META FINANCIAL GROUP INC
Form 10-Q
August 02, 2016

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 June 30, 2016

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 July 27, 2016:
Common Stock, $.01 par value	8,524,142 Common Shares
Nonvoting Common Stock, $.01 par value	0 Common Shares

META FINANCIAL GROUP, INC.
FORM 10-Q

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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	June 30, 2016	September 30, 2015
Cash and cash equivalents	$36,830	$27,658
Investment securities available for sale	863,468	679,504
Mortgage-backed securities available for sale	579,330	576,583
Investment securities held to maturity	465,451	279,167
Mortgage-backed securities held to maturity	139,138	66,577
Loans receivable - net of allowance for loan losses of $6,120 at June 30, 2016 and $6,255 at September 30, 2015	854,506	706,255
Federal Home Loan Bank Stock, at cost	25,311	24,410
Accrued interest receivable	17,911	13,352
Premises, furniture, and equipment, net	18,695	17,393
Bank-owned life insurance	57,038	45,830
Goodwill	36,928	36,928
Intangible assets	30,088	33,577
Prepaid assets	10,434	9,360
Deferred taxes	407	6,997
Meta Payment Systems accounts receivable	6,694	5,337
Other assets	1,937	777
Total assets	$3,144,166	$2,529,705
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	$1,922,802	$1,449,101
Interest-bearing checking	39,946	33,320
Savings deposits	78,547	41,720
Money market deposits	45,325	42,222
Time certificates of deposit	100,336	91,171
Total deposits	2,186,956	1,657,534
Advances from Federal Home Loan Bank	107,000	7,000
Federal funds purchased	437,000	540,000
Securities sold under agreements to repurchase	2,234	4,007
Subordinated debentures	10,310	10,310
Capital lease	2,048	2,143
Accrued interest payable	337	272
Contingent liability	—	331
Accrued expenses and other liabilities	65,612	36,773
Total liabilities	2,811,497	2,258,370
STOCKHOLDERS' EQUITY		
	—	—

Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at June 30, 2016 and September 30, 2015, respectively		
Common stock, $.01 par value; 15,000,000 shares authorized, 8,523,641 shares issued and outstanding at June 30, 2016 and 8,183,272 shares issued and 8,163,022 shares outstanding at September 30, 2015	85	82
Common stock, Nonvoting, $.01 par value; 3,000,000 shares authorized,no shares issued or outstanding at June 30, 2016 and September 30, 2015, respectively	—	—
Additional paid-in capital	184,700	170,749
Retained earnings	122,292	98,359
Accumulated other comprehensive income (loss)	25,592	2,455
Treasury stock, at cost, no common shares at June 30, 2016 and 20,250 common shares at September 30, 2015	—	(310)
Total stockholders' equity	332,669	271,335
Total liabilities and stockholders' equity	$3,144,166	$2,529,705

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans receivable, including fees	$9,280	$7,528	$26,147	$21,561
Mortgage-backed securities	3,777	3,055	12,258	10,798
Other investments	7,706	4,671	21,262	12,885
	20,763	15,254	59,667	45,244
Interest expense:				
Deposits	136	159	434	563
FHLB advances and other borrowings	708	434	1,821	1,164
	844	593	2,255	1,727
Net interest income	19,919	14,661	57,412	43,517
Provision (recovery) for loan losses	2,098	700	4,057	1,341
Net interest income after provision for loan losses	17,821	13,961	53,355	42,176
Non-interest income:				
Tax product fees	3,424	—	23,062	—
Card fees	18,779	13,854	52,614	40,607
Loan fees	1,091	702	4,126	1,267
Bank-owned life insurance	454	632	1,208	1,759
Deposit fees	144	151	457	448
Gain (loss) on sale of securities available for sale, net (Includes ($102) and ($52) reclassified from accumulated other comprehensive income (loss) for net gains (losses) on available for sale securities for the three and nine months ended June 30, 2016, respectively)	(102)	51	(52)	(1,191)
Gain (loss) on foreclosed real estate	—	1	—	29
Other income (loss)	17	33	127	149
Total non-interest income	23,807	15,424	81,542	43,068
Non-interest expense:				
Compensation and benefits	15,375	12,126	47,140	34,324
Tax product	359	—	8,615	—
Card processing	5,607	3,868	16,858	12,374
Occupancy and equipment	3,413	2,866	10,451	8,304
Legal and consulting	1,221	1,116	3,211	3,333
Marketing	490	323	1,531	1,002
Data processing	324	417	1,022	1,063
Other expense	4,838	3,757	14,597	9,905
Total non-interest expense	31,627	24,473	103,425	70,305

Income before income tax expense	10,001	4,912	31,472	14,939
Income tax expense (Includes ($37) and ($19) income tax expense reclassified from accumulated other comprehensive income (loss) for the three and nine months ended June 30, 2016, respectively)	1,128	272	4,258	1,523
Net income	$8,873	$4,640	$27,214	$13,416
Earnings per common share:				
Basic	$1.05	$0.67	$3.24	$2.05
Diluted	$1.04	$0.66	$3.22	$2.03

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net income	$8,873	$4,640	$27,214	$13,416
Other comprehensive income (loss):				
Change in net unrealized gain (loss) on securities	17,561	(16,660)	36,397	(4,208)
Losses (gains) realized in net income	102	(51)	52	1,191
	17,663	(16,711)	36,449	(3,017)
Deferred income tax effect	6,399	(6,062)	13,312	(1,038)
Total other comprehensive income (loss)	11,264	(10,649)	23,137	(1,979)
Total comprehensive income (loss)	$20,137	$(6,009)	$50,351	$11,437

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Nine Months Ended June 30, 2016 and 2015
(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, 2014	$ 62	$ 95,079	$ 83,797	$ (3,409)	$ (727)	$ 174,802
Cash dividends declared on common stock ($0.39 per share)	—	—	(2,588)	—	—	(2,588)
Issuance of common shares from the sales of equity securities	8	24,987	—	—	—	24,995
Issuance of common shares due to issuance of stock options, restricted stock and ESOP	—	207	—	—	417	624
Net change in unrealized losses on securities, net of income taxes	—	—	—	(1,979)	—	(1,979)
Net income	—	—	13,416	—	—	13,416
Balance, June 30, 2015	$ 70	$ 120,273	$ 94,625	$ (5,388)	$ (310)	$ 209,270
Balance, September 30, 2015	$ 82	$ 170,749	$ 98,359	$ 2,455	$ (310)	$ 271,335
Cash dividends declared on common stock ($0.39 per share)	—	—	(3,281)	—	—	(3,281)
Issuance of common shares from the sales of equity securities	2	11,499	—	—	—	11,501
Issuance of common shares due to issuance of stock options, restricted stock and ESOP	1	1,774	—	—	310	2,085
Stock compensation	—	678	—	—	—	678
Net change in unrealized gains on securities, net of income taxes	—	—	—	23,137	—	23,136
Net income	—	—	27,214	—	—	27,214
Balance, June 30, 2016	$ 85	$ 184,700	$ 122,292	$ 25,592	$ —	$ 332,669

