META FINANCIAL GROUP INC
Form 10-Q
May 05, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

o 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)

(712) 732-4117
(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 x NO o

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 x NO o.

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 o Accelerated filer x Non-accelerated filer o Smaller Reporting Company o

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

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

Class:	Outstanding at May 2, 2014:
Common Stock, $.01 par value	6,129,299 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	March 31, 2014	September 30, 2013
Cash and cash equivalents	$38,931	$40,063
Investment securities available for sale	417,431	299,821
Mortgage-backed securities available for sale	616,172	581,372
Investment securities held to maturity	216,635	211,099
Mortgage-backed securities held to maturity	73,676	76,927
Loans receivable - net of allowance for loan losses of $4,572 at March 31, 2014 and $3,930 at September 30, 2013	426,015	380,428
Federal Home Loan Bank Stock, at cost	10,645	9,994
Accrued interest receivable	9,608	8,582
Insurance receivable	400	400
Premises, furniture, and equipment, net	16,881	17,664
Bank-owned life insurance	34,900	33,830
Foreclosed real estate and repossessed assets	116	116
Intangible assets	2,464	2,339
Prepaid assets	9,656	8,539
Deferred taxes	12,142	14,297
MPS accounts receivable	3,735	3,707
Assets held for sale	-	1,120
Other assets	1,150	1,691
Total assets	$1,890,557	$1,691,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	$1,309,753	$1,086,258
Interest-bearing checking	35,338	31,181
Savings deposits	34,344	26,229
Money market deposits	42,728	40,016
Time certificates of deposit	72,997	131,599
Total deposits	1,495,160	1,315,283
Advances from Federal Home Loan Bank	7,000	7,000
Federal funds purchased	205,000	190,000
Securities sold under agreements to repurchase	5,526	9,146
Subordinated debentures	10,310	10,310
Accrued interest payable	167	291
Contingent liability	331	331

Accrued expenses and other liabilities	11,403	16,644
Total liabilities	1,734,897	1,549,005
STOCKHOLDERS' EQUITY		
Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at March 31, 2014 and September 30, 2013, respectively	-	-
Common stock, $.01 par value; 10,000,000 shares authorized, 6,173,674 and 6,132,744 shares issued, 6,129,299 and 6,070,654 shares outstanding at March 31, 2014 and September 30, 2013, respectively	62	61
Additional paid-in capital	93,984	92,963
Retained earnings	77,826	71,268
Accumulated other comprehensive income (loss)	(15,485)	(20,285)
Treasury stock, 44,375 and 62,090 common shares, at cost, at March 31, 2014 and September 30, 2013, respectively	(727)	(1,023)
Total stockholders' equity	155,660	142,984
Total liabilities and stockholders' equity	$1,890,557	$1,691,989

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 March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Interest and dividend income:				
Loans receivable, including fees	$4,750	$3,735	$9,221	$7,862
Mortgage-backed securities	3,925	3,111	7,608	6,045
Other investments	3,388	2,872	6,396	5,441
	12,063	9,718	23,225	19,348
Interest expense:				
Deposits	221	284	494	709
FHLB advances and other borrowings	323	529	699	937
	544	813	1,193	1,646
Net interest income	11,519	8,905	22,032	17,702
Provision (recovery) for loan losses	300	(300)	300	(300)
Net interest income after provision for loan losses	11,219	9,205	21,732	18,002
Non-interest income:				
Card fees	12,055	13,960	24,948	25,496
Loan fees	438	234	645	502
Bank-owned life insurance	281	293	570	418
Deposit fees	140	154	297	322
Gain (loss) on sale of securities available for sale, net (Includes $98 and $97 reclassified from accumulated other comprehensive income for net gains on available for sale securities for the three and six months ended March 31, 2014, respectively)	98	322	97	1,976
Gain (loss) on foreclosed real estate	2	87	5	(313)
Other income	49	45	88	104
Total non-interest income	13,063	15,095	26,650	28,505
Non-interest expense:				
Compensation and benefits	10,019	9,116	18,970	17,393
Card processing	3,573	4,978	7,818	8,663
Occupancy and equipment	2,498	1,986	4,549	4,007
Legal and consulting	783	854	2,166	1,774
Data processing	338	291	672	611
Marketing	213	201	433	471
Impairment on assets held for sale	-	361	-	361
Other expense	2,319	2,798	4,196	5,383
Total non-interest expense	19,743	20,585	38,804	38,663

