

META FINANCIAL GROUP INC  
Form 10-Q  
August 05, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-22140

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

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

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

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

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

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

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

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

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

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

| Class:                        | Outstanding at August 3, 2015: |
|-------------------------------|--------------------------------|
| Common Stock, \$.01 par value | 6,948,391 Common Shares        |

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META FINANCIAL GROUP, INC.  
FORM 10-Q

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

META FINANCIAL GROUP, INC.  
AND SUBSIDIARIES

## Condensed Consolidated Statements of Financial Condition (Unaudited)

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

|                                                                                                                   | June 30,<br>2015 | September<br>30, 2014 |
|-------------------------------------------------------------------------------------------------------------------|------------------|-----------------------|
| <b>ASSETS</b>                                                                                                     |                  |                       |
| Cash and cash equivalents                                                                                         | \$20,405         | \$29,832              |
| Investment securities available for sale                                                                          | 562,810          | 482,346               |
| Mortgage-backed securities available for sale                                                                     | 596,976          | 657,870               |
| Investment securities held to maturity                                                                            | 262,578          | 212,899               |
| Mortgage-backed securities held to maturity                                                                       | 69,057           | 70,034                |
| Loans receivable - net of allowance for loan losses of \$6,232 at June 30, 2015 and \$5,397 at September 30, 2014 | 651,530          | 493,007               |
| Federal Home Loan Bank Stock, at cost                                                                             | 23,850           | 21,245                |
| Accrued interest receivable                                                                                       | 14,235           | 11,222                |
| Insurance receivable                                                                                              | 414              | 269                   |
| Premises, furniture, and equipment, net                                                                           | 17,420           | 16,462                |
| Bank-owned life insurance                                                                                         | 46,322           | 35,469                |
| Foreclosed real estate and repossessed assets                                                                     | 54               | 15                    |
| Goodwill                                                                                                          | 11,578           | -                     |
| Intangible assets                                                                                                 | 10,093           | 2,588                 |
| Prepaid assets                                                                                                    | 7,712            | 9,495                 |
| Deferred taxes                                                                                                    | 10,060           | 6,591                 |
| MPS accounts receivable                                                                                           | 4,822            | 3,935                 |
| Other assets                                                                                                      | 67               | 752                   |
| Total assets                                                                                                      | \$2,309,983      | \$2,054,031           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                       |                  |                       |
| <b>LIABILITIES</b>                                                                                                |                  |                       |
| Non-interest-bearing checking                                                                                     | \$1,321,213      | \$1,126,715           |
| Interest-bearing checking                                                                                         | 37,832           | 37,188                |
| Savings deposits                                                                                                  | 36,481           | 27,610                |
| Money market deposits                                                                                             | 38,718           | 40,475                |
| Time certificates of deposit                                                                                      | 78,963           | 134,553               |
| Total deposits                                                                                                    | 1,513,207        | 1,366,541             |
| Advances from Federal Home Loan Bank                                                                              | 7,000            | 7,000                 |
| Federal funds purchased                                                                                           | 526,000          | 470,000               |
| Securities sold under agreements to repurchase                                                                    | 13,278           | 10,411                |
| Subordinated debentures                                                                                           | 10,310           | 10,310                |
| Accrued interest payable                                                                                          | 279              | 318                   |
| Contingent liability                                                                                              | 331              | 331                   |
| Accrued expenses and other liabilities                                                                            | 30,308           | 14,318                |

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|                                                                                                                                                                                                      |             |             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Total liabilities                                                                                                                                                                                    | 2,100,713   | 1,879,229   |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                                                                          |             |             |
| Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at June 30, 2015 and September 30, 2014, respectively                                                                  | -           | -           |
| Common stock, \$.01 par value; 10,000,000 shares authorized, 6,966,700 and 6,213,979 shares issued, 6,946,450 and 6,169,604 shares outstanding at June 30, 2015 and September 30, 2014, respectively | 70          | 62          |
| Additional paid-in capital                                                                                                                                                                           | 120,273     | 95,079      |
| Retained earnings                                                                                                                                                                                    | 94,625      | 83,797      |
| Accumulated other comprehensive income (loss)                                                                                                                                                        | (5,388 )    | (3,409 )    |
| Treasury stock, 20,250 and 44,375 common shares, at cost, at June 30, 2015 and September 30, 2014, respectively                                                                                      | (310 )      | (727 )      |
| Total stockholders' equity                                                                                                                                                                           | 209,270     | 174,802     |
| Total liabilities and stockholders' equity                                                                                                                                                           | \$2,309,983 | \$2,054,031 |

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

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

|                                                                                                                                                                                                                                                                   | Three Months<br>Ended<br>June 30, |         | Nine Months<br>Ended<br>June 30, |          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|---------|----------------------------------|----------|
|                                                                                                                                                                                                                                                                   | 2015                              | 2014    | 2015                             | 2014     |
| Interest and dividend income:                                                                                                                                                                                                                                     |                                   |         |                                  |          |
| Loans receivable, including fees                                                                                                                                                                                                                                  | \$7,528                           | \$5,062 | \$21,561                         | \$14,283 |
| Mortgage-backed securities                                                                                                                                                                                                                                        | 3,055                             | 3,898   | 10,798                           | 11,506   |
| Other investments                                                                                                                                                                                                                                                 | 4,671                             | 3,606   | 12,885                           | 10,001   |
|                                                                                                                                                                                                                                                                   | 15,254                            | 12,566  | 45,244                           | 35,790   |
| Interest expense:                                                                                                                                                                                                                                                 |                                   |         |                                  |          |
| Deposits                                                                                                                                                                                                                                                          | 159                               | 232     | 563                              | 726      |
| FHLB advances and other borrowings                                                                                                                                                                                                                                | 434                               | 406     | 1,164                            | 1,105    |
|                                                                                                                                                                                                                                                                   | 593                               | 638     | 1,727                            | 1,831    |
| Net interest income                                                                                                                                                                                                                                               | 14,661                            | 11,928  | 43,517                           | 33,959   |
| Provision (recovery) for loan losses                                                                                                                                                                                                                              | 700                               | 300     | 1,341                            | 600      |
| Net interest income after provision for loan losses                                                                                                                                                                                                               | 13,961                            | 11,628  | 42,176                           | 33,359   |
| Non-interest income:                                                                                                                                                                                                                                              |                                   |         |                                  |          |
| Card fees                                                                                                                                                                                                                                                         | 13,854                            | 11,805  | 40,607                           | 36,753   |
| Bank-owned life insurance                                                                                                                                                                                                                                         | 702                               | 283     | 1,267                            | 853      |
| Loan fees                                                                                                                                                                                                                                                         | 632                               | 183     | 1,759                            | 828      |
| Deposit fees                                                                                                                                                                                                                                                      | 151                               | 159     | 448                              | 456      |
| Gain (loss) on sale of securities available for sale, net (Includes \$51 and (\$1,191) reclassified from accumulated other comprehensive income (loss) for net gains (losses) on available for sale securities for the three and nine months ended June 30, 2015) | 51                                | -       | (1,191 )                         | 97       |
| Gain (loss) on foreclosed real estate                                                                                                                                                                                                                             | 1                                 | 1       | 29                               | 6        |
| Other income                                                                                                                                                                                                                                                      | 33                                | 50      | 149                              | 138      |
| Total non-interest income                                                                                                                                                                                                                                         | 15,424                            | 12,481  | 43,068                           | 39,131   |
| Non-interest expense:                                                                                                                                                                                                                                             |                                   |         |                                  |          |
| Compensation and benefits                                                                                                                                                                                                                                         | 12,126                            | 9,318   | 34,324                           | 28,288   |
| Card processing                                                                                                                                                                                                                                                   | 3,868                             | 3,850   | 12,374                           | 11,668   |
| Occupancy and equipment                                                                                                                                                                                                                                           | 2,866                             | 2,309   | 8,304                            | 6,858    |
| Legal and consulting                                                                                                                                                                                                                                              | 1,116                             | 540     | 3,333                            | 2,706    |
| Data processing                                                                                                                                                                                                                                                   | 323                               | 320     | 1,002                            | 992      |
| Marketing                                                                                                                                                                                                                                                         | 417                               | 267     | 1,063                            | 700      |
| Other expense                                                                                                                                                                                                                                                     | 3,757                             | 2,233   | 9,905                            | 6,429    |
| Total non-interest expense                                                                                                                                                                                                                                        | 24,473                            | 18,837  | 70,305                           | 57,641   |

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|                                                                                                                                                                                               |         |         |          |          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|----------|----------|
| Income before income tax expense                                                                                                                                                              | 4,912   | 5,272   | 14,939   | 14,849   |
| Income tax expense (Includes \$19 and (\$433) income tax expense (benefit) reclassified from accumulated other comprehensive income (loss) for the three and nine months ended June 30, 2015) | 272     | 1,068   | 1,523    | 2,500    |
| Net income                                                                                                                                                                                    | \$4,640 | \$4,204 | \$13,416 | \$12,349 |
| Earnings per common share:                                                                                                                                                                    |         |         |          |          |
| Basic                                                                                                                                                                                         | \$0.67  | \$0.69  | \$2.05   | \$2.02   |
| Diluted                                                                                                                                                                                       | \$0.66  | \$0.68  | \$2.03   | \$1.99   |

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

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

(Dollars in Thousands)

|                                                    | Three Months<br>Ended<br>June 30, |          | Nine Months<br>Ended<br>June 30, |          |
|----------------------------------------------------|-----------------------------------|----------|----------------------------------|----------|
|                                                    | 2015                              | 2014     | 2015                             | 2014     |
| Net income                                         | \$4,640                           | \$4,204  | \$13,416                         | \$12,349 |
| Other comprehensive income (loss):                 |                                   |          |                                  |          |
| Change in net unrealized gain (loss) on securities | (16,660)                          | 15,837   | (4,208 )                         | 23,581   |
| Losses (gains) realized in net income              | (51 )                             | -        | 1,191                            | (97 )    |
|                                                    | (16,711)                          | 15,837   | (3,017 )                         | 23,484   |
| Deferred income tax effect                         | (6,062 )                          | 5,769    | (1,038 )                         | 8,616    |
| Total other comprehensive income (loss)            | (10,649)                          | 10,068   | (1,979 )                         | 14,868   |
| Total comprehensive income (loss)                  | \$(6,009 )                        | \$14,272 | \$11,437                         | \$27,217 |

See Notes to Condensed Consolidated Financial Statements.



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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

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

For the Nine Months Ended June 30, 2015 and 2014

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

|                                                                                    | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|------------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------------------|-------------------|----------------------------------|
| Balance, September 30, 2013                                                        | \$ 61           | \$ 92,963                        | \$ 71,268            | \$ (20,285 )                                              | \$ (1,023 )       | \$ 142,984                       |
| Cash dividends declared on common stock<br>(\$0.26 per share)                      | -               | -                                | (2,386 )             | -                                                         | -                 | (2,386 )                         |
| Issuance of common shares from the sales of<br>equity securities                   | 1               | (52 )                            | -                    | -                                                         | -                 | (51 )                            |
| Issuance of common shares due to issuance<br>of stock options and restricted stock | -               | 1,026                            | -                    | -                                                         | 296               | 1,322                            |
| Stock compensation                                                                 | -               | 132                              | -                    | -                                                         | -                 | 132                              |
| Net change in unrealized losses on<br>securities, net of income taxes              | -               | -                                | -                    | 14,868                                                    | -                 | 14,868                           |
| Net income                                                                         | -               | -                                | 12,349               | -                                                         | -                 | 12,349                           |
| Balance, June 30, 2014                                                             | \$ 62           | \$ 94,069                        | \$ 81,231            | \$ (5,417 )                                               | \$ (727 )         | \$ 169,218                       |
| Balance, September 30, 2014                                                        | \$ 62           | \$ 95,079                        | \$ 83,797            | \$ (3,409 )                                               | \$ (727 )         | \$ 174,802                       |
| Cash dividends declared on common stock<br>(\$0.26 per share)                      | -               | -                                | (2,588 )             | -                                                         | -                 | (2,588 )                         |
| Issuance of common shares from the sales of<br>equity securities                   | 8               | 24,987                           | -                    | -                                                         | 417               | 25,412                           |
| Issuance of common shares due to issuance<br>of stock options and restricted stock | -               | 207                              | -                    | -                                                         | -                 | 207                              |
| Net change in unrealized losses on<br>securities, net of income taxes              | -               | -                                | -                    | (1,979 )                                                  | -                 | (1,979 )                         |
| Net income                                                                         | -               | -                                | 13,416               | -                                                         | -                 | 13,416                           |
| Balance, June 30, 2015                                                             | \$ 70           | \$ 120,273                       | \$ 94,625            | \$ (5,388 )                                               | \$ (310 )         | \$ 209,270                       |

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

|                                                                                             | Nine Months Ended<br>June 30, |           |
|---------------------------------------------------------------------------------------------|-------------------------------|-----------|
|                                                                                             | 2015                          | 2014      |
| Cash flows from operating activities:                                                       |                               |           |
| Net income                                                                                  | \$13,416                      | \$12,349  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                               |           |
| Depreciation, amortization and accretion, net                                               | 19,674                        | 13,580    |
| Provision (recovery) for loan losses                                                        | 1,341                         | 600       |
| Provision (recovery) for deferred taxes                                                     | (2,424 )                      | (1,675 )  |
| (Gain) loss on other assets                                                                 | (647 )                        | (39 )     |
| (Gain) loss on sale of securities available for sale, net                                   | 1,191                         | (97 )     |
| Capital lease interest expense                                                              | (99 )                         | -         |
| Net change in accrued interest receivable                                                   | (3,013 )                      | (2,286 )  |
| Net change in other assets                                                                  | 1,391                         | (490 )    |
| Net change in accrued interest payable                                                      | (39 )                         | 8         |
| Net change in accrued expenses and other liabilities                                        | 11,714                        | 4,994     |
| Net cash provided by (used in) operating activities                                         | 42,505                        | 26,944    |
| Cash flows from investing activities:                                                       |                               |           |
| Purchase of securities available for sale                                                   | (591,786)                     | (267,616) |
| Proceeds from sales of securities available for sale                                        | 463,108                       | 68,167    |
| Proceeds from maturities and principal repayments of securities available for sale          | 90,786                        | 60,031    |
| Purchase of securities held to maturity                                                     | (57,949 )                     | (10,684 ) |
| Proceeds from maturities and principal repayments of securities held to maturity            | 7,240                         | 14,858    |
| Purchase of bank owned life insurance                                                       | (10,000 )                     | (500 )    |
| Loans purchased                                                                             | -                             | (1,816 )  |
| Loans sold                                                                                  | 5,496                         | -         |
| Net change in loans receivable                                                              | (91,294 )                     | (90,296 ) |
| Proceeds from sales of foreclosed real estate                                               | 34                            | -         |
| Net cash paid for acquisition                                                               | (92,308 )                     | -         |
| Federal Home Loan Bank stock purchases                                                      | (371,364)                     | (311,171) |
| Federal Home Loan Bank stock redemptions                                                    | 368,760                       | 304,320   |
| Proceeds from the sale of premises and equipment                                            | 2,100                         | 1,169     |
| Purchase of premises and equipment                                                          | (3,231 )                      | (1,733 )  |
| Net cash provided by (used in) investing activities                                         | (280,408)                     | (235,271) |
| Cash flows from financing activities:                                                       |                               |           |
| Net change in checking, savings, and money market deposits                                  | 202,256                       | 45,294    |
| Net change in time deposits                                                                 | (55,590 )                     | (14,518 ) |
| Net proceeds from federal funds purchased                                                   | 56,000                        | 170,000   |
| Net change in securities sold under agreements to repurchase                                | 2,867                         | (668 )    |
| Capital lease amortization                                                                  | (88 )                         | -         |
| Cash dividends paid                                                                         | (2,588 )                      | (2,386 )  |
| Stock compensation                                                                          | -                             | 132       |

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|                                                                    |          |          |
|--------------------------------------------------------------------|----------|----------|
| Proceeds from issuance of common stock                             | 25,619   | 1,271    |
| Net cash provided by (used in) financing activities                | 228,476  | 199,125  |
| Net change in cash and cash equivalents                            | (9,427 ) | (9,202 ) |
| Cash and cash equivalents at beginning of period                   | 29,832   | 40,063   |
| Cash and cash equivalents at end of period                         | \$20,405 | \$30,861 |
| Supplemental disclosure of cash flow information                   |          |          |
| Cash paid during the period for:                                   |          |          |
| Interest                                                           | \$1,767  | \$1,824  |
| Income taxes                                                       | 4,002    | 3,262    |
| Franchise taxes                                                    | 78       | -        |
| Other taxes                                                        | 47       | -        |
| Supplemental schedule of non-cash investing activities:            |          |          |
| Securities transferred from available for sale to held to maturity | \$310    | \$-      |
| Sale leaseback                                                     | 2,259    | -        |

See Notes to Condensed Consolidated Financial Statements.

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NOTE 1. BASIS OF PRESENTATION

The interim unaudited Condensed Consolidated Financial Statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2014 included in Meta Financial Group, Inc.'s ("Meta Financial" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on December 12, 2014. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

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

NOTE 2. ACQUISITION

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

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

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

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

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

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

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

## NOTE 3. CREDIT DISCLOSURES

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

loan situations, the entire allowance is available for any loan charge-offs that occur.