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$27,214	$13,416
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	26,646	19,674
Provision (recovery) for loan losses	4,057	1,341
Provision (recovery) for deferred taxes	348	(2,424)
(Gain) loss on other assets	23	(647)
(Gain) loss on sale of securities available for sale, net	52	1,191
Capital lease obligations interest expense	(95)	(99)
Net change in accrued interest receivable	(4,559)	(3,013)
Change in bank-owned life insurance value	(1,208)	(1,267)
Net change in other assets	(3,745)	2,658
Net change in accrued interest payable	65	(39)
Net change in accrued expenses and other liabilities	627	11,714
Net cash provided by (used in) operating activities	49,425	42,505
Cash flows from investing activities:		
Purchase of securities available-for-sale	(474,281)	(591,786)
Proceeds from sales of securities available-for-sale	224,564	463,108
Proceeds from maturities and principal repayments of securities available-for-sale	83,487	90,786
Purchase of securities held to maturity	(252,108)	(57,949)
Proceeds from maturities and principal repayments of securities held to maturity	11,242	7,240
Purchase of bank owned life insurance	(10,000)	(10,000)
Proceeds from loan sales	88	5,496
Net change in loans receivable	(152,396)	(91,294)
Proceeds from sales of foreclosed real estate	—	34
Net cash paid for acquisition	—	(92,308)
Federal Home Loan Bank stock purchases	(615,701)	(371,364)
Federal Home Loan Bank stock redemptions	614,800	368,760
Proceeds from the sale of premises and equipment	51	2,100
Purchase of premises and equipment	(5,536)	(3,231)
Net cash provided by (used in) investing activities	(575,790)	(280,408)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	520,257	202,256
Net change in time deposits	9,165	(55,590)
Net change in FHLB and other borrowings	100,000	—
Net change in federal funds	(103,000)	56,000
Net change in securities sold under agreements to repurchase	(1,773)	2,867
Principal payments on capital lease obligations	(95)	(88)
Cash dividends paid	(3,281)	(2,588)

Stock compensation	678	—
Proceeds from issuance of common stock	13,586	25,619
Net cash provided by (used in) financing activities	535,537	228,476
Net change in cash and cash equivalents	9,172	(9,427)
Cash and cash equivalents at beginning of period	27,658	29,832
Cash and cash equivalents at end of period	$36,830	$20,405
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$2,190	$1,767
Income taxes	5,204	4,002
Franchise taxes	74	78
Other taxes	78	47
Supplemental schedule of non-cash investing activities:		
Purchase of held-to-maturity securities accrued, not paid	$20,884	$—
Capital lease obligation	—	2,259
Securities transferred from available for sale to held to maturity	—	310

See Notes to Condensed Consolidated Financial Statements.

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, 2015 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 14, 2015. 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 nine month period ended June 30, 2016, are not necessarily indicative of the results expected for the year ending September 30, 2016.

NOTE 2. 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.

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, automobile, manufactured homes, home equity and second mortgage loans, and tax product 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.

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Loans receivable at June 30, 2016 and September 30, 2015 are as follows:

	June 30, 2016	September 30, 2015
	(Dollars in Thousands)	
1-4 Family Real Estate	$ 150,461	$ 125,021
Commercial and Multi-Family Real Estate	386,798	310,199
Agricultural Real Estate	64,130	64,316
Consumer	36,986	33,527
Commercial Operating	40,971	29,893
Agricultural Operating	40,435	43,626
Premium Finance	141,342	106,505
Total Loans Receivable	861,123	713,087
Less:		
Allowance for Loan Losses	(6,120)	(6,255)
Net Deferred Loan Origination Fees	(497)	(577)
Total Loans Receivable, Net	$ 854,506	$ 706,255

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Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three and nine month periods ended June 30, 2016 and 2015 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 June 30, 2016									
Allowance for loan losses:									
Beginning balance	$ 327	$ 1,694	$ 154	$ 1,059	$ 45	$ 3,327	$ 477	$ 348	$ 7,431
Provision (recovery) for loan losses	66	428	49	(243)	281	1,436	95	(14)	2,098
Charge offs	—	(95)	—	(1)	—	(3,253)	(104)	—	(3,453)
Recoveries	—	—	—	1	—	—	43	—	44
Ending balance	$ 393	$ 2,027	$ 203	$ 816	$ 326	$ 1,510	$ 511	$ 334	$ 6,120
Nine Months Ended June 30, 2016									
Allowance for loan losses:									
Beginning balance	$ 278	$ 1,187	$ 163	$ 20	$ 28	$ 3,537	$ 293	$ 749	$ 6,255
Provision (recovery) for loan losses	115	1,225	40	796	298	1,226	772	(415)	4,057
Charge offs	—	(385)	—	(1)	—	(3,253)	(631)	—	(4,270)
Recoveries	—	—	—	1	—	—	77	—	78
Ending balance	$ 393	$ 2,027	$ 203	$ 816	$ 326	$ 1,510	$ 511	$ 334	$ 6,120
Ending balance: individually evaluated for impairment	31	—	—	—	—	—	—	—	31
Ending balance: collectively evaluated for impairment	362	2,027	203	816	326	1,510	511	334	6,089
Total	$ 393	$ 2,027	$ 203	$ 816	$ 326	$ 1,510	$ 511	$ 334	$ 6,120

Loans:

Ending balance: individually evaluated for impairment	210	994	—	—	3	—	—	—	1,207
Ending balance: collectively evaluated for impairment	150,251	385,804	64,130	36,986	40,968	40,435	141,342	—	859,916
Total	$150,461	$386,798	$ 64,130	$36,986	$ 40,971	$40,435	$141,342	$ —	$861,123

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	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 June 30, 2015									
Allowance for loan losses:									
Beginning balance	$ 522	$ 1,218	$ 265	$ 78	$ 101	$ 667	$ 168	$ 2,697	$ 5,716
Provision (recovery) for loan losses	8	34	164	5	9	1,940	100	(1,560)	700
Charge offs	—	—	—	—	—	(150)	(96)	—	(246)
Recoveries	—	—	—	—	—	—	62	—	62
Ending balance	$ 530	$ 1,252	$ 429	$ 83	$ 110	$ 2,457	$ 234	$ 1,137	$ 6,232
Nine Months Ended June 30, 2015									
Allowance for loan losses:									
Beginning balance	$ 552	$ 1,575	$ 263	$ 78	$ 93	$ 719	$—	$ 2,117	$ 5,397
Provision (recovery) for loan losses	23	(115)	166	5	14	1,888	340	(980)	1,341
Charge offs	(45)	(214)	—	—	—	(150)	(194)	—	(603)
Recoveries	—	6	—	—	3	—	88	—	97
Ending balance	$ 530	$ 1,252	$ 429	$ 83	$ 110	$ 2,457	$ 234	$ 1,137	$ 6,232
Ending balance: individually evaluated for impairment	—	265	—	—	—	2,161	—	—	2,426
Ending balance: collectively evaluated for impairment	530	987	429	83	110	296	234	1,137	3,806
Total	$ 530	$ 1,252	$ 429	$ 83	$ 110	$ 2,457	$ 234	$ 1,137	$ 6,232
Loans:									
Ending balance: individually evaluated for	124	1,397	—	—	13	5,869	—	—	7,403

impairment									
Ending balance: collectively evaluated for impairment	118,592	277,513	64,173	32,968	29,991	35,642	91,740	—	650,619
Total	$118,716	$278,910	$64,173	$32,968	$30,004	$41,511	$91,740	$—	$658,022

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Federal regulations promulgated by our primary federal regulator, the Office of the Comptroller of the Currency (the "OCC"), provide for the classification of loans and other assets such as debt and equity securities. The loan classification and risk rating definitions are generally 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.

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.