Income before income tax expense	4,539	3,715	9,578	7,844
Income tax expense (Includes $36 and $35 income tax expense reclassified from accumulated other comprehensive income for the three and six months ended March 31, 2014, respectively)	395	568	1,432	1,572
Net income	$4,144	$3,147	$8,146	$6,272
Earnings per common share:				
Basic	$0.68	$0.57	$1.34	$1.15
Diluted	$0.67	$0.57	$1.32	$1.14

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 March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Net income	$4,144	$3,147	$8,146	$6,272
Other comprehensive income (loss):				
Change in net unrealized gain (loss) on securities	14,286	(8,303)	7,745	(11,446)
Losses (gains) realized in net income	(98)	(322)	(97)	(1,976)
	14,188	(8,625)	7,648	(13,422)
Deferred income tax effect	5,180	(3,299)	2,848	(5,134)
Total other comprehensive income (loss)	9,008	(5,326)	4,800	(8,288)
Total comprehensive income (loss)	$13,152	$(2,179)	$12,946	$(2,016)

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 Six Months Ended March 31, 2014 and 2013
(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, 2012	$ 56	$ 78,769	$ 60,776	$ 8,513	$ (2,255)	$ 145,859
Cash dividends declared on common stock ($0.26 per share)	-	-	(1,426)	-	-	(1,426)
Issuance of common shares from the sales of equity securities	-	(123)	-	-	-	(123)
Issuance of 54,033 common shares from treasury stock due to issuance of restricted stock	-	(10)	-	-	970	960
Stock compensation	-	121	-	-	-	121
Net change in unrealized losses on securities, net of income taxes	-	-	-	(8,288)	-	(8,288)
Net income	-	-	6,272	-	-	6,272
Balance, March 31, 2013	$ 56	$ 78,757	$ 65,622	$ 225	$ (1,285)	$ 143,375
Balance, September 30, 2013	$ 61	$ 92,963	$ 71,268	$ (20,285)	$ (1,023)	$ 142,984
Cash dividends declared on common stock ($0.26 per share)	-	-	(1,588)	-	-	(1,588)
Issuance of common shares from the sales of equity securities	1	(52)	-	-	-	(51)
Issuance of 17,715 common shares from treasury stock due to exercise of stock options	-	1,040	-	-	296	1,336
Stock compensation	-	33	-	-	-	33
Net change in unrealized losses on securities, net of income taxes	-	-	-	4,800	-	4,800

Net income	-	-	8,146	-	-	8,146
Balance, March 31, 2014	$ 62	$ 93,984	$ 77,826	$ (15,485)	$ (727)	$ 155,660

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)