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

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

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

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

|                                         | June 30,<br>2015          | September<br>30, 2014 |
|-----------------------------------------|---------------------------|-----------------------|
|                                         | (Dollars in<br>Thousands) |                       |
| 1-4 Family Real Estate                  | \$118,716                 | \$116,395             |
| Commercial and Multi-Family Real Estate | 278,910                   | 224,302               |
| Agricultural Real Estate                | 64,173                    | 56,071                |
| Consumer                                | 32,968                    | 29,329                |
| Commercial Operating                    | 30,004                    | 30,846                |
| Agricultural Operating                  | 41,511                    | 42,258                |
| Premium Finance                         | 91,740                    | -                     |
| Total Loans Receivable                  | 658,022                   | 499,201               |
| Less:                                   |                           |                       |
| Allowance for Loan Losses               | (6,232 )                  | (5,397 )              |
| Net Deferred Loan Origination Fees      | (260 )                    | (797 )                |
| Total Loans Receivable, Net             | \$651,530                 | \$493,007             |



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Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three and nine month periods ended June 30, 2015 and 2014 is as follows:

|                                                                   | 1-4<br>Family<br>Real<br>Estate | Commercial<br>and<br>Multi-Family<br>Real<br>Estate | Agricultural<br>Real<br>Estate | Consumer | Commercial<br>Operating | Agricultural<br>Operating | Premium<br>Finance | Unallocated | Total   |
|-------------------------------------------------------------------|---------------------------------|-----------------------------------------------------|--------------------------------|----------|-------------------------|---------------------------|--------------------|-------------|---------|
| (Dollars in Thousands)                                            |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Three Months<br>Ended June 30,<br>2015                            |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Allowance for<br>loan losses:                                     |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Beginning<br>balance                                              | \$522                           | \$1,218                                             | \$265                          | \$78     | \$101                   | \$667                     | \$168              | \$2,697     | \$5,716 |
| Provision<br>(recovery) for<br>loan losses                        | 8                               | 34                                                  | 164                            | 5        | 9                       | 1,940                     | 100                | (1,560 )    | 700     |
| Charge offs                                                       | -                               | -                                                   | -                              | -        | -                       | (150 )                    | (96 )              | -           | (246 )  |
| Recoveries                                                        | -                               | -                                                   | -                              | -        | -                       | -                         | 62                 | -           | 62      |
| Ending<br>balance                                                 | \$530                           | \$1,252                                             | \$429                          | \$83     | \$110                   | \$2,457                   | \$234              | \$1,137     | \$6,232 |
| Nine Months<br>Ended June 30,<br>2015                             |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Allowance for<br>loan losses:                                     |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Beginning<br>balance                                              | \$552                           | \$1,575                                             | \$263                          | \$78     | \$93                    | \$719                     | \$-                | \$2,117     | \$5,397 |
| Provision<br>(recovery) for<br>loan losses                        | 23                              | (115 )                                              | 166                            | 5        | 14                      | 1,888                     | 340                | (980 )      | 1,341   |
| Charge offs                                                       | (45 )                           | (214 )                                              | -                              | -        | -                       | (150 )                    | (194 )             | -           | (603 )  |
| Recoveries                                                        | -                               | 6                                                   | -                              | -        | 3                       | -                         | 88                 | -           | 97      |
| Ending<br>balance                                                 | \$530                           | \$1,252                                             | \$429                          | \$83     | \$110                   | \$2,457                   | \$234              | \$1,137     | \$6,232 |
| Ending<br>balance:<br>individually<br>evaluated for<br>impairment | -                               | 265                                                 | -                              | -        | -                       | 2,161                     | -                  | -           | 2,426   |
| Ending<br>balance:<br>collectively<br>evaluated for               | 530                             | 987                                                 | 429                            | 83       | 110                     | 296                       | 234                | 1,137       | 3,806   |

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|               |            |            |           |           |           |           |           |          |            |
|---------------|------------|------------|-----------|-----------|-----------|-----------|-----------|----------|------------|
| impairment    |            |            |           |           |           |           |           |          |            |
| Total         | \$ 530     | \$ 1,252   | \$ 429    | \$ 83     | \$ 110    | \$ 2,457  | \$ 234    | \$ 1,137 | \$ 6,232   |
| Loans:        |            |            |           |           |           |           |           |          |            |
| Ending        |            |            |           |           |           |           |           |          |            |
| balance:      |            |            |           |           |           |           |           |          |            |
| individually  |            |            |           |           |           |           |           |          |            |
| evaluated for |            |            |           |           |           |           |           |          |            |
| impairment    | 124        | 1,397      | -         | -         | 13        | 5,869     | -         | -        | 7,403      |
| Ending        |            |            |           |           |           |           |           |          |            |
| balance:      |            |            |           |           |           |           |           |          |            |
| collectively  |            |            |           |           |           |           |           |          |            |
| evaluated for |            |            |           |           |           |           |           |          |            |
| impairment    | 118,592    | 277,513    | 64,173    | 32,968    | 29,991    | 35,642    | 91,740    | -        | 650,619    |
| Total         | \$ 118,716 | \$ 278,910 | \$ 64,173 | \$ 32,968 | \$ 30,004 | \$ 41,511 | \$ 91,740 | \$ -     | \$ 658,022 |

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|                                                                | 1-4<br>Family<br>Real<br>Estate | Commercial<br>and<br>Multi-Family<br>Real<br>Estate | Agricultural<br>Real<br>Estate | Consumer | Commercial<br>Operating | Agricultural<br>Operating | Premium<br>Finance | Unallocated | Total   |
|----------------------------------------------------------------|---------------------------------|-----------------------------------------------------|--------------------------------|----------|-------------------------|---------------------------|--------------------|-------------|---------|
| (Dollars in Thousands)                                         |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Three Months<br>Ended June 30,<br>2014                         |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Allowance for<br>loan losses:                                  |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Beginning balance                                              | \$287                           | \$1,666                                             | \$235                          | \$71     | \$66                    | \$478                     | \$-                | \$1,769     | \$4,572 |
| Provision<br>(recovery) for                                    |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| loan losses                                                    | (74)                            | ) 23                                                | 112                            | 6        | 14                      | 277                       | -                  | (58)        | ) 300   |
| Charge offs                                                    | -                               | -                                                   | -                              | -        | -                       | -                         | -                  | -           | -       |
| Recoveries                                                     | 2                               | 19                                                  | -                              | -        | -                       | 2                         | -                  | -           | 23      |
| Ending balance                                                 | \$215                           | \$1,708                                             | \$347                          | \$77     | \$80                    | \$757                     | \$-                | \$1,711     | \$4,895 |
| Nine Months<br>Ended June 30,<br>2014                          |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Allowance for<br>loan losses:                                  |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Beginning balance                                              | \$333                           | \$1,937                                             | \$112                          | \$74     | \$49                    | \$267                     | \$-                | \$1,158     | \$3,930 |
| Provision<br>(recovery) for                                    |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| loan losses                                                    | (120)                           | ) (576)                                             | ) 235                          | 3        | 31                      | 474                       | -                  | 553         | 600     |
| Charge offs                                                    | -                               | -                                                   | -                              | -        | -                       | -                         | -                  | -           | -       |
| Recoveries                                                     | 2                               | 347                                                 | -                              | -        | -                       | 16                        | -                  | -           | 365     |
| Ending balance                                                 | \$215                           | \$1,708                                             | \$347                          | \$77     | \$80                    | \$757                     | \$-                | \$1,711     | \$4,895 |
| Ending balance:<br>individually<br>evaluated for<br>impairment | -                               | 358                                                 | -                              | -        | -                       | -                         | -                  | -           | 358     |
| Ending balance:<br>collectively<br>evaluated for<br>impairment | 215                             | 1,350                                               | 347                            | 77       | 80                      | 757                       | -                  | 1,711       | 4,537   |
| Total                                                          | \$215                           | \$1,708                                             | \$347                          | \$77     | \$80                    | \$757                     | \$-                | \$1,711     | \$4,895 |
| Loans:                                                         |                                 |                                                     |                                |          |                         |                           |                    |             |         |
| Ending balance:<br>individually<br>evaluated for<br>impairment | 389                             | 5,678                                               | -                              | -        | 28                      | -                         | -                  | -           | 6,095   |
|                                                                | 108,324                         | 211,226                                             | 56,945                         | 29,379   | 26,655                  | 38,958                    | -                  | -           | 471,487 |

Ending balance:  
collectively  
evaluated for  
impairment

|       |           |           |          |          |          |          |     |     |           |
|-------|-----------|-----------|----------|----------|----------|----------|-----|-----|-----------|
| Total | \$108,713 | \$216,904 | \$56,945 | \$29,379 | \$26,683 | \$38,958 | \$- | \$- | \$477,582 |
|-------|-----------|-----------|----------|----------|----------|----------|-----|-----|-----------|

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.

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**Doubtful-** A doubtful asset has weaknesses similar to those classified substandard, with the degree of weakness causing the likely loss of some principal in any reasonable collection effort. Due to pending factors the asset's classification as loss is not yet appropriate.

**Loss-** A loss asset is considered uncollectible and of such little value that the asset's continuance on the Bank's balance sheet is no longer warranted. This classification does not necessarily mean an asset has no recovery or salvage value leaving room for future collection efforts.

General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When assets are classified as "loss," the Bank is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. The Bank's determinations as to the classification of its assets and the amount of its valuation allowances are subject to review by its regulatory authorities, which may order the establishment of additional general or specific loss allowances.

The Company recognizes that concentrations of credit may naturally occur and may take the form of a large volume of related loans to an individual, a specific industry, a geographic location, or an occupation. Credit concentration is a direct, indirect, or contingent obligation that has a common bond where the aggregate exposure equals or exceeds a certain percentage of the Bank's Tier 1 Capital plus the Allowance for Loan Losses.

The asset classification of loans at June 30, 2015 and September 30, 2014 are as follows:

| June 30, 2015      | 1-4<br>Family<br>Real<br>Estate<br>(Dollars in Thousands) | Commercial<br>and<br>Multi-Family<br>Real Estate | Agricultural<br>Real Estate | Consumer  | Commercial<br>Operating | Agricultural<br>Operating | Premium<br>Finance | Total     |
|--------------------|-----------------------------------------------------------|--------------------------------------------------|-----------------------------|-----------|-------------------------|---------------------------|--------------------|-----------|
| Pass               | \$ 118,465                                                | \$ 275,549                                       | \$ 37,023                   | \$ 32,968 | \$ 29,019               | \$ 25,904                 | \$ 91,740          | \$610,668 |
| Watch              | 216                                                       | 2,412                                            | 24,810                      | -         | 837                     | 3,771                     | -                  | 32,046    |
| Special<br>Mention | 10                                                        | -                                                | 877                         | -         | -                       | 1,716                     | -                  | 2,603     |
| Substandard        | 25                                                        | 949                                              | 1,463                       | -         | 148                     | 10,120                    | -                  | 12,705    |
| Doubtful           | -                                                         | -                                                | -                           | -         | -                       | -                         | -                  | -         |
|                    | \$ 118,716                                                | \$ 278,910                                       | \$ 64,173                   | \$ 32,968 | \$ 30,004               | \$ 41,511                 | \$ 91,740          | \$658,022 |

| September 30,<br>2014 | 1-4<br>Family<br>Real<br>Estate<br>(Dollars in Thousands) | Commercial<br>and<br>Multi-Family<br>Real Estate | Agricultural<br>Real Estate | Consumer  | Commercial<br>Operating | Agricultural<br>Operating | Premium<br>Finance | Total     |
|-----------------------|-----------------------------------------------------------|--------------------------------------------------|-----------------------------|-----------|-------------------------|---------------------------|--------------------|-----------|
| Pass                  | \$ 115,700                                                | \$ 222,074                                       | \$ 52,364                   | \$ 29,329 | \$ 30,709               | \$ 32,261                 | \$ -               | \$482,437 |
| Watch                 | 369                                                       | 852                                              | 273                         | -         | 137                     | 369                       | -                  | 2,000     |
| Special Mention       | 81                                                        | 96                                               | 1,660                       | -         | -                       | 63                        | -                  | 1,900     |
| Substandard           | 245                                                       | 1,280                                            | 1,774                       | -         | -                       | 9,565                     | -                  | 12,864    |
| Doubtful              | -                                                         | -                                                | -                           | -         | -                       | -                         | -                  | -         |
|                       | \$ 116,395                                                | \$ 224,302                                       | \$ 56,071                   | \$ 29,329 | \$ 30,846               | \$ 42,258                 | \$ -               | \$499,201 |

**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.

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

The Company currently offers 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 25 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.

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

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

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

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

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

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

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.



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

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

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

Consumer Lending- Meta Payment Systems ("MPS"). MPS has a loan committee, known as the MPS Credit Committee, consisting of members of Executive Management of the Company. The committee is charged with monitoring, evaluating, and reporting portfolio performance and the overall credit risk posed by its credit products. All proposed credit programs must first be reviewed and approved by the committee before such programs are presented to the Bank's Board of Directors for approval. The Board of Directors of the Bank is ultimately responsible for final approval of any credit program.

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.

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

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.

The Company recognizes 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 MPS Credit Committee monitors and identifies the credit concentrations in accordance with the Bank's concentration policy and evaluates the specific nature of each concentration to determine the potential risk to the Bank. An evaluation includes the following:

- A recommendation regarding additional controls needed to mitigate the concentration exposure.

· A limitation or cap placed on the size of the concentration.

· The potential necessity for increased capital and/or credit reserves to cover the increased risk caused by the concentration(s).

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·A strategy to reduce to acceptable levels those concentration(s) that are determined to create undue risk to the Bank.

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

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

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

**Premium Finance Receivables.** AFS/IBEX is a division of MetaBank providing short-term, 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, its reputation, competitive terms, cost and ease of operation.

Insurance premium financing is the business of extending credit to a policyholder to pay for insurance premiums when the insurance carrier requires payment in full at inception of coverage. Premiums are advanced either directly to the insurance carrier or through an intermediary/broker and repaid by the policyholder with interest during the policy term. The policyholder generally makes a 20% to 30% 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 is typically 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. Management will continue to accrue interest until maturity as the unearned premium is ordinarily, but not always sufficient to pay off the outstanding balance and contractual interest due.



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Past due loans at June 30, 2015 and September 30, 2014 are as follows:

| June 30, 2015                           | 30-59<br>Days<br>Past<br>Due<br>(Dollars in Thousands) | 60-89<br>Days<br>Past<br>Due | Greater<br>Than<br>90<br>Days | Total<br>Past<br>Due | Current   | Non-Accrual<br>Loans | Total<br>Loans<br>Receivable |
|-----------------------------------------|--------------------------------------------------------|------------------------------|-------------------------------|----------------------|-----------|----------------------|------------------------------|
| 1-4 Family Real Estate                  | \$444                                                  | \$ -                         | \$ -                          | \$444                | \$118,247 | \$ 25                | \$ 118,716                   |
| Commercial and Multi-Family Real Estate | -                                                      | -                            | -                             | -                    | 277,987   | 923                  | 278,910                      |
| Agricultural Real Estate                | 24,770                                                 | -                            | -                             | 24,770               | 39,403    | -                    | 64,173                       |
| Consumer                                | 135                                                    | 18                           | 5                             | 158                  | 32,810    | -                    | 32,968                       |
| Commercial Operating                    | -                                                      | -                            | -                             | -                    | 30,004    | -                    | 30,004                       |
| Agricultural Operating                  | 916                                                    | 116                          | -                             | 1,032                | 34,610    | 5,869                | 41,511                       |
| Premium Finance                         | 2,320                                                  | 447                          | 681                           | 3,448                | 88,292    | -                    | 91,740                       |
| Total                                   | \$28,585                                               | \$581                        | \$ 686                        | \$29,852             | \$621,353 | \$ 6,817             | \$ 658,022                   |
| September 30, 2014                      | 30-59<br>Days<br>Past<br>Due<br>(Dollars in Thousands) | 60-89<br>Days<br>Past<br>Due | Greater<br>Than<br>90<br>Days | Total<br>Past<br>Due | Current   | Non-Accrual<br>Loans | Total<br>Loans<br>Receivable |
| 1-4 Family Real Estate                  | \$111                                                  | \$ 37                        | \$ -                          | \$148                | \$115,966 | \$ 281               | \$ 116,395                   |
| Commercial and Multi-Family Real Estate | -                                                      | -                            | -                             | -                    | 223,990   | 312                  | 224,302                      |
| Agricultural Real Estate                | -                                                      | -                            | -                             | -                    | 56,071    | -                    | 56,071                       |
| Consumer                                | 2                                                      | 12                           | 54                            | 68                   | 29,261    | -                    | 29,329                       |
| Commercial Operating                    | -                                                      | -                            | -                             | -                    | 30,846    | -                    | 30,846                       |
| Agricultural Operating                  | -                                                      | -                            | -                             | -                    | 41,918    | 340                  | 42,258                       |
| Total                                   | \$113                                                  | \$ 49                        | \$ 54                         | \$216                | \$498,052 | \$ 933               | \$ 499,201                   |

When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 210 days or more for premium finance loans and 90 days or more for other loan categories. As of June 30, 2015, there were no Premium Finance loans greater than 210 days past due.

