



Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

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

Table of Contents

<u>PART I - FINANCIAL INFORMATION</u>	<u>2</u>
Item 1. <u>Financial Statements (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Financial Condition as of June 30, 2016 and September 30, 2015</u>	<u>2</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2016 and 2015</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended June 30, 2016 and 2015</u>	<u>4</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended June 30, 2016 and 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2016 and 2015</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
Item 3. <u>Quantitative and Qualitative Disclosure About Market Risk</u>	<u>52</u>
Item 4. <u>Controls and Procedures</u>	<u>57</u>
<u>PART II - OTHER INFORMATION</u>	<u>59</u>
Item 1. <u>Legal Proceedings</u>	<u>59</u>
Item 1A. <u>Risk Factors</u>	<u>59</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>59</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>59</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>59</u>
Item 5. <u>Other Information</u>	<u>59</u>
Item 6. <u>Exhibits</u>	<u>59</u>
<u>SIGNATURES</u>	<u>60</u>

Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

## META FINANCIAL GROUP, INC.

## AND SUBSIDIARIES

## Condensed Consolidated Statements of Financial Condition (Unaudited)

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

	June 30, 2016	September 30, 2015
<b>ASSETS</b>		
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
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
 <b>LIABILITIES</b>		
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
 <b>STOCKHOLDERS' EQUITY</b>	 —	 —

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

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.

Table of ContentsMETA FINANCIAL GROUP, INC.  
AND SUBSIDIARIESCondensed 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

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

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.

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

	Three Months Ended June 30, 2016		Nine Months Ended June 30, 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.



Table of ContentsMETA 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.



Table of ContentsMETA FINANCIAL GROUP, INC.  
AND SUBSIDIARIESCondensed 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 )

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

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.		

Table of Contents

NOTE 1. BASIS OF PRESENTATION

The interim unaudited Condensed Consolidated Financial Statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 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.

7

---

Table of Contents

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

Table of Contents

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:



Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

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

9

---

Table of Contents

	1-4 Family Real Estate (Dollars in Thousands)	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Unallocated	Total
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	118,592	277,513	64,173	32,968	29,991	35,642	91,740	—	650,619
impairment									
Total	\$118,716	\$278,910	\$64,173	\$32,968	\$30,004	\$41,511	\$91,740	\$—	\$658,022

Table of Contents

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:

	1-4	Commercial						
June 30, 2016	Family	and	Agricultural	Consumer	Commercial	Agricultural	Premium	Total
	Real	Multi-Family	Real Estate		Operating	Operating	Finance	
	Estate	Real Estate						

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

	(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

Table of Contents

September 30, 2015	1-4 Family Real Estate (Dollars in Thousands)	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Total
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.

12

---

## Table of Contents

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.

13

---

Table of Contents

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.

Table of Contents

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
---------------	---------------	---------------	-----------------	---------------	---------	----------------------	----------------

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

	Past Due	Past 90 Due 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

15

---

Table of Contents

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
(Dollars in Thousands)			
June 30, 2016			
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
(Dollars in Thousands)			
September 30, 2015			
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



Table of Contents

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		Nine Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
	Average	Average	Average	Average
	Recorded	Recorded	Recorded	Recorded
	Investment	Investment	Investment	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.

Table of Contents

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, (Dollars in Thousands, Except Share and Per Share Data)	2016	2015
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

Table of Contents

Nine Months Ended June 30, (Dollars in Thousands, Except Share and Per Share Data)	2016	2015
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	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
At June 30, 2016				
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



Table of Contents

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 <sup>(1)</sup>	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.

Table of Contents

At September 30, 2015

Issuer <sup>(1)</sup>	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	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
At June 30, 2016	(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 )

Edgar Filing: META FINANCIAL GROUP INC - Form 10-Q

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 )

21

---



Table of Contents

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
At September 30, 2015	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)	\$ (22)
Total held to maturity securities	\$—	—\$2,266	\$ (22)	\$2,266	\$ (22)	\$ (22)
	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
At September 30, 2015	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.



Table of Contents

Available For Sale	AMORTIZED FAIR COST 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 FAIR COST 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
	AMORTIZED FAIR COST VALUE	
Held To Maturity	(Dollars in Thousands)	
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

Table of Contents

	AMORTIZED	
	COST	VALUE
At September 30, 2015	(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.

Table of Contents

## 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.



Table of Contents

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:

Table of Contents

	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.



Table of Contents

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

Table of Contents

	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.



Table of Contents

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.

Table of Contents

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.

(Dollars in Thousands)	Fair Value At June 30, 2016							
	Available For Sale				Held to Maturity			
	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	\$ —

Table of Contents

(Dollars in Thousands)	Fair Value At September 30, 2015							
	Available For Sale				Held to Maturity			
	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.

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

  

(Dollars in Thousands)	Fair Value At September 30, 2015			
	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)	Unobservable Input
Impaired Loans, net	\$77 Market approach Appraised values <sup>(1)</sup>

(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

Fair Value

(Dollars in Thousands)	at	Valuation	Unobservable Input
	September	Technique	
	30,		
	2015		

Impaired Loans, net	\$2,543	Market approach	Appraised values <sup>(1)</sup>
---------------------	---------	-----------------	---------------------------------



Table of Contents

- (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.

Table of Contents

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	Estimated			
	Amount	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	—	—

Table of Contents

	September 30, 2015				
	Carrying	Estimated	Level 1	Level 2	Level 3
	Amount	Fair Value			
	(Dollars in Thousands)				
<b>Financial assets</b>					
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	—
<b>Loans receivable:</b>					
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	—	—
<b>Financial liabilities</b>					
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	—	8,630	—
Federal funds purchased	540,000	540,000	—	540,000	—
Securities sold under agreements to repurchase	4,007	4,007	—	4,007	—
Subordinated debentures	10,310	10,416	—	10,416	—
Accrued interest payable	272	272	272	—	—

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at June 30, 2016 and September 30, 2015.

**CASH AND CASH EQUIVALENTS**

The carrying amount of cash and short-term investments is assumed to approximate the fair value.



Table of Contents

**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 values for investment securities are based on obtaining quoted prices on nationally recognized securities exchanges, or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

**LOANS RECEIVABLE, NET**

The fair value of loans is estimated using a historical or replacement cost basis concept (i.e. an entrance price concept). The fair value of loans was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers and for similar remaining maturities. When using the discounting method to determine fair value, loans were grouped by homogeneous loans with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers at June 30, 2016 or September 30, 2015. In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value as a result of the discounted cash flow which approximates the fair value adjustment for the credit quality component.

**FEDERAL HOME LOAN BANK ("FHLB") STOCK**

The fair value of such stock is assumed to approximate book value since the Company is only able to redeem this stock at par value.

**ACCRUED INTEREST RECEIVABLE**

The carrying amount of accrued interest receivable is assumed to approximate the fair value.

**DEPOSITS**

The carrying values of non-interest bearing checking deposits, interest bearing checking deposits, savings, and money markets is assumed to approximate fair value, since such deposits are immediately withdrawable without penalty. The fair value of time certificates of deposit was estimated by discounting expected future cash flows by the current rates offered on certificates of deposit with similar remaining maturities.

In accordance with ASC 825, Financial Instruments, no value has been assigned to the Company's long-term relationships with its deposit customers (core value of deposits intangible) since such intangible is not a financial instrument as defined under ASC 825.

**ADVANCES FROM FHLB**

The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates for advances with similar terms and remaining maturities.

**FEDERAL FUNDS PURCHASED**

The carrying amount of federal funds purchased is assumed to approximate the fair value.

**SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND SUBORDINATED DEBENTURES**

The fair value of these instruments was estimated by discounting the expected future cash flows using derived interest rates approximating market over the contractual maturity of such borrowings.

**ACCRUED INTEREST PAYABLE**

The carrying amount of accrued interest payable is assumed to approximate the fair value.

**LIMITATIONS**

It must be noted that fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. Additionally, fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business, customer relationships and the value of assets and liabilities that are not considered financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time. Furthermore, since no market exists for certain of the Company's financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with a high level of precision. Changes in assumptions as well as tax considerations could significantly affect the estimates. Accordingly, based on the limitations described above, the aggregate fair value estimates are not intended to represent the underlying value of the Company, on either a going concern or a liquidation basis.

Table of Contents

## NOTE 11. GOODWILL AND INTANGIBLE ASSETS

The Company recorded a total of \$36.9 million of goodwill during the fiscal year ended September 30, 2015, due to two separate business combinations – \$11.6 million of goodwill in connection with the purchase of substantially all of the commercial loan portfolio and related assets of AFS/IBEX on December 2, 2014, and \$25.4 million in goodwill in connection with the purchase of substantially all of the assets and liabilities of Fort Knox Financial Services Corporation and its subsidiary (collectively referred to as “Refund Advantage”) on September 8, 2015. The goodwill associated with these transactions is deductible for tax purposes.