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 June 30, 2016 and September 30, 2015 are as follows:

June 30, 2016	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	$149,303	$ 385,631	$ 34,803	$ 36,986	$ 40,194	$ 21,182	$141,342	$809,441
Watch	1,029	609	2,934	—	705	5,007	—	10,284
Special Mention	21	—	25,765	—	—	5,204	—	30,990
Substandard	108	558	628	—	72	9,042	—	10,408
Doubtful	—	—	—	—	—	—	—	—
	$150,461	$ 386,798	$ 64,130	$ 36,986	$ 40,971	$ 40,435	$141,342	$861,123

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September 30, 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	$124,775	$ 307,876	$ 35,106	$ 33,527	$ 29,052	$ 29,336	$106,505	$666,177
Watch	212	1,419	26,703	—	712	1,079	—	30,125
Special Mention	10	—	877	—	—	4,014	—	4,901
Substandard	24	904	1,630	—	129	9,197	—	11,884
Doubtful	—	—	—	—	—	—	—	—
	$125,021	$ 310,199	$ 64,316	$ 33,527	$ 29,893	$ 43,626	$106,505	$713,087

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.

Due to consumer demand, the Company 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.

The Company also 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.

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.

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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 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, but 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 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. Home equity loans and lines of credit generally have maximum terms of five years.

The Retail Bank primarily originates automobile loans on a direct basis 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 may include 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"). 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. The MPS Credit Committee, consisting of members of Executive Management of the Company, 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.

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

The largest component of MPS's consumer loan portfolio consists of taxpayer advances. These advances are available to eligible customers of our Refund Advantage Electronic Return Originators ("EROs") and Liberty Tax franchisees. The product is offered with no incremental fees or interest charges to the borrower (with the tax preparer paying applicable fees) and repayments are contingent upon receipt of future tax refunds. This solution provides our network of over 10,000 EROs and Liberty Tax franchisees with an opportunity to attract new clients to their current customer base.

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.

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, and operating costs for the Company's network of tax electronic return originators ("EROs"). Commercial loans also may involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies.

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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. ERO loans are not collateralized. 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 Lending. Through its AFS/IBEX division, MetaBank provides short-term and primarily collateralized financing to facilitate the commercial customers' purchase of insurance for various forms of risk otherwise known as insurance premium financing. This includes, but is not limited to, policies for commercial property, casualty and liability risk. The AFS/IBEX division markets itself to the insurance community as a competitive option based on service, reputation, competitive terms, cost and ease of operation.

Insurance premium financing is the business of extending credit to a policyholder to pay for insurance premiums when the insurance carrier requires payment in full at inception of coverage. Premiums are advanced either directly to the insurance carrier or through an intermediary/broker and repaid by the policyholder with interest during the policy term. The policyholder generally makes a 20% to 25% down payment to the insurance broker and finances the remainder over nine to ten months on average. The down payment is set such that if the policy is cancelled, the unearned premium is typically sufficient to cover the loan balance and accrued interest.

Due to the nature of collateral for commercial premium finance receivables, it customarily takes 60-180 days to convert the collateral into cash. In the event of default, AFS/IBEX, by statute and contract, has the power to cancel the insurance policy and establish a first position lien on the unearned portion of the premium from the insurance carrier. In the event of cancellation, the cash returned in payment of the unearned premium by the insurer should typically be sufficient to cover the receivable balance, the interest and other charges due. Due to notification requirements and processing time by most insurance carriers, many receivables will become delinquent beyond 90 days while the insurer is processing the return of the unearned premium. Generally, when a premium finance loan becomes delinquent for 210 days or more, or when collection of principal or interest becomes doubtful, the Company will place the loan on non-accrual status until the loan becomes current and has demonstrated a sustained period of satisfactory performance.

Past due loans at June 30, 2016 and September 30, 2015 are as follows:

June 30, 2016	30-59 Days	60-89 Days	Greater Than	Total Past	Current	Non-Accrual Loans	Total Loans

	Past Due	Past Due	90 Days	Due			Receivable
	(Dollars in Thousands)						
1-4 Family Real Estate	$419	$83	$—	$502	$149,831	$ 128	$ 150,461
Commercial and Multi-Family Real Estate	—	—	—	—	386,285	513	386,798
Agricultural Real Estate	2,385	—	—	2,385	61,745	—	64,130
Consumer	19	17	53	89	36,897	—	36,986
Commercial Operating	354	—	—	354	40,617	—	40,971
Agricultural Operating	—	106	—	106	40,329	—	40,435
Premium Finance	892	351	1,514	2,757	138,585	—	141,342
Total	$4,069	$557	$1,567	$6,193	$854,289	$ 641	$ 861,123

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September 30, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Non-Accrual Loans	Total Loans Receivable
	(Dollars in Thousands)						
1-4 Family Real Estate	$142	$—	$—	$142	$124,855	$ 24	$ 125,021
Commercial and Multi-Family Real Estate	—	—	—	—	309,295	904	310,199
Agricultural Real Estate	—	—	—	—	64,316	—	64,316
Consumer	152	—	13	165	33,362	—	33,527
Commercial Operating	—	—	—	—	29,893	—	29,893
Agricultural Operating	—	—	—	—	38,494	5,132	43,626
Premium Finance	702	362	1,728	2,792	103,713	—	106,505
Total	$996	$362	$1,741	$3,099	$703,928	$ 6,060	$ 713,087

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. As of June 30, 2016, there were no Premium Finance loans greater than 210 days past due.

Impaired loans at June 30, 2016 and September 30, 2015 are as follows:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance
June 30, 2016	(Dollars in Thousands)		
Loans without a specific valuation allowance			
1-4 Family Real Estate	$102	$ 102	$ —
Commercial and Multi-Family Real Estate	994	1,379	—
Commercial Operating	3	3	—
Total	$1,099	$ 1,484	$ —
Loans with a specific valuation allowance			
Commercial and Multi-Family Real Estate	$108	$ 108	$ 31
Total	$108	$ 108	$ 31

	Recorded Balance	Unpaid Principal Balance	Specific Allowance
September 30, 2015	(Dollars in Thousands)		
Loans without a specific valuation allowance			
1-4 Family Real Estate	$121	$ 121	$ —
Commercial and Multi-Family Real Estate	446	446	—
Commercial Operating	11	11	—
Total	$578	$ 578	$ —
Loans with a specific valuation allowance			
Commercial and Multi-Family Real Estate	$904	$ 904	$ 241
Agricultural Operating	5,132	5,282	3,252
Total	$6,036	$ 6,186	$ 3,493

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The following table provides the average recorded investment in impaired loans for the three and nine month periods ended June 30, 2016 and 2015.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	Average Recorded Investment	Average Recorded Investment	Average Recorded Investment	Average Recorded Investment
	(Dollars in Thousands)			
1-4 Family Real Estate	$146	$ 162	$127	$ 276
Commercial and Multi-Family Real Estate	1,059	1,406	1,221	2,358
Agricultural Real Estate	—	—	—	—
Consumer	—	1	—	—
Commercial Operating	5	15	8	18
Agricultural Operating	2,280	6,046	3,891	2,871
Premium Finance	—	—	—	—
Total	$3,490	$ 7,630	$5,247	$ 5,523

The Company's troubled debt restructurings ("TDR") typically involve forgiving a portion of interest or principal on existing loans or making loans at a rate materially less than current market rates. There were no loans modified in a TDR during the three and nine month periods ended June 30, 2016 and 2015. Additionally, there were no TDR loans for which there was a payment default during the three and nine month periods ended June 30, 2016 and 2015 that had been modified during the 12-month period prior to the default.