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Impaired loans at June 30, 2015 and September 30, 2014 are as follows:

|                                              | Recorded<br>Balance    | Unpaid<br>Principal<br>Balance | Specific<br>Allowance |
|----------------------------------------------|------------------------|--------------------------------|-----------------------|
| June 30, 2015                                | (Dollars in Thousands) |                                |                       |
| Loans without a specific valuation allowance |                        |                                |                       |
| 1-4 Family Real Estate                       | \$ 124                 | \$ 124                         | \$ -                  |
| Commercial and Multi-Family Real Estate      | 449                    | 449                            | -                     |
| Agricultural Real Estate                     | -                      | -                              | -                     |
| Consumer                                     | -                      | -                              | -                     |
| Commercial Operating                         | 13                     | 13                             | -                     |
| Agricultural Operating                       | -                      | -                              | -                     |
| Premium Finance                              | -                      | -                              | -                     |
| Total                                        | \$ 586                 | \$ 586                         | \$ -                  |
| Loans with a specific valuation allowance    |                        |                                |                       |
| 1-4 Family Real Estate                       | \$-                    | \$ -                           | \$ -                  |
| Commercial and Multi-Family Real Estate      | 948                    | 948                            | 265                   |
| Agricultural Real Estate                     | -                      | -                              | -                     |
| Consumer                                     | -                      | -                              | -                     |
| Commercial Operating                         | -                      | -                              | -                     |
| Agricultural Operating                       | 5,869                  | 5,869                          | 2,161                 |
| Premium Finance                              | -                      | -                              | -                     |
| Total                                        | \$ 6,817               | \$ 6,817                       | \$ 2,426              |

|                                              | Recorded<br>Balance    | Unpaid<br>Principal<br>Balance | Specific<br>Allowance |
|----------------------------------------------|------------------------|--------------------------------|-----------------------|
| September 30, 2014                           | (Dollars in Thousands) |                                |                       |
| Loans without a specific valuation allowance |                        |                                |                       |
| 1-4 Family Real Estate                       | \$ 142                 | \$ 142                         | \$ -                  |
| Commercial and Multi-Family Real Estate      | 4,375                  | 4,375                          | -                     |
| Agricultural Real Estate                     | -                      | -                              | -                     |
| Consumer                                     | -                      | -                              | -                     |
| Commercial Operating                         | 22                     | 22                             | -                     |
| Agricultural Operating                       | -                      | -                              | -                     |
| Total                                        | \$ 4,539               | \$ 4,539                       | \$ -                  |
| Loans with a specific valuation allowance    |                        |                                |                       |
| 1-4 Family Real Estate                       | \$ 245                 | \$ 245                         | \$ 23                 |
| Commercial and Multi-Family Real Estate      | 1,280                  | 1,280                          | 350                   |
| Agricultural Real Estate                     | -                      | -                              | -                     |
| Consumer                                     | -                      | -                              | -                     |
| Commercial Operating                         | -                      | -                              | -                     |
| Agricultural Operating                       | 340                    | 340                            | 340                   |
| Total                                        | \$ 1,865               | \$ 1,865                       | \$ 713                |

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The following table provides the average recorded investment in impaired loans for the three and nine month periods ended June 30, 2015 and 2014.

|                                         | Three Months<br>Ended June 30,<br>2015 2014                                              |          | Nine Months Ended<br>June 30,<br>2015 2014                  |          |
|-----------------------------------------|------------------------------------------------------------------------------------------|----------|-------------------------------------------------------------|----------|
|                                         | Average Average<br>RecordedRecorded<br>InvestmentInvestment<br>(Dollars in<br>Thousands) |          | Average Average<br>RecordedRecorded<br>InvestmentInvestment |          |
| 1-4 Family Real Estate                  | \$ 162                                                                                   | \$ 579   | \$276                                                       | \$ 636   |
| Commercial and Multi-Family Real Estate | 1,406                                                                                    | 5,694    | 2,358                                                       | 6,811    |
| Agricultural Real Estate                | -                                                                                        | -        | -                                                           | -        |
| Consumer                                | 1                                                                                        | -        | -                                                           | -        |
| Commercial Operating                    | 15                                                                                       | 29       | 18                                                          | 37       |
| Agricultural Operating                  | 6,046                                                                                    | -        | 2,871                                                       | -        |
| Premium Finance                         | -                                                                                        | -        | -                                                           | -        |
| Total                                   | \$7,630                                                                                  | \$ 6,302 | \$5,522                                                     | \$ 7,484 |

The Company's troubled debt restructurings ("TDR") typically involve forgiving a portion of interest or principal on existing loans or making loans at a rate materially less than current market rates. There were no loans modified in a TDR during the three and nine month periods ended June 30, 2015 and 2014. Additionally, there were no TDR loans for which there was a payment default during the three and nine month periods ended June 30, 2015 and 2014 that had been modified during the 12-month period prior to the default.

**NOTE 4. ALLOWANCE FOR LOAN LOSSES**

At June 30, 2015, the Company's allowance for loan losses was \$6.2 million, an increase of \$0.8 million from \$5.4 million at September 30, 2014. During the nine months ended June 30, 2015, the Company recorded a provision for loan losses of \$1.3 million. In addition, the Company had \$0.5 million net charge offs for the nine months ended June 30, 2015, compared to net recoveries of \$0.4 million for the nine months ended June 30, 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. While the current economic environment is still slightly strained, it has begun to show signs of improvement in Meta Financial's markets. Meta Financial's loss rates over the past three years were very low. Notwithstanding these signs of improvement, Meta Financial does not believe it is likely these low loss conditions will continue indefinitely. All of Meta Financial's markets indirectly benefit from a good agricultural market. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years. Management expects that future losses in this portfolio, which have been low, could be higher than historical experience. Management believes the low commodity prices and high land rents have the potential to negatively impact the economics of our agricultural markets.





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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 June 30, 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 adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by 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.

## NOTE 5. EARNINGS PER COMMON SHARE ("EPS")

Basic EPS is based on the net income divided by the weighted average number of common shares outstanding during the period. Allocated Employee Stock Ownership Plan ("ESOP") shares are considered outstanding for EPS calculations, as they are committed to be released; unallocated ESOP shares are not considered outstanding. All ESOP shares were allocated as of June 30, 2015 and September 30, 2014. Diluted EPS shows the dilutive effect of additional common shares issuable pursuant to stock option agreements.

A reconciliation of net income and common stock share amounts used in the computation of basic and diluted EPS for the three and nine months ended June 30, 2015 and 2014 is presented below.

| Three Months Ended June 30,<br>(Dollars in Thousands, Except Share and Per Share Data) | 2015      | 2014      |
|----------------------------------------------------------------------------------------|-----------|-----------|
| Earnings                                                                               |           |           |
| Net Income                                                                             | \$4,640   | \$4,204   |
| Basic EPS                                                                              |           |           |
| Weighted average common shares outstanding                                             | 6,942,486 | 6,132,169 |
| Less weighted average nonvested shares                                                 | 3,922     | 4,000     |
| Weighted average common shares outstanding                                             | 6,938,564 | 6,128,169 |
| Earnings Per Common Share                                                              |           |           |
| Basic                                                                                  | \$0.67    | \$0.69    |
| Diluted EPS                                                                            |           |           |
| Weighted average common shares outstanding for basic earnings per common share         | 6,938,564 | 6,128,169 |
| Add dilutive effect of assumed exercises of stock options, net of tax benefits         | 74,060    | 77,201    |
| Weighted average common and dilutive potential common shares outstanding               | 7,012,624 | 6,205,370 |
| Earnings Per Common Share                                                              |           |           |

|         |        |        |
|---------|--------|--------|
| Diluted | \$0.66 | \$0.68 |
|---------|--------|--------|

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| Nine Months Ended June 30,<br>(Dollars in Thousands, Except Share and Per Share Data) | 2015      | 2014      |
|---------------------------------------------------------------------------------------|-----------|-----------|
| Earnings                                                                              |           |           |
| Net Income                                                                            | \$13,416  | \$12,349  |
| Basic EPS                                                                             |           |           |
| Weighted average common shares outstanding                                            | 6,555,415 | 6,109,955 |
| Less weighted average unallocated ESOP and nonvested shares                           | 4,193     | 4,401     |
| Weighted average common shares outstanding                                            | 6,551,222 | 6,105,554 |
| Earnings Per Common Share                                                             |           |           |
| Basic                                                                                 | \$2.05    | \$2.02    |
| Diluted EPS                                                                           |           |           |
| Weighted average common shares outstanding for basic earnings per common share        | 6,551,222 | 6,105,554 |
| Add dilutive effect of assumed exercises of stock options, net of tax benefits        | 65,228    | 91,409    |
| Weighted average common and dilutive potential common shares outstanding              | 6,616,450 | 6,196,963 |
| Earnings Per Common Share                                                             |           |           |
| Diluted                                                                               | \$2.03    | \$1.99    |

Stock options totaling 29,199 were not considered in computing diluted EPS for the three and nine months ended June 30, 2015 and June 30, 2014, because they were not dilutive.

## NOTE 6. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of available for sale and held to maturity securities at June 30, 2015 and September 30, 2014 are presented below.

| Available For Sale                                                  | AMORTIZED<br>COST      | GROSS<br>GAINS | GROSS<br>UNREALIZED<br>(LOSSES) | FAIR<br>VALUE |
|---------------------------------------------------------------------|------------------------|----------------|---------------------------------|---------------|
| At June 30, 2015                                                    | (Dollars in Thousands) |                |                                 |               |
| Debt securities                                                     |                        |                |                                 |               |
| Trust preferred and corporate securities                            | \$19,209               | \$ 18          | \$ (2,235)                      | ) \$16,992    |
| Small business administration securities                            | 35,967                 | 1,183          | -                               | 37,150        |
| Non-bank qualified obligations of states and political subdivisions | 512,311                | 1,918          | (6,527)                         | ) 507,702     |
| Mortgage-backed securities                                          | 602,672                | 1,512          | (7,208)                         | ) 596,976     |
| Total debt securities                                               | 1,170,159              | 4,631          | (15,970)                        | ) 1,158,820   |
| Common equities and mutual funds                                    | 640                    | 333            | (7)                             | ) 966         |
| Total available for sale securities                                 | \$1,170,799            | \$ 4,964       | \$ (15,977)                     | ) \$1,159,786 |

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|                                                                     | AMORTIZED<br>COST      | GROSS<br>GAINS | GROSS<br>UNREALIZED<br>(LOSSES) | FAIR<br>VALUE |
|---------------------------------------------------------------------|------------------------|----------------|---------------------------------|---------------|
| At September 30, 2014                                               | (Dollars in Thousands) |                |                                 |               |
| Debt securities                                                     |                        |                |                                 |               |
| Trust preferred and corporate securities                            | \$48,747               | \$ 191         | \$ (2,009)                      | ) \$46,929    |
| Small business administration securities                            | 66,541                 | 543            | (72)                            | ) 67,012      |
| Non-bank qualified obligations of states and political subdivisions | 368,897                | 2,494          | (3,811)                         | ) 367,580     |
| Mortgage-backed securities                                          | 663,690                | 3,519          | (9,339)                         | ) 657,870     |
| Total debt securities                                               | 1,147,875              | 6,747          | (15,231)                        | ) 1,139,391   |
| Common equities and mutual funds                                    | 539                    | 291            | (5)                             | ) 825         |
| Total available for sale securities                                 | \$1,148,414            | \$ 7,038       | \$ (15,236)                     | ) \$1,140,216 |

|                                                                     | AMORTIZED<br>COST      | GROSS<br>GAINS | GROSS<br>UNREALIZED<br>(LOSSES) | FAIR<br>VALUE |
|---------------------------------------------------------------------|------------------------|----------------|---------------------------------|---------------|
| Held to Maturity                                                    | (Dollars in Thousands) |                |                                 |               |
| At June 30, 2015                                                    |                        |                |                                 |               |
| Debt securities                                                     |                        |                |                                 |               |
| Obligations of states and political subdivisions                    | \$19,303               | \$ 26          | \$ (453)                        | ) \$18,876    |
| Non-bank qualified obligations of states and political subdivisions | 243,275                | 668            | (3,250)                         | ) 240,693     |
| Mortgage-backed securities                                          | 69,057                 | -              | (1,637)                         | ) 67,420      |
| Total held to maturity securities                                   | \$331,635              | \$ 694         | \$ (5,340)                      | ) \$326,989   |

|                                                                     | AMORTIZED<br>COST      | GROSS<br>GAINS | GROSS<br>UNREALIZED<br>(LOSSES) | FAIR<br>VALUE |
|---------------------------------------------------------------------|------------------------|----------------|---------------------------------|---------------|
| At September 30, 2014                                               | (Dollars in Thousands) |                |                                 |               |
| Debt securities                                                     |                        |                |                                 |               |
| Obligations of states and political subdivisions                    | \$19,304               | \$ 48          | \$ (372)                        | ) \$18,980    |
| Non-bank qualified obligations of states and political subdivisions | 193,595                | 894            | (2,329)                         | ) 192,160     |
| Mortgage-backed securities                                          | 70,034                 | -              | (1,862)                         | ) 68,172      |
| Total held to maturity securities                                   | \$282,933              | \$ 942         | \$ (4,563)                      | ) \$279,312   |

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

At June 30, 2015

| Issuer <sup>(1)</sup>          | Amortized<br>Cost | Fair<br>Value | Unrealized<br>Gain<br>(Loss) | S&P<br>Credit Rating | Moody's<br>Credit<br>Rating |
|--------------------------------|-------------------|---------------|------------------------------|----------------------|-----------------------------|
| (Dollars in Thousands)         |                   |               |                              |                      |                             |
| Key Corp. Capital I            | \$4,986           | \$4,220       | \$ (766)                     | )BB+                 | Baa2                        |
| Huntington Capital Trust II SE | 4,979             | 4,025         | (954)                        | )BB                  | Baa2                        |
| PNC Capital Trust              | 4,964             | 4,449         | (515)                        | )BBB-                | Baa1                        |
| Total                          | \$ 14,929         | \$ 12,694     | \$ (2,235)                   | )                    |                             |

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

At September 30, 2014

| Issuer <sup>(1)</sup>                  | Amortized<br>Cost | Fair<br>Value | Unrealized<br>Gain<br>(Loss) | S&P<br>Credit Rating | Moody's<br>Credit<br>Rating |
|----------------------------------------|-------------------|---------------|------------------------------|----------------------|-----------------------------|
| (Dollars in Thousands)                 |                   |               |                              |                      |                             |
| Key Corp. Capital I                    | \$4,985           | \$4,400       | \$ (585)                     | )BB+                 | Baa3                        |
| Huntington Capital Trust II SE         | 4,977             | 4,300         | (677)                        | )BB                  | Baa3                        |
| PNC Capital Trust                      | 4,962             | 4,400         | (562)                        | )BBB-                | Baa2                        |
| Wells Fargo (Corestates Capital) Trust | 4,444             | 4,400         | (44)                         | )BBB+                | A3                          |
| Total                                  | \$ 19,368         | \$ 17,500     | \$ (1,868)                   | )                    |                             |

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

Management has implemented processes to identify securities that could potentially have a credit impairment that is other-than-temporary. This process can include, but is not limited to, evaluating the length of time and extent to which the fair value has been less than the amortized cost basis, reviewing available information regarding the financial position of the issuer, interest or dividend payment status, monitoring the rating of the security, monitoring changes in value, and projecting cash flows. Management also determines whether the Company intends 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 basis which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

For all securities considered temporarily impaired, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost, which may occur at maturity. The Company believes collection will occur for 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. Meta Financial has no trading securities.

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Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2015 and September 30, 2014, are as follows:

| Available For Sale                                                  | LESS THAN 12 MONTHS    |                     | OVER 12 MONTHS |                     | TOTAL      |                     |
|---------------------------------------------------------------------|------------------------|---------------------|----------------|---------------------|------------|---------------------|
|                                                                     | Fair Value             | Unrealized (Losses) | Fair Value     | Unrealized (Losses) | Fair Value | Unrealized (Losses) |
| At June 30, 2015                                                    | (Dollars in Thousands) |                     |                |                     |            |                     |
| Debt securities                                                     |                        |                     |                |                     |            |                     |
| Trust preferred and corporate securities                            | \$-                    | \$ -                | \$12,694       | \$ (2,235 )         | \$12,694   | \$ (2,235 )         |
| Non-bank qualified obligations of states and political subdivisions | 326,156                | (4,846 )            | 39,677         | (1,681 )            | 365,833    | (6,527 )            |
| Mortgage-backed securities                                          | 457,327                | (5,548 )            | 66,286         | (1,660 )            | 523,613    | (7,208 )            |
| Total debt securities                                               | 783,483                | (10,394 )           | 118,657        | (5,576 )            | 902,140    | (15,970 )           |
| Common equities and mutual funds                                    | -                      | -                   | 122            | (7 )                | 122        | (7 )                |
| Total available for sale securities                                 | \$783,483              | \$ (10,394 )        | \$118,779      | \$ (5,583 )         | \$902,262  | \$ (15,977 )        |

|                                                                     | LESS THAN 12 MONTHS    |                     | OVER 12 MONTHS |                     | TOTAL      |                     |
|---------------------------------------------------------------------|------------------------|---------------------|----------------|---------------------|------------|---------------------|
|                                                                     | Fair Value             | Unrealized (Losses) | Fair Value     | Unrealized (Losses) | Fair Value | Unrealized (Losses) |
| At September 30, 2014                                               | (Dollars in Thousands) |                     |                |                     |            |                     |
| Debt securities                                                     |                        |                     |                |                     |            |                     |
| Trust preferred and corporate securities                            | \$6,073                | \$ (47 )            | \$25,359       | \$ (1,962 )         | \$31,432   | \$ (2,009 )         |
| Small Business Administration securities                            | 8,454                  | (72 )               | -              | -                   | 8,454      | (72 )               |
| Non-bank qualified obligations of states and political subdivisions | 27,062                 | (70 )               | 191,146        | (3,741 )            | 218,208    | (3,811 )            |
| Mortgage-backed securities                                          | 238,980                | (1,248 )            | 234,347        | (8,091 )            | 473,327    | (9,339 )            |
| Total debt securities                                               | 280,569                | (1,437 )            | 450,852        | (13,794 )           | 731,421    | (15,231 )           |
| Common equities and mutual funds                                    | 123                    | (5 )                | -              | -                   | 123        | (5 )                |
| Total available for sale securities                                 | \$280,692              | \$ (1,442 )         | \$450,852      | \$ (13,794 )        | \$731,544  | \$ (15,236 )        |

| Held To Maturity                                                    | LESS THAN 12 MONTHS    |                     | OVER 12 MONTHS |                     | TOTAL      |                     |
|---------------------------------------------------------------------|------------------------|---------------------|----------------|---------------------|------------|---------------------|
|                                                                     | Fair Value             | Unrealized (Losses) | Fair Value     | Unrealized (Losses) | Fair Value | Unrealized (Losses) |
| At June 30, 2015                                                    | (Dollars in Thousands) |                     |                |                     |            |                     |
| Debt securities                                                     |                        |                     |                |                     |            |                     |
| Obligations of states and political subdivisions                    | \$8,237                | \$ (149 )           | \$8,817        | \$ (304 )           | \$17,054   | \$ (453 )           |
| Non-bank qualified obligations of states and political subdivisions | 208,411                | (3,145 )            | 3,412          | (105 )              | 211,823    | (3,250 )            |
| Mortgage-backed securities                                          | 5,486                  | (95 )               | 61,934         | (1,542 )            | 67,420     | (1,637 )            |
| Total held to maturity securities                                   | \$222,134              | \$ (3,389 )         | \$74,163       | \$ (1,951 )         | \$296,297  | \$ (5,340 )         |

|                       | LESS THAN 12 MONTHS    |                     | OVER 12 MONTHS |                     | TOTAL      |                     |
|-----------------------|------------------------|---------------------|----------------|---------------------|------------|---------------------|
|                       | Fair Value             | Unrealized (Losses) | Fair Value     | Unrealized (Losses) | Fair Value | Unrealized (Losses) |
| At September 30, 2014 | (Dollars in Thousands) |                     |                |                     |            |                     |
| Debt securities       |                        |                     |                |                     |            |                     |



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|                                                                     |         |         |           |             |           |             |
|---------------------------------------------------------------------|---------|---------|-----------|-------------|-----------|-------------|
| Obligations of states and political subdivisions                    | \$1,056 | \$ (2 ) | \$14,079  | \$ (370 )   | \$15,135  | \$ (372 )   |
| Non-bank qualified obligations of states and political subdivisions | -       | -       | 147,949   | (2,329 )    | 147,949   | (2,329 )    |
| Mortgage-backed securities                                          | -       | -       | 68,172    | (1,862 )    | 68,172    | (1,862 )    |
| Total held to maturity securities                                   | \$1,056 | \$ (2 ) | \$230,200 | \$ (4,561 ) | \$231,256 | \$ (4,563 ) |

At June 30, 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 June 30, 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.