As part of the each business combination, the Company also recognized the following amortizable intangible assets:

## AFS/IBEX

Intangible	Amount	Book Amortization Period (Years)	Method
Trademark	\$ 540	15	Straight Line
Non-Compete	\$ 260	3	Straight Line
Customer Relationships	\$ 7,240	30	Accelerated
Other	\$ 173	Varied	Straight Line

## Refund Advantage

Intangible	Amount	Book Amortization Period (Years)	Method
Trademark	\$4,950	30	Accelerated
Non-Compete	\$40	3	Straight Line
Customer Relationships	\$18,800	12 to 20	Accelerated
Other	\$329	Varied	Straight Line

The changes in the carrying amount of the Company’s goodwill and intangible assets for the nine months ended June 30, 2016 and 2015 are as follows:

	June 30,				
	2016	2015			
	(Dollars in Thousands)				
<b>Goodwill</b>					
Balance as of September 30	\$36,928	\$—			
Acquisitions during the period	—	11,578			
Write-offs during the period	—	—			
Balance as of June 30	\$36,928	\$11,578			
	Trademark	Non-Compete	Customer Relationships	All Others	Total
<b>Intangibles</b>					
Balance as of September 30, 2015	\$5,439	\$ 227	\$ 24,811	\$3,100	\$33,577
Acquisitions during the period	—	—	—	155	155
Amortization during the period	(216 )	(75 )	(3,191 )	(162 )	(3,644 )
Write-offs during the period	—	—	—	—	—
Balance as of June 30, 2016	\$5,223	\$ 152	\$ 21,620	\$3,093	\$30,088





Table of Contents

	Trademarks	Non-Compete	Customer Relationships	All Others	Total
Intangibles					
Balance as of September 30, 2014	\$—	\$ —	\$ —	\$2,588	\$2,588
Acquisitions during the period	540	260	7,240	468	8,508
Amortization during the period	(21 )	(51 )	(689 )	(198 )	(959 )
Write-offs during the period	—	—	—	—	—
Balance as of June 30, 2015	\$519	\$ 209	\$ 6,551	\$2,858	\$10,137

The Company tests intangible assets for impairment at least annually or more often if conditions indicate a possible impairment. There was no impairment to intangible assets during the nine months ended June 30, 2016 and 2015. The annual goodwill impairment test will be conducted at September 30, 2016.

## NOTE 12. REGULATORY MATTERS AND SETTLEMENT OF OTS ENFORCEMENT ACTIONS

On July 21, 2011, pursuant to the Dodd Frank Act, the OTS was integrated into the OCC and the functions of the OTS related to thrift holding companies were transferred to the Federal Reserve. The OCC, as the Bank's primary federal regulator, is responsible for the ongoing examination, supervision and regulation of the Bank. The Dodd Frank Act maintains the existence of the federal savings association charter and the HOLA, the primary statute governing federal savings banks. The Federal Reserve is responsible for the ongoing examination, supervision and regulation of the Company. Prior to passage of the Dodd-Frank Act, the OTS had issued supervisory directives to the Bank, consent orders to the Bank and the Company, and had taken other regulatory action to require the Bank to reimburse certain consumers in connection with a credit program that was discontinued. All supervisory directives have been terminated, and on August 7, 2014, the OCC terminated the Bank's Consent Order. A consent order that had been in effect against the Company was terminated on May 21, 2015 by the Federal Reserve.

On January 5, 2015, the Federal Deposit Insurance Corporation ("FDIC") published industry guidance in the form of Frequently Asked Questions ("FAQs") with respect to the categorization of deposit liabilities as "brokered" deposits. On November 13, 2015, the FDIC issued for comment updated and annotated FAQs, and on June 30, the FDIC finalized the FAQs. The Company believes that the final FAQs do not materially impact the processes that it uses to identify, accept and report brokered deposits. On April 26, 2016, FDIC issued a final rule to amend how small banks (less than \$10 billion in assets that have been FDIC insured for at least five years) are assessed for deposit insurance. The final rule will impose higher assessments for banks that FDIC believes present higher risk profiles. The new assessment rule becomes effective on July 1, 2016, if the FDIC's reserve ratio reaches 1.15 percent before that date, and on the first day of the calendar quarter after the reserve ratio reaches 1.15 percent if it has not reached that level by July 1, 2016.

Due to the Bank's status as a "well-capitalized" institution under the FDIC's prompt corrective action regulations, and further with respect to the Bank's financial condition in general, the Company does not at this time anticipate that either the Guidance or the Final Rule will have a material adverse impact on the Company's business operations. However, should the Bank ever fail to be well-capitalized in the future, as a result of failing to meet the well-capitalized requirements, or the imposition of an individual minimum capital requirement or similar formal requirements, then, notwithstanding that the Bank has capital in excess of the well-capitalized minimum requirements, the Bank would be prohibited, absent waiver from the FDIC, from utilizing brokered deposits (i.e., may not accept, renew or rollover brokered deposits), which could produce serious adverse effects on the Company's liquidity, and financial condition and results of operations. Similarly, should the Bank's financial condition in general deteriorate, future FDIC assessments could have a material adverse effect on the Company.

## NOTE 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events. There were no material subsequent events that would require recognition or disclosure in our consolidated financial statements as of and for the quarter ended June 30, 2016.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

META FINANCIAL GROUP, INC®.  
AND SUBSIDIARIES

FORWARD LOOKING STATEMENTS

Meta Financial Group, Inc.®, ("Meta Financial" or "the Company" or "us") and its wholly-owned subsidiary, MetaBank® (the "Bank" or "MetaBank"), may from time to time make written or oral "forward-looking statements," including statements contained in this Quarterly Report on Form 10-Q, in its other filings with the Securities and Exchange Commission ("SEC"), in its reports to stockholders, and in other communications by the Company and the Bank, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

You can identify forward-looking statements by words such as "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," "could," "future," or the negative of those terms, or other words having similar meaning. You should carefully read statements that contain these words because they discuss our future expectations or state other "forward-looking" information. These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company's statements of financial condition and operations; growth and expansion; new products and services, such as those offered by MetaBank or Meta Payment Systems® ("MPS"), a division of the Bank; credit quality and adequacy of reserves; technology; and the Company's employees. Actual results may differ materially from those contained in the forward-looking statements contained herein. The following factors, among others, could cause the Company's financial performance and results of operations to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States' economy, in general, and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), as well as efforts of the United States Treasury in conjunction with bank regulatory agencies to stimulate the economy and protect the financial system; inflation, interest rate, market, and monetary fluctuations; the timely development of, and acceptance of new products and services offered by the Company, as well as risks (including reputational and litigation) attendant thereto, and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third parties; any actions which may be initiated by our regulators; the impact of changes in financial services laws and regulations, including, but not limited to, laws and regulations relating to the tax refund industry, our relationship with our primary regulators, the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve, as well as the Federal Deposit Insurance Corporation ("FDIC"), which insures the Bank's deposit accounts up to applicable limits; technological changes, including, but not limited to, the protection of electronic files or databases; acquisitions; litigation risk, in general, including, but not limited to, those risks involving the MPS division; the growth of the Company's business, as well as expenses related thereto; continued maintenance by the Bank of its status as a well-capitalized institution, particularly in light of our deposit base, a substantial portion of which has been characterized as "brokered"; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default.

The foregoing list of factors is not exclusive. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary

statements contained or referred to in this section. Additional discussions of factors affecting the Company's business and prospects are contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015 and its other periodic and interim filings made with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries.

#### GENERAL

The Company, a registered unitary savings and loan holding company, is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of the Bank, a federal savings bank. Unless the context otherwise requires, references herein to the Company include Meta Financial and the Bank, and all subsidiaries of Meta Financial, direct or indirect, on a consolidated basis.

The Company's stock trades on the NASDAQ Global Select Market under the symbol "CASH."

## Table of Contents

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries at June 30, 2016, compared to September 30, 2015, and the consolidated results of operations for the three and nine months ended June 30, 2016 and 2015. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2015.

### OVERVIEW OF CORPORATE DEVELOPMENTS

On May 20, 2016, Bank Director named MetaBank ® the #1 Top Growth Bank among all banks and thrifts determined by top-line growth over a five quarter period ending March 31, 2016. The ranking was established by the compound average growth rate in revenues over the five linked quarters.