NOTE 3. ALLOWANCE FOR LOAN LOSSES

At June 30, 2016, the Company's allowance for loan losses decreased to $6.1 million from $6.3 million at September 30, 2015. During the nine months ended June 30, 2016, the Company recorded a provision for loan losses of $4.1 million, primarily due to a charge off of a large agricultural relationship and loan growth. The Company had $4.2 million of net charge offs for the nine months ended June 30, 2016, compared to $0.6 million for the nine months ended June 30, 2015.

The allowance for loan losses is established through the provision for loan losses based on management's evaluation of the risk inherent in its loan portfolio and changes in the nature and volume of its loan activity, including those loans which are being specifically monitored by management. Such evaluation, which includes a review of loans for which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an appropriate loan loss allowance.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the appropriateness of its allowance for loan losses. The current economic environment continues to show signs of improvement in the Bank's markets. The Bank's loss rates over the past five years were very low. Notwithstanding these signs of improvement, the Bank does not believe it is likely these low loss conditions will continue indefinitely. Although the Bank's four market areas have indirectly benefited from a stable agricultural market, the market has become somewhat more stressed with lower commodity prices over the last couple of years and commodity prices remain lower than a few years ago. Average loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past five years. Management expects that future losses in this portfolio could be higher than recent historical experience. Management believes the low commodity prices and high land rents have the potential to negatively impact the economies of our agricultural markets.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio and other factors, the current level of the allowance for loan losses at June 30, 2016, reflects an appropriate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level it considers to be appropriate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by the OCC, which can require the establishment of additional general or specific allowances.

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Real estate properties acquired through foreclosure are recorded at fair value. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged to the allowance for loan losses at the time of transfer. Valuations are periodically updated by management and, if the value declines, a specific provision for losses on such property is established by a charge to operations.

NOTE 4. EARNINGS PER COMMON SHARE (“EPS”)

Basic EPS is based on the net income divided by the weighted average number of common shares outstanding during the period. Allocated Employee Stock Ownership Plan (“ESOP”) shares are considered outstanding for EPS calculations, as they are committed to be released; unallocated ESOP shares are not considered outstanding. All ESOP shares were allocated as of June 30, 2016 and September 30, 2015. Diluted EPS shows the dilutive effect of additional common shares issuable pursuant to stock option agreements.

A reconciliation of net income and common stock share amounts used in the computation of basic and diluted EPS for the three and nine months ended June 30, 2016 and 2015 is presented below.

Three Months Ended June 30,	2016	2015
(Dollars in Thousands, Except Share and Per Share Data)		
Earnings		
Net Income	$ 8,873	$ 4,640
Basic EPS		
Weighted average common shares outstanding	8,512,043	6,942,486
Less weighted average nonvested shares	29,723	3,922
Weighted average common shares outstanding	8,482,320	6,938,564
Earnings Per Common Share		
Basic	$ 1.05	$ 0.67
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	8,482,320	6,938,564
Add dilutive effect of assumed exercises of stock options, net of tax benefits	65,696	74,060
Weighted average common and dilutive potential common shares outstanding	8,548,016	7,012,624
Earnings Per Common Share		
Diluted	$ 1.04	$ 0.66

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Nine Months Ended June 30,	2016	2015
(Dollars in Thousands, Except Share and Per Share Data)		
Earnings		
Net Income	$ 27,214	$ 13,416
Basic EPS		
Weighted average common shares outstanding	8,416,724	6,555,415
Less weighted average nonvested shares	28,849	4,193
Weighted average common shares outstanding	8,387,875	6,551,222
Earnings Per Common Share		
Basic	$ 3.24	$ 2.05
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	8,387,875	6,551,222
Add dilutive effect of assumed exercises of stock options, net of tax benefits	64,324	65,228
Weighted average common and dilutive potential common shares outstanding	8,452,199	6,616,450
Earnings Per Common Share		
Diluted	$ 3.22	$ 2.03

All stock options were considered in computing diluted EPS for the three and nine months ended June 30, 2016. All stock options were considered in computing diluted EPS for the three months ended June 30, 2015. Stock options totaling 29,199 were not considered in computing diluted EPS for the nine months ended June 30, 2015, because they were not dilutive.

NOTE 5. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of available for sale and held to maturity securities at June 30, 2016 and September 30, 2015 are presented below.

Available For Sale At June 30, 2016	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
	(Dollars in Thousands)			
Debt securities				
Trust preferred securities	$ 14,934	$ —	$ (2,746)	$ 12,188
Small business administration securities	81,786	2,318	—	84,104
Non-bank qualified obligations of states and political subdivisions	663,861	36,314	(135)	700,040
Asset-backed securities	66,955	70	(1,002)	66,023
Mortgage-backed securities	576,436	3,573	(679)	579,330
Total debt securities	1,403,972	42,275	(4,562)	1,441,685
Common equities and mutual funds	761	356	(4)	1,113
Total available for sale securities	$ 1,404,733	$ 42,631	$ (4,566)	$ 1,442,798

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At September 30, 2015	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
	(Dollars in Thousands)			
Debt securities				
Trust preferred and corporate securities	$16,199	$ 8	$ (2,263)	$13,944
Small business administration securities	54,493	1,563	—	56,056
Non-bank qualified obligations of states and political subdivisions	603,165	7,240	(1,815)	608,590
Mortgage-backed securities	580,165	1,283	(4,865)	576,583
Total debt securities	1,254,022	10,094	(8,943)	1,255,173
Common equities and mutual funds	639	283	(8)	914
Total available for sale securities	$1,254,661	$ 10,377	$ (8,951)	$1,256,087

Held to Maturity

At June 30, 2016	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
	(Dollars in Thousands)			
Debt securities				
Obligations of states and political subdivisions	$20,644	$ 434	$ (22)	$21,056
Non-bank qualified obligations of states and political subdivisions	444,807	12,529	—	457,336
Mortgage-backed securities	139,138	620	—	139,758
Total held to maturity securities	$604,589	$ 13,583	$ (22)	$618,150

At September 30, 2015	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
	(Dollars in Thousands)			
Debt securities				
Obligations of states and political subdivisions	$19,540	$ 60	$ (187)	$19,413
Non-bank qualified obligations of states and political subdivisions	259,627	2,122	(419)	261,330
Mortgage-backed securities	66,577	—	(473)	66,104
Total held to maturity securities	$345,744	$ 2,182	$ (1,079)	$346,847

Included in securities available for sale are trust preferred securities as follows:

At June 30, 2016

Issuer(1)	Amortized Cost	Fair Value	Unrealized Gain (Loss)	S&P Credit Rating	Moody's Credit Rating
	(Dollars in Thousands)				
Key Corp. Capital I	$4,987	$4,011	$ (976)	BB+	Baa2
Huntington Capital Trust II SE	4,980	3,834	(1,146)	BB	Baa2
PNC Capital Trust	4,967	4,343	(624)	BBB-	Baa1
Total	$14,934	$12,188	$ (2,746)		

(1)

Trust preferred securities are single-issuance. There are no known deferrals, defaults or excess subordination.

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At September 30, 2015

Issuer[1]	Amortized Cost	Fair Value	Unrealized Gain (Loss)	S&P Credit Rating	Moody's Credit Rating
	(Dollars in Thousands)				
Key Corp. Capital I	$4,986	$4,189	$ (797)	BB+	Baa2
Huntington Capital Trust II SE	4,979	4,076	(903)	BB	Baa2
PNC Capital Trust	4,965	4,402	(563)	BBB-	Baa1
Total	$14,930	$12,667	$ (2,263)		

(1) Trust preferred securities are single-issuance. There are no known deferrals, defaults or excess subordination

Management has implemented a process to identify securities with potential credit impairment that are other-than-temporary. This process involves evaluation of the length of time and extent to which the fair value has been less than the amortized cost basis, review of available information regarding the financial position of the issuer, monitoring the rating, watch, and outlook of the security, monitoring changes in value, cash flow projections, and the Company's intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

For all securities considered temporarily impaired, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost, which may occur at maturity. The Company believes it will collect all principal and interest due on all investments with amortized cost in excess of fair value and considered only temporarily impaired.