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| Available For Sale<br>At June 30, 2015 | AMORTIZED FAIR<br>COST      VALUE |             |
|----------------------------------------|-----------------------------------|-------------|
|                                        | (Dollars in Thousands)            |             |
| Due in one year or less                | \$3,000                           | \$3,008     |
| Due after one year through five years  | 1,179                             | 1,205       |
| Due after five years through ten years | 330,864                           | 331,747     |
| Due after ten years                    | 232,444                           | 225,884     |
|                                        | 567,487                           | 561,844     |
| Mortgage-backed securities             | 602,672                           | 596,976     |
| Common equities and mutual funds       | 640                               | 966         |
| Total available for sale securities    | \$1,170,799                       | \$1,159,786 |

| September 30, 2014                     | AMORTIZED FAIR<br>COST      VALUE |             |
|----------------------------------------|-----------------------------------|-------------|
|                                        | (Dollars in Thousands)            |             |
| Due in one year or less                | \$2,999                           | \$3,048     |
| Due after one year through five years  | 9,922                             | 10,079      |
| Due after five years through ten years | 285,413                           | 285,698     |
| Due after ten years                    | 185,851                           | 182,696     |
|                                        | 484,185                           | 481,521     |
| Mortgage-backed securities             | 663,690                           | 657,870     |
| Common equities and mutual funds       | 539                               | 825         |
| Total available for sale securities    | \$1,148,414                       | \$1,140,216 |

| Held To Maturity<br><br>At June 30, 2015 | AMORTIZED FAIR<br>COST      VALUE |           |
|------------------------------------------|-----------------------------------|-----------|
|                                          | (Dollars in Thousands)            |           |
| Due in one year or less                  | \$95                              | \$95      |
| Due after one year through five years    | 6,028                             | 5,986     |
| Due after five years through ten years   | 126,463                           | 124,618   |
| Due after ten years                      | 129,992                           | 128,870   |
|                                          | 262,578                           | 259,569   |
| Mortgage-backed securities               | 69,057                            | 67,420    |
| Total held to maturity securities        | \$331,635                         | \$326,989 |

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|                                        | AMORTIZED<br>COST      VALUE |           |
|----------------------------------------|------------------------------|-----------|
|                                        | (Dollars in<br>Thousands)    |           |
| September 30, 2014                     |                              |           |
| Due in one year or less                | \$ 347                       | \$ 348    |
| Due after one year through five years  | 4,726                        | 4,718     |
| Due after five years through ten years | 91,532                       | 89,984    |
| Due after ten years                    | 116,294                      | 116,090   |
|                                        | 212,899                      | 211,140   |
| Mortgage-backed securities             | 70,034                       | 68,172    |
| Total held to maturity securities      | \$282,933                    | \$279,312 |

## NOTE 7. COMMITMENTS AND CONTINGENCIES

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

At June 30, 2015 and September 30, 2014, unfunded loan commitments approximated \$124.2 million and \$96.0 million respectively, excluding undisbursed portions of loans in process. These unfunded loan commitments were principally for variable rate loans. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are canceled upon expiration of the commitment term as outlined in each individual contract.

At June 30, 2015, the Company had one commitment to purchase securities available for sale totaling \$3.6 million. The Company had no commitments to purchase securities at September 30, 2014.

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 was served on April 15, 2013, with a lawsuit captioned Inter National Bank v. NetSpend Corporation, MetaBank, BDO USA, LLP d/b/a BDO Seidman, Cause No. C-2084-12-I filed in the District Court of Hidalgo County, Texas. The Plaintiff's Second Amended Original Petition and Application for Temporary Restraining Order and Temporary Injunction adds both MetaBank and BDO Seidman to the original causes of action against NetSpend. NetSpend acts as a prepaid card program manager and processor for both INB and MetaBank. According to the Petition, NetSpend has informed Inter National Bank ("INB") that the depository accounts at INB for the NetSpend program supposedly contained \$10.5 million less than they should. INB alleges that NetSpend has breached its fiduciary duty by making affirmative misrepresentations to INB about the safety and stability of the program, and by failing to timely disclose the nature and extent of any alleged shortfall in settlement of funds related to cardholder activity and the nature and extent of NetSpend's systemic deficiencies in its accounting and settlement processing procedures. To the extent that an accounting reveals that there is an actual shortfall, INB alleges that MetaBank may be liable for portions or all of said sum due to the fact that funds have been transferred from INB to MetaBank, and

thus MetaBank would have been unjustly enriched. The Bank is vigorously contesting this matter. In January 2014, NetSpend was granted summary judgment in this matter which is under appeal. Because the theory of liability against both NetSpend and the Bank is the same, the Bank views the NetSpend summary judgment as a positive in support of our position. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation because discovery is still being conducted.

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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 which 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.

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 8. STOCK OPTION PLAN

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

Compensation expense for share based awards is recorded over the vesting period at the fair value of the award at the time of grant. The exercise price of options or fair value of nonvested shares granted under the Company’s incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock based compensation, since actual historical forfeiture rates on its stock based incentive awards has been negligible.

The following tables show the activity of options and nonvested (restricted) shares granted, exercised, or forfeited under all of the Company’s option and incentive plans for the nine months ended June 30, 2015:

|                                         | Number<br>of<br>Shares<br>(Dollars in Thousands, Except Share and Per<br>Share Data) | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Yrs) | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------|---------------------------------------------------------------|---------------------------------|
| Options outstanding, September 30, 2014 | 235,766                                                                              | \$ 25.20                                 | 3.78                                                          | \$ 2,507                        |
| Granted                                 | -                                                                                    | -                                        | -                                                             | -                               |
| Exercised                               | (15,146 )                                                                            | 25.06                                    | -                                                             | 248                             |
| Forfeited or expired                    | -                                                                                    | -                                        | -                                                             | -                               |
| Options outstanding, June 30, 2015      | 220,620                                                                              | \$ 25.21                                 | 3.01                                                          | \$ 3,902                        |
| Options exercisable, June 30, 2015      | 220,620                                                                              | \$ 25.21                                 | 3.01                                                          | \$ 3,902                        |

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|                                                         | Number<br>of<br>Shares | Weighted<br>Average<br>Fair<br>Value<br>at Grant |
|---------------------------------------------------------|------------------------|--------------------------------------------------|
| (Dollars in Thousands, Except Share and Per Share Data) |                        |                                                  |
| Nonvested shares outstanding, September 30, 2014        | 4,000                  | \$ 28.61                                         |
| Granted                                                 | 5,680                  | 35.62                                            |
| Vested                                                  | (5,450 )               | 33.62                                            |
| Forfeited or expired                                    | -                      | -                                                |
| Nonvested shares outstanding, June 30, 2015             | 4,230                  | \$ 31.55                                         |

At June 30, 2015, stock based compensation expense not yet recognized in income totaled \$70,584, which is expected to be recognized over a weighted average remaining period of 1.80 years.

**NOTE 9. 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. The Company has determined that it has two reportable segments. The first reportable segment, Retail Banking, a division of the Bank, operates as a traditional community bank providing deposit, loan and other related products to individuals and small businesses, primarily in the communities where its offices are located. The second reportable segment, MPS, is also a division of the Bank. MPS provides a number of products and services to financial institutions and other businesses. These products and services include issuance of prepaid debit cards, sponsorship of Automated Teller Machines into the debit networks, credit programs, Automated Clearing House (“ACH”) origination services, gift card programs, rebate programs, travel programs, and tax related programs. Other programs are in the process of development. The remaining grouping under the caption “All Others” consists of the operations of the Company and inter-segment eliminations as well as specialty lending.

Transactions between affiliates, the resulting revenues of which are shown in the intersegment revenue category, are conducted at market prices, meaning prices that would be paid if the companies were not affiliates.

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The following tables present segment data for the Company for the three and nine months ended June 30, 2015 and 2014, respectively.

|                                                   | Retail<br>Banking | Meta<br>Payment<br>Systems® | All<br>Others | Total     |
|---------------------------------------------------|-------------------|-----------------------------|---------------|-----------|
| Three Months Ended June 30, 2015                  |                   |                             |               |           |
| Interest income                                   | \$7,780           | \$5,667                     | \$1,807       | 15,254    |
| Interest expense                                  | 393               | 47                          | 153           | 593       |
| Net interest income (expense)                     | 7,387             | 5,620                       | 1,654         | 14,661    |
| Provision (recovery) for loan losses              | 600               | -                           | 100           | 700       |
| Non-interest income                               | 1,227             | 13,808                      | 389           | 15,424    |
| Non-interest expense                              | 6,497             | 16,431                      | 1,545         | 24,473    |
| Income (loss) before income tax expense (benefit) | 1,517             | 2,997                       | 398           | 4,912     |
| Income tax expense (benefit)                      | 136               | 132                         | 4             | 272       |
| Net income (loss)                                 | \$1,381           | \$2,865                     | \$394         | \$4,640   |
| Inter-segment revenue (expense)                   | \$(4,126 )        | 4,126                       | \$-           | \$-       |
| Total assets                                      | 766,129           | 1,453,771                   | 90,083        | 2,309,983 |
| Total deposits                                    | 224,982           | 1,294,757                   | (6,532 )      | 1,513,207 |
|                                                   | Retail<br>Banking | Meta<br>Payment<br>Systems® | All<br>Others | Total     |
| Nine Months Ended June 30, 2015                   |                   |                             |               |           |
| Interest income                                   | \$25,096          | \$15,837                    | \$4,311       | \$45,244  |
| Interest expense                                  | 1,181             | 138                         | 408           | 1,727     |
| Net interest income (expense)                     | 23,915            | 15,699                      | 3,903         | 43,517    |
| Provision (recovery) for loan losses              | 1,000             | -                           | 341           | 1,341     |
| Non-interest income                               | 1,546             | 40,468                      | 1,054         | 43,068    |
| Non-interest expense                              | 17,657            | 48,164                      | 4,484         | 70,305    |
| Income (loss) before income tax expense (benefit) | 6,804             | 8,003                       | 132           | 14,939    |
| Income tax expense (benefit)                      | 676               | 1,030                       | (183 )        | 1,523     |
| Net income (loss)                                 | \$6,128           | \$6,973                     | \$315         | \$13,416  |
| Inter-segment revenue (expense)                   | \$(12,106 )       | \$12,106                    | \$-           | \$-       |
| Total assets                                      | 766,129           | 1,453,771                   | 90,083        | 2,309,983 |
| Total deposits                                    | 224,982           | 1,294,757                   | (6,532 )      | 1,513,207 |

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|                                                   | Retail<br>Banking | Meta<br>Payment<br>Systems® | All<br>Others | Total     |
|---------------------------------------------------|-------------------|-----------------------------|---------------|-----------|
| Three Months Ended June 30, 2014                  |                   |                             |               |           |
| Interest income                                   | \$8,223           | \$4,343                     | \$-           | \$12,566  |
| Interest expense                                  | 499               | 27                          | 112           | 638       |
| Net interest income (expense)                     | 7,724             | 4,316                       | (112 )        | 11,928    |
| Provision (recovery) for loan losses              | 300               | -                           | -             | 300       |
| Non-interest income                               | 732               | 11,749                      | -             | 12,481    |
| Non-interest expense                              | 4,852             | 13,904                      | 81            | 18,837    |
| Income (loss) before income tax expense (benefit) | 3,304             | 2,161                       | (193 )        | 5,272     |
| Income tax expense (benefit)                      | 653               | 495                         | (80 )         | 1,068     |
| Net income (loss)                                 | \$2,651           | \$1,666                     | \$(113 )      | \$4,204   |
| Inter-segment revenue (expense)                   | \$2,976           | (2,976 )                    | \$-           | \$-       |
| Total assets                                      | 678,116           | 1,241,967                   | 3,250         | 1,923,333 |
| Total deposits                                    | 254,215           | 1,098,262                   | (6,418)       | 1,346,059 |
|                                                   |                   |                             |               |           |
|                                                   | Retail<br>Banking | Meta<br>Payment<br>Systems® | All<br>Others | Total     |
| Nine Months Ended June 30, 2014                   |                   |                             |               |           |
| Interest income                                   | \$23,481          | \$12,309                    | \$-           | \$35,790  |
| Interest expense                                  | 1,410             | 84                          | 337           | 1,831     |
| Net interest income (expense)                     | 22,071            | 12,225                      | (337 )        | 33,959    |
| Provision (recovery) for loan losses              | 600               | -                           | -             | 600       |
| Non-interest income                               | 2,540             | 36,591                      | -             | 39,131    |
| Non-interest expense                              | 15,306            | 41,619                      | 716           | 57,641    |
| Income (loss) before income tax expense (benefit) | 8,705             | 7,197                       | (1,053)       | 14,849    |
| Income tax expense (benefit)                      | 1,489             | 1,400                       | (389 )        | 2,500     |
| Net income (loss)                                 | \$7,216           | \$5,797                     | \$(664 )      | \$12,349  |
| Inter-segment revenue (expense)                   | \$9,602           | \$(9,602 )                  | \$-           | \$-       |
| Total assets                                      | 678,116           | 1,241,967                   | 3,250         | 1,923,333 |
| Total deposits                                    | 254,215           | 1,098,262                   | (6,418)       | 1,346,059 |



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The following tables present gross profit data for MPS for the three and nine months ended June 30, 2015 and 2014.

| Three Months Ended June 30,                       | 2015     | 2014     |
|---------------------------------------------------|----------|----------|
| Interest income                                   | \$5,667  | \$4,343  |
| Interest expense                                  | 47       | 27       |
| Net interest income                               | 5,620    | 4,316    |
| Provision (recovery) for loan losses              | -        | -        |
| Non-interest income                               | 13,808   | 11,749   |
| Card processing expense                           | 3,863    | 3,843    |
| Gross Profit                                      | 15,565   | 12,222   |
| Other non-interest expense                        | 12,568   | 10,061   |
| Income (loss) before income tax expense (benefit) | 2,997    | 2,161    |
| Income tax expense (benefit)                      | 132      | 495      |
| Net Income (Loss)                                 | \$2,865  | \$1,666  |
| Nine Months Ended June 30,                        | 2015     | 2014     |
| Interest income                                   | \$15,837 | \$12,309 |
| Interest expense                                  | 138      | 84       |
| Net interest income                               | 15,699   | 12,225   |
| Provision (recovery) for loan losses              | -        | -        |
| Non-interest income                               | 40,468   | 36,591   |
| Card processing expense                           | 12,358   | 11,643   |
| Gross Profit                                      | 43,809   | 37,173   |
| Other non-interest expense                        | 35,806   | 29,976   |
| Income (loss) before income tax expense (benefit) | 8,003    | 7,197    |
| Income tax expense                                | 1,030    | 1,400    |
| Net Income                                        | \$6,973  | \$5,797  |

## NOTE 10. NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update (“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 is effective for annual and interim periods beginning after December 15, 2014, and is not expected to have a material impact on the Company’s consolidated financial statements.

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

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

ASU No. 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 is effective for annual and interim periods beginning after December 15, 2014, and is not expected to 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 11. FAIR VALUE MEASUREMENTS

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

The fair value hierarchy is as follows:

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



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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 June 30, 2015 or September 30, 2014.

