



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 February 3, 2016:
Common Stock, \$.01 par value	8,495,246 Common Shares



META FINANCIAL GROUP, INC.  
FORM 10-Q

Table of Contents

<u>PART I - FINANCIAL INFORMATION</u>		2
Item 1.	<u>Financial Statements (Unaudited)</u>	2
	<u>Condensed Consolidated Statements of Financial Condition as of December 31, 2015 and September 30, 2015</u>	2
	<u>Condensed Consolidated Statements of Operations for the Three Months Ended December 31, 2015 and 2014</u>	3
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended December 31, 2015 and 2014</u>	4
	<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended December 31, 2015 and 2014</u>	5
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2015 and 2014</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
Item 3.	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	51
Item 4.	<u>Controls and Procedures</u>	57
<u>PART II - OTHER INFORMATION</u>		58
Item 1.	<u>Legal Proceedings</u>	58
Item 1A.	<u>Risk Factors</u>	58
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
Item 3.	<u>Defaults Upon Senior Securities</u>	58
Item 4.	<u>Mine Safety Disclosures</u>	58
Item 5.	<u>Other Information</u>	58
Item 6.	<u>Exhibits</u>	58
<u>SIGNATURES</u>		59



Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

	December 31, 2015	September 30, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$293,147	\$27,658
Investment securities available for sale	761,584	679,504
Mortgage-backed securities available for sale	578,357	576,583
Investment securities held to maturity	340,959	279,167
Mortgage-backed securities held to maturity	70,376	66,577
Loans receivable - net of allowance for loan losses of \$6,666 at December 31, 2015 and \$6,255 at September 30, 2015	737,128	706,255
Federal Home Loan Bank Stock, at cost	4,810	24,410
Accrued interest receivable	16,306	13,352
Premises, furniture, and equipment, net	17,569	17,393
Bank-owned life insurance	46,204	45,830
Goodwill	36,928	36,928
Intangible assets	32,418	33,577
Prepaid assets	10,931	9,360
Deferred taxes	7,171	6,997
MPS accounts receivable	5,107	5,337
Other assets	1,239	777
<b>Total assets</b>	<b>\$2,960,234</b>	<b>\$2,529,705</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Non-interest-bearing checking	\$2,360,403	\$1,449,101
Interest-bearing checking	36,553	33,320
Savings deposits	49,689	41,720
Money market deposits	48,419	42,222
Time certificates of deposit	73,979	91,171
<b>Total deposits</b>	<b>2,569,043</b>	<b>1,657,534</b>
Advances from Federal Home Loan Bank	57,000	7,000
Federal funds purchased	-	540,000
Securities sold under agreements to repurchase	2,007	4,007
Subordinated debentures	10,310	10,310
Capital lease	2,112	2,143
Accrued interest payable	229	272
Contingent liability	331	331
Accrued expenses and other liabilities	29,625	36,773
<b>Total liabilities</b>	<b>2,670,657</b>	<b>2,258,370</b>

## STOCKHOLDERS' EQUITY

Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at December 31, 2015 and September 30, 2015, respectively	-	-
Common stock, \$.01 par value; 10,000,000 shares authorized, 8,491,936 shares issued and outstanding at December 31, 2015 and 8,183,272 shares issued and 8,163,022 shares outstanding at September 30, 2015	85	82
Additional paid-in capital	184,062	170,749
Retained earnings	101,349	98,359
Accumulated other comprehensive income (loss)	4,081	2,455
Treasury stock, at cost, no common shares at December 31, 2015 and 20,250 common shares at September 30, 2015	-	(310 )
Total stockholders' equity	289,577	271,335
Total liabilities and stockholders' equity	\$2,960,234	\$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 December 31,	
	2015	2014
Interest and dividend income:		
Loans receivable, including fees	\$8,319	\$6,396
Mortgage-backed securities	3,713	3,824
Other investments	6,243	4,012
	18,275	14,232
Interest expense:		
Deposits	163	232
FHLB advances and other borrowings	557	429
	720	661
Net interest income	17,555	13,571
Provision (recovery) for loan losses	786	48
Net interest income after provision for loan losses	16,769	13,523
Non-interest income:		
Card fees	15,256	13,089
Loan fees	819	314
Bank-owned life insurance	374	286
Deposit fees	162	156
Gain (loss) on sale of securities available for sale, net (Includes \$21 and (\$1,260) reclassified from accumulated other comprehensive income (loss) for net gains (losses) on available for sale securities for the three months ended December 31, 2015 and 2014, respectively)	21	(1,260 )
Gain (loss) on foreclosed real estate	-	26
Other income	202	63
Total non-interest income	16,834	12,674
Non-interest expense:		
Compensation and benefits	14,655	10,531
Card processing	5,234	4,696
Occupancy and equipment	3,379	2,603
Legal and consulting	1,131	1,221
Marketing	502	304
Data processing	341	350
Other expense	4,766	2,708
Total non-interest expense	30,008	22,413

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

Income before income tax expense	3,595	3,784
Income tax expense (benefit) (Includes \$8 and (\$457) income tax expense (benefit) reclassified from accumulated other comprehensive income (loss) for the three months ended December 31, 2015 and 2014, respectively)	(463 )	189
Net income	\$4,058	\$3,595
Earnings per common share:		
Basic	\$0.49	\$0.58
Diluted	\$0.49	\$0.58

See Notes to Condensed Consolidated Financial Statements.

3

---



Table of Contents

META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Dollars in Thousands)

	Three Months Ended December 31,	
	2015	2014
Net income	\$4,058	\$3,595
Other comprehensive income (loss):		
Change in net unrealized gain (loss) on securities	2,621	6,512
Losses (gains) realized in net income	(21 )	1,260
	2,600	7,772
Deferred income tax effect	974	2,835
Total other comprehensive income (loss)	1,626	4,937
Total comprehensive income (loss)	\$5,684	\$8,532

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 Three Months Ended December 31, 2015 and 2014

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2014	\$ 62	\$95,079	\$83,797	\$ (3,409 )	\$ (727 )	\$ 174,802
Cash dividends declared on common stock (\$0.13 per share)	-	-	(805 )	-	-	(805 )
Issuance of common shares from the sales of equity securities	-	279	-	-	-	279
Issuance of common shares due to issuance of stock options, restricted stock and ESOP	-	18	-	-	417	435
Stock compensation	-	440	-	-	-	440
Net change in unrealized losses on securities, net of income taxes	-	-	-	4,937	-	4,937
Net income	-	-	3,595	-	-	3,595
Balance, December 31, 2014	\$ 62	\$95,816	\$86,587	\$ 1,528	\$ (310 )	\$ 183,683
Balance, September 30, 2015	\$ 82	\$170,749	\$98,359	\$ 2,455	\$ (310 )	\$ 271,335
Cash dividends declared on common stock (\$0.13 per share)	-	-	(1,068 )	-	-	(1,068 )
Issuance of common shares from the sales of equity securities	3	11,614	-	-	-	11,617
Issuance of common shares due to issuance of stock options, restricted stock and ESOP	-	1,060	-	-	310	1,370
Stock compensation	-	639	-	-	-	639
Net change in unrealized gains on securities, net of income taxes	-	-	-	1,626	-	1,626
Net income	-	-	4,058	-	-	4,058

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

Balance, December 31, 2015	\$ 85	\$ 184,062	\$ 101,349	\$ 4,081	\$ -	\$ 289,577
----------------------------	-------	------------	------------	----------	------	------------

See Notes to Condensed Consolidated Financial Statements.