Generally accepted accounting principles require that, at acquisition, an enterprise classify debt securities into one of three categories: Available for sale ("AFS"), Held to Maturity ("HTM") or trading. AFS securities are carried at fair value on the consolidated statements of financial condition, and unrealized holding gains and losses are excluded from earnings and recognized as a separate component of equity in accumulated other comprehensive income ("AOCI"). HTM debt securities are measured at amortized cost. Both AFS and HTM are subject to review for other-than-temporary impairment. The Company had no trading securities at June 30, 2016 and September 30, 2015.

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2016 and September 30, 2015, are as follows:

Available For Sale	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
At June 30, 2016	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
	(Dollars in Thousands)					
Debt securities						
Trust preferred securities	$—	$—	$12,188	$ (2,746)	$12,188	$ (2,746)
Non-bank qualified obligations of states and political subdivisions	—	—	12,018	(135)	12,018	(135)
Asset-backed securities	49,900	(1,002)	—	—	49,900	(1,002)
Mortgage-backed securities	—	—	128,968	(679)	128,968	(679)

Total debt securities	49,900	(1,002)	153,174	(3,560)	203,074	(4,562)
Common equities and mutual funds	—	—	124	(4)	124	(4)
Total available for sale securities	$49,900	$ (1,002)	$153,298	$ (3,564)	$203,198	$ (4,566)

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At September 30, 2015	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
	(Dollars in Thousands)					
Debt securities						
Trust preferred and corporate securities	$—	$—	$12,667	$(2,263)	$12,667	$(2,263)
Non-bank qualified obligations of states and political subdivisions	97,006	(860)	42,583	(955)	139,589	(1,815)
Mortgage-backed securities	448,988	(4,301)	48,079	(564)	497,067	(4,865)
Total debt securities	545,994	(5,161)	103,329	(3,782)	649,323	(8,943)
Common equities and mutual funds	—	—	121	(8)	121	(8)
Total available for sale securities	$545,994	$(5,161)	$103,450	$(3,790)	$649,444	$(8,951)

Held To Maturity	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
At June 30, 2016	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
	(Dollars in Thousands)					
Debt securities						
Obligations of states and political subdivisions	$—	$—	$2,266	$(22)	$2,266	$(22)
Total held to maturity securities	$—	$—	$2,266	$(22)	$2,266	$(22)

At September 30, 2015	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
	(Dollars in Thousands)					
Debt securities						
Obligations of states and political subdivisions	$5,528	$(34)	$7,964	$(153)	$13,492	$(187)
Non-bank qualified obligations of states and political subdivisions	78,663	(365)	4,136	(54)	82,799	(419)
Mortgage-backed securities	5,509	(43)	60,595	(430)	66,104	(473)
Total held to maturity securities	$89,700	$(442)	$72,695	$(637)	$162,395	$(1,079)

At June 30, 2016, the investment portfolio included securities with current unrealized losses which have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Because the declines in fair value were due to changes in market interest rates, not in estimated cash flows, and the Company does not intend to sell these securities (has not made a decision to sell) and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, which may occur at maturity, no other-than-temporary impairment was recorded at June 30, 2016.

The amortized cost and fair value of debt securities by contractual maturity are shown below. Certain securities have call features which allow the issuer to call the security prior to maturity. Expected maturities may differ from contractual maturities in mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following maturity summary. The expected maturities of certain Small Business Administration and certain asset-backed securities may differ from contractual maturities because the borrowers may have the right to prepay the obligation. However, certain prepayment penalties may apply.

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Available For Sale	AMORTIZED COST	FAIR VALUE
At June 30, 2016	(Dollars in Thousands)	
Due in one year or less	$—	$—
Due after one year through five years	13,606	14,077
Due after five years through ten years	400,021	421,303
Due after ten years	413,909	426,975
	827,536	862,355
Mortgage-backed securities	576,436	579,330
Common equities and mutual funds	761	1,113
Total available for sale securities	$1,404,733	$1,442,798

	AMORTIZED COST	FAIR VALUE
At September 30, 2015	(Dollars in Thousands)	
Due in one year or less	$—	$—
Due after one year through five years	1,174	1,207
Due after five years through ten years	370,087	376,394
Due after ten years	302,596	300,989
	673,857	678,590
Mortgage-backed securities	580,165	576,583
Common equities and mutual funds	639	914
Total available for sale securities	$1,254,661	$1,256,087

Held To Maturity	AMORTIZED COST	FAIR VALUE
At June 30, 2016	(Dollars in Thousands)	
Due in one year or less	$231	$231
Due after one year through five years	11,586	11,810
Due after five years through ten years	147,795	153,986
Due after ten years	305,839	312,365
	465,451	478,392
Mortgage-backed securities	139,138	139,758
Total held to maturity securities	$604,589	$618,150

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At September 30, 2015	AMORTIZED COST	FAIR VALUE
	(Dollars in Thousands)	
Due in one year or less	$95	$96
Due after one year through five years	8,411	8,430
Due after five years through ten years	140,145	140,505
Due after ten years	130,516	131,712
	279,167	280,743
Mortgage-backed securities	66,577	66,104
Total held to maturity securities	$345,744	$346,847

NOTE 6. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments to extend credit which are not reflected in the accompanying consolidated financial statements.

At June 30, 2016 and September 30, 2015, unfunded loan commitments approximated $158.1 million and $158.3 million, respectively, excluding undisbursed portions of loans in process. These unfunded loan commitments were principally for variable rate loans. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are canceled upon expiration of the commitment term as outlined in each individual contract.

At June 30, 2016, the Company had one commitment to purchase securities held-to-maturity totaling $20.9 million. The Company had two commitments to purchase securities available for sale totaling $7.9 million and three commitments to purchase securities held to maturity totaling $3.0 million at September 30, 2015.

The exposure to credit loss in the event of nonperformance by other parties to financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The same credit policies and collateral requirements are used in making commitments and conditional obligations as are used for on-balance-sheet instruments.

Since certain commitments to make loans and to fund lines of credit and loans in process expire without being used, the amount does not necessarily represent future cash commitments. In addition, commitments used to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract.