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

The following table summarizes the fair values of securities available for sale and held to maturity at June 30, 2015 and September 30, 2014. Securities available for sale are measured at fair value on a recurring basis, while securities held to maturity are carried at amortized cost in the consolidated statements of financial condition.

| (Dollars in Thousands)                                              | Fair Value At June 30, 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                            | \$16,992                    | \$-     | \$16,992 | \$ -    | \$-              | \$ -    | \$-     | \$ -    |
| Small business administration securities                            | 37,150                      | -       | 37,150   | -       | -                | -       | -       | -       |
| Obligations of states and political subdivisions                    | -                           | -       | -        | -       | 18,876           | -       | 18,876  | -       |
| Non-bank qualified obligations of states and political subdivisions | 507,702                     | -       | 507,702  | -       | 240,693          | -       | 240,693 | -       |

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|                                  |             |       |             |      |           |      |           |      |
|----------------------------------|-------------|-------|-------------|------|-----------|------|-----------|------|
| Mortgage-backed securities       | 596,976     | -     | 596,976     | -    | 67,420    | -    | 67,420    | -    |
| Total debt securities            | 1,158,820   | -     | 1,158,820   | -    | 326,989   | -    | 326,989   | -    |
| Common equities and mutual funds | 966         | 966   | -           | -    | -         | -    | -         | -    |
| Total securities                 | \$1,159,786 | \$966 | \$1,158,820 | \$ - | \$326,989 | \$ - | \$326,989 | \$ - |

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| (Dollars in Thousands)                                              | Fair Value at September 30, 2014 |         |             |         |                  |         |           |         |
|---------------------------------------------------------------------|----------------------------------|---------|-------------|---------|------------------|---------|-----------|---------|
|                                                                     | 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                            | \$46,929                         | \$-     | \$46,929    | \$ -    | \$-              | \$ -    | \$-       | \$ -    |
| Small business administration securities                            | 67,012                           | -       | 67,012      | -       | -                | -       | -         | -       |
| Obligations of states and political subdivisions                    | -                                | -       | -           | -       | 18,980           | -       | 18,980    | -       |
| Non-bank qualified obligations of states and political subdivisions | 367,580                          | -       | 367,580     | -       | 192,160          | -       | 192,160   | -       |
| Mortgage-backed securities                                          | 657,870                          | -       | 657,870     | -       | 68,172           | -       | 68,172    | -       |
| Total debt securities                                               | 1,139,391                        | -       | 1,139,391   | -       | 279,312          | -       | 279,312   | -       |
| Common equities and mutual funds                                    | 825                              | 825     | -           | -       | -                | -       | -         | -       |
| Total securities                                                    | \$1,140,216                      | \$825   | \$1,139,391 | \$ -    | \$279,312        | \$ -    | \$279,312 | \$ -    |

**Foreclosed Real Estate and Repossessed Assets.** Real estate properties and repossessed assets are initially recorded at the fair value less selling costs at the date of foreclosure, establishing a new cost basis. The carrying amount represents the lower of the new cost basis or the fair value less selling costs of foreclosed assets that were measured at fair value subsequent to their initial classification as foreclosed assets.

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

The following table summarizes the assets of the Company that are measured at fair value in the consolidated statements of financial condition on a non-recurring basis as of June 30, 2015 and September 30, 2014.

| (Dollars in Thousands)                        | Fair Value at June 30, 2015 |         |         |         |
|-----------------------------------------------|-----------------------------|---------|---------|---------|
|                                               | Total                       | Level 1 | Level 2 | Level 3 |
| Impaired Loans, net                           |                             |         |         |         |
| One to four family residential mortgage loans | \$-                         | \$ -    | \$ -    | \$-     |
| Commercial and multi-family real estate loans | 683                         | -       | -       | 683     |
| Agricultural operating loans                  | 3,708                       | -       | -       | 3,708   |
| Total Impaired Loans                          | 4,391                       | -       | -       | 4,391   |
| Foreclosed Assets, net                        | 54                          | -       | -       | 54      |
| Total                                         | \$4,445                     | \$ -    | \$ -    | \$4,445 |

| (Dollars in Thousands)                        | Fair Value at September 30, 2014 |         |         |         |
|-----------------------------------------------|----------------------------------|---------|---------|---------|
|                                               | Total                            | Level 1 | Level 2 | Level 3 |
| Impaired Loans, net                           |                                  |         |         |         |
| One to four family residential mortgage loans | \$222                            | \$ -    | \$ -    | \$222   |
| Commercial and multi-family real estate loans | 930                              | -       | -       | 930     |
| Total Impaired Loans                          | 1,152                            | -       | -       | 1,152   |
| Foreclosed Assets, net                        | 15                               | -       | -       | 15      |
| Total                                         | \$1,167                          | \$ -    | \$ -    | \$1,167 |



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| Quantitative Information About Level 3 Fair Value Measurements |                     |                    |                                 |
|----------------------------------------------------------------|---------------------|--------------------|---------------------------------|
| Fair Value at June 30, 2015                                    |                     |                    |                                 |
| (Dollars in Thousands)                                         | Valuation Technique | Unobservable Input |                                 |
| Impaired Loans, net                                            | \$4,391             | Market approach    | Appraised values <sup>(1)</sup> |
| Foreclosed Assets, net                                         | 54                  | 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 September 30, 2014                               |                     |                    |                                 |
| (Dollars in Thousands)                                         | Valuation Technique | Unobservable Input |                                 |
| Impaired Loans, net                                            | \$1,152             | Market approach    | Appraised values <sup>(1)</sup> |
| Foreclosed Assets, net                                         | 15                  | 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 June 30, 2015 and September 30, 2014, as more fully described below. The operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the Bank's capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.



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The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at June 30, 2015 and September 30, 2014.

|                                                              | June 30, 2015          |            |           |           |         |
|--------------------------------------------------------------|------------------------|------------|-----------|-----------|---------|
|                                                              | Carrying               | Estimated  |           |           |         |
|                                                              | Amount                 | Fair Value | Level 1   | Level 2   | Level 3 |
|                                                              | (Dollars in Thousands) |            |           |           |         |
| Financial assets                                             |                        |            |           |           |         |
| Cash and cash equivalents                                    | \$20,405               | \$20,405   | \$20,405  | \$-       | \$-     |
| Securities available for sale                                | 1,159,786              | 1,159,786  | 966       | 1,158,820 | -       |
| Securities held to maturity                                  | 331,635                | 326,989    | -         | 326,989   | -       |
| Total securities                                             | 1,491,421              | 1,486,775  | 966       | 1,485,809 | -       |
| Loans receivable:                                            |                        |            |           |           |         |
| One to four family residential mortgage loans                | 118,716                | 117,325    | -         | -         | 117,325 |
| Commercial and multi-family real estate loans                | 278,910                | 281,441    | -         | -         | 281,441 |
| Agricultural real estate loans                               | 64,173                 | 65,877     | -         | -         | 65,877  |
| Consumer loans                                               | 32,968                 | 34,131     | -         | -         | 34,131  |
| Commercial operating loans                                   | 30,004                 | 24,927     | -         | -         | 24,927  |
| Agricultural operating loans                                 | 41,511                 | 39,191     | -         | -         | 39,191  |
| Premium finance                                              | 91,740                 | 94,068     | -         | -         | 94,068  |
| Total loans receivable                                       | 658,022                | 656,960    | -         | -         | 656,960 |
| Federal Home Loan Bank stock                                 | 23,850                 | 23,850     | -         | 23,850    | -       |
| Accrued interest receivable                                  | 14,235                 | 14,235     | 14,235    | -         | -       |
| Financial liabilities                                        |                        |            |           |           |         |
| Noninterest bearing demand deposits                          | 1,321,213              | 1,321,213  | 1,321,213 | -         | -       |
| Interest bearing demand deposits, savings, and money markets | 113,031                | 113,031    | 113,031   | -         | -       |
| Certificates of deposit                                      | 78,963                 | 79,017     | -         | 79,017    | -       |
| Total deposits                                               | 1,513,207              | 1,513,261  | 1,434,244 | 79,017    | -       |
| Advances from Federal Home Loan Bank                         | 7,000                  | 8,605      | -         | 8,605     | -       |
| Federal funds purchased                                      | 526,000                | 526,000    | -         | 526,000   | -       |
| Securities sold under agreements to repurchase               | 13,278                 | 13,278     | -         | 13,278    | -       |
| Subordinated debentures                                      | 10,310                 | 10,413     | -         | 10,413    | -       |
| Accrued interest payable                                     | 279                    | 279        | 279       | -         | -       |

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|                                                              | September 30, 2014     |                      |           |           |         |
|--------------------------------------------------------------|------------------------|----------------------|-----------|-----------|---------|
|                                                              | Carrying Amount        | Estimated Fair Value | Level 1   | Level 2   | Level 3 |
|                                                              | (Dollars in Thousands) |                      |           |           |         |
| Financial assets                                             |                        |                      |           |           |         |
| Cash and cash equivalents                                    | \$29,832               | \$29,832             | \$29,832  | \$-       | \$-     |
| Securities available for sale                                | 1,140,216              | 1,140,216            | 825       | 1,139,391 | -       |
| Securities held to maturity                                  | 282,933                | 279,312              | -         | 279,312   | -       |
| Total securities                                             | 1,423,149              | 1,419,528            | 825       | 1,418,703 | -       |
| Loans receivable:                                            |                        |                      |           |           |         |
| One to four family residential mortgage loans                | 116,395                | 111,254              | -         | -         | 111,254 |
| Commercial and multi-family real estate loans                | 224,302                | 234,845              | -         | -         | 234,845 |
| Agricultural real estate loans                               | 56,071                 | 58,651               | -         | -         | 58,651  |
| Consumer loans                                               | 29,329                 | 29,580               | -         | -         | 29,580  |
| Commercial operating loans                                   | 30,846                 | 25,660               | -         | -         | 25,660  |
| Agricultural operating loans                                 | 42,258                 | 44,398               | -         | -         | 44,398  |
| Total loans receivable                                       | 499,201                | 504,388              | -         | -         | 504,388 |
| Federal Home Loan Bank stock                                 | 21,245                 | 21,245               | -         | 21,245    | -       |
| Accrued interest receivable                                  | 11,222                 | 11,222               | 11,222    | -         | -       |
| Financial liabilities                                        |                        |                      |           |           |         |
| Noninterest bearing demand deposits                          | 1,126,715              | 1,126,715            | 1,126,715 | -         | -       |
| Interest bearing demand deposits, savings, and money markets | 105,273                | 105,273              | 105,273   | -         | -       |
| Certificates of deposit                                      | 134,553                | 134,746              | -         | 134,746   | -       |
| Total deposits                                               | 1,366,541              | 1,366,734            | 1,231,988 | 134,746   | -       |
| Advances from Federal Home Loan Bank                         | 7,000                  | 8,789                | -         | 8,789     | -       |
| Federal funds purchased                                      | 470,000                | 470,000              | -         | 470,000   | -       |
| Securities sold under agreements to repurchase               | 10,411                 | 10,411               | -         | 10,411    | -       |
| Subordinated debentures                                      | 10,310                 | 10,415               | -         | 10,415    | -       |
| Accrued interest payable                                     | 318                    | 318                  | 318       | -         | -       |

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at June 30, 2015 and September 30, 2014.

**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 June 30, 2015 or September 30, 2014. 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.

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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.

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## NOTE 12. GOODWILL AND INTANGIBLE ASSETS

The Company recorded \$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. The goodwill associated with this transaction is deductible for tax purposes. As part of the AFS/IBEX transaction, Meta Financial also recognized the following amortizable intangible assets:

| 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 |

The changes in the carrying amount of the Company's goodwill and intangible assets for the nine months ended June 30, 2015 and 2014 are as follows:

|                                            | Specialty Finance Goodwill | Specialty Finance Intangibles | Meta Payment Systems® Patents | Total    |
|--------------------------------------------|----------------------------|-------------------------------|-------------------------------|----------|
|                                            | (Dollars in Thousands)     |                               |                               |          |
| Balance as of September 30, 2014           | \$-                        | \$ -                          | \$ 2,588                      | \$2,588  |
| Acquisitions during the period             | 11,578                     | 8,213                         | -                             | 19,791   |
| Patent costs capitalized during the period | -                          | -                             | 151                           | 151      |
| Amortization during the period             | -                          | (791 )                        | (68 )                         | (859 )   |
| Balance as of June 30, 2015                | \$11,578                   | \$ 7,422                      | \$ 2,671                      | \$21,671 |

|                                             | Specialty Finance Goodwill | Specialty Finance Intangibles | Meta Payment Systems® Patents | Total   |
|---------------------------------------------|----------------------------|-------------------------------|-------------------------------|---------|
|                                             | (Dollars in Thousands)     |                               |                               |         |
| Balance as of September 30, 2013            | \$- \$                     | -                             | \$ 2,339                      | \$2,339 |
| Patents costs capitalized during the period | -                          | -                             | 202                           | 202     |
| Amortization during the period              | -                          | -                             | (56 )                         | (56 )   |
| Balance as of June 30, 2014                 | \$- \$                     | -                             | \$ 2,485                      | \$2,485 |



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The Company tests intangible assets for impairment at least annually or more often if conditions indicate a possible impairment. There was no impairment to intangible assets during the nine months ended June 30, 2015 and 2014. The annual goodwill impairment test will be conducted at September 30, 2015.

## NOTE 13. 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 the statutory federal income tax rate for the nine months ended June 30, 2015 and 2014 as follows:

|                                            | Income Tax<br>Expense (Benefit)<br>As Of |                     |
|--------------------------------------------|------------------------------------------|---------------------|
|                                            | June<br>30,<br>2015                      | June<br>30,<br>2014 |
|                                            | (Dollars in<br>Thousands)                |                     |
| Income tax expense at federal tax rate     | \$5,229                                  | \$5,197             |
| Increase (decrease) resulting from:        |                                          |                     |
| State income taxes net of federal benefit  | 477                                      | 489                 |
| Nontaxable buildup in cash surrender value | (444 )                                   | (318 )              |
| Incentive stock option expense             | (45 )                                    | (200 )              |
| Tax exempt income                          | (3,606)                                  | (2,625)             |
| Nondeductible expenses                     | 124                                      | 82                  |
| Other, net                                 | (212 )                                   | (125 )              |
| Total income tax expense (benefit)         | \$1,523                                  | \$2,500             |

The Company's effective tax rate for the nine months ended June 30, 2015 decreased as compared to the nine months ended June 30, 2014 primarily due to the level of tax exempt income as compared to overall pre-tax income.

## NOTE 14. 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 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 now 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.

On January 5, 2015, the Federal Deposit Insurance Corporation ("FDIC") published industry guidance (the "Guidance") in the form of Frequently Asked Questions with respect to the categorization of deposit liabilities as "brokered" deposits.

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.



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NOTE 15. SUBSEQUENT EVENTS

On July 16, 2015, Meta entered into a definitive agreement with Fort Knox Financial Services Corporation and its subsidiary, Tax Product Services LLC, to acquire substantially all the assets and assume specified liabilities of the companies for approximately \$50 million, subject to adjustment, to be paid approximately half in Meta common stock and half in cash. The consummation of the transaction is subject to a number of closing conditions, including, but not limited to, MetaBank obtaining adequate financing to fund the cash portion of the purchase price and the receipt of certain third party and governmental approvals. Fort Knox, through its Refund Advantage brand, is a leading provider of professional tax refund-transfer software used by independent Electronic Return Originators in over 10,000 locations nationwide and processes more than one million refund-transfers per year. Fort Knox offers tax refund transfer solutions through ACH direct deposit, check, and prepaid card. The Fort Knox team of professionals based in Louisville, KY, will join MetaBank as part of the transaction.

Meta entered into separate securities purchase agreements between June 25 and July 16, 2015 under which the Company agreed to sell to several institutional investors an aggregate of approximately 535,000 shares of its common stock, for total consideration of approximately \$26 million, contingent on completion of aforementioned acquisition.

Management has evaluated subsequent events. Other than noted above, there were no material subsequent events that would require recognition or disclosure in our consolidated financial statements as of and for the quarter ended June 30, 2015.

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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 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, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

You can identify forward-looking statements by words such as "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," "could," "future" or the negative of those terms or other words having similar meaning. You should carefully read statements that contain these words because they discuss our future expectations or state other "forward looking" information. These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address, among others, the following subjects: the potential benefits of the acquisition of Fort Knox and TPS, including but not limited to, its accretive impact on earnings per share, the potential for improved earnings, the anticipated tangible book value and earn-back period and its effects on the Company's growth, future operating results; customer retention; loan and other product demand; important components of the Company's statements of financial condition and operations; growth and expansion; new products and services, such as those offered by MetaBank or Meta Payment Systems® ("MPS"), a division of the Bank; credit quality and adequacy of reserves; technology; and the Company's employees. Actual results may differ materially from those contained in the forward-looking statements in this announcement. 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 risk that the Fort Knox transaction may not occur on a timely basis or at all, 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; the risk that the Company may incur unanticipated or unknown losses or liabilities if it completes 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, laws and regulations relating to the tax refund industry, our relationship with our primary regulators, the Office of the Comptroller of the Currency and the Federal Reserve; 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.

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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, 2014 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 June 30, 2015, compared to September 30, 2014, and the consolidated results of operations for the three and nine months ended June 30, 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, 2014.

### OVERVIEW OF CORPORATE DEVELOPMENTS

The Company recorded net income of \$4.6 million for the three months ended June 30, 2015, compared to net income of \$4.2 million for the same period in fiscal year 2014. The increase was primarily due to an increase of \$2.7 million in net interest income, an increase of \$2.1 million in card fee income, an increase of \$0.4 million in bank owned life insurance, an increase of \$0.4 million in loan fees and a decrease of \$0.8 million in tax expense, offset by an increase of \$5.6 million in non-interest expense and a \$0.4 million increase in provision for loan losses.