	Six Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$ 8,146	$ 6,272
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	8,979	9,634
Provision (recovery) for loan losses	300	(300)
Provision (recovery) for deferred taxes	(694)	-
(Gain) loss on other assets	(39)	(6)
(Gain) loss on sale of securities available for sale, net	(97)	(1,976)
Net change in accrued interest receivable	(1,026)	(1,516)
Impairment on assets held for sale	-	361
Net change in other assets	(1,875)	(2,303)
Net change in accrued interest payable	(124)	10
Net change in accrued expenses and other liabilities	(5,241)	(55,554)
Net cash provided by (used in) operating activities	8,329	(45,378)
Cash flows from investing activities:		
Purchase of securities available for sale	(257,319)	(406,511)
Proceeds from sales of securities available for sale	68,167	150,059
Proceeds from maturities and principal repayments of securities available for sale	39,650	116,302
Purchase of securities held to maturity	(7,410)	-
Proceeds from securities held to maturity	3,302	-
Purchase of bank owned life insurance	(500)	(18,000)
Loans purchased	(1,784)	(1,075)
Net change in loans receivable	(44,103)	(2,571)
Proceeds from sales of foreclosed real estate	-	427
Federal Home Loan Bank stock purchases	(186,691)	(204,522)
Federal Home Loan Bank stock redemptions	186,040	204,700
Proceeds from the sale of premises and equipment	1,169	5
Purchase of premises and equipment	(969)	(3,690)
Net cash provided by (used in) investing activities	(200,448)	(164,876)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	238,479	196,252
Net change in time deposits	(58,602)	(18,826)
Repayment of FHLB and other borrowings	-	(4,000)
Proceeds from federal funds purchased	15,000	-
Net change in securities sold under agreements to repurchase	(3,620)	(18,724)
Cash dividends paid	(1,588)	(1,426)
Stock compensation	33	121
Proceeds from issuance of common stock	1,285	837
Net cash provided by (used in) financing activities	190,987	154,234

Net change in cash and cash equivalents	(1,132)	(56,020)
Cash and cash equivalents at beginning of period	40,063	145,051
Cash and cash equivalents at end of period	$38,931	$89,031
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$1,317	$1,637
Income taxes	2,677	3,342

See Notes to Condensed Consolidated Financial Statements.

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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, 2013 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 16, 2013. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the three and six month periods ended March 31, 2014, are not necessarily indicative of the results expected for the year ending September 30, 2014.

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 adequacy 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.

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 residential first mortgage loans secured by one-to-four family residences, residential construction loans, and automobile, manufactured homes, home equity and second mortgage loans. Commercial and agricultural loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 90 days or more. 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 March 31, 2014 and September 30, 2013 are as follows:

	March 31, 2014	September 30, 2013
	(Dollars in Thousands)	
One to four family residential mortgage loans	$99,727	$82,287
Commercial and multi-family real estate loans	211,335	192,786
Agricultural real estate loans	35,206	29,552
Consumer loans	27,112	30,314
Commercial operating loans	22,030	16,264
Agricultural operating loans	35,770	33,750
Total Loans Receivable	431,180	384,953
Less:		
Allowance for loan losses	(4,572)	(3,930)
Net deferred loan origination fees	(593)	(595)
Total Loans Receivable, Net	$426,015	$380,428

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Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three and six month periods ended March 31, 2014 and 2013 is as follows:

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Unallocated	Total
Three Months Ended March 31, 2014								
Allowance for loan losses:								
Beginning balance	$ 341	$ 1,552	$ 124	$ 72	$ 56	$ 248	$ 1,865	$ 4,258
Provision (recovery) for loan losses	(54)	114	111	(1)	(4)	230	(96)	300
Loan charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	14	-	-	14
Ending balance	$ 287	$ 1,666	$ 235	$ 71	$ 66	$ 478	$ 1,769	$ 4,572
Six Months Ended March 31, 2014								
Allowance for loan losses:								
Beginning balance	$ 333	$ 1,937	$ 112	$ 74	$ 49	$ 267	$ 1,158	$ 3,930
Provision (recovery) for loan losses	(46)	(599)	123	(3)	3	211	611	300
Loan charge offs	-	-	-	-	-	-	-	-
Recoveries	-	328	-	-	14	-	-	342
Ending balance	$ 287	$ 1,666	$ 235	$ 71	$ 66	$ 478	$ 1,769	$ 4,572
Ending balance: individually evaluated for impairment	25	366	-	-	-	-	-	391
Ending balance: collectively evaluated for impairment	262	1,300	235	71	66	478	1,769	4,181
Total	$ 287	$ 1,666	$ 235	$ 71	$ 66	$ 478	$ 1,769	$ 4,572
Loans:								
Ending balance: individually evaluated for impairment	673	5,703	-	-	30	-	-	6,406
Ending balance: collectively evaluated for impairment	99,054	205,632	35,206	27,112	22,000	35,770	-	424,774
Total	$ 99,727	$ 211,335	$ 35,206	$ 27,112	$ 22,030	$ 35,770	$ -	$ 431,180

