

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

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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

For the transition period from _____ to

Commission File Number: 0-22140

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

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

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

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

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

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

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

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

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

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

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



META FINANCIAL GROUP, INC.
FORM 10-Q

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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)

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

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

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsMETA FINANCIAL GROUP, INC.
AND SUBSIDIARIESCondensed Consolidated Statements of Operations (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

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

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

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsMETA FINANCIAL GROUP, INC.
AND SUBSIDIARIESCondensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(Dollars in Thousands)

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

See Notes to Condensed Consolidated Financial Statements.

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AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the Six Months Ended March 31, 2015 and 2014

(Dollars in Thousands, Except Share and Per Share Data)

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

See Notes to Condensed Consolidated Financial Statements.

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

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

See Notes to Condensed Consolidated Financial Statements.

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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, 2014 included in Meta Financial Group, Inc.'s ("Meta Financial" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on December 12, 2014. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

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

NOTE 2. ACQUISITION

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

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

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

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

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

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

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

NOTE 3. CREDIT DISCLOSURES

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

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

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

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

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

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

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

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

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

Six Months
Ended March
31, 2015

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Allowance for loan losses: Beginning balance	\$552	\$ 1,575	\$ 263	\$ 78	\$ 93	\$ 719	\$-	\$ 2,117	\$5,397
Provision (recovery) for loan losses	15	(149)	2	-	5	(52)	240	580	641
Charge offs	(45)	(214)	-	-	-	-	(98)	-	(357)
Recoveries	-	6	-	-	3	-	26	-	35
Ending balance	\$522	\$ 1,218	\$ 265	\$ 78	\$ 101	\$ 667	\$168	\$ 2,697	\$5,716

Ending balance: individually evaluated for impairment	-	296	-	1	-	326	-	-	623
Ending balance: collectively evaluated for impairment	522	922	265	77	101	341	168	2,697	5,093
Total	\$522	\$ 1,218	\$ 265	\$ 78	\$ 101	\$ 667	\$168	\$ 2,697	\$5,716

Loans: Ending balance: individually evaluated for impairment	181	1,410	-	1	16	6,134	-	-	7,742
Ending balance: collectively evaluated for impairment	115,560	259,127	65,720	30,534	27,250	35,615	83,191	-	616,997
Total	\$115,741	\$ 260,537	\$ 65,720	\$ 30,535	\$ 27,266	\$ 41,749	\$ 83,191	\$-	\$ 624,739

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