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Legal Proceedings

The Company and the Bank have been named as defendants, along with other defendants, in four class action litigations commenced in three different federal district courts between October 23, 2015 and November 5, 2015: (1) Fuentes, et al. v. UniRush LLC, et al. (S.D.N.Y. Case No. 1:15-cv-08372-JPO); (2) Huff et al. v. UniRush, LLC et al. (E.D. Cal. Case No. 2:15-cv-02253-KJM-CMK); (3) Peterkin v. UniRush LLC, et al. (S.D.N.Y. Case No. 1:15-cv-08573-PAE); and (4) Jones v. UniRush, LLC et al. (E.D. Pa. Case No. 5:15-cv-05996-JLS). The same defendants, including the Company and the Bank, were also named as defendants in an additional class action litigation commenced in yet another federal district court on April 13, 2016: (5) Smith v. UniRush LLC, et al. (C.D. Cal. Case No. 2:16-cv-02533-SVW-E). More recently, the same defendants, including the Company and the Bank, were named as defendants in a lawsuit filed by an individual plaintiff in a Texas state court on June 24, 2016: (6) Jacobs v. UniRush LLC et al. (Harris County, Texas County Civ. Ct. Cause No. 1079432). The complaints in each of these six actions seek monetary damages for the alleged inability of customers of the prepaid card product RushCard to access the product for up to two weeks starting on or about October 12, 2015. The plaintiffs allege claims for breach of contract, fraud, misrepresentation, negligence, unjust enrichment, conversion, and breach of fiduciary duty and violations of various state consumer protection statutes prohibiting unfair or deceptive acts or trade/business practices. In addition, the OCC and the CFPB are examining the events surrounding the allegations with respect to the Company and the other defendants, respectively. The OCC has broad supervisory powers with respect to the Bank and could seek to initiate supervisory action if it believes such action is warranted. A settlement was negotiated with class counsel in actions (1)-(4) under which neither the Company nor the Bank will make any payment, and on May 17, 2016 the Court filed an Order Certifying a Settlement Class, Preliminarily Approving the Class Action Settlement, and Directing Notice to the Settlement Class. Notice has been given to the potential class members, and a final approval hearing for the settlement has been scheduled for September 12, 2016. Action (5) was recently settled for a nominal amount, with no payment by the Company or the Bank, and the case was formally resolved with the filing of a dismissal notice on July 15, 2016. While action (6) was only recently commenced and is in its earliest stages, the petition specifically alleges that the maximum damages, costs and attorneys' fees that plaintiff seeks do not exceed $74,000. The Company's estimate of a range of reasonably possible loss for all six actions is approximately $0 to $0.1 million.

The Bank was served on April 15, 2013, with a lawsuit captioned Inter National Bank v. NetSpend Corporation, MetaBank, BDO USA, LLP d/b/a BDO Seidman, Cause No. C-2084-12-I filed in the District Court of Hidalgo County, Texas. The Plaintiff's Second Amended Original Petition and Application for Temporary Restraining Order and Temporary Injunction adds both MetaBank and BDO Seidman to the original causes of action against NetSpend. NetSpend acts as a prepaid card program manager and processor for both INB and MetaBank. According to the Petition, NetSpend has informed Inter National Bank ("INB") that the depository accounts at INB for the NetSpend program supposedly contained $10.5 million less than they should. INB alleges that NetSpend has breached its fiduciary duty by making affirmative misrepresentations to INB about the safety and stability of the program, and by failing to timely disclose the nature and extent of any alleged shortfall in settlement of funds related to cardholder activity and the nature and extent of NetSpend's systemic deficiencies in its accounting and settlement processing procedures. To the extent that an accounting reveals that there is an actual shortfall, INB alleges that MetaBank may be liable for portions or all of said sum due to the fact that funds have been transferred from INB to MetaBank, and thus MetaBank would have been unjustly enriched. The Bank is vigorously contesting this matter. In January 2014, NetSpend was granted summary judgment in this matter which is under appeal. Because the theory of liability against both NetSpend and the Bank is the same, the Bank views the NetSpend summary judgment as a positive in support of our position. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation because discovery is still being conducted.

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The Bank commenced action against C&B Farms, LLC, Dakota River Farms, LLC, Dakota Grain Farms, LLC, Heather Swenson and Tracy Clement in early July, 2015, in the Third Judicial Circuit Court of the State of South Dakota, seeking to collect upon certain delinquent loans made in connection with the 2014 farming operations of the three identified limited liability companies and the personal guaranties of Swenson and Clement. The three companies and Clement answered the Complaint and asserted a counterclaim against the Bank and a third-party claim against the Bank's loan officer, alleging fraud and misrepresentation, as well as promissory estoppel. On January 7, 2016, the Bank obtained a judgment for $6.1 million, the full amount due and owing on the delinquent loans, together with attorneys' fees, costs and post-judgment interest. On February 25, 2016, the Court entered an order and judgment in favor of the Bank granting the Bank's renewed motion for summary judgment as to counterclaims and third party claim. Tracy Clement, the primary guarantor of the C&B Farms, Dakota Grain Farms, and Dakota River Farms indebtedness has filed a Chapter 11 bankruptcy proceeding in Minnesota. The Bank is an unsecured creditor in the bankruptcy proceeding. The Bank still has the right to collect from the three limited liability company debtors (C&B, Dakota Grain, and Dakota River). However, the Bank believes each entity is now insolvent and the collateral recovered and liquidated to the extent possible. The Bank has also settled with the other personal guarantor, Heather Swenson. The Bank commenced action against Interstate Commodities, Inc., on February 1, 2016, in the United States District Court for the District of South Dakota, Central Division. This matter arises out of the Bank's loans to C&B Farms, which were guaranteed by Tracy Clement. The case alleges that Interstate Commodities has breached the terms of a subordination agreement entered into between Interstate Commodities and the Bank relating to the 2015 crops of C&B Farms, LLC. In March, 2015, the Bank sent a letter to C&B Farms and Interstate Commodities agreeing that the Bank would subordinate its first position lien in the farm products of C&B Farms once the Bank's 2015 input advances in an agreed upon sum had been paid in full. Interstate Commodities entered into various agreements with C&B Farms in which they agreed to purchase grain at a future date and provided purchase price advance financing to C&B Farms. Interstate Commodities also partially performed under the subordination agreement by paying or allowing certain sums to flow back to the Bank to pay on the agreed upon inputs. Interstate Commodities terminated the payments to the Bank before allowing full repayment of the 2015 inputs financed by the Bank before the subordination agreement was reached. The amount in dispute is $481 thousand.

Other than the matters set forth above, there are no other new material pending legal proceedings or updates to which the Company or its subsidiaries is a party other than ordinary litigation routine to their respective businesses.

NOTE 7. STOCK OPTION PLAN

The Company maintains the 2002 Omnibus Incentive Plan, as amended and restated, which, among other things, provides for the awarding of stock options and nonvested (restricted) shares to certain officers and directors of the Company. Awards are granted by the Compensation Committee of the Board of Directors based on the performance of the award recipients or other relevant factors.

Compensation expense for share based awards is recorded over the vesting period at the fair value of the award at the time of grant. The exercise price of options or fair value of nonvested shares granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date.

The following tables show the activity of options and nonvested (restricted) shares granted, exercised, or forfeited under all of the Company's option and incentive plans for the nine months ended June 30, 2016:

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	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
	(Dollars in Thousands, Except Share and Per Share Data)			
Options outstanding, September 30, 2015	189,088	$ 25.74	3.16	$ 3,027
Granted	—	—		—
Exercised	(56,580)	25.12		1,316
Forfeited or expired	—	—		—
Options outstanding, June 30, 2016	132,508	$ 26.01	2.90	$ 3,306
Options exercisable, June 30, 2016	132,508	$ 26.01	2.90	$ 3,306

	Number of Shares	Weighted Average Fair Value at Grant
(Dollars in Thousands, Except Share and Per Share Data)		
Nonvested shares outstanding, September 30, 2015	44,002	$ 40.80
Granted	7,571	41.68
Vested	(26,085)	40.52
Forfeited or expired	4,547	44.25
Nonvested shares outstanding, June 30, 2016	30,035	$ 41.42

At June 30, 2016, stock based compensation expense not yet recognized in income totaled $291,017, which is expected to be recognized over a weighted average remaining period of 1.83 years.

