META FINANCIAL GROUP INC
Form 10-Q
May 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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: 0-22140

META FINANCIAL GROUP, INC. ®
(Exact name of registrant as specified in its charter)

Delaware	42-1406262
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5501 South Broadband Lane, Sioux Falls, South Dakota 57108
(Address of principal executive offices)

(605) 782-1767
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class:	Outstanding at May 5, 2015:
Common Stock, $.01 par value	6,942,468 Common Shares

META FINANCIAL GROUP, INC.
FORM 10-Q

Table of Contents

PART I - FINANCIAL INFORMATION		2
Item 1.	Financial Statements	2
	Condensed Consolidated Statements of Financial Condition as of March 31, 2015 and September 30, 2014	2
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended March 31, 2015 and 2014	3
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended March 31, 2015 and 2014	4
	Condensed Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended March 31, 2015 and 2014	5
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2015 and 2014	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	56
Item 4.	Controls and Procedures	60
PART II - OTHER INFORMATION		62
Item 1.	Legal Proceedings	62
Item 1A.	Risk Factors	62
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	63
Item 3.	Defaults Upon Senior Securities	63
Item 4.	Mine Safety Disclosures	63
Item 5.	Other Information	63
Item 6.	Exhibits	63
SIGNATURES		64

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

ASSETS	March 31, 2015	September 30, 2014
Cash and cash equivalents	$24,883	$29,832
Investment securities available for sale	526,377	482,346
Mortgage-backed securities available for sale	676,159	657,870
Investment securities held to maturity	242,396	212,899
Mortgage-backed securities held to maturity	68,666	70,034
Loans receivable - net of allowance for loan losses of $5,716 at March 31, 2015 and $5,397 at September 30, 2014	618,744	493,007
Federal Home Loan Bank Stock, at cost	13,250	21,245
Accrued interest receivable	12,466	11,222
Insurance receivable	-	269
Premises, furniture, and equipment, net	17,563	16,462
Bank-owned life insurance	36,034	35,469
Foreclosed real estate and repossessed assets	-	15
Goodwill	11,578	-
Intangible assets	10,380	2,588
Prepaid assets	8,826	9,495
Deferred taxes	2,824	6,591
MPS accounts receivable	4,852	3,935
Other assets	94	752
Total assets	$2,275,092	$2,054,031
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	$1,558,459	$1,126,715
Interest-bearing checking	36,021	37,188
Savings deposits	37,029	27,610
Money market deposits	37,491	40,475
Time certificates of deposit	61,672	134,553
Total deposits	1,730,672	1,366,541
Advances from Federal Home Loan Bank	7,000	7,000
Federal funds purchased	261,000	470,000
Securities sold under agreements to repurchase	11,637	10,411
Subordinated debentures	10,310	10,310
Accrued interest payable	160	318
Contingent liability	331	331
Accrued expenses and other liabilities	37,536	14,318

Total liabilities	2,058,646	1,879,229
STOCKHOLDERS' EQUITY		
Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at March 31, 2015 and September 30, 2014, respectively	-	-
Common stock, $.01 par value; 10,000,000 shares authorized, 6,959,833 and 6,213,979 shares issued, 6,939,583 and 6,169,604 shares outstanding at March 31, 2015 and September 30, 2014, respectively	70	62
Additional paid-in capital	120,537	95,079
Retained earnings	90,887	83,797
Accumulated other comprehensive income (loss)	5,262	(3,409)
Treasury stock, 20,250 and 44,375 common shares, at cost, at March 31, 2015 and September 30, 2014, respectively	(310)	(727)
Total stockholders' equity	216,446	174,802
Total liabilities and stockholders' equity	$2,275,092	$2,054,031