5

---

Table of Contents

META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Three Months Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$4,058	\$3,595
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	8,635	5,702
Provision (recovery) for loan losses	786	48
Provision (recovery) for deferred taxes	(1,148 )	(810 )
(Gain) loss on other assets	(12 )	(526 )
(Gain) loss on sale of securities available for sale, net	(21 )	1,260
Capital lease obligations interest expense	32	(32 )
Net change in accrued interest receivable	(2,954 )	(1,175 )
Change in bank-owned life insurance value	(374 )	(286 )
Net change in other assets	(1,857 )	(433 )
Net change in accrued interest payable	(43 )	(63 )
Net change in accrued expenses and other liabilities	(11,436 )	3,638
Net cash provided by (used in) operating activities	(4,334 )	10,918
Cash flows from investing activities:		
Purchase of securities available-for-sale	(135,466)	(105,864)
Proceeds from sales of securities available-for-sale	27,672	175,362
Proceeds from maturities and principal repayments of securities available-for-sale	25,646	24,691
Purchase of securities held to maturity	(69,526 )	(22,643 )
Proceeds from maturities and principal repayments of securities held to maturity	3,029	1,768
Loans sold	-	(102 )
Net change in loans receivable	(31,660 )	(23,260 )
Proceeds from sales of foreclosed real estate	-	(78 )
Net cash paid for acquisition	-	(92,308 )
Federal Home Loan Bank stock purchases	(193,640)	(134,160)
Federal Home Loan Bank stock redemptions	213,240	149,720
Proceeds from the sale of premises and equipment	13	2,096
Purchase of premises and equipment	(1,521 )	(985 )
Net cash provided by (used in) investing activities	(162,213)	(25,763 )
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	928,701	456,488
Net change in time deposits	(17,192 )	(34,150 )
Net change in FHLB and other borrowings	50,000	-
Net change in federal funds	(540,000)	(389,000)
Net change in securities sold under agreements to repurchase	(2,000 )	3,809
Principal payments on capital lease obligations	(31 )	(13 )
Cash dividends paid	(1,068 )	(805 )
Stock compensation	639	440

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

Proceeds from issuance of common stock	12,987	714
Net cash provided by (used in) financing activities	432,036	37,483
Net change in cash and cash equivalents	265,489	22,638
Cash and cash equivalents at beginning of period	27,658	29,832
Cash and cash equivalents at end of period	\$293,147	\$52,470
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$763	\$724
Income taxes	1,579	1,706
Franchise taxes	20	20
Supplemental schedule of non-cash investing activities:		
Purchase of available-for-sale securities accrued, not paid	\$4,264	\$-
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 three month period ended December 31, 2015, 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, and automobile, manufactured homes, home equity and second mortgage loans. Commercial and agricultural loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 210 days or more for premium finance loans and 90 days or more for other loan categories. Non-accrual loans and all troubled debt restructurings are considered impaired. Impaired loans, or

portions thereof, are charged off when deemed uncollectible.

7

---

Table of Contents

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

	December 31, 2015	September 30, 2015
	(Dollars in Thousands)	
1-4 Family Real Estate	\$ 134,850	\$ 125,021
Commercial and Multi-Family Real Estate	322,125	310,199
Agricultural Real Estate	64,181	64,316
Consumer	34,868	33,527
Commercial Operating	37,505	29,893
Agricultural Operating	40,412	43,626
Premium Finance	110,640	106,505
Total Loans Receivable	744,581	713,087
Less:		
Allowance for Loan Losses	(6,666 )	(6,255 )
Net Deferred Loan Origination Fees	(787 )	(577 )
Total Loans Receivable, Net	\$ 737,128	\$ 706,255

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

	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Unallocated	Total
	(Dollars in Thousands)								
Three Months Ended December 31, 2015									
Allowance for loan losses:									
Beginning balance	\$ 278	\$ 1,187	\$ 163	\$ 20	\$ 28	\$ 3,537	\$ 293	\$ 749	\$ 6,255
Provision (recovery) for loan losses	7	7	8	(0 )	79	319	506	(140 )	786
Charge offs	-	-	-	-	-	-	(390 )	-	(390 )
Recoveries	-	-	-	-	-	-	15	-	15
Ending balance	\$ 285	\$ 1,194	\$ 171	\$ 20	\$ 107	\$ 3,856	\$ 424	\$ 609	\$ 6,666
Ending balance: individually evaluated for impairment	-	235	-	-	-	3,614	-	-	3,849
Ending balance:	285	959	171	20	107	242	424	609	2,817



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

collectively evaluated for impairment Total	\$285	\$ 1,194	\$ 171	\$ 20	\$ 107	\$ 3,856	\$ 424	\$ 609	\$6,666
Loans: Ending balance: individually evaluated for impairment Ending balance: collectively evaluated for impairment Total	117	1,341	-	0	8	4,832	-	-	6,298
	134,733	320,784	64,181	34,868	37,497	35,580	110,640	-	738,283
	\$134,850	\$ 322,125	\$ 64,181	\$ 34,868	\$ 37,505	\$ 40,412	\$ 110,640	\$ -	\$744,581

8

---

Table of Contents

	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Commercial Consumer	Operating	Agricultural Operating	Premium Finance	Unallocated	Total
(Dollars in Thousands)									
Three Months Ended December 31, 2014									
Allowance for loan losses:									
Beginning balance	\$552	\$1,575	\$263	\$78	\$93	\$719	\$-	\$2,117	\$5,397
Provision (recovery) for loan losses	(40 )	(169 )	3	-	(9 )	(89 )	48	304	48
Charge offs	-	(214 )	-	-	-	-	(17 )	-	(231 )
Recoveries	-	6	-	-	1	-	4	-	11
Ending balance	\$512	\$1,198	\$266	\$78	\$85	\$630	\$35	\$2,421	\$5,225
Ending balance: individually evaluated for impairment	-	310	-	-	-	296	-	-	606
Ending balance: collectively evaluated for impairment	512	888	266	78	85	334	35	2,421	4,619
Total	\$512	\$1,198	\$266	\$78	\$85	\$630	\$35	\$2,421	\$5,225
Loans:									
Ending balance: individually evaluated for impairment	348	1,427	-	-	20	296	-	-	2,091
Ending balance: collectively evaluated for impairment	111,425	249,595	58,193	33,796	28,037	39,029	74,156	-	594,231
Total	\$111,773	\$251,022	\$58,193	\$33,796	\$28,057	\$39,325	\$74,156	\$-	\$596,322

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

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

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

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

The adverse classifications are as follows:

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

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.

Table of Contents

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 December 31, 2015 and September 30, 2015 are as follows:

December 31, 2015	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Total
	(Dollars in Thousands)							
Pass	\$133,824	\$ 319,608	\$ 33,275	\$ 34,868	\$ 36,598	\$ 27,978	\$ 110,640	\$696,791
Watch	994	1,619	28,357	0	797	986	-	32,753
Special Mention	9	-	877	-	-	4,114	-	5,000
Substandard	23	898	1,672	-	110	4,877	-	7,580
Doubtful	-	-	-	-	-	2,457	-	2,457
	\$134,850	\$ 322,125	\$ 64,181	\$ 34,868	\$ 37,505	\$ 40,412	\$ 110,640	\$744,581
September 30, 2015	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Total
	(Dollars in Thousands)							
Pass	\$124,775	\$ 307,876	\$ 35,106	\$ 33,527	\$ 29,052	\$ 29,336	\$ 106,505	\$666,177
Watch	212	1,419	26,703	-	712	1,079	-	30,125
Special Mention	10	-	877	-	-	4,014	-	4,901
Substandard	24	904	1,630	-	129	9,197	-	11,884
Doubtful	-	-	-	-	-	-	-	-
	\$125,021	\$ 310,199	\$ 64,316	\$ 33,527	\$ 29,893	\$ 43,626	\$ 106,505	\$713,087

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

The Company originates one-to-four family residential mortgage loans with terms up to a maximum of 30 years and with loan-to-value ratios up to 100% of the lesser of the appraised value of the security property or the contract price. The Company generally requires that private mortgage insurance be obtained in an amount sufficient to reduce the Company’s exposure to at or below the 80% loan to value level, unless the loan is insured by the Federal Housing

Administration, guaranteed by Veterans Affairs or guaranteed by the Rural Housing Administration. Residential loans generally do not include prepayment penalties.

### Table of Contents

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

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

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

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

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

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

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and other farm-related products. Agricultural operating loans are originated at either an adjustable or fixed-rate of interest for up to a one year term or, in the case of livestock, upon sale. Such loans provide

for payments of principal and interest at least annually or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years.

### Table of Contents

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

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

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

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

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

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

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



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

Table of Contents

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 to work on new alternative portfolio lending products striving to serve its core customer base and to provide unique and innovative lending solutions to the unbanked and under-banked segment.

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

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.

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. At December 31, 2015, none of the Company’s commercial operating loans were non-performing.

Premium Finance Lending. Through its AFS/IBEX division, MetaBank provides short-term, 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.

Table of Contents

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 60-150 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.