NOTE 8. SEGMENT INFORMATION

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose results are reviewed by the chief operating decision-maker. Operating segments are aggregated into reportable segments if certain criteria are met.

In the Annual Report on Form 10-K for the year ended September 30, 2015, the Company reported its results of operations through three business segments: Meta Payment Systems, Retail Bank, and Other. Effective October 1, 2015, segments are now aligned with the new management operating structure implemented by the Company for fiscal year 2016. The Company accordingly has changed its basis of presentation for segments, and following such change, reports its results of operations through the following three business segments: Payments, Banking, and Corporate Services/Other. Certain shared services, including the investment portfolio, which was included in the former Retail Bank segment, is now included in Corporate Services/Other. AFS/IBEX and Refund Advantage were previously and are currently included in the Banking and Payments segments, respectively. Prior periods have been reclassified to conform to the current period presentation.

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The following tables present segment data for the Company for the three and nine months ended June 30, 2016 and 2015, respectively.

	Payments	Banking	Corporate Services/Other	Total
Three Months Ended June 30, 2016				
Interest income	$ 2,579	$ 9,759	$ 8,425	$ 20,763
Interest expense	44	344	456	844
Net interest income (expense)	2,535	9,415	7,969	19,919
Provision (recovery) for loan losses	1	2,097	—	2,098
Non-interest income	22,160	1,296	351	23,807
Non-interest expense	16,231	5,347	10,049	31,627
Income (loss) before income tax expense (benefit)	8,463	3,267	(1,729)	10,001
Total assets	48,203	860,493	2,235,470	3,144,166
Total deposits	1,908,961	277,995	—	2,186,956

	Payments	Banking	Corporate Services/Other	Total
Nine Months Ended June 30, 2016				
Interest income	$ 7,176	$ 27,559	$ 24,932	$ 59,667
Interest expense	138	913	1,204	2,255
Net interest income (expense)	7,038	26,646	23,728	57,412
Provision (recovery) for loan losses	1,034	3,023	—	4,057
Non-interest income	77,103	3,251	1,188	81,542
Non-interest expense	57,968	15,993	29,464	103,425
Income (loss) before tax	25,139	10,881	(4,548)	31,472
Total assets	48,203	860,493	2,235,470	3,144,166
Total deposits	1,908,961	277,995	—	2,186,956

	Payments	Banking	Corporate Services/Other	Total
Three Months Ended June 30, 2015				
Interest income	$ 1,814	$ 7,902	$ 5,538	$ 15,254
Interest expense	47	401	145	593
Net interest income (expense)	1,767	7,501	5,393	14,661
Provision (recovery) for loan losses	—	(436)	1,136	700
Non-interest income	13,808	870	746	15,424
Non-interest expense	11,744	4,487	8,242	24,473
Income (loss) before income tax expense (benefit)	3,831	4,320	(3,239)	4,912
Total assets	42,069	652,676	1,615,238	2,309,983
Total deposits	1,294,757	218,377	73	1,513,207

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	Payments	Banking	Corporate Services/Other	Total
Nine Months Ended June 30, 2015				
Interest income	$ 5,460	$22,852	$ 16,932	$ 45,244
Interest expense	138	1,064	525	1,727
Net interest income (expense)	5,322	21,788	16,407	43,517
Provision (recovery) for loan losses	—	205	1,136	1,341
Non-interest income	40,468	2,497	103	43,068
Non-interest expense	34,905	13,097	22,303	70,305
Income (loss) before income tax expense (benefit)	10,885	10,983	(6,929)	14,939
Total assets	42,069	652,676	1,615,238	2,309,983
Total deposits	1,294,757	218,377	73	1,513,207

NOTE 9. NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

This ASU requires organizations to replace the incurred loss impairment methodology with a methodology reflecting expected credit losses with considerations for a broader range of reasonable and supportable information to substantiate credit loss estimates. This ASU is effective for annual reporting periods beginning after December 15, 2019, and the Company is currently assessing the potential impact to the consolidated financial statements.

ASU No. 2016-04, Extinguishment of liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products

This ASU requires organizations to derecognize the deposit liabilities for unredeemed prepaid stored-value products (i.e. – breakage) consistently with breakage guidance in Topic 606, Revenue from Contracts with Customers. This ASU is effective for annual reporting periods beginning after December 15, 2017, and the Company is currently assessing the potential impact to the consolidated financial statements.

ASU No. 2016-02, Leases (Topic 842): Amendments to the Leases Analysis

This ASU requires organizations to recognize lease assets and lease liabilities on the balance sheet, along with disclosing key information about leasing arrangements. This update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and the Company is currently assessing the potential impact to the consolidated financial statements.

ASU No 2015-16 – Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments

This ASU provides guidance regarding recognizing adjustments to provisional goodwill identified during the measurement period in the reporting period in which the adjustment is determined. Income statement effects, if any, will also need to be recorded in the period in which the adjustment is determined, as if the accounting had been completed at the acquisition date. This update is in effect for annual and interim periods beginning after December 15, 2015, and did not have a material impact on the Company's consolidated financial statements.

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ASU No. 2014-09, Revenue Recognition – Revenue from Contracts with Customers (Topic 606)

This ASU provides guidance on when to recognize revenue from contracts with customers. The objective of this ASU is to eliminate diversity in practice related to this topic and to develop guidance that would streamline and enhance revenue recognition requirements. The ASU defines five steps to recognize revenue, including identify the contract with a customer, identify the performance obligations in the contract, determine a transaction price, allocate the transaction price to the performance obligations and then recognize the revenue when or as the entity satisfies a performance obligation. This update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and the Company is currently assessing the potential impact to the consolidated financial statements.

ASU No. 2015-01, Income Statement, Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

This ASU eliminates the concept of extraordinary items from U.S. GAAP. The ASU does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. This update is effective for annual and interim periods beginning after December 15, 2015, and did not have a material impact on the Company's consolidated financial statements.

ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis

This ASU changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. This update is effective for annual and interim periods beginning after December 15, 2015, and did not have a material impact on the Company's consolidated financial statements.

ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs

This ASU provides guidance on balance sheet presentation requirements for debt issuance costs and debt discount and premium. The objective of this ASU is to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This update is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, and the Company is currently assessing the potential impact to the consolidated financial statements.

NOTE 10. FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") 820, Fair Value Measurements defines fair value, establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system and requires disclosures about fair value measurement. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts.

The fair value hierarchy is as follows:

Level 1 Inputs – Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access at measurement date.

Level 2 Inputs – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market.

Level 3 Inputs – Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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Securities Available for Sale and Held to Maturity. Securities available for sale are recorded at fair value on a recurring basis and securities held to maturity are carried at amortized cost. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using an independent pricing service. For both Level 1 and Level 2 securities, management uses various methods and techniques to corroborate prices obtained from the pricing service, including but not limited to reference to dealer or other market quotes, and by reviewing valuations of comparable instruments. The Company's Level 1 securities include equity securities and mutual funds. Level 2 securities include U.S. Government agency and instrumentality securities, U.S. Government agency and instrumentality mortgage-backed securities, municipal bonds, corporate debt securities and trust preferred securities. The Company had no Level 3 securities at June 30, 2016 or September 30, 2015.