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Interest and dividend income:				
Loans receivable, including fees	$7,637	$4,750	$14,033	$9,221
Mortgage-backed securities	3,919	3,925	7,743	7,608
Other investments	4,203	3,388	8,215	6,396
	15,759	12,063	29,991	23,225
Interest expense:				
Deposits	172	221	404	494
FHLB advances and other borrowings	301	323	730	699
	473	544	1,134	1,193
Net interest income	15,286	11,519	28,857	22,032
Provision (recovery) for loan losses	593	300	641	300
Net interest income after provision for loan losses	14,693	11,219	28,216	21,732
Non-interest income:				
Card fees	13,663	12,055	26,752	24,948
Loan fees	813	438	1,127	645
Bank-owned life insurance	280	281	566	570
Deposit fees	141	140	297	297
Gain (loss) on sale of securities available for sale, net (Includes $17 and ($1,243) reclassified from accumulated other comprehensive income (loss) for net gains (losses) on available for sale securities for the three and six months ended March 31, 2015)	17	98	(1,243)	97
Gain (loss) on foreclosed real estate	2	2	28	5
Other income	54	49	117	88
Total non-interest income	14,970	13,063	27,644	26,650
Non-interest expense:				
Compensation and benefits	11,668	10,019	22,199	18,970
Card processing	3,810	3,573	8,506	7,818
Occupancy and equipment	2,835	2,498	5,438	4,549
Legal and consulting	996	783	2,217	2,166
Data processing	331	338	681	672
Marketing	341	213	645	433
Other expense	3,439	2,319	6,147	4,196
Total non-interest expense	23,420	19,743	45,833	38,804

Income before income tax expense	6,243	4,539	10,027	9,578
Income tax expense (Includes $6 and ($451) income tax expense (benefit) reclassified from accumulated other comprehensive income (loss) for the three and six months ended March 31, 2015)	1,062	395	1,251	1,432
Net income	$5,181	$4,144	$8,776	$8,146
Earnings per common share:				
Basic	$0.79	$0.68	$1.38	$1.34
Diluted	$0.78	$0.67	$1.37	$1.32

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Net income	$5,181	$4,144	$8,776	$8,146
Other comprehensive income (loss):				
Change in net unrealized gain (loss) on securities	5,940	14,286	12,452	7,745
Losses (gains) realized in net income	(17)	(98)	1,243	(97)
	5,923	14,188	13,695	7,648
Deferred income tax effect	2,189	5,180	5,024	2,848
Total other comprehensive income (loss)	3,734	9,008	8,671	4,800
Total comprehensive income (loss)	$8,915	$13,152	$17,447	$12,946

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Six Months Ended March 31, 2015 and 2014
(Dollars in Thousands, Except Share and Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2013	$ 61	$ 92,963	$ 71,268	$ (20,285)	$ (1,023)	$ 142,984
Cash dividends declared on common stock ($0.26 per share)	-	-	(1,588)	-	-	(1,588)
Issuance of common shares from the sales of equity securities	1	(52)	-	-	-	(51)
Issuance of common shares due to issuance of stock options and restricted stock	-	1,040	-	-	296	1,336
Stock compensation	-	33	-	-	-	33
Net change in unrealized losses on securities, net of income taxes	-	-	-	4,800	-	4,800
Net income	-	-	8,146	-	-	8,146
Balance, March 31, 2014	$ 62	$ 93,984	$ 77,826	$ (15,485)	$ (727)	$ 155,660
Balance, September 30, 2014	$ 62	$ 95,079	$ 83,797	$ (3,409)	$ (727)	$ 174,802
Cash dividends declared on common stock ($0.26 per share)	-	-	(1,686)	-	-	(1,686)
Issuance of common shares from the sales of equity securities	8	25,282	-	-	417	25,707
Issuance of common shares due to issuance of stock options and restricted stock	-	176	-	-	-	176
Net change in unrealized losses on securities, net of income taxes	-	-	-	8,671	-	8,671
Net income	-	-	8,776	-	-	8,776
Balance, March 31, 2015	$ 70	$ 120,537	$ 90,887	$ 5,262	$ (310)	$ 216,446

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in Thousands)