MetaBank, through its Meta Payment Systems ® ("MPS") division, entered into a new multi-year agreement with Blackhawk Network, Inc., a leading prepaid and payments global company. Under the agreement, Blackhawk will continue to provide marketing, servicing, and processing services for a broad range of consumer and corporate financial products issued by MetaBank.

The Company recorded net income of \$8.9 million for the three months ended June 30, 2016, compared to net income of \$4.6 million for the third quarter of fiscal year 2015. The increase in net income was primarily due to an increase of \$8.4 million in non-interest income and \$5.2 million in net interest income, partially offset by an increase of \$7.1 million in non-interest expense.

The Company recorded net income of \$27.2 million for the nine months ended June 30, 2016, compared to net income of \$13.4 million for the nine months ended June 30, 2015. The increase in net income was primarily due to an increase of \$38.4 million in non-interest income and \$13.9 million in net interest income, partially offset by an increase of \$33.1 million in non-interest expense.

Tax product revenues of \$23.1 million from our Payments segment have driven 2016 fiscal year earnings to date, with \$3.4 million carrying over into the third quarter. This revenue for the nine months ended June 30, 2016 primarily consists of professional tax refund-transfer software fees for services used by independent electronic refund originators ("EROs") and their customers.

Overall cost of funds for the Company averaged 0.13% during the fiscal 2016 third quarter, compared to 0.11% for the prior year third quarter.

Total loans, net of allowance for loan losses, increased \$148.2 million, or 21%, to \$854.5 million at June 30, 2016, compared to September 30, 2015.

The Company's tangible book value per common share outstanding increased by \$6.57, or 27%, to \$31.17 per share at June 30, 2016, from \$24.60 per share at September 30, 2015. This increase is primarily attributable to increases in additional paid-in capital due to the Company's fiscal 2016 first quarter capital raise. The tangible book value per common share outstanding, excluding accumulated other comprehensive income ("AOCI"), was \$28.16 as of June 30, 2016, compared to \$24.30 as of September 30, 2015. Book value per common share outstanding increased by \$5.79, or 17%, to \$39.03 per share at June 30, 2016, from \$33.24 per share at September 30, 2015.

MetaBank's NPAs at June 30, 2016, were \$2.2 million, representing 0.07% of total assets, compared to \$7.8 million and 0.31% of total assets, at September 30, 2015. Consistent with September 30, 2015, there were no NPAs within the Payments segment at June 30, 2016.

### FINANCIAL CONDITION

At June 30, 2016, the Company's assets grew by \$614.5 million, or 24%, to \$3.14 billion compared to \$2.53 billion at September 30, 2015. The increase in assets was due primarily to increases in the securities portfolio and net loans receivable funded by continued, significant deposit growth.

Total cash and cash equivalents were \$36.8 million at June 30, 2016, an increase of \$9.1 million from \$27.7 million at September 30, 2015. The increase primarily was the result of the Company's increased liquidity from an increase in deposits, primarily due to low-cost deposits generated by the Payments segment. The Company maintains its cash investments primarily in interest-bearing overnight deposits with the FHLB of Des Moines and the Federal Reserve Bank of Minneapolis. At June 30, 2016, the Company had \$437.0 million in federal funds purchased.

Table of Contents

The total of mortgage-backed securities (“MBS”) and investment securities increased \$445.6 million, or 28%, to \$2.05 billion at June 30, 2016, compared to \$1.60 billion at September 30, 2015, as related investment purchases exceeded maturities, sales, and principal pay downs. The Company’s portfolio of securities consists primarily of U.S. Government agency and instrumentality MBS, which have relatively short expected lives, and very high quality non-bank qualified obligations of states and political subdivisions (“NBQ”), which mature in approximately 15 years or less. Of the total MBS \$579.3 million are classified as available for sale, and \$139.1 million are classified as held to maturity. Of the total investment securities \$863.5 million are classified as available for sale and \$465.5 million are classified as held to maturity. The growth in held to maturity designation is primarily related to municipal securities that are collateralized by Ginnie Mae, Fannie, Mae and or Freddie Mac and amortize on a monthly basis like a typical MBS, except interest received is tax exempt. During the nine month period ended June 30, 2016, the Company purchased a gross amount of \$373.6 million of MBS with average lives much shorter than their stated final maturity dates of 30 years or less (primarily due to anticipated prepayments or seasoning), as well as \$159.2 million of investment securities available for sale and \$214.5 million of investment securities held to maturity, with the held to maturity purchases made up primarily of Ginnie Mae (“GNMA”) backed municipal housing securities. These securities are NBQ, tax free municipal securities that receive principal and interest directly from the underlying GNMA pool. These bonds are also convertible, at our request, directly into the GNMA MBS securing the bond.

The Company’s portfolio of net loans receivable increased \$148.2 million, or 21%, to \$854.5 million at June 30, 2016, from \$706.3 million at September 30, 2015. This increase primarily relates to growth in Banking segment loans of \$148.1 million (including \$111.3 million and \$34.8 million from retail bank and premium finance loans, respectively) and Payments segment loans of \$2.1 million. Of the \$386.8 million in commercial and multi-family real estate loans, \$79.0 million is considered high-volatility commercial real estate (“HVCRE”). While such HVCRE is risk-weighted at 150% rather than 100%, as is customary for non-HVCRE commercial loans, the increase to the Company’s risk-weighted assets has been inconsequential in terms of the Company’s capital ratios.

Total deposits increased \$529.4 million, or 32%, at June 30, 2016, from \$1.66 billion at September 30, 2015, primarily related to the increase in non-interest bearing deposits. Deposits attributable to MPS increased by \$484.7 million, or 34%, to \$1.91 billion at June 30, 2016, compared to \$1.42 billion at September 30, 2015. Additionally, certificates of deposits increased by \$9.1 million to \$100.3 million primarily related to an increase in public funds on deposit. The average balance of total deposits and interest-bearing liabilities was \$2.60 billion for the nine month period ended June 30, 2016, compared to \$2.06 billion for the same period in the prior fiscal year. The average balance of non-interest bearing deposits for the nine month period ended June 30, 2016 increased by \$386.5 million, or 24% to \$2.02 billion at June 30, 2016, compared to \$1.64 billion for the same period in the prior fiscal year.

Total borrowings decreased \$4.8 million, from \$561.3 million at September 30, 2015, to \$556.5 million at June 30, 2016, primarily due to the decrease of federal funds purchased. The Company’s overnight federal funds purchased fluctuates on a daily basis due to the nature of a portion of its non-interest bearing deposit base, primarily related to payroll processing timing with a higher volume of overnight federal funds purchased on Monday through Wednesday, which are typically paid down on Thursday and Friday. Secondly, a portion of certain programs are prefunded, typically in the final week of the month and the corresponding deposits are received typically on the 1st of the following month causing a temporary increased need for overnight borrowings, as was the case in June. Accordingly, our level of borrowings may fluctuate significantly on any particular quarter end date.

At June 30, 2016, the Company’s stockholders’ equity totaled \$332.7 million, an increase of \$61.4 million, from \$271.3 million at September 30, 2015. The increase was attributable to net earnings and an increase in additional paid-in capital due to the Company’s first quarter capital raise of approximately \$11.7 million, offset by dividends paid. At June 30, 2016, the Bank continues to exceed all regulatory requirements for classification as a well capitalized institution. See “Liquidity and Capital Resources” for further information.

Non-performing Assets and Allowance for Loan Losses

Generally, when a loan becomes delinquent 90 days or more for the majority of loan segments, and 210 days or more for premium finance, 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 in non-accrual status until the loan becomes current and has demonstrated a sustained period of satisfactory performance, typically after six months.

The Company believes that the level of allowance for loan losses at June 30, 2016 is appropriate and reflects probable losses related to these loans; however, there can be no assurance that all loans will be fully collectible or that the present level of the allowance will be adequate in the future. See “Allowance for Loan Losses” below.



Table of Contents

The table below sets forth the amounts and categories of non-performing assets in the Company's portfolio. Foreclosed assets include assets acquired in settlement of loans. The Company has very little exposure to oil and gas producers.

	Non-Performing Assets	
	As Of	
	June 30,	September 30,
	2016	2015
	(Dollars in Thousands)	
Non-Performing Loans		
Non-Accruing Loans:		
1-4 Family Real Estate	\$ 128	\$ 24
Commercial & Multi Family Real Estate	513	904
Agricultural Operating	—	5,132
Total <sup>(1)</sup>	641	6,060
Accruing Loans Delinquent 90 Days or More		
Consumer	53	13
Premium Finance	1,514	1,728
Total	1,567	1,741
Total Non-Performing Loans	2,208	7,801
Other Assets		
Total Other Assets	—	—
Total Non-Performing Assets	\$ 2,208	\$ 7,801
Total as a Percentage of Total Assets	0.07 %	0.31 %

The Company had no non-performing TDRs as of June 30, 2016 and September 30, 2015. In addition, the (1) Company had \$0.5 million and \$0.6 million of TDRs performing in accordance with their terms at June 30, 2016 and September 30, 2015, respectively.