The fair values of securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), or valuation based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model based valuation techniques for which significant assumptions are observable in the market (Level 2 inputs). The Company considers these valuations supplied by a third party provider which utilizes several sources for valuing fixed-income securities. These sources include Interactive Data Corporation, Reuters, Standard and Poor's, Bloomberg Financial Markets, Street Software Technology, and the third party provider's own matrix and desk pricing. The Company, no less than annually, reviews the third party's methods and source's methodology for reasonableness and to ensure an understanding of inputs utilized in determining fair value. Sources utilized by the third party provider include but are not limited to pricing models that vary based by asset class and include available trade, bid, and other market information. This methodology includes but is not limited to broker quotes, proprietary models, descriptive terms and conditions databases, as well as extensive quality control programs. Monthly, the Company receives and compares prices provided by multiple securities dealers and pricing providers to validate the accuracy and reasonableness of prices received from the third party provider. On a monthly basis, the Investment Committee reviews mark-to-market changes in the securities portfolio for reasonableness.

The following table summarizes the fair values of securities available for sale and held to maturity at June 30, 2016 and September 30, 2015. Securities available for sale are measured at fair value on a recurring basis, while securities held to maturity are carried at amortized cost in the consolidated statements of financial condition.

	Fair Value At June 30, 2016							
	Available For Sale				Held to Maturity			
(Dollars in Thousands)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Debt securities								
Trust preferred securities	$12,188	$—	$12,188	$ —	$—	$ —	$—	$ —
Small business administration securities	84,104	—	84,104	—	—	—	—	—
Obligations of states and political subdivisions	—	—	—	—	21,056	—	21,056	—
Non-bank qualified obligations of states and political subdivisions	700,040	—	700,040	—	457,336	—	457,336	—
Asset-backed securities	66,023	—	66,023	—	—	—	—	—
Mortgage-backed securities	579,330	—	579,330	—	139,758	—	139,758	—
Total debt securities	1,441,685	—	1,441,685	—	618,150	—	618,150	—
Common equities and mutual funds	1,113	1,113	—	—	—	—	—	—
Total securities	$1,442,798	$1,113	$1,441,685	$ —	$618,150	$ —	$618,150	$ —

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	Fair Value At September 30, 2015							
	Available For Sale				Held to Maturity			
(Dollars in Thousands)	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Debt securities								
Trust preferred and corporate securities	$13,944	$—	$13,944	$ —	$—	$ —	$—	$ —
Small business administration securities	56,056	—	56,056	—	—	—	—	—
Obligations of states and political subdivisions	—	—	—	—	19,413	—	19,413	—
Non-bank qualified obligations of states and political subdivisions	608,590	—	608,590	—	261,330	—	261,330	—
Mortgage-backed securities	576,583	—	576,583	—	66,104	—	66,104	—
Total debt securities	1,255,173	—	1,255,173	—	346,847	—	346,847	—
Common equities and mutual funds	914	914	—	—	—	—	—	—
Total securities	$1,256,087	$914	$1,255,173	$ —	$346,847	$ —	$346,847	$ —

Loans. The Company does not record loans at fair value on a recurring basis. However, if a loan is considered impaired, an allowance for loan losses is established. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC 310, Receivables.

The following table summarizes the assets of the Company that are measured at fair value in the consolidated statements of financial condition on a non-recurring basis as of June 30, 2016 and September 30, 2015.

	Fair Value At June 30, 2016			
(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
One to four family residential mortgage loans	$77	$ —	$ —	$ 77
Total	$77	$ —	$ —	$ 77

	Fair Value At September 30, 2015			
(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
Commercial and multi-family real estate loans	$663	$ —	$ —	$663
Agricultural operating loans	1,880	—	—	1,880
Total	$2,543	$ —	$ —	$2,543

	Quantitative Information About Level 3 Fair Value Measurements		
(Dollars in Thousands)	Fair Value at June 30, 2016	Valuation Technique	Unobservable Input
Impaired Loans, net	$77	Market approach	Appraised values (1)

(1) The Company generally relies on external appraisers to develop this information. Management reduced the appraised value by estimated selling costs in a range of 4% to 10%.

	Quantitative Information About Level 3 Fair Value Measurements		
(Dollars in Thousands)	Fair Value at September 30, 2015	Valuation Technique	Unobservable Input
Impaired Loans, net	$2,543	Market approach	Appraised values (1)

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(1) The Company generally relies on external appraisers to develop this information. Management reduced the appraised value by estimated selling costs in a range of 4% to 10%.

The following table discloses the Company's estimated fair value amounts of its financial instruments. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of June 30, 2016 and September 30, 2015, as more fully described below. The operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the Bank's capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

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The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at June 30, 2016 and September 30, 2015.

	June 30, 2016				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(Dollars in Thousands)				
Financial assets					
Cash and cash equivalents	$ 36,830	$ 36,830	$ 36,830	$ —	$ —
Securities available for sale	1,442,798	1,442,798	1,113	1,441,685	—
Securities held to maturity	604,589	618,150	—	618,150	—
Total securities	2,047,387	2,060,948	1,113	2,059,835	—
Loans receivable:					
One to four family residential mortgage loans	150,461	156,610	—	—	156,610
Commercial and multi-family real estate loans	386,798	386,551	—	—	386,551
Agricultural real estate loans	64,130	64,464	—	—	64,464
Consumer loans	36,986	36,376	—	—	36,376
Commercial operating loans	40,971	41,336	—	—	41,336
Agricultural operating loans	40,435	40,241	—	—	40,241
Premium finance loans	141,342	144,180	—	—	144,180
Total loans receivable	861,123	869,758	—	—	869,758
Federal Home Loan Bank stock	25,311	25,311	—	25,311	—
Accrued interest receivable	17,911	17,911	17,911	—	—
Financial liabilities					
Noninterest bearing demand deposits	1,922,802	1,922,802	1,922,802	—	—
Interest bearing demand deposits, savings, and money markets	163,818	163,818	163,818	—	—
Certificates of deposit	100,336	100,066	—	100,066	—
Total deposits	2,186,956	2,186,686	2,086,620	100,066	—
Advances from Federal Home Loan Bank	107,000	108,274	—	108,274	—
Federal funds purchased	437,000	437,000	—	437,000	—
Securities sold under agreements to repurchase	2,234	2,234	—	2,234	—
Subordinated debentures	10,310	10,430	—	10,430	—
Accrued interest payable	337	337	337	—	—

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	September 30, 2015				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(Dollars in Thousands)				
Financial assets					
Cash and cash equivalents	$27,658	$ 27,658	$ 27,658	$ —	$ —
Securities available for sale	1,256,087	1,256,087	914	1,255,173	—
Securities held to maturity	345,744	346,847	—	346,847	—
Total securities	1,601,831	1,602,934	914	1,602,020	—
Loans receivable:					
One to four family residential mortgage loans	125,021	121,385	—	—	121,385
Commercial and multi-family real estate loans	310,199	314,372	—	—	314,372
Agricultural real estate loans	64,316	66,682	—	—	66,682
Consumer loans	33,527	33,504	—	—	33,504
Commercial operating loans	29,893	23,245	—	—	23,245
Agricultural operating loans	43,626	40,003	—	—	40,003
Premium finance loans	106,505	108,583	—	—	108,583
Total loans receivable	713,087	707,774	—	—	707,774
Federal Home Loan Bank stock	24,410	24,410	—	24,410	—
Accrued interest receivable	13,352	13,352	13,352	—	—
Financial liabilities					
Noninterest bearing demand deposits	1,449,101	1,369,672	1,369,672	—	—
Interest bearing demand deposits, savings, and money markets	117,262	115,204	115,204	—	—
Certificates of deposit	91,171	91,304	—	91,304	—
Total deposits	1,657,534	1,576,180	1,484,876	91,304	—
Advances from Federal Home Loan Bank	7,000	8,630	—		