	Six Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net income	$8,776	$8,146
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	12,097	8,979
Provision (recovery) for loan losses	641	300
Provision (recovery) for deferred taxes	(1,236)	(694)
(Gain) loss on other assets	(646)	(39)
(Gain) loss on sale of securities available for sale, net	1,243	(97)
Capital lease interest expense	(66)	-
Net change in accrued interest receivable	(1,245)	(1,026)
Net change in other assets	619	(1,875)
Net change in accrued interest payable	(157)	(124)
Net change in accrued expenses and other liabilities	18,867	(5,241)
Net cash provided by (used in) operating activities	38,893	8,329
Cash flows from investing activities:		
Purchase of securities available for sale	(376,357)	(257,319)
Proceeds from sales of securities available for sale	264,631	68,167
Proceeds from maturities and principal repayments of securities available for sale	53,414	39,650
Purchase of securities held to maturity	(33,526)	(7,410)
Proceeds from maturities and principal repayments of securities held to maturity	4,078	3,302
Purchase of bank owned life insurance	-	(500)
Loans purchased	-	(1,784)
Loans sold	(5,472)	-
Net change in loans receivable	(46,786)	(44,103)
Proceeds from sales of foreclosed real estate	43	-
Net cash paid for acquisition	(92,308)	-
Federal Home Loan Bank stock purchases	(215,085)	(186,691)
Federal Home Loan Bank stock redemptions	223,080	186,040
Proceeds from the sale of premises and equipment	2,096	1,169
Purchase of premises and equipment	(2,148)	(969)
Net cash provided by (used in) investing activities	(224,340)	(200,448)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	437,012	238,479
Net change in time deposits	(72,881)	(58,602)
Proceeds from federal funds purchased	(209,000)	15,000
Net change in securities sold under agreements to repurchase	1,226	(3,620)
Capital lease amortization	(56)	-
Cash dividends paid	(1,686)	(1,588)
Stock compensation	-	33

Proceeds from issuance of common stock	25,883	1,285
Net cash provided by (used in) financing activities	180,498	190,987
Net change in cash and cash equivalents	(4,949)	(1,132)
Cash and cash equivalents at beginning of period	29,832	40,063
Cash and cash equivalents at end of period	$24,883	$38,931
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$1,292	$1,317
Income taxes	3,120	2,677
Franchise taxes	39	-
Other taxes	41	-
Supplemental schedule of non-cash investing activities:		
Securities transferred from available for sale to held to maturity	$310	$-
Sale leaseback	2,259	-

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

NOTE 1. BASIS OF PRESENTATION

The interim unaudited Condensed Consolidated Financial Statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2014 included in Meta Financial Group, Inc.'s ("Meta Financial" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on December 12, 2014. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the three and six month periods ended March 31, 2015, are not necessarily indicative of the results expected for the year ending September 30, 2015.

NOTE 2. ACQUISITION

On December 2, 2014, the Company, through its wholly-owned subsidiary, MetaBank, purchased substantially all of the commercial loan portfolio and related assets of AFS/IBEX Financial Services, Inc. ("AFS/IBEX"), an insurance premium finance company based in Dallas, Texas. Following the acquisition, MetaBank established its AFS/IBEX division, which provides short-term, collateralized financing to facilitate the purchase of insurance for commercial property, casualty, and liability risk through a network of over 1,300 independent insurance agencies throughout the United States. In addition to its operations at the bank's main office, the AFS/IBEX division has two agency offices, one in Dallas, Texas and one in southern California.

Under the terms of the purchase agreement, the aggregate purchase price, which was based upon the December 2, 2014 tangible book value of AFS/IBEX, was approximately $99.3 million, all of which was paid in cash. The Company acquired assets with approximate fair values of $6.9 million cash and cash equivalents, $74.1 million net loans receivable, $0.7 million other assets, $8.2 million intangible assets including customer relationships, trademark, and non-compete agreements, and $11.6 million goodwill. The Company also assumed liabilities of $2.2 million consisting of accrued expenses and other liabilities. All amounts are at estimated fair market values.

Table of Contents

The following table represents the approximate fair value of assets acquired and liabilities assumed of AFS/IBEX on the consolidated balance sheet as of December 2, 2014:

	As of December 2, 2014 (Dollars in Thousands)
Fair value of consideration paid	
Cash	$ 99,255
Total consideration paid	99,255
Fair value of assets acquired	
Cash and cash equivalents	6,947
Loans receivable, net	74,120
Prepaid assets	156
Furniture and equipment, net	449
Intangible assets	8,213
Other assets	6
Total assets	89,891
Fair value of liabilities assumed	
Accrued expenses and other liabilities	2,214
Total liabilities assumed	2,214
Fair value of net assets acquired	87,677
Goodwill resulting from acquisition	$ 11,578

The AFS/IBEX transaction has been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the transaction date. The Company made significant estimates and exercised judgment in estimating fair values and accounting for such acquired assets and liabilities.

The Company recognized goodwill of $11.6 million which is calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable assets acquired. Goodwill resulted from expected operational synergies, an enhanced market area, and expanded product lines and is expected to be deductible for tax purposes. See Note 12 to the Condensed Consolidated Financial Statements for further information on goodwill.

Acquired loans were recorded at fair value based on a discounted cash flow valuation which considered default rates, loss given defaults, and recovery rates, among other things. No allowance for credit losses was recorded on December 2, 2014.