At June 30, 2016, non-performing loans totaled \$2.2 million, representing 0.26% of total loans, compared to \$7.8 million, or 1.09% of total loans at September 30, 2015, mainly due to the \$3.3 million charge-off of a previously identified agricultural relationship.

**Classified Assets.** Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by our regulator, the OCC, to be of lesser quality as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the Bank will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such minimal value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

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, who may order the establishment of additional general or specific loss allowances.

## Table of Contents

On the basis of management's review of its loans and other assets, at June 30, 2016, the Company had classified a total of \$10.4 million of its assets as substandard and none as doubtful or loss. This compares to classifications at September 30, 2015 of \$11.9 million as substandard and none as doubtful or loss.

**Allowance for Loan Losses.** The allowance for loan losses is established through a 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. 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.

At June 30, 2016, the Company had established an allowance for loan losses totaling \$6.1 million, compared to \$6.3 million at September 30, 2015, with the decrease mainly due to a \$3.3 million charge-off of an agricultural relationship offset by an increase in the provision for loan losses of \$2.8 million for the nine month period ended June 30, 2016. 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 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.

The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. In addition to the factors mentioned above, future additions to the allowance for loan losses may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio. In addition, our regulators have the ability to order us to increase our allowance.

## CRITICAL ACCOUNTING ESTIMATES

The Company's financial statements are prepared in accordance with U.S. GAAP. The financial information contained within these financial statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that: (i) involve the most complex and subjective decisions and assessments which may be uncertain at the time the estimate was made, and (ii) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements, management has identified the policies described below as Critical Accounting Policies. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented in Part II, Item 8 "Consolidated Financial Statements and

Supplementary Data” of its Annual Report on Form 10-K for the year ended September 30, 2015, and information contained herein.

Allowance for Loan Losses. The Company’s allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company’s historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers’ sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company’s markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies, and pace of portfolio growth are other qualitative factors that are considered in the methodology. Although management believes the levels of the allowance at both June 30, 2016 and September 30, 2015 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions or other factors could result in increasing losses.

## Table of Contents

Goodwill and Intangible Assets. Each quarter, the Company evaluates the estimated useful lives of its amortizable intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with ASC 350, Intangibles – Goodwill and Other, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

In addition, goodwill and intangible assets are tested annually as of our fiscal year end for impairment or more often if conditions indicate a possible impairment. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate future cash flows, risk-adjusted discount rates, future economic and market conditions, comparison of the Company's market value to book value and determination of appropriate market comparables. Actual future results may differ from those estimates.

Assumptions and estimates about future values and remaining useful lives of the Company's intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company's business strategy and internal forecasts. Although the Company believes the historical assumptions and estimates used are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results.

Customer relationship, trademark, and non-compete intangibles are amortized over 30 years using the present value of excess earnings, 15 years straight line, and 3 years straight line, respectively. Patents are estimated to have a useful life of 20 years, beginning on the date the patent application is originally filed. Thus, patents are amortized based on the remaining useful life once granted. Periodically, the Company reviews the intangible assets for events or circumstances that may indicate a change in recoverability of the underlying basis.

Deferred Tax Assets. The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to income for the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized subject to management's judgment that realization is more-likely-than-not. An estimate of probable income tax benefits that will not be realized in future years is required in determining the necessity for a valuation allowance.

Security Impairment. Management monitors the investment securities portfolio for impairment on a security by security basis. Management has a process in place to identify securities that could potentially have a credit impairment that is other-than-temporary. This process involves 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 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 the Company 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. If the Company intends to sell a security or it is more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the Company recognizes an other-than-temporary impairment in earnings for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. For those securities, the Company separates the total impairment into a credit loss component recognized in earnings, and the amount of the loss related to other factors is recognized in other comprehensive income net of taxes.

The amount of the credit loss component of a debt security impairment is estimated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. Cash flow estimates for trust preferred securities are derived from scenario-based outcomes of forecasted default rates, loss severity, prepayment speeds and structural support.

Table of Contents

Level 3 Fair Value Measurement. U.S. GAAP requires the Company to measure the fair value of financial instruments under a standard which describes three levels of inputs that may be used to measure fair value. Level 3 measurement includes significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Although management believes that it uses a best estimate of information available to determine fair value, due to the uncertainty of future events, the approach includes a process that may differ significantly from other methodologies and still produce an estimate that is in accordance with U.S. GAAP.

RESULTS OF OPERATIONS

General.

The Company recorded net income of \$8.9 million, or \$1.04 per diluted share, for the three months ended June 30, 2016, compared to net income of \$4.6 million, or \$0.66 per diluted share, for the same period in fiscal year 2015. The increase in net income was primarily due to increases of \$8.4 million in non-interest income and \$5.2 million in net interest income, offset by an increase of \$7.1 million in non-interest expense.

The Company recorded net income of \$27.2 million, or \$3.22 per diluted share, for the nine months ended June 30, 2016, compared to \$13.4 million, or \$2.03 per diluted share, for the same period in fiscal year 2015. The increase in net earnings for the nine months ended June 30, 2016 was primarily due to increases of \$38.4 million in non-interest income and \$13.9 million in net interest income, offset by an increase of \$33.1 million in non-interest expense.

Seasonality. In the industries for electronic payments processing and tax refund processing, companies commonly experience seasonal fluctuations in revenue. For example, in recent years, our results of operations for the first half of each fiscal year have been favorably affected by large numbers of taxpayers electing to receive their tax refunds via direct deposit on our pre-paid cards, which caused our operating revenues to be typically higher in the first halves of those years than they were in the corresponding second halves of those years. Additionally, our tax refund processing services business is highly seasonal as it generates the substantial majority of its revenue in the second fiscal quarter, and substantially all of its revenue in the second and third fiscal quarters of each year. We expect our revenue to continue to be based on seasonal factors that affect the electronic payments processing and tax refund processing industries as a whole.

We and our tax preparation partners rely on the Internal Revenue Services (the "IRS"), technology, and employees when processing and preparing tax refunds and tax-related products and services.

Net Interest Income. Net interest income for the fiscal 2016 third quarter increased by \$5.2 million, or 36%, to \$19.9 million from \$14.7 million for the same period in the prior fiscal year primarily due to growth in the investment portfolio, contributing to increased investment interest income funded by significant non-interest bearing deposit growth. Additionally, the overall increase was driven by higher volumes and yields attained from other investments, primarily high credit quality tax-exempt municipal bonds. Increased volume in higher yielding loans as well as higher rates achieved in the MBS portfolio also aided net interest income.

Net Interest Margin ("NIM") increased from 3.00% in the fiscal 2015 third quarter to 3.27% in the fiscal 2016 third quarter and improved from 3.22% in the fiscal 2016 second quarter. This expansion in NIM relates to an improving mix of interest-earning assets highlighted by high credit quality loan volume and purchases of high quality tax-exempt municipal securities at relatively high tax-equivalent yields. Also, a timely repositioning within the agency MBS

portfolio aided NIM within the third quarter of 2016 and also reduced prepayment risk moving forward. The Company continues to execute its strategy of deploying investment securities portfolio cash flows and new MPS deposits to fund higher yielding loan receivables and high credit quality, tax exempt municipal securities.

45

---



Table of Contents

Overall, tax equivalent yield (“TEY”) on average earning assets increased by 28 basis points in the fiscal 2016 third quarter, compared to the fiscal 2015 third quarter, primarily driven by improved earning asset mix, including a 29% increase in average balances within the loan portfolio, and increased volume and yields achieved in other investments, particularly the tax exempt municipal securities, and improved yields on MBS. The yield achieved on our growing loan portfolio is much higher than similar duration investments, particularly for the AFS/IBEX loans, making the increased loan portfolio asset mix more desirable. The fiscal 2016 third quarter yield on MBS increased by 35 basis points while longer term interest rates experienced significant volatility and overall trended downward. Non-MBS investment securities yield increased by 14 basis points, compared to the same prior year quarter. The fiscal 2016 third quarter TEY on the securities portfolio increased by 38 basis points compared to the comparable prior year quarter driven by a shifting mix in the investment portfolio where new volume was deployed in overall higher yielding investment securities rather than traditional MBS. This larger volume and higher TEY yields achieved in the non-MBS, in concert with significant improvement in MBS yields, was the impetus for the substantial yield enhancement. Management believes that the increase in non-interest-bearing liabilities aids NIM improvement, and highlights the competitive advantage of the growing MPS deposit base, particularly if interest rates rise.