Meta entered into separate securities purchase agreements between June 25 and July 16, 2015 under which the Company agreed to sell to several institutional investors an aggregate of approximately 535,000 shares of its common stock, for total consideration of approximately \$26 million, contingent on completion of the Fort Knox acquisition. The net proceeds from these private placements will finance the cash portion of the acquisition described below. On July 16, 2015, Meta entered into a definitive agreement with Fort Knox Financial Services Corporation ("Fort Knox") and its subsidiary, Tax Product Services LLC, to acquire substantially all the assets and assume specified liabilities of the companies for approximately \$50 million, subject to adjustment, to be paid approximately half in Meta common stock and half in cash. The consummation of the transaction is subject to a number of closing conditions, including, but not limited to, MetaBank obtaining adequate financing to fund the cash portion of the purchase price and the receipt of certain third party and governmental approvals. Fort Knox, through its Refund Advantage brand, is a leading provider of professional tax refund-transfer software used by independent Electronic Return Originators in over 10,000 locations nationwide and processes more than one million refund-transfers per year. Fort Knox offers tax refund transfer solutions through ACH direct deposit, check, and prepaid card. The Fort Knox team of professionals based in Louisville, KY, will join MetaBank as part of the transaction.

Total loans, net of allowance for loan losses, increased \$158.5 million, or 32%, to \$651.5 million at June 30, 2015 compared to September 30, 2014.

The average internal net interest yield MPS received for its deposits was 1.42% in the fiscal 2015 third quarter and 1.36% in the comparable 2014 period.

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The Company's tangible book value per common share decreased by \$0.90, or three percent, to \$27.01 per share at June 30, 2015, from \$27.91 per share at September 30, 2014. This decrease is primarily attributable to increases in goodwill and intangible assets due to the AFS/IBEX transaction, and a 13% increase in the number of common shares outstanding which was partially offset by an increase in retained earnings, and lastly, a decrease in accumulated other comprehensive income ("AOCI"). The tangible book value per common share excluding AOCI was \$27.78 as of June 30, 2015, compared to \$28.47 as of September 30, 2014. Book value per common share outstanding increased by \$1.80, or 6%, to \$30.13 per share at June 30, 2015, from \$28.33 per share at September 30, 2014.

At June 30, 2015, non-performing assets were \$7.6 million compared to \$1.0 million at September 30, 2014. This increase was mainly due to a downgrade of a large agriculture relationship. In the AFS/IBEX portfolio, non-performing assets were \$0.7 million at June 30, 2015.

On January 5, 2015, the Federal Deposit Insurance Corporation ("FDIC") published industry guidance (the "Guidance") in the form of Frequently Asked Questions with respect to the categorization of deposit liabilities as "brokered" deposits. Based on the Guidance, the Company has determined to treat \$1.0 billion, or 74% of its deposit liabilities, and 45% of its total liabilities, as brokered deposits, effective for the quarter ended June 30, 2015.

## FINANCIAL CONDITION

At June 30, 2015, the Company's assets grew by \$256.0 million, or 12.5%, to \$2.31 billion compared to \$2.05 billion at September 30, 2014. The increase in assets was due primarily to increases in net loans receivable, the investment securities portfolio, and goodwill and intangible assets resulting from the AFS/IBEX transaction, offset in part principally by decreases in mortgage backed securities and cash and cash equivalents.

Total cash and cash equivalents were \$20.4 million at June 30, 2015, a decrease of \$9.4 million from \$29.8 million at September 30, 2014. 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 June 30, 2015, the Company had no federal funds sold.

The total of mortgage-backed securities ("MBS") and investment securities increased \$68.2 million, or 4.8%, to \$1.49 billion at June 30, 2015, as compared to \$1.42 billion at September 30, 2014, 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 \$666.0 million of MBS, \$597.0 million are classified as available for sale, and \$69.0 million are classified as held to maturity. Of the total of \$825.4 million of investment securities, \$562.8 million are classified as available for sale and \$262.6 million are classified as held to maturity. During the nine month period ended June 30, 2015, the Company purchased a gross amount of \$430.4 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 \$167.2 million of investment securities available for sale and \$52.2 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.

The Company's portfolio of net loans receivable increased \$158.5 million, or 32%, to \$651.5 million at June 30, 2015 from \$493.0 million at September 30, 2014. This increase primarily relates to growth in commercial insurance premium finance loans and commercial and multi-family real estate loans of \$91.7 million and \$54.6 million, respectively. Of the \$278.9 million in commercial and multi-family real estate loans, \$45.2 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.

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Goodwill and intangible assets increased by \$19.1 million as a result of the AFS/IBEX transaction during the first quarter of fiscal year 2015.

The Company owns stock in the FHLB due to the Bank's membership. 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 increased \$2.7 million to \$23.9 million at June 30, 2015, from \$21.2 million at September 30, 2014. The increase directly correlates with the higher overnight federal funds purchased.

Total deposits increased \$146.7 million, or 10.7%, at June 30, 2015, from September 30, 2014. Deposits attributable to MPS increased by \$195.2 million, or 17.8%, to \$1.29 billion at June 30, 2015, compared to \$1.10 billion at September 30, 2014. Additionally, certificates of deposits decreased by \$55.6 million to \$79.0 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 \$2.06 billion for the nine month period ended June 30, 2015, compared to \$1.72 billion for the same period in the prior fiscal year. The average balance of non-interest bearing deposits for the nine month period ended June 30, 2015, increased by \$313.4 million, or 24% to \$1.64 billion at June 30, 2015, compared to \$1.32 billion for the same period in the prior fiscal year.

Total borrowings increased \$58.9 million from \$497.7 million at September 30, 2014, to \$556.6 million at June 30, 2015, primarily due to the increase 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 and Tuesday, which are typically paid down throughout the week. This predictable fluctuation may be augmented near a month end by a prefunding of certain programs. Oftentimes, as was the case with the June 30, 2015 month end, a prefunding took place on June 25 and June 26 of 2015 and the related deposits were received on July 1 and July 2 of 2015. As of July 3, 2015, the Company had no overnight borrowings.

At June 30, 2015, the Company's stockholders' equity totaled \$209.3 million, an increase of \$34.5 million, from \$174.8 million at September 30, 2014. The increase was primarily due to the ATM Offering, which raised proceeds of \$25.4 million, net of direct selling costs, as well as an increase in retained earnings of \$10.8 million, and was partially offset by a decrease in AOCI of \$2.0 million. At June 30, 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 Retail Bank or 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.

The Company believes that the level of allowance for loan losses at June 30, 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.



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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 no direct exposure to oil and gas producers.

|  | Non-Performing<br>Assets As Of |                       |
|--|--------------------------------|-----------------------|
|  | June<br>30,<br>2015            | September<br>30, 2014 |
|  | (Dollars in<br>Thousands)      |                       |

Non-Performing Loans

## Non-Accruing Loans:

|                                                      |       |        |
|------------------------------------------------------|-------|--------|
| 1-4 Family Real Estate                               | \$25  | \$ 281 |
| Commercial & Multi Family Real Estate <sup>(1)</sup> | 923   | 312    |
| Agricultural Operating                               | 5,869 | 340    |
| Total                                                | 6,817 | 933    |

## Accruing Loans Delinquent 90 Days or More

|                 |     |    |
|-----------------|-----|----|
| Consumer        | 5   | 54 |
| Premium Finance | 681 | -  |
| Total           | 686 | 54 |

|                            |       |     |
|----------------------------|-------|-----|
| Total Non-Performing Loans | 7,503 | 987 |
|----------------------------|-------|-----|

Other Assets

## Foreclosed Assets:

|                           |    |    |
|---------------------------|----|----|
| 1-4 Family Real Estate    | 54 | -  |
| Commercial & Multi Family | -  | 15 |
| Total                     | 54 | 15 |

|                    |    |    |
|--------------------|----|----|
| Total Other Assets | 54 | 15 |
|--------------------|----|----|

|                                       |         |          |
|---------------------------------------|---------|----------|
| Total Non-Performing Assets           | \$7,557 | \$ 1,002 |
| Total as a Percentage of Total Assets | 0.33 %  | 0.05 %   |

The Company had \$0 and \$312,000 of non-performing TDRs in Commercial & Multi Family for June 30, 2015 (1) and September 30, 2014, respectively. In addition to the TDRs in (1), the Company had \$0.6 million and \$4.5 million of performing TDRs in accordance with their terms at June 30, 2015 and September 30, 2014, respectively.

At June 30, 2015, non-performing loans totaled \$7.5 million, representing 1.14% of total loans, compared to \$1.0 million, or 0.20% of total loans at September 30, 2014. This increase was mainly due to a downgrade of a large agriculture relationship. Excluding the purchased AFS/IBEX portfolio, non-performing assets were 0.30% of total assets at June 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.

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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.

On the basis of management’s review of its loans and other assets, at June 30, 2015, the Company had classified a total of \$12.7 million of its assets as substandard and none as doubtful or loss. Of this amount, \$2.2 million was from an agricultural relationship downgraded to substandard in the current quarter. This compares to classifications at September 30, 2014 of \$12.9 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 economic conditions of our markets have stabilized and are improving, along with the financial conditions of some borrowers. Even with stable to improving economies in our markets, management believes that future losses in the residential portfolio may be somewhat higher than historical experience. It should be noted that a sizeable portion of the Company’s consumer loan portfolio is secured by residential real estate. Over the past three years, loss rates in the commercial and multi-family real estate market have remained moderate. Management believes that future losses in this portfolio may be somewhat higher than recent historical experience. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes the low commodity prices and high land rents have the potential to negatively impact the economics of our agricultural markets. In addition, management believes the continuing low growth environment may also negatively impact consumers’ repayment capacities.

At June 30, 2015, the Company had established an allowance for loan losses totaling \$6.2 million, compared to \$5.4 million at September 30, 2014, with the increase due to an increase in the provision for loan losses of \$1.3 million, primarily due to loan growth, the downgraded agricultural relationship during the quarter, and net charge offs of \$0.5 million for the nine month period ended June 30, 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 June 30, 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.



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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, 2014, and information contained herein.

**Allowance for Loan Losses.** The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies, and pace of portfolio growth are other qualitative factors that are considered in the methodology. Although management believes the levels of the allowance at both June 30, 2015 and September 30, 2014 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.

Goodwill and intangible assets are tested annually 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. Goodwill and customer relationship, non-compete, and trademark intangibles of \$19.8 million were recorded as a result of the December 2, 2014 AFS/IBEX transaction. The Company had no goodwill as of September 30, 2014.

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

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

**Security Impairment.** Management continually 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 \$4.6 million, or 66 cents per diluted share, for the three months ended June 30, 2015, compared to net income of \$4.2 million, or 68 cents per diluted share, for the same period in fiscal year 2014. The increase in net income was primarily due to an increase of \$2.7 million in net interest income, an increase of \$2.1 million in card fee income, an increase of \$0.4 million in bank owned life insurance, an increase of \$0.4 million in loan fees and a decrease of \$0.8 million in tax expense, offset by an increase of \$5.6 million in non-interest expense and a \$0.4 million increase in provision for loan losses.

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The Company recorded net income of \$13.4 million, or \$2.03 per diluted share, for the nine months ended June 30, 2015, compared to \$12.3 million, or \$1.99 per diluted share, for the same period in fiscal year 2014. Net earnings for the nine month period ended June 30, 2015 were primarily impacted by an increase of \$9.6 million in net interest income and an increase of \$3.9 million in card fee income, offset primarily by a \$12.7 million increase in non-interest expense.

**Net Interest Income.** Net interest income for the fiscal 2015 third quarter increased by \$2.8 million, or 22.9%, to \$14.7 million from \$11.9 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 a higher volume and yields of other investments (primarily AA- and AAA- rated General Obligation (“GO”) municipal bonds) and higher yields realized on MBS. Also, interest expense decreased slightly from the comparable 2014 quarter. The relative growth in the loan portfolio, increased yield achieved on MBS securities, and higher mix of loans to investments also aided net interest margin expansion. Net interest margin increased to 3.00% for the third quarter of fiscal year 2015, as compared to 2.86% for the same period in fiscal year 2014.

The Company notes interest income and NIM realized in the current quarter were temporarily depressed due to a securities portfolio restructuring. Meta executed upon an opportunity to sell two agency mortgage backed securities (“MBS”) and one floating rate security which were at relatively lower yields and redeploy the proceeds in extremely high quality tax exempt municipal securities at relatively high yields, particularly on a taxable equivalent basis. This restructuring intentionally corresponded with what we observed in the overall level of interest rates. The Company sold the two MBS securities at a point in time when overall longer term interest rates had materially declined and replaced with municipal securities in significant volume during periods of higher overall longer term rates, thereby taking advantage of lower rates on the sale and higher rates on the redeployment of funds. However, due to timing of the sales of its MBS and the related bond accounting, the MBS securities sold received a full month’s amortization and only a partial month’s income accrual. Removing the full month’s amortization and amortizing only for the number of days the securities were held, the Company estimates would have added approximately \$125,000 to net interest income in the fiscal third quarter 2015. The temporary delay of reinvestment in municipal securities as the Company repurchased the corresponding volume of high quality municipal securities at what it believed to be attractive pricing, came with an opportunity cost of being un-invested for a period of time. This reinvestment was done in just over a month’s time on a trade date basis with a number of purchases with corresponding settle dates that extended up to two months after the MBS sales trade and settle dates. The Company estimates this impacted interest income and NIM since the balance sheet is as of trade date and income statement is as of settle date as well as being un-invested for the time period between the sale of the MBS and the settle date of the full amount of replacement purchases. The Company estimates if it was able to purchase and settle all the municipal securities done in the restructuring on the same date it sold the MBS, thereby removing all timing differences, interest income would have increased by over \$135,000 on a pretax basis, and over \$200,000 on a taxable equivalent bases for the fiscal third quarter 2015. When combining the opportunity costs of this lost income with the MBS, had the MBS sales received only a partial month’s accrual, rather than a full month, interest income would have been higher by over \$260,000 on a pretax basis and over \$330,000 on a taxable equivalent basis. In summary, the Company sacrificed immediate income during the quarter for what it estimates as a sizable income increase going forward. The Company estimates, when all purchases are settled, a monthly increase in income of over \$80,000 and \$140,000 from the restructuring on a pretax and taxable equivalent basis, respectively, which equates to an annual increase in income of over \$960,000 and \$1,650,000 on a pretax and taxable equivalent basis, respectively, while only extending overall portfolio duration by under 0.25 years and improving convexity. These estimates are based on static three month conditional prepayment rate (“CPR”) speeds on the MBS sold and no increase in rate on the floating rate security sold.



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Overall, when using a taxable equivalent yield (“TEY”), the Company’s interest earning asset yield increased by 11 basis points resulting partially from a change in asset mix which included a higher percentage of tax exempt income from municipal bonds and increased volume of loans receivable as a percentage of earning assets and their corresponding relatively higher yields in the fiscal 2015 third quarter compared to the same period in the prior fiscal year. The yield achieved on this growing loan portfolio, which increased by 26 basis points, 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 26 basis points on a TEY basis. The yield on government-related MBS decreased 54 basis points. The Company attributes a portion of this decline to the timing of the sale of the two MBS as part of the portfolio restructuring. Average quarterly TEY on the securities portfolio decreased by eight basis points in the third quarter of fiscal 2015 compared to the same quarter of the prior year driven by lower yields achieved in the MBS portfolio. Net interest margin was also positively impacted by a three basis point decrease in the total cost of funds. This decrease was primarily due to increasing MPS deposits and decreasing interest expense. The Company’s average interest-earning assets for the fiscal 2015 third quarter grew by \$367.8 million, or 20%, to \$2.24 billion, up from \$1.88 billion during the same quarter last fiscal year.

The Company’s average total deposits and interest-bearing liabilities for the 2015 third fiscal quarter increased \$332.2 million, or 19%, to \$2.10 billion from \$1.77 billion for the same quarter last year. This increase was generated primarily from an increase in MPS-related non-interest bearing deposits, slightly offset by a decrease in time deposits. MPS average quarterly deposits for the 2015 third fiscal quarter increased \$329.5 million, or 26%, 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. Overall, rates on all deposits and interest-bearing liabilities decreased by three basis points from 0.14% in the 2014 third fiscal quarter to 0.11% in the 2015 period. At June 30, 2015, low- cost checking deposits represented 92.4% of total deposits compared to 89.2% one year earlier.

For the nine months ended June 30, 2015, net interest income was \$43.5 million compared to \$34.0 million for the same period in the prior fiscal year. Contributing to this increase was an increase in asset yields of 20 basis points, an increased allocation to loans as a percentage of total interest earning assets, and increased volume in the loan and securities portfolio. The TEY of MBS and other investments was 2.67% for the nine months ended June 30, 2015, and 2.59% for the same period in 2014. Also contributing was a decrease in interest expense.