NOTE 3. CREDIT DISCLOSURES

The allowance for loan losses represents management’s estimate of probable loan losses which have been incurred as of the date of the consolidated financial statements. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Management’s periodic evaluation of the appropriateness of the allowance is based on the Company’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, the estimated value of any underlying collateral, and current

economic conditions. While management may periodically allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.

Table of Contents

Loans are considered impaired if full principal or interest payments are not probable in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance.

The allowance consists of specific, general, and unallocated components. The specific component relates to impaired loans. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers loans not considered impaired and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Smaller-balance homogenous loans are collectively evaluated for impairment. Such loans include premium finance loans, residential first mortgage loans secured by one-to-four family residences, residential construction loans, and automobile, manufactured homes, home equity and second mortgage loans. Commercial and agricultural loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 210 days or more for premium finance loans and 90 days or more for other loan categories. Non-accrual loans and all troubled debt restructurings are considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Table of Contents

Loans receivable at March 31, 2015 and September 30, 2014 are as follows:

	March 31, 2015	September 30, 2014
	(Dollars in Thousands)	
1-4 Family Real Estate	$ 115,741	$ 116,395
Commercial and Multi-Family Real Estate	260,537	224,302
Agricultural Real Estate	65,720	56,071
Consumer	30,535	29,329
Commercial Operating	27,266	30,846
Agricultural Operating	41,749	42,258
Premium Finance	83,191	-
Total Loans Receivable	624,739	499,201
Less:		
Allowance for Loan Losses	(5,716)	(5,397)
Net Deferred Loan Origination Fees	(279)	(797)
Total Loans Receivable, Net	$ 618,744	$ 493,007

Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three and six month periods ended March 31, 2015 and 2014 is as follows:

	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Unallocated	Total
	(Dollars in Thousands)								
Three Months Ended March 31, 2015									
Allowance for loan losses:									
Beginning balance	$ 512	$ 1,198	$ 266	$ 78	$ 85	$ 630	$ 35	$ 2,421	$ 5,225
Provision (recovery) for loan losses	55	20	(1)	-	14	37	192	276	593
Charge offs	(45)	-	-	-	-	-	(81)	-	(126)
Recoveries	-	-	-	-	2	-	22	-	24
Ending balance	$ 522	$ 1,218	$ 265	$ 78	$ 101	$ 667	$ 168	$ 2,697	$ 5,716
Six Months Ended March 31, 2015									

Allowance for loan losses:									
Beginning balance	$552	$1,575	$263	$78	$93	$719	$-	$2,117	$5,397
Provision (recovery) for loan losses	15	(149)	2	-	5	(52)	240	580	641
Charge offs	(45)	(214)	-	-	-	-	(98)	-	(357)
Recoveries	-	6	-	-	3	-	26	-	35
Ending balance	$522	$1,218	$265	$78	$101	$667	$168	$2,697	$5,716
Ending balance: individually evaluated for impairment	-	296	-	1	-	326	-	-	623
Ending balance: collectively evaluated for impairment	522	922	265	77	101	341	168	2,697	5,093
Total	$522	$1,218	$265	$78	$101	$667	$168	$2,697	$5,716
Loans:									
Ending balance: individually evaluated for impairment	181	1,410	-	1	16	6,134	-	-	7,742
Ending balance: collectively evaluated for impairment	115,560	259,127	65,720	30,534	27,250	35,615	83,191	-	616,997
Total	$115,741	$260,537	$65,720	$30,535	$27,266	$41,749	$83,191	$-	$624,739