The Company’s average interest-earning assets for the fiscal 2016 third quarter grew by \$621.5 million, or 28%, to \$2.87 billion, up from \$2.25 billion during the same quarter last fiscal year, primarily from growth in the securities and loan portfolios of \$435.5 million and \$186.0 million, respectively.

The Company’s average total deposits and interest-bearing liabilities for the 2016 third fiscal quarter increased \$594.9 million, or 28%, to \$2.69 billion from \$2.10 billion for the same quarter last year. This increase was generated primarily from an increase in MPS-related non-interest bearing deposits, short-term borrowings, and savings deposits. MPS average quarterly deposits for the 2016 third fiscal quarter increased \$473.3 million, or 29%, from the same period last year. This increase resulted almost entirely from growth in core prepaid card programs and the addition of several new prepaid partners. The Company’s average short-term borrowings for the 2016 third fiscal quarter increased \$101.6 million from the same period last year, however, not a meaningful increase based on average short term borrowings as a percentage of total assets. Overall, rates on all deposits and interest-bearing liabilities increased by two basis points from 0.11% in the 2015 third fiscal quarter to 0.13% in the 2016 period. At June 30, 2016 and 2015, low-cost checking deposits represented 92% of total deposits.

For the nine months ended June 30, 2016, net interest income was \$57.4 million compared to \$43.5 million for the same period in the prior fiscal year. Contributing to this increase was an increase in earning asset yields of 22 basis points, an increased percentage of loans as a percentage of total interest earning assets, and increased volume in the loan and securities portfolio. The TEY of securities portfolio was 2.95% for the nine months ended June 30, 2016, compared to 2.67% for the same period in 2015.

The following tables present, for the periods indicated, the Company’s total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. Tax equivalent adjustments have been made in yield on interest bearing assets and net interest margin. Non-accruing loans have been included in the table as loans carrying a zero yield.

Table of Contents

Three Months Ended June 30, (Dollars in Thousands)	2016			2015		
	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate
Interest-earning assets:						
Loans receivable	\$826,223	\$9,280	4.52 %	\$640,249	\$7,528	4.72 %
Mortgage-backed securities	737,666	3,777	2.06 %	715,634	3,055	1.71 %
Other investments and fed funds sold	1,304,600	7,706	3.41 %	891,127	4,671	3.06 %
Total interest-earning assets	2,868,489	\$20,763	3.38 %	2,247,010	\$15,254	3.10 %
Non-interest-earning assets	199,306			101,071		
Total assets	\$3,067,795			\$2,348,081		
Non-interest bearing deposits	\$2,079,457	\$—	0.00 %	\$1,633,932	\$—	0.00 %
Interest-bearing liabilities:						
Interest-bearing checking	37,098	22	0.24 %	36,429	22	0.24 %
Savings	77,655	6	0.03 %	35,580	15	0.17 %
Money markets	44,396	18	0.16 %	37,340	14	0.15 %
Time deposits	66,479	90	0.55 %	60,965	107	0.70 %
FHLB advances	20,956	141	2.71 %	7,000	124	7.11 %
Overnight fed funds purchased	354,659	448	0.51 %	266,978	195	0.29 %
Other borrowings	12,068	119	3.97 %	19,645	116	2.37 %
Total interest-bearing liabilities	613,311	844	0.55 %	463,937	593	0.51 %
Total deposits and interest-bearing liabilities	2,692,768	\$844	0.13 %	2,097,869	\$593	0.11 %
Other non-interest bearing liabilities	55,802			35,641		
Total liabilities	2,748,570			2,133,510		
Shareholders' equity	319,225			214,571		
Total liabilities and shareholders' equity	\$3,067,795			\$2,348,081		
Net interest income and net interest rate spread including non-interest bearing deposits		\$19,919	3.26 %		\$14,661	2.99 %
Net interest margin			3.27 %			3.00 %

Table of Contents

Nine Months Ended June 30, (Dollars in Thousands)	2016			2015		
	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate
<b>Interest-earning assets:</b>						
Loans receivable	\$778,242	\$26,147	4.49%	\$593,477	\$21,561	4.86%
Mortgage-backed securities	738,929	12,258	2.22%	708,024	10,798	2.04%
Other investments and fed funds sold	1,241,256	21,262	3.29%	882,159	12,885	2.82%
Total interest-earning assets	2,758,427	\$59,667	3.34%	2,183,660	\$45,244	3.12%
Non-interest-earning assets	184,953			96,174		
Total assets	\$2,943,380			\$2,279,834		
Non-interest bearing deposits	\$2,022,095	\$—	0.00%	\$1,635,607	\$—	0.00%
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking	36,060	64	0.24%	35,978	66	0.25%
Savings	61,904	17	0.04%	32,644	44	0.18%
Money markets	45,182	54	0.16%	38,532	44	0.15%
Time deposits	70,294	299	0.57%	86,696	409	0.63%
FHLB advances	49,409	472	1.28%	7,000	371	7.09%
Overnight fed funds purchased	303,664	1,001	0.44%	196,974	437	0.30%
Other borrowings	12,388	348	3.75%	22,041	356	2.16%
Total interest-bearing liabilities	578,901	2,255	0.52%	419,865	1,727	0.55%
Total deposits and interest-bearing liabilities	2,600,996	\$2,255	0.12%	2,055,472	\$1,727	0.11%
Other non-interest bearing liabilities	43,981			27,088		
Total liabilities	2,644,977			2,082,560		
Stockholders' equity	298,403			197,274		
Total liabilities and stockholders' equity	\$2,943,380			\$2,279,834		
Net interest income and net interest rate spread including non-interest bearing deposits		\$57,412	3.23%		\$43,517	3.01%
Net interest margin			3.23%			3.01%

The following table presents, for the periods indicated, the Company's total dollar amount of interest income from average securities portfolio assets and the resulting yields expressed both in dollars and rates. Tax equivalent adjustments have been made in yield.

Three Months Ended June 30, (Dollars in Thousands)	2016			2015		
	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate
<b>Securities Portfolio Assets</b>						
Mortgage-backed securities	\$737,666	\$3,777	2.06%	\$715,634	\$3,055	1.71%
*Other investments	1,266,510	7,562	3.47%	800,649	4,517	3.33%
Total Securities Portfolio Assets	\$2,004,176	\$11,339	2.95%	\$1,516,283	\$7,572	2.57%
*Excludes FHLB Stock						



Table of Contents

(1) Tax rate used to arrive at a TEY for three months ended June 30, 2016 is 34%

(1) Tax rate used to arrive at a TEY for three months ended June 30, 2015 is 34%

Nine Months Ended June 30, (Dollars in Thousands)	2016			2015		
	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate
Securities Portfolio Assets						
Mortgage-backed securities	\$738,929	\$12,258	2.22%	\$708,024	\$10,798	2.04%
*Other investments	1,176,163	20,723	3.42%	742,188	12,448	3.27%
Total Securities Portfolio Assets	\$1,915,092	\$32,981	2.95%	\$1,450,212	\$23,246	2.67%
*Excludes FHLB Stock						

(1) Tax rate used to arrive at a TEY for the nine months ended June 30, 2016 is 34%

(1) Tax rate used to arrive at a TEY for the nine months ended June 30, 2015 is 34%

**Provision for Loan Losses.** The Company recorded a \$2.1 million and \$4.1 million provision for loan losses in the three and nine month periods ended June 30, 2016, respectively, as compared to a \$0.7 million and \$1.3 million provision for loan losses in the three and nine month periods ended June 30, 2015. The current period provision was primarily due to loan growth and the charge-off of a large agricultural relationship. See Note 3 to the Condensed Consolidated Financial Statements.

**Non-Interest Income.** Non-interest income for the fiscal 2016 third quarter increased by \$8.4 million to \$23.8 million from \$15.4 million for the same period in the prior fiscal year. The change was primarily due to an increase in card fee income from new and existing business partners of \$4.9 million and tax product fee income of \$3.4 million.

Non-interest income for the nine months ended June 30, 2016, increased by \$38.4 million to \$81.5 million from \$43.1 million in the same period in the prior fiscal year, due primarily to tax product fee income and increases in card fee income and loan fees. Tax product fee income was \$23.1 million and card fee income increased by \$12.0 million, or 30%, due to growth in MPS programs during the first nine months of the fiscal year. Loan fee income increased \$2.9 million during the same period.