Table of Contents

Past due loans at December 31, 2015 and September 30, 2015 are as follows:

December 31, 2015	30-59	60-89	Greater	Total Past Due	Current	Non-Accrual Loans	Total Loans Receivable
	Days Past Due	Days Past Due	Than 90 Days				
	(Dollars in Thousands)						
1-4 Family Real Estate	\$-	\$-	\$-	\$-	\$134,827	\$ 23	\$ 134,850
Commercial and Multi-Family Real Estate	-	-	-	-	321,228	897	322,125
Agricultural Real Estate	3,548	1,060	-	4,608	59,573	-	64,181
Consumer	-	-	26	26	34,842	-	34,868
Commercial Operating	-	-	-	-	37,505	-	37,505
Agricultural Operating	-	-	-	-	35,580	4,832	40,412
Premium Finance	778	440	856	2,074	108,566	-	110,640
Total	\$4,326	\$1,500	\$ 882	\$ 6,708	\$732,121	\$ 5,752	\$ 744,581

September 30, 2015	30-59	60-89	Greater	Total Past Due	Current	Non-Accrual Loans	Total Loans Receivable
	Days Past Due	Days Past Due	Than 90 Days				
	(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 December 31, 2015, there were no Premium Finance loans greater than 210 days past due.

Table of Contents

Impaired loans at December 31, 2015 and September 30, 2015 are as follows:

December 31, 2015	Unpaid		
	Recorded Balance	Principal Balance	Specific Allowance
	(Dollars in Thousands)		
Loans without a specific valuation allowance			
1-4 Family Real Estate	\$ 117	\$ 117	\$ -
Commercial and Multi-Family Real Estate	443	443	-
Commercial Operating	8	8	-
Total	\$568	\$ 568	\$ -
Loans with a specific valuation allowance			
Commercial and Multi-Family Real Estate	\$898	\$ 898	\$ 235
Agricultural Operating	4,832	4,982	3,614
Total	\$5,730	\$ 5,880	\$ 3,849

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

The following table provides the average recorded investment in impaired loans for the three month periods ended December 31, 2015 and 2014.

	Three Months Ended December 31,	
	2015	2014
	Average Average Recorded Recorded Investment Investment (Dollars in Thousands)	
1-4 Family Real Estate	\$ 119	\$ 374
Commercial and Multi-Family Real Estate	1,347	4,246
Agricultural Real Estate	-	-
Consumer	-	-
Commercial Operating	10	22

Agricultural Operating	5,032	325
Premium Finance	-	-
Total	\$6,508	\$ 4,967

16

---

Table of Contents

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 month periods ended December 31, 2015 and 2014. Additionally, there were no TDR loans for which there was a payment default during the three month periods ended December 31, 2015 and 2014 that had been modified during the 12-month period prior to the default.

NOTE 3. ALLOWANCE FOR LOAN LOSSES

At December 31, 2015, the Company's allowance for loan losses was \$6.7 million, an increase of \$0.4 million from \$6.3 million at September 30, 2015. During the three months ended December 31, 2015, the Company recorded a provision for loan losses of \$0.8 million, primarily due to loan growth and a premium finance loan charge off. In addition, the Company had \$0.4 million net charge offs for the three months ended December 31, 2015, compared to \$0.2 million for the three months ended December 31, 2014.

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. All of the Bank's four market areas have indirectly benefitted from a stable agricultural market. 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.

The allowance for loan losses established by MPS results from an estimation process that evaluates relevant characteristics of its credit portfolio. MPS also considers other internal and external environmental factors such as changes in operations or personnel and economic events that may affect the adequacy of the allowance for credit losses. Adjustments to the allowance for loan losses are recorded periodically based on the result of this estimation process.

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 December 31, 2015, 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.

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.





Table of Contents

## 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 December 31, 2015 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 months ended December 31, 2015 and 2014 is presented below.

Three Months Ended December 31, (Dollars in Thousands, Except Share and Per Share Data)	2015	2014
Earnings		
Net Income	\$4,058	\$3,595
Basic EPS		
Weighted average common shares outstanding	8,245,368	6,182,080
Less weighted average nonvested shares	(27,311 )	(4,000 )
Weighted average common shares outstanding	8,218,057	6,178,080
Earnings Per Common Share		
Basic	\$0.49	\$0.58
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	8,218,057	6,178,080
Add dilutive effect of assumed exercises of stock options, net of tax benefits	66,198	61,276
Weighted average common and dilutive potential common shares outstanding	8,284,255	6,239,356
Earnings Per Common Share		
Diluted	\$0.49	\$0.58

All stock options were considered in computing diluted EPS for the three months ended December 31, 2015. Stock options totaling 29,199 were not considered in computing diluted EPS for the three months ended December 31, 2014, because they were not dilutive.

Table of Contents

## 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 December 31, 2015 and September 30, 2015 are presented below.

Available For Sale	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
At December 31, 2015	(Dollars in Thousands)			
Debt securities				
Trust preferred securities	\$ 14,932	\$ -	\$ (2,547 )	\$ 12,385
Small business administration securities	83,704	1,202	(235 )	84,671
Obligations of states and political subdivisions	-	-	-	-
Non-bank qualified obligations of states and political subdivisions	650,267	13,922	(689 )	663,500
Mortgage-backed securities	586,217	712	(8,572 )	578,357
Total debt securities	1,335,120	15,836	(12,043 )	1,338,913
Common equities and mutual funds	730	308	(10 )	1,028
Total available for sale securities	\$ 1,335,850	\$ 16,144	\$ (12,053 )	\$ 1,339,941
At September 30, 2015	(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 December 31, 2015	(Dollars in Thousands)			
Debt securities				
Obligations of states and political subdivisions	\$ 20,699	\$ 102	\$ (102 )	\$ 20,699
Non-bank qualified obligations of states and political subdivisions	320,260	3,789	(890 )	323,159
Mortgage-backed securities	70,376	-	(1,152 )	69,224
Total held to maturity securities	\$ 411,335	\$ 3,891	\$ (2,144 )	\$ 413,082

Table of Contents

At September 30, 2015	AMORTIZED COST (Dollars in Thousands)	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
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 December 31, 2015	Amortized Cost (Dollars in Thousands)	Fair Value	Unrealized Gain (Loss)	S&P Credit Rating	Moody's Credit Rating
Issuer <sup>(1)</sup>					
Key Corp. Capital I	\$ 4,987	\$ 4,069	\$ (918 )	BB+	Baa2
Huntington Capital Trust II SE	4,979	3,925	(1,054 )	BB	Baa2
PNC Capital Trust	4,966	4,391	(575 )	BBB-	Baa1
Total	\$ 14,932	\$ 12,385	\$ (2,547 )		

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

At September 30, 2015	Amortized Cost (Dollars in Thousands)	Fair Value	Unrealized Gain (Loss)	S&P Credit Rating	Moody's Credit Rating
Issuer <sup>(1)</sup>					
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.



Table of Contents

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 December 31, 2015 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 December 31, 2015 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 December 31, 2015	(Dollars in Thousands)					
Debt securities						
Trust preferred securities	\$-	\$ -	\$12,385	\$ (2,547 )	\$12,385	\$ (2,547 )
Small Business Administration securities	28,992	(235 )	-	-	28,992	(235 )
Non-bank qualified obligations of states and political subdivisions	20,924	(203 )	34,033	(486 )	54,957	(689 )
Mortgage-backed securities	498,285	(7,635 )	45,754	(937 )	544,039	(8,572 )
Total debt securities	548,201	(8,073 )	92,172	(3,970 )	640,373	(12,043 )
Common equities and mutual funds	-	-	119	(10 )	119	(10 )
Total available for sale securities	\$548,201	\$ (8,073 )	\$92,291	\$ (3,980 )	\$640,492	\$ (12,053 )

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

Table of Contents

Held To Maturity	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
At December 31, 2015	(Dollars in Thousands)					
Debt securities						
Obligations of states and political subdivisions	\$3,763	\$ (8 )	\$8,560	\$ (94 )	\$12,323	\$ (102 )
Non-bank qualified obligations of states and political subdivisions	114,703	(811 )	9,679	(79 )	124,382	(890 )
Mortgage-backed securities	11,362	(140 )	57,863	(1,012 )	69,225	(1,152 )
Total held to maturity securities	\$129,828	\$ (959 )	\$76,102	\$ (1,185 )	\$205,930	\$ (2,144 )
At September 30, 2015	(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 December 31, 2015, 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 December 31, 2015.

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 securities may differ from contractual maturities because the borrowers may have the right to prepay the obligation. However, certain prepayment penalties may apply.