Table of Contents

	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Unallocated	Total
	(Dollars in Thousands)								
Three Months Ended March 31, 2014									
Allowance for loan losses:									
Beginning balance	$ 341	$ 1,552	$ 124	$ 72	$ 56	$ 248	$ -	$ 1,865	$ 4,258
Provision (recovery) for loan losses	(54)	114	111	(1)	(4)	230	-	(96)	300
Charge offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	14	-	-	-	14
Ending balance	$ 287	$ 1,666	$ 235	$ 71	$ 66	$ 478	$ -	$ 1,769	$ 4,572
Six Months Ended March 31, 2014									
Allowance for loan losses:									
Beginning balance	$ 333	$ 1,937	$ 112	$ 74	$ 49	$ 267	$ -	$ 1,158	$ 3,930
Provision (recovery) for loan losses	(46)	(599)	123	(3)	3	211	-	611	300
Charge offs	-	-	-	-	-	-	-	-	-
Recoveries	-	328	-	-	14	-	-	-	342
Ending balance	$ 287	$ 1,666	$ 235	$ 71	$ 66	$ 478	$ -	$ 1,769	$ 4,572
Ending balance: individually evaluated for impairment	25	366	-	-	-	-	-	-	391
Ending balance: collectively evaluated for impairment	262	1,300	235	71	66	478	-	1,769	4,181
Total	$ 287	$ 1,666	$ 235	$ 71	$ 66	$ 478	$ -	$ 1,769	$ 4,572
Loans:									
Ending balance: individually evaluated for impairment	673	5,703	-	-	30	-	-	-	6,406
	99,054	205,632	35,206	27,112	22,000	35,770	-	-	424,774

Ending balance: collectively evaluated for impairment									
Total	$99,727	$ 211,335	$ 35,206	$ 27,112	$ 22,030	$ 35,770	$ -	$ -	$431,180

Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by our regulator, the Office of the Comptroller of the Currency (the "OCC"), to be of lesser quality as "substandard," "doubtful" or "loss." The loan classification and risk rating definitions are as follows:

Pass- A pass asset is of sufficient quality in terms of repayment, collateral and management to preclude a special mention or an adverse rating.

Watch- A watch asset is generally credit performing well under current terms and conditions but with identifiable weakness meriting additional scrutiny and corrective measures. Watch is not a regulatory classification but can be used to designate assets that are exhibiting one or more weaknesses that deserve management's attention. These assets are of better quality than special mention assets.

Special Mention- Special mention assets are credits with potential weaknesses deserving management's close attention and if left uncorrected, may result in deterioration of the repayment prospects for the asset. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Special mention is a temporary status with aggressive credit management required to garner adequate progress and move to watch or higher.

The adverse classifications are as follows:

Substandard- A substandard asset is inadequately protected by the net worth and/or repayment ability or by a weak collateral position. Assets so classified have well-defined weaknesses creating a distinct possibility that the Bank will sustain some loss if the weaknesses are not corrected. Loss potential does not have to exist for an asset to be classified as substandard.

Table of Contents

Doubtful- A doubtful asset has weaknesses similar to those classified substandard, with the degree of weakness causing the likely loss of some principal in any reasonable collection effort. Due to pending factors the asset's classification as loss is not yet appropriate.

Loss- A loss asset is considered uncollectible and of such little value that the asset's continuance on the Bank's balance sheet is no longer warranted. This classification does not necessarily mean an asset has no recovery or salvage value leaving room for future collection efforts.

General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When assets are classified as "loss," the Bank is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. The Bank's determinations as to the classification of its assets and the amount of its valuation allowances are subject to review by its regulatory authorities, which may order the establishment of additional general or specific loss allowances.

The Company recognizes that concentrations of credit may naturally occur and may take the form of a large volume of related loans to an individual, a specific industry, a geographic location, or an occupation. Credit concentration is a direct, indirect, or contingent obligation that has a common bond where the aggregate exposure equals or exceeds a certain percentage of the Bank's Tier 1 Capital plus the Allowance for Loan Losses.

The asset classification of loans at March 31, 2015 and September 30, 2014 are as follows:

March 31, 2015	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Total
	(Dollars in Thousands)							
Pass	$115,307	$ 257,664	$ 62,999	$ 30,534	$ 26,715	$ 25,555	$83,191	$601,965
Watch	131	1,821	259	1	385	1,860	-	4,457
Special Mention	223	94	877	-	-	5,517	-	6,711
Substandard	80	958	1,585	-	166	8,817	-	11,606
Doubtful	-	-	-	-	-	-	-	-
	$115,741	$ 260,537	$ 65,720	$ 30,535	$ 27,266	$ 41,749	$83,191	$624,739

September 30, 2014	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Total
	(Dollars in Thousands)							
Pass	$115,700	$ 222,074	$ 52,364	$ 29,329	$ 30,709	$ 32,261	$ -	$482,437
Watch	369	852	273	-	137	369	-	2,000
Special Mention	81	96	1,660	-	-	63	-	1,900
Substandard	245	1,280	1,774	-	-	9,565	-	12,864
Doubtful	-	-	-	-	-	-	-	-
	$116,395	$ 224,302	$ 56,071	$ 29,329	$ 30,846	$ 42,258	$ -	$499,201

One-to-Four Family Residential Mortgage Lending. One-to-four family residential mortgage loan originations are generated by the Company's marketing efforts, its present customers, walk-in customers and referrals. The Company offers fixed-rate and adjustable rate mortgage ("ARM") loans for both permanent structures and those under construction. The Company's one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas.