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	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Unallocated	Total
Three Months Ended March 31, 2013								
Allowance for loan losses:								
Beginning balance	$ 188	$ 2,870	$ 1	$ 3	$ 50	$ 18	$ 833	$ 3,963
Provision (recovery) for loan losses	77	(543)	-	-	(65)	(1)	232	(300)
Loan charge offs	-	-	-	-	-	-	-	-
Recoveries	-	2	-	1	40	-	-	43
Ending balance	$ 265	$ 2,329	$ 1	$ 4	$ 25	$ 17	$ 1,065	$ 3,706
Six Months Ended March 31, 2013								
Allowance for loan losses:								
Beginning balance	$ 193	$ 3,113	$ 1	$ 3	$ 49	$ -	$ 612	$ 3,971
Provision (recovery) for loan losses	72	(778)	-	-	(64)	17	453	(300)
Loan charge offs	-	(8)	-	-	-	-	-	(8)
Recoveries	-	2	-	1	40	-	-	43
Ending balance	$ 265	$ 2,329	$ 1	$ 4	$ 25	$ 17	$ 1,065	$ 3,706
Ending balance: individually evaluated for impairment	9	636	-	-	-	-	-	645
Ending balance: collectively evaluated for impairment	256	1,693	1	4	25	17	1,065	3,061
Total	$ 265	$ 2,329	$ 1	$ 4	$ 25	$ 17	$ 1,065	$ 3,706
Loans:								
Ending balance: individually evaluated for impairment	682	9,382	-	-	59	-	-	10,123
Ending balance: collectively evaluated for impairment	65,061	164,812	27,843	29,404	14,609	23,112	-	324,841
Total	$ 65,743	$ 174,194	$ 27,843	$ 29,404	$ 14,668	$ 23,112	$ -	$ 334,964

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

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

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

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

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The adverse classifications are as follows:

Substandard- A substandard asset is inadequately protected by the net worth and/or repayment ability or by a weak collateral position. Assets so classified will have well-defined weaknesses creating a distinct possibility 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 March 31, 2014 and September 30, 2013 are as follows:

March 31, 2014

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	$ 99,083	$ 206,253	$ 32,121	$ 27,112	$ 22,030	$ 28,523	$415,122
Watch	316	862	-	-	-	1,810	2,988
Special Mention	83	99	1,940	-	-	147	2,269
Substandard	245	4,121	1,145	-	-	5,290	10,801
Doubtful	-	-	-	-	-	-	-
	$ 99,727	$ 211,335	$ 35,206	$ 27,112	$ 22,030	$ 35,770	$431,180

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September 30, 2013

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	$ 81,719	$ 177,513	$ 26,224	$ 30,314	$ 16,251	$ 26,362	$358,383
Watch	239	7,791	3,328	-	13	1,690	13,061
Special Mention	84	102	-	-	-	5,698	5,884
Substandard	245	7,380	-	-	-	-	7,625
Doubtful	-	-	-	-	-	-	-
	$ 82,287	$ 192,786	$ 29,552	$ 30,314	$ 16,264	$ 33,750	$384,953

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

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

The Company currently offers one, three, five, seven and ten year ARM loans. These loans have a fixed-rate for the stated period and, thereafter, such loans 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 a fixed rate loan. The Company's delinquency experience on its ARM loans has generally been similar to its experience on fixed-rate residential loans. The current low mortgage interest rate environment makes ARM loans relatively unattractive and very few are currently being originated.

Due to consumer demand, the Company also offers fixed-rate mortgage loans with terms up to 30 years, most of which conform to secondary market, i.e., Fannie Mae, Ginnie Mae, and Freddie Mac standards. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions.

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

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and, in order to supplement its loan portfolio, has

purchased whole loan and participation interests in loans from other financial institutions. The purchased loans and loan participation interests are generally secured by properties primarily located in the Midwest.