Available For Sale	AMORTIZED COST		FAIR VALUE
	(Dollars in Thousands)		
At December 31, 2015			
Due in one year or less	\$-		\$-
Due after one year through five years	3,202		3,269
Due after five years through ten years	416,377		425,445
Due after ten years	329,324		331,842
	748,903		760,556
Mortgage-backed securities	586,217		578,357
Common equities and mutual funds	730		1,028

Total available for sale securities      \$1,335,850   \$1,339,941

22

---



Table of Contents

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

	AMORTIZED COST	FAIR VALUE
Held To Maturity	(Dollars in Thousands)	
At December 31, 2015		
Due in one year or less	\$225	\$226
Due after one year through five years	9,488	9,475
Due after five years through ten years	143,173	145,014
Due after ten years	188,073	189,143
	340,959	343,858
Mortgage-backed securities	70,376	69,224
Total held to maturity securities	\$411,335	\$413,082

	AMORTIZED COST	FAIR 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

Table of Contents

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 December 31, 2015 and September 30, 2015, unfunded loan commitments approximated \$132.3 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 December 31, 2015, the Company had one commitment to purchase securities available for sale totaling \$4.3 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.

Legal Proceedings

The Bank has been named as a defendant, 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); (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); and (4) Jones v. UniRush, LLC et al. (E.D. Pa. Case No. 5:15-cv-05996-JLS). The complaints in each of these 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. Due to the recent filing of the complaints, the Company is evaluating the cases and has not yet filed an answer. 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. Because these cases were recently filed and are in their early stages and because of the many questions of fact and law that may arise, the outcome of this legal proceeding is uncertain at this point. Based on information available to us at present, we cannot reasonably estimate a range of potential loss, if any, for these actions because, among other things, our potential liability depends on whether a class is certified and, if so, the composition and size of any such class, as well as on an assessment of the appropriate measure of damages if we were to be found liable. Accordingly, we have not recognized any liability associated with these actions.

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

Certain corporate clients of an unrelated company named Springbok Services, Inc. (“Springbok”) requested through counsel a mediation as a means of reaching a settlement in lieu of commencing litigation against MetaBank. The results of that mediation have not led to a settlement. These claimants purchased MetaBank prepaid reward cards from Springbok, prior to Springbok’s bankruptcy. As a result of Springbok’s bankruptcy and cessation of business, some of the rewards cards that had been purchased were never activated or funded. Counsel for these companies have indicated that they are prepared to assert claims totaling approximately \$1.5 million against MetaBank based on principal/agency or failure to supervise theories. The Company denies liability with respect to these claims. The Company’s estimate of a range of reasonably possible loss is approximately \$0 to \$0.3 million.

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 have answered the Complaint and asserted a counterclaim against the Bank and a third-party claim against the Bank’s loan officer. The counterclaim and third-party claim allege that the Bank and its loan officer made certain statements to Clement in early 2015 indicating that the Bank would renew the operating lines and provide financing to the entities for the 2015 growing season. The claimants assert that the Bank abruptly changed course in March, 2015, and ultimately declined to extend new operating lines to the defendants for the 2015 season. The claimants assert that the Bank’s conduct amounted to a fraud and misrepresentation. Additionally, they assert promissory estoppel based on their reliance upon the Bank’s earlier assurances of additional credit from the Bank to their detriment. They assert unspecified damages based on the Bank’s alleged actions, including higher costs of financing from a new lender and, additionally, that they were unable to take advantage of other discount and sale opportunities to their detriment. The Bank intends to vigorously defend the claims. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation because discovery is still being conducted.

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.

Table of Contents

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 three months ended December 31, 2015:

	Number of Shares (Dollars in Thousands, Except Share and Per Share Data)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
Options outstanding, September 30, 2015	189,088	\$ 25.74	3.16	\$ 3,027
Granted	-	-		-
Exercised	(6,111 )	28.90		99
Forfeited or expired	-	-		-
Options outstanding, December 31, 2015	182,977	\$ 25.64	2.93	\$ 3,701
Options exercisable, December 31, 2015	182,977	\$ 25.64	2.93	\$ 3,701

	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	1,000	45.00
Vested	(15,208)	41.54
Forfeited or expired	(313 )	41.77
Nonvested shares outstanding, December 31, 2015	29,481	\$ 40.56

At December 31, 2015, stock based compensation expense not yet recognized in income totaled \$377,063, 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 months ended December 31, 2015 and 2014, respectively.

	Payments	Banking	Corporate Services/Other	Total
Three Months Ended December 31, 2015				
Interest income	\$1,964	\$8,851	\$ 7,460	\$18,275
Interest expense	40	253	427	720
Net interest income (expense)	1,924	8,598	7,033	17,555
Provision (recovery) for loan losses	80	706	-	786
Non-interest income	15,352	1,056	426	16,834
Non-interest expense	16,017	5,428	8,563	30,008
Income (loss) before tax	1,179	3,520	(1,104 )	3,595
Total assets	51,359	735,222	2,173,653	2,960,234
Total deposits	2,341,783	227,260	-	2,569,043

	Payments	Banking	Corporate Services/Other	Total
Three Months Ended December 31, 2014				
Interest income	\$1,567	\$6,941	\$ 5,724	\$14,232
Interest expense	45	279	337	661
Net interest income (expense)	1,522	6,662	5,387	13,571
Provision (recovery) for loan losses	-	48	-	48
Non-interest income	13,052	579	(957 )	12,674
Non-interest expense	11,673	5,263	5,477	22,413
Income (loss) before tax	2,901	1,930	(1,047 )	3,784
Total assets	41,096	599,027	1,467,940	2,108,063
Total deposits	1,554,114	234,765	-	1,788,879

## NOTE 9. NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update (“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 the Company does not expect a material impact on the Company’s consolidated financial statements.

ASU No. 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure

This ASU provides guidance on when a loan should be derecognized and collateral assets recognized during an in-substance repossession or foreclosure. The objective of this ASU is to eliminate diversity in practice related to the topic. The ASU states creditors are considered to have physical possession of residential real estate property when

either the creditor obtains title for the property or the borrower transfers all interest in the property through a deed or other legal agreement. When physical possession occurs, the loan should be derecognized and collateral assets recognized. This update was effective for annual and interim periods beginning after December 15, 2014, 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. 2014-14, Troubled Debt Restructuring by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

This ASU provides guidance on how to account for certain foreclosed government-guaranteed mortgage loans. The creditor should recognize a separate other receivable in the amount the creditor expects to recover from the guarantor. This update was effective for annual and interim periods beginning after December 15, 2014, and did not have a material impact on the Company's 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 is not expected to 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 is not expected to have a material impact on the Company's 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.

Table of Contents

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.

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 December 31, 2015 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.

Table of Contents

The following table summarizes the fair values of securities available for sale and held to maturity at December 31, 2015 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 December 31, 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 securities	\$12,385	\$-	\$12,385	\$ -	\$-	\$ -	\$-	\$ -
Small business administration securities	84,671	-	84,671	-	-	-	-	-
Obligations of states and political subdivisions	-	-	-	-	20,699	-	20,699	-
Non-bank qualified obligations of states and political subdivisions	663,500	-	663,500	-	323,159	-	323,159	-
Mortgage-backed securities	578,357	-	578,357	-	69,224	-	69,224	-
Total debt securities	1,338,913	-	1,338,913	-	413,082	-	413,082	-
Common equities and mutual funds	1,028	1,028	-	-	-	-	-	-
Total securities	\$1,339,941	\$1,028	\$1,338,913	\$ -	\$413,082	\$ -	\$413,082	\$ -

(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 December 31, 2015 and September 30, 2015.

(Dollars in Thousands)	Fair Value at December 31, 2015			
	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
Commercial and multi-family real estate loans	\$663	\$ -	\$ -	\$663

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

Agricultural operating loans	1,218	-	-	1,218
Total	\$1,881	\$ -	\$ -	\$1,881

Fair Value at September 30,  
2015

(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
Commercial and multi-family real estate loans	\$663	\$ -	\$ -	\$663
Agricultural operating loans	1,880	-	-	1,880
Total	\$2,543	\$ -	\$ -	\$2,543

30

---

Table of Contents

Quantitative Information About Level 3 Fair Value Measurements

Fair Value at Valuation December 31, 2015

(Dollars in Thousands) 2015 Unobservable Input

Impaired Loans, net \$1,881 Market approach Appraised values <sup>(1)</sup>

<sup>(1)</sup> 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 at Valuation September 30, 2015

(Dollars in Thousands) 2015 Unobservable Input

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

<sup>(1)</sup> 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 December 31, 2015 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 December 31, 2015 and September 30, 2015.