The Company originates one-to-four family residential mortgage loans with terms up to a maximum of 30-years and with loan-to-value ratios up to 100% of the lesser of the appraised value of the security property or the contract price. The Company generally requires that private mortgage insurance be obtained in an amount sufficient to reduce the Company's exposure to at or below the 80% loan to value level, unless the loan is insured by the Federal Housing Administration, guaranteed by Veterans Affairs or guaranteed by the Rural Housing Administration. Residential loans generally do not include prepayment penalties.

The Company currently offers five and ten year ARM loans. These loans have a fixed-rate for the stated period and, thereafter, adjust annually. These loans generally provide for an annual cap of up to 200 basis points and a lifetime cap of 600 basis points over the initial rate. As a consequence of using an initial fixed-rate and caps, the interest rates on these loans may not be as rate sensitive as the Company's cost of funds. The Company's ARMs do not permit negative amortization of principal and are not convertible into fixed rate loans. The Company's delinquency experience on its ARM loans has generally been similar to its experience on fixed-rate residential loans. The current low mortgage interest rate environment makes ARM loans relatively unattractive and very few are currently being originated.

Due to consumer demand, the Company also offers fixed-rate mortgage loans with terms up to 30 years, most of which conform to secondary market, i.e., Fannie Mae, Ginnie Mae, and Freddie Mac standards. The Company typically holds all fixed-rate mortgage loans and does not engage in secondary market sales. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions.

In underwriting one-to-four family residential real estate loans, the Company evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Company are appraised by independent appraisers approved by the Board of Directors. The Company generally requires borrowers to obtain an attorney's title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. Real estate loans originated by the Company generally contain a "due on sale" clause allowing the Company to declare the unpaid principal balance due and payable upon the sale of the security property. The Company has not engaged in sub-prime residential mortgage originations.

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and, in order to supplement its loan portfolio, has purchased whole loan and participation interests in loans from other financial institutions. The purchased loans and loan participation interests are generally secured by properties primarily located in the Midwest and the West.

The Company's commercial and multi-family real estate loan portfolio is secured primarily by apartment buildings, office buildings, and hotels. Commercial and multi-family real estate loans generally are underwritten with terms not exceeding 20 years, have loan-to-value ratios of up to 80% of the appraised value of the security property, and are typically secured by personal guarantees of the borrowers. The Company has a variety of rate adjustment features and other terms in its commercial and multi-family real estate loan portfolio. Commercial and multi-family real estate loans provide for a margin over a number of different indices. In underwriting these loans, the Company analyzes the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one-to-four family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans

secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and other farm-related products. Agricultural operating loans are originated at either an adjustable or fixed-rate of interest for up to a one year term or, in the case of livestock, upon sale. Such loans provide for payments of principal and interest at least annually or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first five to ten years, which then balloon or adjust annually thereafter. In addition, such loans generally amortize over a period of 20 to 25 years. Fixed-rate agricultural real estate loans generally have terms up to ten years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan.

Agricultural lending affords the Company the opportunity to earn yields higher than those obtainable on one-to-four family residential lending. Agricultural lending involves a greater degree of risk than one-to-four family residential mortgage loans because of the typically larger loan amount. In addition, payments on loans are dependent on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. The success of the loan may also be affected by many factors outside the control of the borrower.

Weather presents one of the greatest risks as hail, drought, floods, or other conditions, can severely limit crop yields and thus impair loan repayments and the value of the underlying collateral. This risk can be reduced by the farmer with a variety of insurance coverages which can help to ensure loan repayment. Government support programs and the Company generally require that farmers procure crop insurance coverage. Grain and livestock prices also present a risk as prices may decline prior to sale, resulting in a failure to cover production costs. These risks may be reduced by the farmer with the use of futures contracts or options to mitigate price risk. The Company frequently requires borrowers to use futures contracts or options to reduce price risk and help ensure loan repayment. Another risk is the uncertainty of government programs and other regulations. During periods of low commodity prices, the income from government programs can be a significant source of cash for the borrower to make loan payments, and if these programs are discontinued or significantly changed, cash flow problems or defaults could result. Finally, many farms are dependent on a limited number of key individuals upon whose injury or death may result in an inability to successfully operate the farm.