**Non-Interest Expense.** Non-interest expense increased \$7.1 million, or 29%, to \$31.6 million, for the third quarter of fiscal year 2016, as compared to \$24.5 million for the same period in fiscal year 2015. Non-interest expense increased by \$33.1 million, or 47%, to \$103.4 million for the nine months ended June 30, 2016, from \$70.3 million for the same period in fiscal year 2015.

Tax product expense, a new line item including fees related to our tax processing business, was \$0.4 million and \$8.6 million for the three and nine months ended June 30, 2016.

Compensation expense increased \$3.3 million, or 27%, to \$15.4 million for the three months ended June 30, 2016, as compared to \$12.1 million for the same period in fiscal year 2015, primarily as a result of additional product development and IT developer staffing to support the Company's growth initiatives, the AFS/IBEX transaction, the Refund Advantage transaction, and to prepare for other potential growth opportunities. Compensation expense increased \$12.8 million, or 37%, to \$47.1 million for the nine months ended June 30, 2016 from \$34.3 million for the same period in fiscal year 2015 due primarily to a 15% increase in overall staffing. The Company expects the percentage increase in compensation expense to decrease in the fourth quarter of fiscal 2016 and 2017 as staffing levels grow more moderately. This expectation excludes compensation increases related to potential acquisitions.

Other expense increased \$1.1 million and \$4.7 million for the three and nine months ended June 30, 2016, respectively, as compared to the three and nine months ended June 30, 2015, with increases relating to amortization of intangibles and regulatory expenses primarily due to higher deposit balances.

Table of Contents

Income Tax. Income tax expense for the third quarter of fiscal year 2016 was \$1.1 million, or an effective tax rate of 11.3%, compared to income tax expense of \$0.3 million, or an effective tax rate of 5.5%, for the same period in the prior fiscal year. The increase in the effective tax rate is mainly due to increased earnings during the fiscal 2016 third quarter; however, the increase was partially reduced by an increase in tax-exempt income, highlighting one of the benefits of our growing tax-exempt municipal securities portfolio. For the first nine months of fiscal year 2016, the effective tax rate was 13.5% compared to an effective tax rate of 10.2% for the same period of the prior year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans and mortgage-backed securities, and maturing investment securities. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments can be influenced by the level of interest rates, general economic conditions, and competition.

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At June 30, 2016, the Company had commitments to originate and purchase loans and unused lines of credit totaling \$158.1 million. The Company believes that loan repayments and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

In July 2013, the Company's primary federal regulator, the Federal Reserve, and the Bank's primary federal regulator, the OCC, approved final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to financial institution holding companies and their depository institution subsidiaries, including us and the Bank, as compared to the current U.S. general risk-based capital rules. The Basel III Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the Basel III Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The Basel III Capital Rules became effective for us and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Pursuant to the Basel III Capital Rules, the Company and Bank, respectively, are subject to regulatory capital adequacy requirements promulgated by the Federal Reserve and the OCC. Failure by the Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by our regulators that could have a material adverse effect on our consolidated financial statements. Prior to January 1, 2015, our Bank was subject to capital requirements under Basel I and there were no capital requirements for the Company. Under the capital requirements and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company and Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier I capital (as defined) to average assets (as defined). At June 30, 2016, both the Bank and the Company exceeded federal regulatory minimum capital requirements to be classified as well-capitalized under the prompt corrective action requirements. The Company and the Bank took the accumulated other comprehensive income (“AOCI”) opt-out election; under the rule, non-advanced approach banking organizations were given a one-time option to exclude certain AOCI components. The table below includes certain non-GAAP financial measures that are used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews these measures along with other measures of capital as part of its financial analyses and has included this non-GAAP financial information, and the corresponding reconciliation to total equity.



Table of Contents

	Company		Bank		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual Amount	Ratio	Actual Amount	Ratio	Amount	Ratio	Amount	Ratio
At June 30, 2016	(Dollars in Thousands)							
Tier 1 (core) capital (to adjusted total assets)	\$258,415	8.64 %	\$253,341	8.47 %	\$119,572	4.00%	\$149,465	5.00 %
Common equity Tier 1 (to risk-weighted assets)	250,100	17.84 %	253,341	18.08 %	63,055	4.50%	91,079	6.50 %
Tier 1 (core) capital (to risk-weighted assets)	258,415	18.44 %	253,341	18.08 %	84,073	6.00%	112,097	8.00 %
Total qualifying capital (to risk-weighted assets)	264,638	18.88 %	259,564	18.52 %	112,097	8.00%	140,121	10.00 %

The following table provides a reconciliation of the amounts included in the table above for the Company.

	Standardized Approach (1) June 30, 2016 (Dollars in Thousands)
Total equity	\$ 332,669
Adjustments:	
LESS: Goodwill, net of associated deferred tax liabilities	35,931
LESS: Certain other intangible assets	18,053
LESS: Net deferred tax assets from operating loss and tax credit carry-forwards	2,993
LESS: Net unrealized gains (losses) on available-for-sale securities	25,591
Common Equity Tier 1 <sup>(1)</sup>	250,101
Long-term debt and other instruments qualifying as Tier 1	10,310
LESS: Additional tier 1 capital deductions	1,995
Total Tier 1 capital	258,416
Allowance for loan losses	6,222
Total qualifying capital	264,638

Basel III revised the definition of capital, increased minimum capital ratios, and introduced a minimum CET1 ratio. Those changes became effective for the Company on January 1, 2015, and are being fully phased in through the end of 2021. The capital ratios were determined using the Basel III capital rules that became effective on January 1, 2015.

Beginning January 1, 2016, Basel III implements a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer will be exclusively composed of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. On January 1, 2016, the Company and Bank are expected to comply with the capital conservation buffer requirement, which will increase the three risk-based capital ratios by 0.625% each year through 2019, equivalent to 2.5% of risk-weighted assets in addition to the minimum risk-based capital ratios, at which point, the requirement for common equity tier 1 risk-based, tier 1 risk-based and total risk-based capital ratios will be 7.0%, 8.5% and 10.5%, respectively.

## Table of Contents

Based on current and expected continued profitability and subject to continued access to capital markets, we believe that the Company and the Bank will be able to meet targeted capital ratios required by the revised requirements, as they become effective.

### Item 3. Quantitative and Qualitative Disclosure About Market Risk.

#### MARKET RISK

The Company derives a portion of its income from the excess of interest collected over interest paid. The rates of interest the Company earns on assets and pays on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, the Company's results of operations, like those of most financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of its assets and liabilities. The risk associated with changes in interest rates and the Company's ability to adapt to these changes is known as interest rate risk and is the Company's only significant "market" risk.

The Company monitors and measures its exposure to changes in interest rates in order to comply with applicable government regulations and risk policies established by the Board of Directors, and in order to preserve stockholder value. In monitoring interest rate risk, the Company analyzes assets and liabilities based on characteristics including size, coupon rate, repricing frequency, maturity date, and likelihood of prepayment.

If the Company's assets mature or reprice more rapidly or to a greater extent than its liabilities, then economic value of equity and net interest income would tend to increase during periods of rising rates and decrease during periods of falling interest rates. Conversely, if the Company's assets mature or reprice more slowly or to a lesser extent than its liabilities, then economic value of equity and net interest income would tend to decrease during periods of rising interest rates and increase during periods of falling interest rates.

The Company currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate and fixed-rate loan products with short to intermediate terms to maturity, generally five years or less, though the Company will consider ten year fixed-rate loans for high quality agricultural and commercial borrowers so long as the loan agreements have an appropriate structure and prepayment penalties. This theoretically allows the Company to maintain a portfolio of loans that will have relatively little sensitivity to changes in the level of interest rates, while providing a reasonable spread to the cost of liabilities used to fund the loans.

The Company's primary objective for its investment portfolio is to provide a source of liquidity for the Company. In addition, the investment portfolio may be used in the management of the Company's interest rate risk profile. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between minimizing risk while maximizing yield, the need to provide collateral for borrowings, and to fulfill the Company's asset/liability management goals.

The Company's cost of funds responds to changes in interest rates due to the relatively short-term nature of its non-MPS deposit portfolio, and due to the relatively short-term nature of its borrowed funds. The Company believes that its growing portfolio of low-cost deposits provides a stable and profitable funding vehicle, but also subjects the Company to greater risk in a falling interest rate environment than it would otherwise have without this portfolio. This risk is due to the fact that, while asset yields may decrease in a falling interest rate environment, the Company cannot significantly reduce interest costs associated with these deposits, which thereby compresses the Company's net interest margin. As a result of the Company's interest rate risk exposure in this regard, the Company has elected not to enter in to any new longer term wholesale borrowings, and generally has not emphasized longer term time deposit products.