	December 31, 2015				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(Dollars in Thousands)				
<b>Financial assets</b>					
Cash and cash equivalents	\$293,147	\$293,147	\$293,147	\$-	\$-
Securities available for sale	1,339,941	1,339,941	1,028	1,338,913	-
Securities held to maturity	411,335	413,082	-	413,082	-
Total securities	1,751,276	1,753,023	1,028	1,751,995	-
<b>Loans receivable:</b>					
One to four family residential mortgage loans	134,850	135,612	-	-	135,612
Commercial and multi-family real estate loans	322,125	328,503	-	-	328,503
Agricultural real estate loans	64,181	67,673	-	-	67,673
Consumer loans	34,868	34,590	-	-	34,590
Commercial operating loans	37,505	27,985	-	-	27,985
Agricultural operating loans	40,412	31,338	-	-	31,338
Premium finance loans	110,640	113,101	-	-	113,101
Total loans receivable	744,581	738,802	-	-	738,802
Federal Home Loan Bank stock	4,810	4,810	-	4,810	-
Accrued interest receivable	16,306	16,306	16,306	-	-
<b>Financial liabilities</b>					
Noninterest bearing demand deposits	2,360,403	2,360,403	2,360,403	-	-
Interest bearing demand deposits, savings, and money markets	134,661	134,661	134,661	-	-
Certificates of deposit	73,979	73,408	-	73,408	-
Total deposits	2,569,043	2,568,472	2,495,064	73,408	-
Advances from Federal Home Loan Bank	57,000	58,228	-	58,228	-
Federal funds purchased	-	-	-	-	-
Securities sold under agreements to repurchase	2,007	2,007	-	2,007	-
Subordinated debentures	10,310	10,414	-	10,414	-
Accrued interest payable	229	229	229	-	-

Table of Contents

	September 30, 2015				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
(Dollars in Thousands)					
Financial assets					
Cash and cash equivalents	\$27,658	\$27,658	\$27,658	\$-	\$-
Securities available for sale	1,256,087	1,256,087	914	1,255,173	-
Securities held to maturity	345,744	346,847	-	346,847	-
Total securities	1,601,831	1,602,934	914	1,602,020	-
Loans receivable:					
One to four family residential mortgage loans	125,021	121,385	-	-	121,385
Commercial and multi-family real estate loans	310,199	314,372	-	-	314,372
Agricultural real estate loans	64,316	66,682	-	-	66,682
Consumer loans	33,527	33,504	-	-	33,504
Commercial operating loans	29,893	23,245	-	-	23,245
Agricultural operating loans	43,626	40,003	-	-	40,003
Premium finance loans	106,505	108,583	-	-	108,583
Total loans receivable	713,087	707,774	-	-	707,774
Federal Home Loan Bank stock	24,410	24,410	-	24,410	-
Accrued interest receivable	13,352	13,352	13,352	-	-
Financial liabilities					
Noninterest bearing demand deposits	1,449,101	1,369,672	1,369,672	-	-
Interest bearing demand deposits, savings, and money markets	117,262	115,204	115,204	-	-
Certificates of deposit	91,171	91,304	-	91,304	-
Total deposits	1,657,534	1,576,180	1,484,876	91,304	-
Advances from Federal Home Loan Bank	7,000	8,630	-	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 December 31, 2015 and September 30, 2015.

**CASH AND CASH EQUIVALENTS**

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

**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 December 31, 2015 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.



Table of Contents

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 ContentsNOTE 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	15	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 three months ended December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
	(Dollars in Thousands)	
Goodwill		
Beginning Balance	\$36,928	\$-
Acquisitions during the period	-	11,578
Write-offs during the period	-	-
Ending Balance	\$36,928	\$11,578

Table of Contents

	Trademark	Non-Compete	Customer Relationships	All Others	Total
Intangibles					
Balance as of September 30, 2015	\$5,439	\$ 227	\$ 24,811	\$3,100	\$33,577
Acquisitions during the period	-	-	-	54	54
Amortization during the period	(72 )	(25 )	(1,064 )	(52 )	(1,213 )
Write-offs during the period	-	-	-	-	-
Balance as of December 31, 2015	\$5,367	\$ 202	\$ 23,747	\$3,102	\$32,418

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 three months ended December 31, 2015 and 2014. The annual goodwill impairment test will be conducted at September 30, 2016.

## NOTE 12. INCOME TAXES

The Company and its subsidiaries file a consolidated federal income tax return on a fiscal year basis. Total income tax expense differs from expected tax for the three months ended December 31, 2015 and 2014 as follows:

	Income Tax Expense (Benefit) For The Three Months Ended December 31, December 2015 31, 2014 (Dollars in Thousands)	
Income tax expense at federal tax rate	\$1,258	\$ 1,324
Increase (decrease) resulting from:		
State income taxes net of federal benefit	167	119
Nontaxable buildup in cash surrender value	(131 )	(100 )
Incentive stock option expense	(18 )	-
Tax exempt income	(1,790)	(1,068 )
Nondeductible expenses	39	12
Other, net	12	(98 )
Total income tax expense (benefit)	\$(463 )	\$ 189

The Company's effective tax for the three months ended December 31, 2015 decreased as compared to the three months ended December 31, 2014 primarily due to the level of tax exempt income as compared to overall pre-tax income.

## NOTE 13. 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. A consent order that had been in effect was terminated on May 21, 2015 by the Federal Reserve. 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.

Table of Contents

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.

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 the Guidance will have a material adverse impact on the Company’s business operations or its ability to further grow deposits. 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. Recently, the FDIC proposed a rule which would change the method of calculating the assessment fees for FDIC – insured institutions. The Bank is currently assessing the impact of the proposed assessment rule.

NOTE 14. 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 December 31, 2015.

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 or phrases 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 the potential benefits of the acquisition of Fort Knox Financial Services Corporation and its wholly-owned subsidiary, Tax Product Services LLC (collectively, "Fort Knox" or "Refund Advantage"); 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. 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 businesses of the Bank and Fort Knox may not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected; the risk that sales of Fort Knox products by the Bank may not be as high as anticipated; the expected growth opportunities or cost savings from the acquisition may not be fully realized or may take longer to realize than expected; customer losses and business disruption following the acquisition, including adverse effects on relationships with former or current employees of Fort Knox, may be greater than expected; regulatory reception to the Fort Knox business may not be as anticipated and the Company may incur unanticipated or unknown losses or liabilities on a post-acquisition basis, including risks similar to those expressed above, especially given the Company's entry into a new line of business; the risk that the Company may incur unanticipated or unknown losses or liabilities as a result of the completion of the transaction with Fort Knox; 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.

38

---

## Table of Contents

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 periodic filings 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."

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries at December 31, 2015, compared to September 30, 2015, and the consolidated results of operations for the three months ended December 31, 2015 and 2014. 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

**Tax refund-related credit:** MetaBank launched a new loan advance product 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. Activity for the program began in late January 2016 and is expected to continue through the tax season. The Bank also plans to offer additional new credit products in 2016.

**ClearBalance Partnership:** During the first quarter, the Bank entered into an agreement with ClearBalance, one of the healthcare industry's leading providers of consumer-friendly patient loans. The Bank will provide commercial financing for a number of ClearBalance's loan programs, and will help bring improved financial solutions to patients who struggle with healthcare costs.

On December 17, 2015, Meta closed previously announced private placement transactions to accredited investors, issuing an aggregate of 266,430 shares of its common stock for consideration of approximately \$11.7 million. Meta is using the net proceeds from this stock issuance to support increased balance sheet growth and costs associated with recently executed agreements with multiple payment solutions providers.

On November 9, 2015, the Bank announced that it had enhanced its partnership with financial dignity nonprofit Operation HOPE to establish financial literacy education programs and counseling services to cardholders over the next four years. With this partnership, MetaBank joins Operation HOPE's national mission to empower the underserved.

The Company recorded net income of \$4.1 million for the three months ended December 31, 2015, compared to net income of \$3.6 million for the first quarter of fiscal year 2015. The increase in net income was primarily due to an



increase of \$4.1 million in non-interest income and an increase of \$4.0 million in net interest income, partially offset by an increase of \$7.6 million in non-interest expense.

Table of Contents

Card fee income increased \$2.2 million, or 17%, for the fiscal 2016 first quarter when compared to the same quarter in fiscal 2015, primarily due to the addition of new and increased business from existing business partners.

Overall cost of funds for the Company averaged 0.12% during the fiscal 2016 first quarter, compared to 0.14% for the prior year first quarter.

Total loans, net of allowance for loan losses, increased \$30.8 million, or 4%, to \$737.1 million at December 31, 2015 compared to September 30, 2015.

The average net interest yield MPS received for its deposits was 1.39% in the fiscal 2016 first quarter and 1.42% in the comparable 2015 period.

