Other significant estimates not discussed in those footnotes include:

Current Economic Conditions

The current protracted economic decline continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans.

The accompanying financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company s ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company and Association s regulators could require material adjustments to asset values or the allowance for loan losses for regulatory capital purposes that could affect the Company or Association s measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action.

Note 19: Commitments and Credit Risk

The Company generates commercial, mortgage and consumer loans and receives deposits from customers located in Watseka, Danville, Clifton, and Hoopeston, 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.

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(Table dollar amounts in thousands)

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, 2013 and 2012, the Company had outstanding commitments to originate loans aggregating approximately $12,020,000 and $7,150,000, 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 $8,520,000 and $6,133,000 at June 30, 2013 and 2012, respectively, with the remainder at floating market rates. The weighted average interest rates for fixed rate loan commitments were 3.80% and 4.73% as of June 30, 2013 and 2012, respectively.

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, 2013, the Company had granted unused lines of credit to borrowers aggregating approximately $10,451,000 and $5,412,000 for commercial lines and open-end consumer lines, respectively. At June 30, 2012, the Company had granted unused lines of credit to borrowers aggregating approximately $9,788,000 and $5,673,000 for commercial lines and open-end consumer lines, respectively.

Other Credit Risks

At June 30, 2013 and 2012, 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.

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(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, 2013 and 2012:

Condensed Balance Sheet

	June 30, 2013	**June 30, 2012**
Assets		
Cash and due from banks	$ 14,969	$ 18,001
Investment in common stock of subsidiary	62,276	63,780
ESOP loan	3,562	3,705
Deferred income taxes	942	1,163
Total assets	$ 81,749	$ 86,649
Liabilities		
Other liabilities	$	$
Total liabilities		
Stockholders Equity	81,749	86,649
Total liabilities and stockholders equity	$ 81,749	$ 86,649

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

Condensed Statement of Income and Comprehensive Income (Loss)

	Year Ending June 30, 2013	Year Ending June 30, 2012
Income		
Interest on ESOP loan	$ 119	$ 118
Deposits with financial institutions		25
Total income	119	143
Expense		
Interest expense		24
Charitable contributions		3,148
Other	209	37
Total expense	209	3,209
Loss Before Income Tax and Equity in Undistributed Income of Subsidiary	(90)	(3,066)
Benefit for Income Taxes	(33)	(1,168)
Loss Before Equity in Undistributed Loss of Subsidiary	(57)	(1,898)
Equity in Undistributed Income of Subsidiary	3,767	3,298
Net Income	$ 3,710	$ 1,400
Comprehensive Income (Loss)	$ 1,833	$ 4,445

IF Bancorp, Inc.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(Table dollar amounts in thousands)

Condensed Statement of Cash Flows

	Year Ending June 30, 2013	Year Ending June 30, 2012
Cash flows from operating activities		
Net income	$ 3,710	$ 1,400
Items not requiring (providing) cash		
Deferred income tax	221	
Earnings from subsidiary	(3,767)	
Net cash provided by operating activities	164	1,400
Cash flows from investing activities		
Contribution to subsidiary capital		(22,790)
Net cash used in investing activities		(22,790)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of costs		43,240
Stock purchase per stock repurchase plan	(3,339)	
Loan for ESOP	143	(3,849)
Net cash provided by (used in) financing activities	(3,196)	39,391
Net Change in Cash and Cash Equivalents	(3,032)	18,001
Cash and Cash Equivalents at Beginning of Year	18,001	0
Cash and Cash Equivalents at End of Year	$ 14,969	$ 18,001