The Board of Directors and relevant government regulations establish limits on the level of acceptable interest rate risk at the Company, to which management adheres. There can be no assurance, however, that, in the event of an adverse change in interest rates, the Company's efforts to limit interest rate risk will be successful.

#### Interest Rate Risk ("IRR")

Overview. The Company actively manages interest rate risk, as changes in market interest rates can have a significant impact on reported earnings. The Bank, like other financial institutions, is subject to interest rate risk to the extent that its interest-bearing liabilities mature or reprice more rapidly than its interest-earning assets. The interest rate risk process is designed to compare income simulations in market scenarios designed to alter the direction, magnitude, and speed of interest rate changes, as well as the slope of the yield curve. The Company does not currently engage in trading activities to control interest rate risk although it may do so in the future, if deemed necessary, to help manage interest rate risk.

Table of Contents

Earnings at risk and economic value analysis. As a continuing part of its financial strategy, the Bank considers methods of managing an asset/liability mismatch consistent with maintaining acceptable levels of net interest income. In order to properly monitor interest rate risk, the Board of Directors has created an Investment Committee whose principal responsibilities are to assess the Bank's asset/liability mix and implement strategies that will enhance income while managing the Bank's vulnerability to changes in interest rates.

The Company uses two approaches to model interest rate risk: Earnings at Risk ("EAR analysis") and Economic Value of Equity ("EVE analysis"). Under EAR analysis, net interest income is calculated for each interest rate scenario to the net interest income forecast in the base case. EAR analysis measures the sensitivity of interest sensitive earnings over a one year minimum time horizon. The results are affected by projected rates, prepayments, caps and floors. Market implied forward rates and various likely and extreme interest rate scenarios can be used for EAR analysis. These likely and extreme scenarios can include rapid and gradual interest rate ramps, rate shocks and yield curve twists.

The EAR analysis used in the following table reflects the required analysis used no less than quarterly by management. It models -100, +100, +200, +300, and +400 basis point parallel shifts in market interest rates over the next one-year period. Due to the current low level of interest rates, only a -100 basis point parallel shift is represented. The Company is marginally outside policy limits for the -100 scenario while within Board policy limits for all rising rate scenarios using the snapshot as of June 30, 2016 as required by regulation. The table below shows the results of the scenarios as of June 30, 2016:

## Net Sensitive Earnings at Risk

## Net Sensitive Earnings at Risk

Balances as of June 30, 2016	Standard (Parallel Shift) Year 1				
	Net Interest Income at Risk%				
	-100	+100	+200	+300	+400
Basis Point Change Scenario	-6.6 %	1.3 %	-0.2 %	-2.5 %	-4.8 %
Board Policy Limits	-5.0 %	-5.0 %	-10.0 %	-15.0 %	-20.0 %

The EAR analysis reported at June 30, 2016, shows that in an increasing +100 interest rate environment, more assets than liabilities will reprice over the modeled one-year period. However, in a +200, +300, and +400 interest rate scenarios, more liabilities (primarily due to the overnight federal funds purchased), than assets will reprice over the modeled one-year period.

IRR is a snapshot in time. The Company's business and deposits are very predictably, cyclical on a weekly, monthly, and yearly basis. The Company's IRR results may vary depending on which day of the week and timing in relation to certain payrolls, as well as time of the month in regard to early funding of certain programs, when this snapshot is taken. The Company's overnight federal funds purchased fluctuates on a predictable, daily and monthly basis, due to fluctuations in a portion of its non-interest bearing deposit base, primarily related to payroll processing and timing of when certain programs are prefunded and when the corresponding, prefunded deposits are received. Although fiscal third quarter 2016 ended on a Thursday, which generally, due to payroll processing and certain other programs, tends to necessitate a lower than average amount of overnight federal funds purchased, static IRR was negatively affected due to prefunded deposits relating to government programs. Certain government programs were prefunded on June 27, 2016 and the corresponding deposits were received on July 1, 2016. This timing difference allowed program participants to spend the prefunded amounts which initiated the need for incremental borrowings until the corresponding deposits were received, thereby temporarily and predictably increasing overnight borrowings. For perspective, on July 1, 2016, the Company paid down the vast majority of overnight borrowings with only \$30 million in overnight borrowings remaining at the end of the day. Owing to the snapshot nature of IRR, as is required by regulators, in concert with the Company's predictable, weekly, monthly, and yearly fluctuating deposit base and overnight borrowings, the results produced by static IRR analysis are not necessarily representative of what management, the Board of Directors, and others would view as the Company's true IRR positioning. Management and

the Board are aware of and understand these typical borrowing and deposit fluctuations as well as the point in time nature of IRR analysis and anticipate outcomes where the Company may temporarily be outside of Board policy limits based on a snapshot analysis.

Table of Contents

For management to better understand the IRR position of the Bank, an alternative IRR analysis was completed which all June 30, 2016 values were utilized with the exception of overnight borrowings, non-interest bearing deposits, cash due from banks, non-earning assets, and non-paying liabilities. To diminish potential timing issues documented above, quarterly average balances were utilized for overnight borrowings, non-interest bearing deposits, and cash due from banks. Non-earning assets and non-paying liabilities were used to balance the balance sheet. Management feels this view of IRR, while still subject to some yearly cyclical, more accurately portrays the Banks IRR position. As noted in the below chart, the alternative EAR results are more normalized as timing issues in deposits and overnight borrowings are diminished.

The Company would be within policy limits in all rising rate scenarios but out of compliance in the -100 scenario utilizing the alternative IRR scenario run for management purposes. The table below highlights those results:

## Alternative Net Sensitive Earnings at Risk

## Net Sensitive Earnings at Risk

Alternative IRR Results	Standard (Parallel Shift) Year 1				
	Net Interest Income at Risk%				
	-100	+100	+200	+300	+400
Basis Point Change Scenario	-7.5 %	3.3 %	3.8 %	3.6 %	3.4 %
Board Policy Limits	-5.0 %	-5.0 %	-10.0 %	-15.0 %	-20.0 %

The alternative EAR analysis reported at June 30, 2016, shows that in an increasing interest rate environment, more assets than liabilities will reprice over the modeled one-year period.

The alternative IRR results, while strong, were somewhat lower compared to the fiscal 2016 second quarter as a portion of the tax related deposits decayed, as expected, which resulted in somewhat higher average borrowings and a decreased average non-interest bearing deposit base. The Company anticipates solid EAR results in a rising rate environment due to continued AFS/IBEX growth, and the sustained execution on its strategic plan.

## Net Sensitive Earnings at Risk as of June 30, 2016

## Balances as of June 30, 2016

Basis Point Change Scenario	Total Earning Assets (in \$000's)	% of Total Earning Assets	Change in Interest Income/Expense for a given change in interest rates Over / (Under) Base Case Parallel Ramp					
			-100	Base	+100	+200	+300	+400
Total Loans	850,116	31.4 %	41,802	44,191	46,671	49,104	51,530	53,995
Total Investments (non-TEY) and other Earning Assets	1,856,805	68.6 %	35,663	41,625	46,517	49,205	51,226	53,228
Total Interest-Sensitive Income	2,706,921	100.0 %	77,465	85,816	93,188	98,309	102,756	107,223
Total Interest-Bearing Deposits	264,154	32.7 %	430	703	1,706	2,708	3,711	4,713
Total Borrowings	544,000	67.3 %	601	3,288	8,623	13,958	19,293	24,629
Total Interest-Sensitive Expense	808,154	100.0 %	1,031	3,991	10,329	16,666	23,004	29,342

Table of Contents

## Alternative Net Sensitive Earnings at Risk

## Alternative IRR Results

Basis Point Change Scenario	Total Earning Assets (in \$000's)	% of Total Earning Assets	Change in Interest Income/Expense for a given change in interest rates Over / (Under) Base Case Parallel Ramp					
			-100	Base	+100	+200	+300	+400
Total Loans	850,116	31.4 %	41,802	44,191	46,671	49,104	51,530	53,995
Total Investments (non-TEY) and other Earning Assets	1,857,166	68.6 %	35,663	41,628	46,535	49,251	51,313	53,365
Total Interest-Sensitive Income	2,707,282	100.0 %	77,465	85,819	93,206	98,355	102,843	107,360
Total Interest-Bearing Deposits	263,262	41.2 %	428	702	1,702	2,701	3,702	4,701
Total Borrowings	375,560	58.8 %	503	2,348	6,033	9,718	13,403	17,088
Total Interest-Sensitive Expense	638,822	100.0 %	931	3,050	7,735	12,419	17,105	21,789

The Company believes that its growing portfolio of non-interest bearing deposits provides a stable and profitable funding vehicle and a significant competitive advantage in a rising interest rate environment as the Company's cost of funds will likely remain relatively low, with less increase expected relative to other banks. When not able to match loan growth to deposit growth, the Company continues to execute its investment strategy of primarily purchasing NBQ municipal bonds and agency MBS, however, the Bank reviews opportunities to add diverse, high quality securities at attractive relative rates when opportunities present themselves. The NBQ municipal bonds are tax exempt and as such have a tax equivalent yield higher than their book yield. The tax equivalent yield calculation for NBQ municipal bonds uses the Company's cost of funds as one of its components. With the Company's large volume of non-interest bearing deposits, the tax equivalent yield for these NBQ municipal bonds is higher than a similar term investment in other investment categories of similar risk and higher than most other banks can realize and sustain on the same or similar instruments. The above interest income figures are quoted on a pre-tax basis which is particularly notable due to the size of the Company's tax-exempt municipal portfolio.