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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 June 30,

|                                                                                          | 2015         |           |        | 2014         |           |        |
|------------------------------------------------------------------------------------------|--------------|-----------|--------|--------------|-----------|--------|
|                                                                                          | Average      | Interest  | Yield  | Average      | Interest  | Yield  |
| (Dollars in Thousands)                                                                   | Outstanding  | Earned /  | /      | Outstanding  | Earned /  | /      |
|                                                                                          | Balance      | Paid      | Rate   | Balance      | Paid      | Rate   |
| Interest-earning assets:                                                                 |              |           |        |              |           |        |
| Loans receivable                                                                         | \$ 640,249   | \$ 7,528  | 4.72 % | \$ 455,223   | \$ 5,062  | 4.46 % |
| Mortgage-backed securities                                                               | 715,634      | 3,055     | 1.71 % | 694,117      | 3,898     | 2.25 % |
| Other investments and fed funds sold                                                     | 891,127      | 4,671     | 3.06 % | 729,858      | 3,606     | 2.78 % |
| Total interest-earning assets                                                            | 2,247,010    | \$ 15,254 | 3.10 % | 1,879,198    | \$ 12,566 | 2.99 % |
| Non-interest-earning assets                                                              | 101,071      |           |        | 109,410      |           |        |
| Total assets                                                                             | \$ 2,348,081 |           |        | \$ 1,988,608 |           |        |
| Non-interest bearing deposits                                                            | \$ 1,633,932 | \$ -      | 0.00 % | \$ 1,299,987 | \$ -      | 0.00 % |
| Interest-bearing liabilities:                                                            |              |           |        |              |           |        |
| Interest-bearing checking                                                                | 36,429       | 22        | 0.24 % | 33,939       | 24        | 0.28 % |
| Savings                                                                                  | 35,580       | 15        | 0.17 % | 30,059       | 11        | 0.15 % |
| Money markets                                                                            | 37,340       | 14        | 0.15 % | 41,724       | 19        | 0.18 % |
| Time deposits                                                                            | 60,965       | 107       | 0.70 % | 107,471      | 178       | 0.66 % |
| FHLB advances                                                                            | 7,000        | 124       | 7.11 % | 7,000        | 124       | 7.11 % |
| Overnight fed funds purchased                                                            | 266,978      | 195       | 0.29 % | 228,824      | 162       | 0.28 % |
| Other borrowings                                                                         | 19,645       | 116       | 2.37 % | 16,712       | 120       | 2.88 % |
| Total interest-bearing liabilities                                                       | 463,937      | 593       | 0.51 % | 465,729      | 638       | 0.55 % |
| Total deposits and interest-bearing liabilities                                          | 2,097,869    | \$ 593    | 0.11 % | 1,765,716    | \$ 638    | 0.14 % |
| Other non-interest bearing liabilities                                                   | 35,641       |           |        | 61,759       |           |        |
| Total liabilities                                                                        | 2,133,510    |           |        | 1,827,475    |           |        |
| Shareholders' equity                                                                     | 214,571      |           |        | 161,133      |           |        |
| Total liabilities and shareholders' equity                                               | \$ 2,348,081 |           |        | \$ 1,988,608 |           |        |
| Net interest income and net interest rate spread including non-interest bearing deposits |              | \$ 14,661 | 2.99 % |              | \$ 11,928 | 2.85 % |
| Net interest margin                                                                      |              |           | 3.00 % |              |           | 2.86 % |

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Nine Months Ended June 30,

|                                                                                             | 2015                              |                              |                 | 2014                              |                              |                 |
|---------------------------------------------------------------------------------------------|-----------------------------------|------------------------------|-----------------|-----------------------------------|------------------------------|-----------------|
| (Dollars in Thousands)                                                                      | Average<br>Outstanding<br>Balance | Interest<br>Earned /<br>Paid | Yield<br>/ Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned /<br>Paid | Yield<br>/ Rate |
| Interest-earning assets:                                                                    |                                   |                              |                 |                                   |                              |                 |
| Loans receivable                                                                            | \$ 593,477                        | \$21,561                     | 4.86 %          | \$ 422,573                        | \$14,283                     | 4.52 %          |
| Mortgage-backed securities                                                                  | 708,024                           | 10,798                       | 2.04 %          | 702,127                           | 11,506                       | 2.19 %          |
| Other investments and fed funds sold                                                        | 882,159                           | 12,885                       | 2.82 %          | 705,394                           | 10,001                       | 2.68 %          |
| Total interest-earning assets                                                               | 2,183,660                         | \$45,244                     | 3.12 %          | 1,830,094                         | \$35,790                     | 2.92 %          |
| Non-interest-earning assets                                                                 | 96,174                            |                              |                 | 74,452                            |                              |                 |
| Total assets                                                                                | \$ 2,279,834                      |                              |                 | \$ 1,904,546                      |                              |                 |
| Non-interest bearing deposits                                                               | \$ 1,635,607                      | \$ -                         | 0.00 %          | \$ 1,322,209                      | \$ -                         | 0.00 %          |
| Interest-bearing liabilities:                                                               |                                   |                              |                 |                                   |                              |                 |
| Interest-bearing checking                                                                   | 35,978                            | 66                           | 0.25 %          | 32,756                            | 72                           | 0.29 %          |
| Savings                                                                                     | 32,644                            | 44                           | 0.18 %          | 29,288                            | 35                           | 0.16 %          |
| Money markets                                                                               | 38,532                            | 44                           | 0.15 %          | 40,788                            | 56                           | 0.18 %          |
| Time deposits                                                                               | 86,696                            | 409                          | 0.63 %          | 105,463                           | 563                          | 0.71 %          |
| FHLB advances                                                                               | 7,000                             | 371                          | 7.09 %          | 7,000                             | 371                          | 7.09 %          |
| Overnight fed funds purchased                                                               | 196,974                           | 437                          | 0.30 %          | 167,403                           | 364                          | 0.29 %          |
| Other borrowings                                                                            | 22,041                            | 356                          | 2.16 %          | 18,819                            | 370                          | 2.63 %          |
| Total interest-bearing liabilities                                                          | 419,865                           | 1,727                        | 0.55 %          | 401,517                           | 1,831                        | 0.61 %          |
| Total deposits and interest-bearing liabilities                                             | 2,055,472                         | \$ 1,727                     | 0.11 %          | 1,723,726                         | \$ 1,831                     | 0.14 %          |
| Other non-interest bearing liabilities                                                      | 27,088                            |                              |                 | 28,367                            |                              |                 |
| Total liabilities                                                                           | 2,082,560                         |                              |                 | 1,752,093                         |                              |                 |
| Stockholders' equity                                                                        | 197,274                           |                              |                 | 152,453                           |                              |                 |
| Total liabilities and stockholders' equity                                                  | \$ 2,279,834                      |                              |                 | \$ 1,904,546                      |                              |                 |
| Net interest income and net interest rate spread<br>including non-interest bearing deposits |                                   | \$43,517                     | 3.01 %          |                                   | \$33,959                     | 2.78 %          |
| Net interest margin                                                                         |                                   |                              | 3.01 %          |                                   |                              | 2.78 %          |

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

| Three Months Ended June 30,       |                                   | 2015        |            | 2014         |                 |
|-----------------------------------|-----------------------------------|-------------|------------|--------------|-----------------|
| (Dollars in Thousands)            | Average<br>Outstanding<br>Balance | Interest    |            | Interest     |                 |
|                                   |                                   | Earned<br>/ | Yield<br>/ | Earned<br>/  | Yield<br>/      |
|                                   |                                   |             |            |              |                 |
|                                   |                                   | Paid        | Rate       | Paid         | Rate            |
| Securities Portfolio Assets       |                                   |             |            |              |                 |
| Mortgage-backed securities        | \$ 715,634                        | \$ 3,055    | 1.71 %     | \$ 694,118   | \$ 3,898 2.25 % |
| *Other investments                | 800,649                           | 4,517       | 3.33 %     | 645,010      | 3,487 3.07 %    |
| Total Securities Portfolio Assets | \$ 1,516,283                      | \$ 7,572    | 2.57 %     | \$ 1,339,128 | \$ 7,385 2.65 % |

\*Excludes FHLB Stock

(1) Tax rate used to arrive at a TEY for three months ended June 2014 is 34%

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

| Nine Months Ended June 30,        |                                   | 2015      |            | 2014         |                  |
|-----------------------------------|-----------------------------------|-----------|------------|--------------|------------------|
| (Dollars in Thousands)            | Average<br>Outstanding<br>Balance | Interest  |            | Interest     |                  |
|                                   |                                   | Earned /  | Yield<br>/ | Earned /     | Yield<br>/       |
|                                   |                                   |           |            |              |                  |
|                                   |                                   | Paid      | Rate       | Paid         | Rate             |
| Securities Portfolio Assets       |                                   |           |            |              |                  |
| Mortgage-backed securities        | \$ 708,024                        | \$ 10,798 | 2.04 %     | \$ 702,127   | \$ 11,506 2.19 % |
| *Other investments                | 742,188                           | 12,448    | 3.27 %     | 607,936      | 9,683 3.04 %     |
| Total Securities Portfolio Assets | \$ 1,450,212                      | \$ 23,246 | 2.67 %     | \$ 1,310,063 | \$ 21,189 2.59 % |

\*Excludes FHLB Stock

(1) Tax rate used to arrive at a TEY for nine months ended June 2014 is 34%

(2) Tax rate used to arrive at a TEY for nine months ended June 2015 is 34%

**Provision for Loan Losses.** The Company recorded a \$0.7 million and \$1.3 million provision for loan losses in the three and nine month periods ended June 30, 2015, respectively, as compared to a \$0.3 million and \$0.6 million provision for the comparable three and nine month periods of fiscal year 2014, respectively. The current period provision was primarily due to loan growth and the downgrade of an agriculture lending relationship. This was the result of the evaluation of the allowance for loan losses as explained in Note 4 to the Condensed Consolidated Financial Statements.

**Non-Interest Income.** Non-interest income for the fiscal 2015 third quarter increased by \$2.9 million, or 23.6%, to \$15.4 million from \$12.5 million for the same period in the prior fiscal year. The change was mainly due to an increase of \$2.0 million in card fee income from new and existing business partners and, to a lesser extent, an increase in loan fees. Fees earned on MPS related programs increased to \$13.9 million for the third quarter of fiscal year 2015, compared to \$11.8 million for the same period in fiscal year 2014.

For the nine months ended June 30, 2015, non-interest income increased by \$3.9 million, or 10.1%, to \$43.1 million from \$39.1 million for the same period in the prior fiscal year. As with the third fiscal quarter, increases in card fee income, and, to a lesser extent, loan fees, were primarily responsible for the increase. For the nine months ended June 30, 2015 and 2014, the Bank sold mortgage-backed and investment securities resulting in a loss on sale of available

for sale securities in the amount of \$1.2 million and a gain on sale of available for sale securities of \$0.1 million, respectively. In addition, fees earned on MPS-related programs were \$40.6 million for the nine months ended June 30, 2015, compared to \$36.8 million for the same period in fiscal year 2014.

Non-Interest Expense. Non-interest expense increased \$5.7 million, or 29.9%, to \$24.5 million, for the third quarter of fiscal year 2015, as compared to \$18.8 million for the same period in fiscal year 2014. Non-interest expense increased by \$12.7 million, or 22.0%, to \$70.3 million for the nine months ended June 30, 2015, from \$57.6 million for the same period in fiscal year 2014.

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Compensation expense increased \$2.8 million, or 30.1%, to \$12.1 million for the three months ended June 30, 2015, as compared to \$9.3 million for the same period in fiscal year 2014, primarily as a result of additional employees added to support Company growth initiatives and the Company's AFS/IBEX transaction. Compensation expense increased \$6.0 million, or 21.3%, to \$34.3 million for the nine months ended June 30, 2015 from \$28.3 million for the same period in fiscal year 2014 due primarily to a 27% increase in overall staffing.

Other expense increased \$1.5 million for the three months ended June 30, 2015, with \$0.7 million relating to AFS/IBEX operating expenses, \$0.3 million in regulatory expenses primarily relating to an increase in FDIC insurance due to recently issued brokered deposit classification guidance, and \$0.2 million related to the Fort Knox acquisition. For the nine month period ended June 30, 2015, other expense increased \$3.5 million primarily due to the aforementioned increases in AFS/IBEX operating expenses, regulatory expenses, and overall Company growth initiatives.

**Income Tax.** Income tax expense for the third quarter of fiscal year 2015 was \$0.3 million, or an effective tax rate of 5.5%, compared to income tax expense of \$1.1 million, or an effective tax rate of 20.3%, 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.

For the nine months ended June 30, 2015, the Company recorded an income tax expense in the amount of \$1.5 million, or an effective tax rate of 10.2%, compared to \$2.5 million, or an effective tax rate of 16.8% 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.

## LIQUIDITY AND CAPITAL RESOURCES

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

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At June 30, 2015, the Company had commitments to originate and purchase loans and unused lines of credit totaling \$124.2 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.

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Pursuant to the Basel III Capital Rules, our Company and Bank, respectively, are subject to new regulatory capital adequacy requirements promulgated by the Federal Reserve and the OCC. Failure by our 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 our Company. Under the capital requirements and the regulatory framework for prompt corrective action, our Company and Bank must meet specific capital guidelines that involve quantitative measures of our Company and Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our Company's and Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier I capital (as defined) to average assets (as defined). At June 30, 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.

|                                                    | Company       |        | Bank          |        | Minimum Requirement For Capital Adequacy Purposes |        | Minimum Requirement to Be Well Capitalized Under Prompt Corrective Action Provisions |        |
|----------------------------------------------------|---------------|--------|---------------|--------|---------------------------------------------------|--------|--------------------------------------------------------------------------------------|--------|
| At June 30, 2015                                   | Actual Amount | Ratio  | Actual Amount | Ratio  | Amount                                            | Ratio  | Amount                                                                               | Ratio  |
| (Dollars in Thousands)                             |               |        |               |        |                                                   |        |                                                                                      |        |
| Tier 1 (core) capital (to adjusted total assets)   | \$208,010     | 8.91 % | \$201,302     | 8.63 % | \$93,342                                          | 4.00 % | \$116,678                                                                            | 5.00 % |
| Common equity Tier 1 (to risk-weighted assets)     | 197,700       | 19.08  | 201,302       | 19.54  | 46,353                                            | 4.50   | 66,955                                                                               | 6.50   |
| Tier 1 (core) capital (to risk-weighted assets)    | 208,010       | 20.07  | 201,302       | 19.54  | 61,805                                            | 6.00   | 82,406                                                                               | 8.00   |
| Total qualifying capital (to risk-weighted assets) | 214,346       | 20.68  | 207,638       | 20.16  | 82,406                                            | 8.00   | 103,008                                                                              | 10.00  |



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

|                                                                                 | Standardized<br>Approach<br>(1)<br>June 30,<br>2015<br>(Dollars in<br>Thousands) |
|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| Total equity                                                                    | \$ 209,270                                                                       |
| Adjustments:                                                                    |                                                                                  |
| LESS: Goodwill, net of associated deferred tax liabilities                      | 11,412                                                                           |
| LESS: Certain other intangible assets                                           | 4,039                                                                            |
| LESS: Net deferred tax assets from operating loss and tax credit carry-forwards | 1,506                                                                            |
| LESS: Net unrealized gains (losses) on available-for-sale securities            | (5,387 )                                                                         |
| Common Equity Tier 1 <sup>(1)</sup>                                             | 197,700                                                                          |
| Long-term debt and other instruments qualifying as Tier 1                       | 10,310                                                                           |
| Total Tier 1 capital                                                            | 208,010                                                                          |
| Allowance for loan losses                                                       | 6,336                                                                            |
| Total qualifying capital                                                        | 214,346                                                                          |

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

Beginning January 1, 2016, Basel III implements a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer will be exclusively composed of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. On January 1, 2016, our 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, at which point, the 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 June 30, 2015, our 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.

### 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.

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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- or no-cost deposits provides a stable and profitable funding vehicle, but also subjects the Company to greater risk in a falling interest rate environment than it would otherwise have without this portfolio. This risk is due to the fact that, while asset yields may decrease in a falling interest rate environment, the Company cannot significantly reduce interest costs associated with these deposits, which thereby compresses the Company's net interest margin. As a result of the Company's interest rate risk exposure in this regard, the Company has elected not to enter in to any new longer term wholesale borrowings, and generally has not emphasized longer term time deposit products.

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

### Interest Rate Risk ("IRR")

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

**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.

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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 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 within policy limits for the -100 scenario while slightly outside Board policy limits for rising rate scenarios using the snapshot as of June 30, 2015 as required by regulation. The table below shows the results of the scenarios as of June 30, 2015:

## Net Sensitive Earnings at Risk

| Net Sensitive Earnings at Risk |                                  |        |         |         |
|--------------------------------|----------------------------------|--------|---------|---------|
| Balances as of June 30, 2015   | Standard (Parallel Shift) Year 1 |        |         |         |
|                                | Net Interest Income at Risk%     |        |         |         |
|                                | -100                             | +100   | +200    | +300    |
| Basis Point Change Scenario    | -1.7 %                           | -5.5 % | -11.1 % | -16.9 % |
| Board Policy Limits            | -5.0 %                           | -5.0 % | -10.0 % | -15.0 % |

The EAR analysis reported at June 30, 2015 shows that in an increasing interest rate environment, more liabilities (primarily due to the overnight federal funds purchased), than assets will reprice over the modeled one-year period.

IRR is a snapshot in time. The Company’s 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, timing of when certain programs are prefunded and when the funds are received, and, to a lesser extent, due to intraday funds flow settlement timing with the Federal Reserve Bank. First, IRR was negatively affected because fiscal third quarter 2015 ended on a Tuesday, which, resulting from payroll processing timing in concert with typical early week activity, tend to necessitate a higher than average amount of overnight federal funds purchased which are typically paid down throughout the week. Second, certain government programs were prefunded on June 25, and 26, of 2015. The corresponding deposits were received on July 1, and 2, of 2015. This timing difference allowed program participants to spend the prefunded amounts initiating the need for incremental borrowings until the corresponding deposits were received, thereby temporarily and predictably increasing overnight borrowings. All overnight borrowings were paid off as of July 3, 2015. For perspective, the amount of overnight federal funds purchased on Tuesday, June 30, 2015, was over \$210 million higher than the average amount of federal funds purchased throughout the month of June 2015. Owing to the snapshot nature of IRR, as is required by regulators, in concert with the Company’s predictable, weekly and monthly 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 anticipated an outcome where the Company may temporarily be outside of Board policy limits based on a snapshot analysis.