The Company's tangible book value per common share outstanding increased by \$1.33, or 5%, to \$25.93 per share at December 31, 2015, 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 \$25.45 as of December 31, 2015, compared to \$24.30 as of September 30, 2015. Book value per common share outstanding increased by \$0.86, or 3%, to \$34.10 per share at December 31, 2015, from \$33.24 per share at September 30, 2015.

Non-performing assets ("NPAs") were 0.22% of total assets at December 31, 2015, compared to 0.31% at September 30, 2015, and 0.33% at June 30, 2015.

FINANCIAL CONDITION

At December 31, 2015, the Company's assets grew by \$430.5 million, or 17%, to \$2.96 billion compared to \$2.53 billion at September 30, 2015. The increase in assets was due primarily to increases in cash and cash equivalents, the investment securities portfolio, and net loans receivable, offset in part by a decrease in Federal Home Loan Bank ("FHLB") stock.

Total cash and cash equivalents were \$293.1 million at December 31, 2015, an increase of \$265.4 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 MPS division. In general, the Company maintains its cash investments in interest-bearing overnight deposits with the FHLB of Des Moines and the Federal Reserve Bank of Minneapolis. At December 31, 2015, the Company had no federal funds sold.

The total of mortgage-backed securities ("MBS") and investment securities increased \$149.4 million, or 9.3%, to \$1.75 billion at December 31, 2015, as 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 of \$648.7 million of MBS, \$578.3 million are classified as available for sale, and \$70.4 million are classified as held to maturity. Of the total of \$1.10 billion of investment securities, \$761.6 million are classified as available for sale and \$341.0 million are classified as held to maturity. During the three month period ended December 31, 2015, the Company purchased a gross amount of \$66.6 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 \$79.1 million of investment securities available for sale and \$63.5 million of investment securities held to maturity, primarily 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.



### Table of Contents

The Company's portfolio of net loans receivable increased \$30.8 million, or 4%, to \$737.1 million at December 31, 2015 from \$706.3 million at September 30, 2015. This increase primarily relates to growth in retail bank and premium finance loans of \$25.1 million and MPS loans of \$9.2 million, including \$7.6 million related to Refund Advantage ERO operating loans. Of the \$322.1 million in commercial and multi-family real estate loans, \$54.0 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.

The Company owns stock in the FHLB due to the Bank's membership in this banking system. The FHLB requires a level of stock investment based on a pre-determined formula based on membership and participation, primarily the FHLB's advances (i.e. lending programs). The Company's investment in such stock decreased \$19.6 million to \$4.8 million at December 31, 2015, from \$24.4 million at September 30, 2015. The decrease directly correlates with the lower overnight federal funds held at the FHLB.

Total deposits increased \$911.5 million, or 55%, at December 31, 2015, from September 30, 2015, some of which increase related to payroll processing timing, with the remainder primarily related to the increase in non-interest bearing deposits. Deposits attributable to MPS increased by \$917.5 million, or 64%, to \$2.34 billion at December 31, 2015, compared to \$1.42 billion at September 30, 2015. Additionally, certificates of deposits decreased by \$17.2 million to \$74.0 million primarily related to a decrease in public funds on deposit as planned by the Company. The average balance of total deposits and interest-bearing liabilities was \$2.38 billion for the three month period ended December 31, 2015, compared to \$1.92 billion for the same period in the prior fiscal year. The average balance of non-interest bearing deposits for the three month period ended December 31, 2015, increased by \$341.9 million, or 24% to \$1.76 billion at December 31, 2015, compared to \$1.42 billion for the same period in the prior fiscal year.

Total borrowings decreased \$492.0 million from \$561.3 million at September 30, 2015, to \$69.3 million at December 31, 2015, 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. Accordingly, our level of borrowings may fluctuate significantly on any particular quarter end date.

At December 31, 2015, the Company's stockholders' equity totaled \$289.5 million, an increase of \$18.2 million, from \$271.3 million at September 30, 2015. The increase was primarily due to the previously discussed private placement transactions. To a lesser extent, the increase was also attributable to net earnings, offset by dividends paid. At December 31, 2015, 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 on a 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 December 31, 2015 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	
	December 31, 2015	September 30, 2015
	(Dollars in Thousands)	
<u>Non-Performing Loans</u>		
Non-Accruing Loans:		
1-4 Family Real Estate	\$23	\$ 24
Commercial & Multi Family Real Estate	897	904
Agricultural Operating	4,832	5,132
Total <sup>(1)</sup>	5,752	6,060
Accruing Loans Delinquent 90 Days or More		
Consumer	26	13
Premium Finance	856	1,728
Total	882	1,741
Total Non-Performing Loans	6,634	7,801
<u>Other Assets</u>		
Total Other Assets	-	-
Total Non-Performing Assets	\$6,634	\$ 7,801
Total as a Percentage of Total Assets	0.22 %	0.31 %

---

The Company had no non-performing TDRs as of December 31, 2015 and September 30, 2015. In addition, the (1) Company had \$0.5 million and \$0.6 million of performing TDRs in accordance with their terms at December 31, 2015 and September 30, 2015, respectively.

At December 31, 2015, non-performing loans totaled \$6.6 million, representing 0.89% of total loans, compared to \$7.8 million, or 1.09% of total loans at September 30, 2015.

**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 December 31, 2015, the Company had classified a total of \$7.6 million of its assets as substandard and \$2.5 million as doubtful or loss. This compares to classifications at September 30, 2015 of \$11.9 million as substandard and none as doubtful or loss. See Note 3 to the Condensed Consolidated Financial Statements.

**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. All of the Bank's four market areas have indirectly benefitted from a stable agricultural market. 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 December 31, 2015, the Company had established an allowance for loan losses totaling \$6.7 million, compared to \$6.3 million at September 30, 2015, with the increase due to an increase in the provision for loan losses of \$0.7 million, primarily due to loan growth and net charge offs of \$0.4 million for the three month period ended December 31, 2015. 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 December 31, 2015 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.

43

---

## Table of Contents

**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 December 31, 2015 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.

**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.

## Table of Contents

**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.

**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 \$4.1 million, or 49 cents per diluted share, for the three months ended December 31, 2015, compared to net income of \$3.6 million, or 58 cents per diluted share, for the same period in fiscal year 2015. The increase in net income was primarily due to an increase of \$4.1 million in non-interest income and an increase of \$4.0 million in net interest income, offset by an increase of \$7.6 million in non-interest expense.

**Net Interest Income.** Net interest income for the fiscal 2016 first quarter increased by \$4.0 million, or 29%, to \$17.6 million from \$13.6 million for the same period in the prior fiscal year primarily due to growth in loans receivable, contributing to increased loan interest income. Additionally, the overall increase was driven by higher volumes and yields attained from other investments, primarily high credit quality tax-exempt municipal bonds. Overall growth in interest-earning assets continues to be facilitated by the continued expansion of MPS deposits. Also, interest expense increased slightly from the comparable 2015 quarter. Net Interest Margin ("NIM") increased from 3.00% in the fiscal 2015 first quarter to 3.21% in the fiscal 2016 first quarter. This substantial expansion in NIM relates to a better mix of interest-earning assets, where loan volume and high credit quality, purchases of tax-exempt municipal securities continued to increase while the allocation to government-related MBS continued to shrink on a percentage basis.

NIM expanded from 3.09% in the Company's fourth quarter ended September 30, 2015, to 3.21% in the first quarter ended December 31, 2015, partially due to a tailwind effect of security portfolio restructurings executed in the fiscal 2015 fourth quarter; During this quarter, the Company increased book yield immediately, choosing to forego only a small portion of potential yield increases should longer -term rates rise.

Table of Contents

Overall, when using a taxable equivalent yield (“TEY”), the Company’s interest earning asset yield increased by 20 basis points in the fiscal 2016 first quarter, compared to the fiscal 2015 first quarter, primarily driven by improved earning asset mix, including a 38% increase in average balances within the loan portfolio, and increased yields and volume achieved in other investments, particularly the substantial increase in tax-exempt municipal securities. The yield achieved on this 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 yield on non-MBS investment securities increased by 22 basis points on a TEY basis. The yield on government-related MBS decreased two basis points. Average quarterly TEY on the securities portfolio increased by 21 basis points in the first quarter of fiscal 2016 compared to the same quarter of the prior year driven by larger volume and yields achieved in non-MBS, particularly the high credit quality, tax-exempt securities. Net interest margin also was positively impacted by a two basis point decrease in the total cost of funds. This decrease was primarily due to increasing MPS deposits. The Company’s average interest-earning assets for the fiscal 2016 first quarter grew by \$490.4 million, or 24%, to \$2.52 billion, up from \$2.03 billion during the same quarter last fiscal year.