Under EVE analysis, the economic value of financial assets, liabilities and off-balance sheet instruments, is derived under each rate scenario. The economic value of equity is calculated as the difference between the estimated market value of assets and liabilities, net of the impact of off-balance sheet instruments.

The EVE analysis used in the following table reflects the required analysis used no less than quarterly by management. It models immediate -100, +100, +200, +300 and +400 basis point parallel shifts in market interest rates. Due to the current low level of interest rates, only a -100 basis point parallel shift is represented.

The Company is within Board policy limits for all scenarios. The table below shows the results of the scenarios as of June 30, 2016:

## Economic Value Sensitivity as of June 30, 2016

Balances as of June 30, 2016	Standard (Parallel Shift)				
	Economic Value of Equity at Risk%				
	-100	+100	+200	+300	+400
Basis Point Change Scenario	-2.3 %	-1.2 %	-4.5 %	-8.6 %	-12.5 %
Board Policy Limits	-10.0 %	-10.0 %	-20.0 %	-30.0 %	-40.0 %





Table of Contents

The EVE at risk reported at June 30, 2016, shows that as interest rates increase immediately, the economic value of equity position will decrease from the base, primarily due to the size of the assets in relation to liabilities.

The Company would be within policy limits in all scenarios utilizing the alternative IRR scenario run for management purposes. The table below highlights those results:

## Alternative Economic Value Sensitivity

Alternative IRR Results	Standard (Parallel Shift)				
	Economic Value of Equity at Risk%				
	-100	+100	+200	+300	+400
Basis Point Change Scenario	-3.9 %	0.4 %	-1.5 %	-4.2 %	-6.9 %
Board Policy Limits	-10.0 %	-10.0 %	-20.0 %	-30.0 %	-40.0 %

The EVE at risk reported using the alternative methodology used for management purposes, shows that as interest rates increase immediately, the economic value of equity position will increase in the +100 but decreases in the +200, +300 and +400 scenarios, due to the size of the assets in relation to liabilities. Results, when compared to the fiscal 2016 second quarter are slightly depressed as the Company is further removed from tax season and the corresponding tax related non-interest bearing deposits decay, as expected, and result in somewhat lower average deposits and somewhat higher average borrowings

## Detailed Economic Value Sensitivity

The following table details the economic value sensitivity to changes in market interest rates at June 30, 2016, for loans, investments, deposits, borrowings, and other assets and liabilities (dollars in thousands). The analysis reflects that in all interest rate scenarios, total assets are less sensitive, than total liabilities. Investments and other earning assets contribute to sensitivity, largely due to fixed rate securities investments. This sensitivity is offset by the non-interest bearing deposits.

## Balances as of June 30, 2016

Basis Point Change Scenario	Book Value (in \$000's)	% of Total Assets	Change in Economic Value for a given change in interest rates				
			Over / (Under) Base Case Parallel Ramp				
			-100	+100	+200	+300	+400
Total Loans	850,116	27 %	1.7 %	-1.9 %	-3.8 %	-5.8 %	-7.5 %
Total Investment	1,856,805	59 %	4.2 %	-4.6 %	-9.4 %	-14.0 %	-18.3 %
Other Assets	443,010	14 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Assets	3,149,931	100 %	3.2 %	-3.5 %	-7.2 %	-10.7 %	-14.0 %
Interest Bearing Deposits	264,154	9 %	3.4 %	-2.2 %	-4.1 %	-5.9 %	-7.6 %
Non-Interest Bearing Deposits	1,930,096	69 %	6.4 %	-5.8 %	-11.2 %	-16.0 %	-20.5 %
Total Borrowings & Other Liabilities	619,772	22 %	0.0 %	0.0 %	-0.1 %	-0.1 %	-0.2 %
Liabilities	2,814,022	100 %	4.5 %	-4.1 %	-7.8 %	-11.2 %	-14.3 %

## Detailed Alternative Economic Value Sensitivity

The following is EVE at risk reported using the alternative methodology used for management purposes, for loans, investments, deposits, borrowings, and other assets and liabilities (dollars in thousands). The analysis reflects that in all interest rate scenarios, total assets are meaningfully less sensitive, than total liabilities.

Table of Contents

## Alternative IRR Results

Basis Point Change Scenario	Book Value (in \$000's)	% of Total Assets	Change in Economic Value for a given change in interest rates				
			Over / (Under) Base Case Parallel Ramp				
			-100	+100	+200	+300	+400
Total Loans	850,116	27 %	1.7%	-1.9 %	-3.8 %	-5.8 %	-7.5 %
Total Investment	1,857,166	59 %	4.2%	-4.6 %	-9.4 %	-14.0 %	-18.3 %
Other Assets	442,650	14 %	0.0%	0.0 %	0.0 %	0.0 %	0.0 %
Assets	3,149,932	100 %	3.2%	-3.5 %	-7.2 %	-10.7 %	-14.0 %
Interest Bearing Deposits	263,262	9 %	3.4%	-2.2 %	-4.1 %	-5.9 %	-7.6 %
Non-Interest Bearing Deposits	2,087,929	74 %	6.5%	-5.9 %	-11.4 %	-16.3 %	-20.9 %
Total Borrowings & Other Liabilities	462,832	16 %	1.0%	-0.1 %	-0.1 %	-0.2 %	-0.2 %
Liabilities	2,814,023	100 %	5.0%	-4.5 %	-8.6 %	-12.3 %	-15.8 %

Certain shortcomings are inherent in the method of analysis discussed above and as presented in the table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Furthermore, although management has estimated changes in the levels of prepayments and early withdrawal in these rate environments, such levels would likely deviate from those assumed in calculating the table. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase.

Item 4. Controls and Procedures.

**CONTROLS AND PROCEDURES**

Any control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that its objectives will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

**DISCLOSURE CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures", as such term is defined in Rules 13a – 15(e) and 15d – 15(e) of the Securities Exchange Act of 1934 ("Exchange Act") as of the end of the period covered by the report.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at June 30, 2016, the Company's disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this report was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow

timely decisions regarding required disclosure.

57

---

Table of Contents

INTERNAL CONTROL OVER FINANCIAL REPORTING

With the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the Company's fiscal quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on such evaluation, management concluded that, as of the end of the period covered by this report, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

58

---

Table of Contents

META FINANCIAL GROUP, INC.  
PART II - OTHER INFORMATION

FORM 10-Q

Item 1. Legal Proceedings. – See “Legal Proceedings” of Note 6 to the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors. - In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2015 and in Part II "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also materially and adversely affect us in the future.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. – None

Item 3. Defaults Upon Senior Securities. – None

Item 4. Mine Safety Disclosures. - Not Applicable

Item 5. Other Information. – None

Item 6. Exhibits.

See Index to Exhibits.

59

---

Table of Contents

META FINANCIAL GROUP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

META FINANCIAL GROUP, INC.

Date: August 2, 2016 By: /s/ J. Tyler Haahr  
J. Tyler Haahr, Chairman of the Board  
and Chief Executive Officer

Date: August 2, 2016 By: /s/ Glen W. Herrick  
Glen W. Herrick, Executive Vice President  
and Chief Financial Officer



Table of Contents

INDEX TO EXHIBITS

Exhibit  
Number Description

10.1 Form of Restricted Stock Agreement under Meta Financial Group, Inc. 2002 Omnibus Incentive Plan

31.1 Section 302 certification of Chief Executive Officer.

31.2 Section 302 certification of Chief Financial Officer.

32.1 Section 906 certification of Chief Executive Officer.

32.2 Section 906 certification of Chief Financial Officer.

101.INS Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document