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For management to better understand the IRR position of the Bank, an alternative IRR run was completed which all June 30, 2015 values were utilized with the exception of overnight borrowings, non-interest bearing deposits, and cash. To eliminate timing issues documented above, quarterly average balances were utilized for overnight borrowings and non-interest bearing deposits. Cash was used to balance the balance sheet. Management feels this view on IRR more accurately portrays the Banks IRR position. As noted in the below chart, the alternative EAR results are much improved as timing issues in deposits and overnight borrowings are removed.

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 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    |
| Basis Point Change Scenario    | -2.5 %                           | -0.7 % | -1.5 %  | -2.5 %  |
| Board Policy Limits            | -5.0 %                           | -5.0 % | -10.0 % | -15.0 % |

Management is investigating the utilization of advanced interest rate risk modeling software to potentially further enhance the Company's analysis and reporting. In discussions with the current IRR provider, a missing component in the current IRR system of record is the projected increase in yield within the fixed rate MBS portfolio in an instantaneous, parallel increasing interest rate environment. This yield increase would positively affect EAR results. For example, the Company estimates, based on projections provided by the Yield Book software, on its fixed rate MBS portfolio as of June 30, 2015, in a +50, +100, +200, and +300 immediate, parallel shocked interest rate environment, interest earned on its fixed rate MBS securities and reinvested principal over one year's time would increase by \$4.4 million, \$5.8 million, \$6.8 million, and \$7.4 million, respectively from the current, historical three month CPR income base amount. This projected income increase is not modeled in the current IRR system of record. The Company also anticipates improved IRR results as it continues the integration of AFS/IBEX and the continuation of execution on its strategic plans, particularly in a rising interest rate environment.

## Net Sensitive Earnings at Risk as of June 30, 2015

| Balances as of June 30, 2015                         | 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                                 |        |        |        |        |
| Basis Point Change Scenario                          |                                   |                           | -100                                                                   | Base   | +100   | +200   | +300   |
| Total Loans                                          | 650,076                           | 29.9 %                    | 31,234                                                                 | 32,797 | 34,467 | 36,113 | 37,750 |
| Total Investments (non-TEY) and other Earning Assets | 1,525,909                         | 70.1 %                    | 32,281                                                                 | 32,921 | 33,643 | 34,340 | 35,020 |
| Total Interest -Sensitive Income                     | 2,175,985                         | 100.0 %                   | 63,515                                                                 | 65,718 | 68,110 | 70,453 | 72,770 |
| Total Interest-Bearing Deposits                      | 191,994                           | 26.0 %                    | 475                                                                    | 701    | 1,360  | 2,078  | 2,858  |
| Total Borrowings                                     | 546,278                           | 74.0 %                    | 1,162                                                                  | 2,092  | 7,262  | 12,433 | 17,603 |
| Total Interest-Sensitive Expense                     | 738,272                           | 100.0 %                   | 1,637                                                                  | 2,793  | 8,622  | 14,511 | 20,461 |

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## Alternative Net Sensitive Earnings at Risk

## Alternative IRR Results

| Basis Point Change Scenario                             | Total<br>Earning<br>Assets (in<br>\$000's) | % of<br>Total<br>Earning<br>Assets | Change in Interest Income/Expense<br>for a given change in interest rates |        |        |        |        |
|---------------------------------------------------------|--------------------------------------------|------------------------------------|---------------------------------------------------------------------------|--------|--------|--------|--------|
|                                                         |                                            |                                    | Over / (Under) Base Case Parallel Ramp                                    |        |        |        |        |
|                                                         |                                            |                                    | -100                                                                      | Base   | +100   | +200   | +300   |
| Total Loans                                             | 650,076                                    | 29.1 %                             | 31,234                                                                    | 32,797 | 34,467 | 36,113 | 37,750 |
| Total Investments (non-TEY) and other<br>Earning Assets | 1,580,741                                  | 70.9 %                             | 32,340                                                                    | 33,060 | 34,317 | 35,547 | 36,761 |
| Total Interest -Sensitive Income                        | 2,230,817                                  | 100.0 %                            | 63,574                                                                    | 65,857 | 68,784 | 71,660 | 74,511 |
| Total Interest-Bearing Deposits                         | 191,994                                    | 40.1 %                             | 475                                                                       | 701    | 1,360  | 2,078  | 2,858  |
| Total Borrowings                                        | 287,256                                    | 59.9 %                             | 857                                                                       | 1,341  | 4,029  | 6,717  | 9,405  |
| Total Interest-Sensitive Expense                        | 479,250                                    | 100.0 %                            | 1,332                                                                     | 2,042  | 5,389  | 8,795  | 12,263 |

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. As the above interest income figures are quoted on a pre-tax basis, the positive effects of the recent securities portfolio restructuring are not fully captured in this analysis.

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 and +300 basis point parallel shifts in market interest rates. Due to the current low level of interest rates, only a -100 basis point parallel shift is represented.

The Company is within Board policy limits for all scenarios. The effects of the recent securities portfolio restructuring much improved the -100 scenario when compared to the fiscal second quarter of 2015. The table below shows the results of the scenarios as of June 30, 2015:

## Economic Value Sensitivity as of June 30, 2015

| Balances as of June 30, 2015 | Standard (Parallel Shift)<br>Economic Value of Equity at<br>Risk% |         |         |         |
|------------------------------|-------------------------------------------------------------------|---------|---------|---------|
|                              | -100                                                              | +100    | +200    | +300    |
| Basis Point Change Scenario  | -5.2 %                                                            | -1.4 %  | -5.9 %  | -11.9 % |
| Board Policy Limits          | -10.0 %                                                           | -10.0 % | -20.0 % | -30.0 % |

The EVE at risk reported at June 30, 2015, shows that as interest rates increase immediately, the economic value of equity position will decrease from the base, partially due to the degree of the asset size in relation to liabilities. These results also suffered from the timing issues noted above in the EAR section.



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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)<br>Economic Value of Equity at<br>Risk% |         |         |         |
|-----------------------------|-------------------------------------------------------------------|---------|---------|---------|
|                             | -100                                                              | +100    | +200    | +300    |
| Basis Point Change Scenario | -10.3 %                                                           | 3.8 %   | 4.2 %   | 2.9 %   |
| Board Policy Limits         | -10.0 %                                                           | -10.0 % | -20.0 % | -30.0 % |

The EVE at risk reported using the alternative methodology used for management purposes, shows that as interest rates increase immediately, the economic value of equity position will increase from the base as non-interest bearing deposits become more valuable in these increasing interest rate scenarios. These results are much improved over the static snapshot as timing issues noted above are removed.

## Detailed Economic Value Sensitivity as of June 30, 2015

The following table details the economic value sensitivity to changes in market interest rates at June 30, 2015, for loans, investments, deposits, borrowings, and other assets and liabilities (dollars in thousands). The analysis reflects that in +100 and +200 rising interest rate scenarios, total assets are less sensitive, than total liabilities. In a +300 rate environment, asset and liability sensitivity is similar. However, since the asset base is materially larger than the liability base, EVE decreases in all increasing rate scenarios. 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. Day of the week timing, as discussed previously, also contributes to sensitivity.

## Balances as of June 30, 2015

|                                      | Book Value (in \$000's) | % of Total Assets | Change in Economic Value<br>for a given change in interest<br>rates<br>Over / (Under) Base Case<br>Parallel Ramp |        |         |         |
|--------------------------------------|-------------------------|-------------------|------------------------------------------------------------------------------------------------------------------|--------|---------|---------|
|                                      |                         |                   | -100                                                                                                             | +100   | +200    | +300    |
| Basis Point Change Scenario          |                         |                   |                                                                                                                  |        |         |         |
| Total Loans                          | 650,076                 | 28 %              | 2.1 %                                                                                                            | -2.7 % | -5.5 %  | -8.1 %  |
| Total Investment                     | 1,514,961               | 66 %              | 4.0 %                                                                                                            | -4.7 % | -9.4 %  | -14.1 % |
| Other Assets                         | 145,904                 | 6 %               | 0.0 %                                                                                                            | 0.0 %  | 0.0 %   | 0.0 %   |
| Assets                               | 2,310,941               | 100 %             | 3.2 %                                                                                                            | -3.8 % | -7.7 %  | -11.5 % |
| Interest Bearing Deposits            | 191,994                 | 9 %               | 2.3 %                                                                                                            | -1.9 % | -3.6 %  | -5.0 %  |
| Non-Interest Bearing Deposits        | 1,327,744               | 63 %              | 7.3 %                                                                                                            | -6.6 % | -12.6 % | -17.9 % |
| Total Borrowings & Other Liabilities | 578,330                 | 28 %              | 0.1 %                                                                                                            | -0.1 % | -0.2 %  | -0.3 %  |
| Liabilities                          | 2,098,068               | 100 %             | 4.7 %                                                                                                            | -4.2 % | -8.1 %  | -11.5 % |

## 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. These results are much improved over the static snapshot as timing issues noted above are removed.



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## Alternative IRR Results

| Economic Value Sensitivity           | 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    |
| Basis Point Change Scenario          |                         |                   |                                                                                                      |        |         |         |
| Total Loans                          | 650,076                 | 28 %              | 2.1 %                                                                                                | -2.7 % | -5.5 %  | -8.1 %  |
| Total Investment                     | 1,514,961               | 66 %              | 4.0 %                                                                                                | -4.7 % | -9.4 %  | -14.1 % |
| Other Assets                         | 145,904                 | 6 %               | 0.0 %                                                                                                | 0.0 %  | 0.0 %   | 0.0 %   |
| Assets                               | 2,310,941               | 100 %             | 3.1 %                                                                                                | -3.7 % | -7.6 %  | -11.3 % |
| Interest Bearing Deposits            | 191,994                 | 9 %               | 2.3 %                                                                                                | -1.9 % | -3.6 %  | -5.0 %  |
| Non-Interest Bearing Deposits        | 1,327,744               | 63 %              | 7.3 %                                                                                                | -6.6 % | -12.6 % | -17.9 % |
| Total Borrowings & Other Liabilities | 578,330                 | 28 %              | 0.1 %                                                                                                | -0.1 % | -0.3 %  | -0.4 %  |
| Liabilities                          | 2,098,068               | 100 %             | 5.6 %                                                                                                | -5.1 % | -9.7 %  | -13.9 % |

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

## Item 4. Controls and Procedures.

## CONTROLS AND PROCEDURES

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

## DISCLOSURE CONTROLS AND PROCEDURES

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

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at June 30, 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 June 30, 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.

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META FINANCIAL GROUP, INC.  
PART II - OTHER INFORMATION  
FORM 10-Q

Item 1. Legal Proceedings. – See “Legal Proceedings” of Note 7 to the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors. - In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2014 (our “2014 Form 10-K”) and in our Quarterly Reports on Form 10-Q for the quarterly periods ended December 31, 2014 and March 31, 2015, which are hereby incorporated by reference. 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.

There have been no material changes to the risk factors disclosed in our 2014 Form 10-K as supplemented in our Quarterly Reports on Form 10-Q for the periods ended December 31, 2014 and March 31, 2015, other than as discussed below:

Our recently announced transaction with Fort Knox Financial Services Corporation and its subsidiary may not occur, or go as well as planned.

We recently announced that we and our bank subsidiary, MetaBank, have signed a definitive agreement with privately-held Fort Knox Financial Services Corporation (Fort Knox) and its subsidiary, Tax Product Services, LLC (TPS), for MetaBank to acquire substantially all of the assets and liabilities of Fort Knox and TPS for approximately \$50 million, subject to adjustment, to be paid approximately half in Meta Financial common stock and half in cash. The proposed purchase, which is subject to customary conditions, has been approved by the boards of directors of all companies and is expected to close in the third calendar quarter of 2015. As is the case with all transactions yet to be consummated, there are risks with respect to the Fort Knox transaction: the transaction may not occur on a timely basis or at all; 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; 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 business may not be as anticipated, and the Company may incur unanticipated or unknown losses or liabilities if it completes the transaction with Fort Knox. Any of these or similar risks, especially given our entry into a new business, could cause the Company to experience unanticipated and material losses.

An impairment charge of goodwill or other intangibles could have a material adverse impact on our financial condition and results of operations.

Because we have recently grown in part through acquisitions, and expect to do so again with respect to the pending acquisition of the assets of Fort Knox Financial Services, goodwill and intangible assets are now a portion of our consolidated assets. Our net goodwill and intangible assets were \$21.7 million as of June 30, 2015, and we expect they will increase materially assuming completion of the Fort Knox transaction. Under accounting principles generally accepted in the United States, or U.S. GAAP, we are required to test the carrying value of goodwill and intangible assets at least annually or sooner if events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including sustained decline in a reporting unit’s fair value, legal and regulatory factors, operating performance indicators, competition and other factors. U.S. GAAP requires us to assign and then test goodwill at the reporting unit level. If over a sustained period of time we experience a decrease in our stock price and market capitalization, which may serve as an estimate of the fair value of our reporting unit, this

may be an indication of impairment. If the fair value of our reporting unit is less than its net book value, we may be required to record goodwill impairment charges in the future. In addition, if the revenue and cash flows generated from any of our other intangible assets is not sufficient to support its net book value, we may be required to record an impairment charge. The amount of any impairment charge could be significant and could have a material adverse impact on our financial condition and results of operations for the period in which the charge is taken.

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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, Meta entered into separate securities purchase agreements during the quarter ended June 30, 2015, pursuant to which Meta has agreed to issue shares of its common stock to several 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 transactions contemplated by these securities purchase agreements in, and filed each of the securities purchase agreements as an exhibit to, Meta's Current Report on Form 8-K filed with the SEC on July 1, 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.

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META FINANCIAL GROUP, INC.

SIGNATURES

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

META FINANCIAL GROUP, INC.

Date: August 5, 2015 By: /s/ J. Tyler Haahr

J. Tyler Haahr, Chairman of the Board  
and Chief Executive Officer

Date: August 5, 2015 By: /s/ Glen W. Herrick

Glen W. Herrick, Executive Vice President  
and Chief Financial Officer



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INDEX TO EXHIBITS

|                   |             |
|-------------------|-------------|
| Exhibit<br>Number | Description |
|-------------------|-------------|

- |      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1  | Asset Purchase Agreement, dated as of July 15, 2015, by and among Meta Financial Group, Inc., MetaBank, Fort Knox Financial Services Corporation, Tax Product Services LLC, Alan D. Lodge Family Trust, Michael E. Boone, Michael J. Boone, Cary Shields and Alan D. Lodge (incorporated by reference to Exhibit 2.1 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 16, 2015). (Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant will furnish the omitted exhibits and schedules to the Securities and Exchange Commission upon request by the Commission). |
| 10.1 | Securities Purchase Agreement by and between Meta Financial Group, Inc. and Consector Capital Master Fund, LP, dated as of June 25, 2015 (incorporated by reference to Exhibit 10.1 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 1, 2015).                                                                                                                                                                                                                                                                                                                                                                     |
| 10.2 | Securities Purchase Agreement by and among Meta Financial Group, Inc. and Boathouse Row I, LP, Boathouse Row II, LP, Boathouse Row Offshore Ltd., and OC 532 Offshore Fund, Ltd., dated as of June 25, 2015 (incorporated by reference to Exhibit 10.2 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 1, 2015).                                                                                                                                                                                                                                                                                                  |
| 10.3 | Securities Purchase Agreement by and among Meta Financial Group, Inc. and Patriot Financial Partners II, L.P. and Patriot Financial Partners Parallel II, L.P., dated as of June 25, 2015 (incorporated by reference to Exhibit 10.3 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 1, 2015).                                                                                                                                                                                                                                                                                                                    |
| 10.4 | Securities Purchase Agreement by and between Meta Financial Group, Inc. and Hawk Ridge Master Fund LP, dated as of June 29, 2015 (incorporated by reference to Exhibit 10.4 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 1, 2015).                                                                                                                                                                                                                                                                                                                                                                             |
| 10.5 | Securities Purchase Agreement by and between Meta Financial Group, Inc. and Fort George Investments, LLC, dated as of July 7, 2015 (incorporated by reference to Exhibit 10.1 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 13, 2015).                                                                                                                                                                                                                                                                                                                                                                          |
| 10.6 | Securities Purchase Agreement by and between Meta Financial Group, Inc. and Nantahala Capital Partners SI, LP, dated as of July 7, 2015 (incorporated by reference to Exhibit 10.2 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 13, 2015).                                                                                                                                                                                                                                                                                                                                                                     |
| 10.7 | Securities Purchase Agreement by and between Meta Financial Group, Inc. and Blackwell Partners LLC Series A, dated as of July 7, 2015 (incorporated by reference to Exhibit 10.3 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 13, 2015).                                                                                                                                                                                                                                                                                                                                                                       |
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|             |                                                                                                                                                                                                                                                                                        |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.8        | Securities Purchase Agreement by and between Meta Financial Group, Inc. and Nantahala Capital Partners II Limited Partnership, dated as of July 7, 2015 (incorporated by reference to Exhibit 10.4 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 13, 2015). |
| 10.9        | Securities Purchase Agreement by and between Meta Financial Group, Inc. and Silver Creek CS SAV, L.L.C., dated as of July 7, 2015 (incorporated by reference to Exhibit 10.5 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 13, 2015).                       |
| 10.10       | Securities Purchase Agreement by and between Meta Financial Group, Inc. and Nantahala Capital Partners Limited Partnership, dated as of July 7, 2015 (incorporated by reference to Exhibit 10.6 to Meta Financial Group, Inc.'s Current Report on Form 8-K filed on July 13, 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.SCH     | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                                |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                                  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                                                   |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                                                        |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                                                 |

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