The Company’s average total deposits and interest-bearing liabilities for the 2016 first fiscal quarter increased \$462.7 million, or 24%, to \$2.38 billion from \$1.92 billion for the same quarter last year. This increase was generated primarily from an increase in MPS-related non-interest bearing deposits and short-term borrowings, slightly offset by a decrease in time deposits. MPS average quarterly deposits for the 2016 first fiscal quarter increased \$351.3 million, or 25%, 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 first fiscal quarter increased \$151.0 million from the same period last year. Overall, rates on all deposits and interest-bearing liabilities decreased by two basis points from 0.14% in the 2015 first fiscal quarter to 0.12% in the 2016 period. At December 31, 2015, low-cost checking deposits represented 95% of total deposits compared to 93% one year earlier.

Table of Contents

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.

Three Months Ended December 31, (Dollars in Thousands)	2015			2014		
	Average	Interest	Yield	Average	Interest	Yield
	Outstanding Balance	Earned / Paid	/ Rate	Outstanding Balance	Earned / Paid	/ Rate
<b>Interest-earning assets:</b>						
Loans receivable	\$734,784	\$8,319	4.50 %	\$533,307	\$6,396	4.76 %
Mortgage-backed securities	679,094	3,713	2.18 %	689,430	3,824	2.20 %
Other investments and fed funds sold	1,104,953	6,243	3.25 %	805,699	4,012	2.80 %
Total interest-earning assets	2,518,831	\$18,275	3.33 %	2,028,436	\$14,232	3.13 %
Non-interest-earning assets	167,880			85,230		
Total assets	\$2,686,711			\$2,113,666		
Non-interest bearing deposits	\$1,757,603	\$-	0.00 %	\$1,415,707	\$-	0.00 %
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking	34,537	21	0.24 %	35,833	22	0.24 %
Savings	45,599	6	0.05 %	27,666	15	0.22 %
Money markets	44,846	18	0.16 %	40,005	16	0.16 %
Time deposits	85,656	118	0.55 %	126,508	179	0.56 %
FHLB advances	117,870	206	0.69 %	7,000	125	7.08 %
Overnight fed funds purchased	278,924	238	0.34 %	238,753	181	0.30 %
Other borrowings	13,547	113	3.32 %	24,397	123	2.00 %
Total interest-bearing liabilities	620,979	720	0.46 %	500,162	661	0.52 %
Total deposits and interest-bearing liabilities	2,378,582	\$720	0.12 %	1,915,869	\$661	0.14 %
Other non-interest bearing liabilities	33,341			18,838		
Total liabilities	2,411,923			1,934,707		
Stockholders' equity	274,788			178,959		
Total liabilities and stockholders' equity	\$2,686,711			\$2,113,666		
Net interest income and net interest rate spread including non-interest bearing deposits		\$17,555	3.21 %		\$13,571	2.99 %
Net interest margin			3.21 %			3.00 %

Table of Contents

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 December 31, (Dollars in Thousands)	2015			2014		
	Average	Interest	Yield	Average	Interest	Yield
	Outstanding / Balance	Earned / Paid	/ Rate	Outstanding / Balance	Earned / Paid	/ Rate
Securities Portfolio Assets						
Mortgage-backed securities	\$679,094	\$3,713	2.18 %	\$689,430	\$3,824	2.20 %
*Other investments	1,043,643	6,064	3.38 %	708,722	3,883	3.16 %
Total Securities Portfolio Assets	\$1,722,737	\$9,777	2.90 %	\$1,398,152	\$7,707	2.69 %
*Excludes FHLB Stock						

(1) Tax rate used to arrive at a TEY for the three months ended December 2015 is 34%

(2) Tax rate used to arrive at a TEY for the three months ended December 2014 is 34%

**Provision for Loan Losses.** The Company recorded a \$0.8 million provision for loan losses in the three month period ended December 31, 2015, as compared to a \$48,000 provision for the same period of fiscal year 2015. The current period provision was primarily due to loan growth and a premium finance loan charge off. See Note 4 to the Condensed Consolidated Financial Statements.

**Non-Interest Income.** Non-interest income for the fiscal 2016 first quarter increased by \$4.1 million, or 33%, to \$16.8 million from \$12.7 million for the same period in the prior fiscal year. The change was mainly due to an increase of \$2.2 million in card fee income from new and existing business partners and a prior period loss on sale of securities available for sale of \$1.3 million. Fees earned on payments related programs increased to \$15.3 million for the first quarter of fiscal year 2016, compared to \$13.1 million for the same period in fiscal year 2015.

**Non-Interest Expense.** Non-interest expense increased \$7.6 million, or 34%, to \$30.0 million, for the first quarter of fiscal year 2016, as compared to \$22.4 million for the same period in fiscal year 2015.

Compensation expense increased \$4.1 million, or 39%, to \$14.6 million for the three months ended December 31, 2015, as compared to \$10.5 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. There was one large processor conversion in the quarter related to a new program manager that also impacted expenses. The Company expects the percentage increase in compensation expense to decline later in fiscal 2016 and in fiscal 2017, excluding compensation increases related to potential acquisitions.

Other expense increased \$2.1 million for the three months ended December 31, 2015, with \$1.1 million relating to amortization of intangibles and \$0.3 million in regulatory expenses primarily relating to an increase in FDIC insurance due to brokered deposit classification guidance and higher deposit balances.

**Income Tax.** Income tax benefit for the first quarter of fiscal year 2016 was \$0.5 million, or an effective tax rate of (12.9%), compared to income tax expense of \$0.2 million, or an effective tax rate of 5.0%, for the same period in the prior fiscal year. The decrease in the effective tax rate is mainly due to an increase in tax-exempt income compared to pre-tax book income, highlighting one of the benefits of the growing tax-exempt municipal portfolio. Meta anticipates an increased effective tax rate beginning in the second quarter of fiscal 2016 due to increased taxable income the remainder of the fiscal year.





Table of Contents

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 December 31, 2015, the Company had commitments to originate and purchase loans and unused lines of credit totaling \$132.3 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 new 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 December 31, 2015, 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.



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 will be 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. If the capital conservation buffer were in effect at December 31, 2015, the Company and Bank would exceed the requirement.

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.

Table of Contents

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 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.



Table of Contents

## 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.

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 outside policy limits for the -100 scenario while within Board policy limits for all rising rate scenarios using the snapshot as of December 31, 2015, as required by regulation. The table below shows the results of the scenarios as of December 31, 2015:

## Net Sensitive Earnings at Risk

Net Sensitive Earnings at Risk					
Balances as of December 31, 2015	Standard (Parallel Shift) Year 1				
	Net Interest Income at Risk%				
	-100	+100	+200	+300	+400
Basis Point Change Scenario	-9.8 %	8.9 %	15.7 %	22.3 %	28.7 %
Board Policy Limits	-5.0 %	-5.0 %	-10.0%	-15.0%	-20.0%

The EAR analysis reported at December 31, 2015 shows that in an increasing interest rate environment, more assets than liabilities will reprice over the modeled one-year period.

Table of Contents

IRR is a snapshot in time. The Company's business and deposits are very predictable and cyclical on a weekly, monthly, and yearly basis. For example, yearly cyclicity is related to the Company dollar cost averaging its investment security purchases into its sizable deposit growth period related to both Christmas and income tax season. Doing so increases the overall average level of borrowings over the short term which are paid down as these large deposit inflows are realized. 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. First, static IRR was positively affected because fiscal first quarter 2016 ended on a Thursday, which, due to payroll processing and certain other programs, tends to necessitate a lower than average amount of overnight federal funds purchased. Second, certain government programs were prefunded on December 24, and 28, of 2015, and the corresponding deposits were received on December 31, rather than the 1<sup>st</sup> of the following month as is typically the case. Although this timing difference allowed program participants to spend the prefunded amounts, static IRR was not impacted as the corresponding deposits were received by the end of the month. 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.