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

Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

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

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

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

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

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

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

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

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

Consumer Lending- Meta Payment Systems ("MPS"). MPS offers portfolio lending on a nationwide basis. MPS has a loan committee consisting of members of Executive Management. This committee, known as the MPS Credit Committee, is charged with monitoring, evaluating, and reporting portfolio performance and the overall credit risk posed by its credit products. All proposed credit programs must first be reviewed and approved by the committee before such programs are presented to the Bank's Board of Directors for approval. The Board of Directors of the Bank is ultimately responsible for final approval of any credit program and, under the terms of a Consent Order, must seek prior permission from the Bank's primary federal regulator to originate new credit programs.

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, subject to the Consent Order referenced above, MPS designs and administers certain credit programs that seek to accomplish these objectives.

MPS strives to offer consumers innovative payment products, including credit products. Most credit products have fallen into the category of portfolio lending. MPS continues to work on new alternative portfolio lending products striving to serve its core customer base and provide unique and innovative lending solutions to the unbanked and under-banked segment. This effort has been supported by recent enhancements to the MPS Credit Policy for Portfolio Lending Programs.

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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 strives to employ policies, procedures, and information systems that it believes are commensurate with the added risk and exposure. Our third party relationship programs have been limited to third party relationships in existence at the time the directives were issued, absent prior approval to engage in new relationships.

The MPS Credit Committee is responsible for monitoring, identifying and evaluating the credit concentrations attributable to MPS, to determine the potential risk to the Bank. An evaluation includes the following:

- A recommendation regarding additional controls needed to mitigate the concentration exposure.
- A limitation or cap placed on the size of the concentration.
- The potential necessity for increased capital and/or credit reserves to cover the increased risk caused by the concentration(s).
- A strategy to reduce to acceptable levels those concentration(s) that are determined to create undue risk to the Bank.

Pursuant to the terms of its Consent Order, the Bank adopted a new concentration policy including enhanced risk analysis, monitoring and management for its respective concentration limits.

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

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

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

Generally, when a loan becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result, previously accrued interest income on the loan is reversed against current income. The loan will remain on a non-accrual status until the loan becomes

current and has demonstrated a sustained period of satisfactory performance.

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Past due loans at March 31, 2014 and September 30, 2013 are as follows:

March 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Non-Accrual Loans	Total Loans Receivable
Residential 1-4 Family	$112	$ -	$ -	$112	$99,333	$ 282	$ 99,727
Commercial Real Estate and Multi-Family	-	-	-	-	211,019	316	211,335
Agricultural Real Estate	-	-	-	-	35,206	-	35,206
Consumer	156	-	4	160	26,952	-	27,112
Commercial Operating	-	-	-	-	22,030	-	22,030
Agricultural Operating	388	-	-	388	35,382	-	35,770
Total	$656	$ -	$ 4	$660	$429,922	$ 598	$ 431,180

September 30, 2013	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Non-Accrual Loans	Total Loans Receivable
Residential 1-4 Family	$53	$ -	$ 245	$298	$81,744	$ 245	$ 82,287
Commercial Real Estate and Multi-Family	102	-	107	209	192,150	427	192,786
Agricultural Real Estate	1,169	-	-	1,169	28,383	-	29,552
Consumer	29	21	13	63	30,251	-	30,314
Commercial Operating	-	-	-	-	16,257	7	16,264
Agricultural Operating	-	-	-	-	33,750	-	33,750
Total	$1,353	$ 21	$ 365	$1,739	$382,535	$ 679	$ 384,953

Impaired loans at March 31, 2014 and September 30, 2013 are as follows:

March 31, 2014	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance			
Residential 1-4 Family	$ 392	$ 392	$ -
Commercial Real Estate and Multi-Family	4,408	4,408	-
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	30	30	-
Agricultural Operating	-	-	-
Total	$ 4,830	$ 4,830	$ -
Loans with a specific valuation allowance			
Residential 1-4 Family	$ 281	$ 281	$ 25
Commercial Real Estate and Multi-Family	1,295	1,295	366
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	-	-	-
Agricultural Operating	-	-	-