Consumer Lending – Retail Bank. The Company, through the auspices of its “Retail Bank”, originates a variety of secured consumer loans, including home equity, home improvement, automobile, boat and loans secured by savings deposits. In addition, the Retail Bank offers other secured and unsecured consumer loans. The Retail Bank currently originates most of its consumer loans in its primary market area and surrounding areas.

The largest component of the Retail Bank’s consumer loan portfolio consists of home equity loans and lines of credit. Substantially all of the Retail Bank’s home equity loans and lines of credit are secured by second mortgages on principal residences. The Retail Bank will lend amounts which, together with all prior liens, may be up to 90% of the appraised value of the property securing the loan.

The Retail Bank primarily originates automobile loans on a direct basis. Direct loans are loans made when the Retail Bank extends credit directly to the borrower, as opposed to indirect loans, which are made when the Retail Bank purchases loan contracts, often at a discount, from automobile dealers which have extended credit to their customers. The Bank’s automobile loans typically are originated at fixed interest rates with terms up to 60 months for new and used vehicles. Loans secured by automobiles are generally originated for up to 80% of the N.A.D.A. book value of the automobile securing the loan.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Bank for consumer loans include an application, a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Consumer Lending- Meta Payment Systems ("MPS"). MPS has a loan committee, known as the MPS Credit Committee, consisting of members of Executive Management of the Company. The committee is charged with monitoring, evaluating, and reporting portfolio performance and the overall credit risk posed by its credit products. All proposed credit programs must first be reviewed and approved by the committee before such programs are presented to the Bank's Board of Directors for approval. The Board of Directors of the Bank is ultimately responsible for final approval of any credit program.

The Company believes that well-managed, nationwide credit programs can help meet legitimate credit needs for prime and sub-prime borrowers, and affords the Company an opportunity to diversify the loan portfolio and minimize earnings exposure due to economic downturns. Therefore, MPS designs and administers certain credit programs that seek to accomplish these objectives.

MPS strives to offer consumers innovative payment products, including credit products. Most credit products have fallen into the category of portfolio lending. MPS continues to work on new alternative portfolio lending products striving to serve its core customer base and provide unique and innovative lending solutions to the unbanked and under-banked segment.

A Portfolio Credit Policy which has been approved by the Board of Directors governs portfolio credit initiatives undertaken by MPS, whereby the Company retains some or all receivables and relies on the borrower as the underlying source of repayment. Several portfolio lending programs also have a contractual provision that requires the Bank to be indemnified for credit losses that meet or exceed predetermined levels. Such a program carries additional risks not commonly found in sponsorship programs, specifically funding and credit risk. Therefore, MPS has strived to employ policies, procedures, and information systems that it believes commensurate with the added risk and exposure.

The Company recognizes concentrations of credit may naturally occur and may take the form of a large volume of related loans to an individual, a specific industry, a geographic location, or an occupation. Credit concentration is a direct, indirect, or contingent obligation that has a common bond where the aggregate exposure equals or exceeds a certain percentage of the Bank's Tier 1 Capital plus the Allowance for Loan Losses. The MPS Credit Committee monitors and identifies the credit concentrations in accordance with the Bank's concentration policy and evaluates the specific nature of each concentration to determine the potential risk to the Bank. An evaluation includes the following:

- A recommendation regarding additional controls needed to mitigate the concentration exposure.

- A limitation or cap placed on the size of the concentration.

- The potential necessity for increased capital and/or credit reserves to cover the increased risk caused by the concentration(s).

· A strategy to reduce to acceptable levels those concentration(s) that are determined to create undue risk to the Bank.

15

Table of Contents

Commercial Operating Lending. The Company also originates commercial operating loans. Most of the Company's commercial operating loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies.

The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year. The loan-to-value ratio on such loans and lines of credit generally may not exceed 80% of the value of the collateral securing the loan. The Company's commercial operating lending policy includes credit file documentation and analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Company's current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than more traditional lending activities.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial operating loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial operating loans may be substantially dependent on the success of the business itself (which, in turn, is likely to be dependent upon the general economic environment). The Company's commercial operating loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Premium Finance Receivables. AFS/IBEX is a division of MetaBank that provides short-term, collateralized fina