For management to better understand the IRR position of the Bank, an alternative IRR run was completed in which all December 31, 2015 values were utilized with the exception of overnight borrowings, non-interest bearing deposits, cash due from banks, and non-earning assets. To eliminate potential timing issues documented above, quarterly average balances were utilized for overnight borrowings, non-interest bearing deposits, and cash due from banks. Management feels this view on IRR, while still subject to some yearly cyclicity, 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 removed. However, the alternative EAR results are somewhat subject to yearly cyclicity in the fiscal first quarter. The Company, during the first quarter, began dollar cost averaging its investment security purchases into its sizable deposit growth period related to both Christmas and income tax season. Doing so serves two main purposes. First, it extends the time period during which the Company is making sizable investment security purchases and enhances its ability to take advantage of potential opportunities in the market, while reducing the potential of being forced to put money to work during a time period where yields and returns may be temporarily depressed due to outside forces. Secondly, it enhances the earnings stream throughout the quarter as the Company adds to its interest earning asset base. However, making these investments before the predictable, cyclical Christmas and tax related deposits arrive can cause a temporary increase in quarterly average borrowings until the deposits arrive in the fiscal second quarter.

The Company would be within policy limits in all rising rate scenarios but slightly 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	-6.6 %	1.4 %	0.7 %	-0.3 %	-1.6 %
Board Policy Limits	-5.0 %	-5.0 %	-10.0 %	-15.0 %	-20.0 %



The Company anticipates improved alternative IRR results in the second fiscal quarter as the Company receives its predictable, cyclical tax related deposits, thereby lowering its average borrowings and increasing its average non-interest bearing deposit base. The Company also anticipates improved IRR results as it continues the integration of AFS/IBEX, the addition of ClearBalance loans, and the continuation of execution on its strategic plan, particularly in a rising interest rate environment.

53

---

Table of Contents

## Net Sensitive Earnings at Risk as of December 31, 2015

Balances as of December 31, 2015

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	712,775	27.5 %	35,203	37,137	39,189	41,276	43,352	45,478
Total Investments (non-TEY) and other Earning Assets	1,879,080	72.5 %	32,501	38,238	44,148	48,476	52,690	56,717
Total Interest -Sensitive Income	2,591,855	100.0 %	67,704	75,375	83,337	89,752	96,042	102,195
Total Interest-Bearing Deposits	2,569,043	97.8 %	429	595	1,458	2,319	3,181	4,043
Total Borrowings	59,007	2.2 %	491	709	1,229	1,749	2,269	2,789
Total Interest-Sensitive Expense	2,628,050	100.0 %	920	1,304	2,687	4,068	5,450	6,832

## 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	712,775	30.0 %	35,203	37,137	39,189	41,276	43,352	45,478
Total Investments (non-TEY) and other Earning Assets	1,664,571	70.0 %	32,501	37,700	41,435	43,555	45,525	47,277
Total Interest -Sensitive Income	2,377,346	100.0 %	67,704	74,837	80,624	84,831	88,877	92,755
Total Interest-Bearing Deposits	1,962,992	83.1 %	428	595	1,445	2,294	3,144	3,994
Total Borrowings	398,746	16.9 %	790	3,046	6,954	10,862	14,771	18,679
Total Interest-Sensitive Expense	2,361,738	100.0 %	1,218	3,641	8,399	13,156	17,915	22,673

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 on the same 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.

54

---

Table of Contents

The Company is within Board policy limits for all scenarios. The table below shows the results of the scenarios as of December 31, 2015:

## Economic Value Sensitivity as of December 31, 2015

Balances as of December 31, 2015	Standard (Parallel Shift)				
	Economic Value of Equity at Risk%				
	-100	+100	+200	+300	+400
Basis Point Change Scenario	-6.2 %	2.6 %	3.7 %	3.9 %	3.9 %
Board Policy Limits	-10.0 %	-10.0 %	-20.0 %	-30.0 %	-40.0 %

The EVE at risk reported at December 31, 2015, shows that as interest rates increase immediately, the economic value of equity position will increase from the base.

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	-2.0 %	-1.7 %	-4.8 %	-8.6 %	-12.3 %
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 decrease, partially due to the size of the assets in relation to liabilities. The results also suffered from the cyclical issues noted above due to the dollar cost averaging of purchases and the corresponding higher quarterly average borrowing. Improved results are anticipated as the Company receives the corresponding tax related non-interest bearing deposits.

## Detailed Economic Value Sensitivity as of December 31, 2015

The following table details the economic value sensitivity to changes in market interest rates at December 31, 2015, for loans, investments, deposits, borrowings, and other assets and liabilities (dollars in thousands). The analysis reflects that in all rising 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.

Table of Contents

Balances as of December 31, 2015

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	712,775	24 %	1.8 %	-1.9 %	-3.9 %	-5.8 %	-7.6 %
Total Investment	1,879,080	63 %	3.6 %	-4.1 %	-8.3 %	-12.4 %	-16.2 %
Other Assets	367,646	12 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Assets	2,959,501	100 %	2.9 %	-3.3 %	-6.7 %	-10.0 %	-13.0 %
Interest Bearing Deposits	208,640	8 %	3.2 %	-1.9 %	-3.6 %	-5.2 %	-18.0 %
Non-Interest Bearing Deposits	2,360,403	88 %	6.4 %	-5.9 %	-11.3 %	-16.2 %	-20.7 %
Total Borrowings & Other Liabilities	117,022	4 %	0.2 %	-0.2 %	-0.5 %	-0.7 %	-0.9 %
Liabilities	2,686,065	100 %	5.8 %	-5.2 %	-10.0 %	-14.4 %	-18.4 %

## 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 rising interest rate scenarios, total assets are less sensitive, than total liabilities.

## 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	712,775	24 %	1.8 %	-1.9 %	-3.9 %	-5.8 %	-7.6 %
Total Investment	1,664,571	56 %	4.0 %	-4.6 %	-9.3 %	-13.8 %	-18.1 %
Other Assets	582,154	20 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Assets	2,959,500	100 %	2.9 %	-3.3 %	-6.7 %	-10.0 %	-13.0 %
Interest Bearing Deposits	204,550	8 %	3.1 %	-1.8 %	-3.5 %	-5.1 %	-16.8 %
Non-Interest Bearing Deposits	1,758,441	65 %	6.5 %	-5.9 %	-11.3 %	-16.2 %	-20.7 %
Total Borrowings & Other Liabilities	723,074	27 %	0.0 %	0.0 %	-0.1 %	-0.1 %	-0.2 %
Liabilities	2,686,065	100 %	4.2 %	-3.8 %	-7.2 %	-10.3 %	-13.2 %

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.



Table of Contents

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 December 31, 2015, 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.

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 December 31, 2015, 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.

Table of Contents

META FINANCIAL GROUP, INC.  
PART II - OTHER INFORMATION

FORM 10-Q

Item Legal Proceedings. – See “Legal Proceedings” of Note 7 to the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 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. 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.

As disclosed under Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview of Corporate Developments, During the quarter ended December 31, 2015, Meta issued shares of its common stock to institutional investors in private placement transactions in reliance upon Section 4(a)(2) of the Securities Act of 1933, as amended (the “1933 Act”), and Rule 506 of Regulation D as promulgated by the SEC under the 1933 Act. Meta previously disclosed the closing of the private placement transactions in its Current Report on Form 8-K filed with the SEC on December 17, 2015.

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.



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: February 4, 2016 By: /s/ J. Tyler Haahr  
J. Tyler Haahr, Chairman of the Board  
and Chief Executive Officer

Date: February 4, 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	Securities Purchase Agreement by and between Meta Financial Group, Inc. and Nantahala Capital Partners SI, LP, dated as of December 7, 2015 (incorporated by reference to Exhibit 10.1 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on December 8, 2015).
10.2	Registration Rights Agreement by and between Meta Financial Group, Inc. and Nantahala Capital Partners SI, LP, dated as of December 17, 2015 (incorporated by reference to Exhibit 10.2 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on December 17, 2015).
10.3	Registration Rights Agreement by and among Meta Financial Group, Inc. and BEP IV LLC and BEP Investors LLC, dated as of December 17, 2015 (incorporated by reference to Exhibit 10.1 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on December 17, 2015).
10.4	Investor Rights Agreement by and among Meta Financial Group, Inc. and BEP IV LLC and BEP Investors LLC, dated as of December 17, 2015 (incorporated by reference to Exhibit 10.3 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on December 17, 2015).
<u>31.1</u>	Section 302 certification of Chief Executive Officer.
<u>31.2</u>	Section 302 certification of Chief Financial Officer.
<u>32.1</u>	Section 906 certification of Chief Executive Officer.
<u>32.2</u>	Section 906 certification of Chief Financial Officer.
101.INS	Instance Document
101.SCHXBRL	Taxonomy Extension Schema Document
101.CALXBRL	Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document
101.LABXBRL	Taxonomy Extension Label Linkbase Document
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document

---