Total	$ 1,576	$ 1,576	$ 391

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September 30, 2013	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance			
Residential 1-4 Family	$ 359	$ 359	$ -
Commercial Real Estate and Multi-Family	4,527	4,535	-
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	45	60	-
Agricultural Operating	-	-	-
Total	$ 4,931	$ 4,954	$ -
Loans with a specific valuation allowance			
Residential 1-4 Family	$ 282	$ 282	$ 25
Commercial Real Estate and Multi-Family	2,107	2,107	404
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	-	-	-
Agricultural Operating	-	-	-
Total	$ 2,389	$ 2,389	$ 429

The following table provides the average recorded investment in impaired loans for the three and six month periods ended March 31, 2014 and 2013.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
	Average Recorded Investment	Average Recorded Investment	Average Recorded Investment	Average Recorded Investment
Residential 1-4 Family	$676	$ 650	$665	$ 548
Commercial Real Estate and Multi-Family	7,512	8,104	7,370	8,537
Agricultural Real Estate	-	-	-	-
Consumer	-	1	-	1
Commercial Operating	37	63	41	48
Agricultural Operating	-	-	-	-
Total	$8,226	$ 8,818	$8,076	$ 9,134

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 six month periods ended March 31, 2014 and 2013. Additionally, there were no TDR loans for which there was a payment default during the three and six month periods ended March 31, 2014 and 2013 that had been modified during the 12-month period prior to the default.

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NOTE 3. ALLOWANCE FOR LOAN LOSSES

At March 31, 2014, the Company's allowance for loan losses was $4.6 million, an increase of $0.7 million from $3.9 million at September 30, 2013. During the six months ended March 31, 2014, the Company recorded a provision for loan losses of $0.3 million due to continued loan growth.

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 adequacy 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.

The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets, non-performing loans, TDR loans, the composition of its loan portfolio and the general economic environment within which the Company and its borrowers operate.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. The economic slowdown, which recently has shown some signs of abating, continues to strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. It should be noted that a sizeable portion of the Company's consumer loan portfolio is secured by residential real estate. Over the past three years, loss rates in the commercial and multi-family real estate market have remained moderate. Management believes that future losses in this portfolio may be somewhat higher than recent historical experience. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years primarily due to higher commodity prices as well as above average yields which have created positive economic conditions for most farmers in our markets. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that various levels of drought weather conditions within our markets have the potential to negatively impact potential yields which would have a negative economic effect on our agricultural markets. Lower commodity prices than in prior years also has the potential to negatively affect some agricultural borrowers. In addition, management believes the continuing low growth environment may also negatively impact consumers' repayment capacities.

The allowance for loan losses established by MPS results from an estimation process that evaluates relevant characteristics of its credit portfolio(s). MPS also considers other internal and external environmental factors such as changes in operations or personnel and economic events that may affect the adequacy of the allowance for credit losses. Adjustments to the allowance for loan losses are recorded periodically based on the result of this estimation process. The exact methodology to determine the allowance for loan losses for each program will not be identical. Each program may have differing attributes including such factors as levels of risk, definitions of delinquency and loss, inclusion/exclusion of credit bureau criteria, roll rate migration dynamics, and other factors. Similarly, the additional capital required to offset the increased risk in subprime lending activities may vary by credit program. Each program is evaluated separately.

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 March 31, 2014 reflects an appropriate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, 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 its regulatory agencies, the OCC and the Federal Reserve, which can require the establishment of additional general or specific allowances.

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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 March 31, 2014 and September 30, 2013. 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 six months ended March 31, 2014 and 2013 is presented below.

Three Months Ended March 31,	2014	2013
(Dollars in Thousands, Except Share and Per Share Data)		
Earnings		
Net Income	$4,144	$3,147
Basic EPS		
Weighted average common shares outstanding	6,119,679	5,490,960
Less weighted average nonvested shares	(4,967)	-
Weighted average common shares outstanding	6,114,712	