

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 December 31, 2019

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

(State or other jurisdiction of incorporation or organization)

42-1406262

(I.R.S. Employer Identification No.)

5501 South Broadband Lane, Sioux Falls, South Dakota 57108

(Address of principal executive offices and Zip Code)

(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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer   
Emerging growth company

Accelerated filer

Non-accelerated filer

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	CASH	The NASDAQ Stock Market LLC

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

<u>Class:</u>	<u>Outstanding at February 2, 2020:</u>
Common Stock, \$.01 par value	36,345,997 Shares
Nonvoting Common Stock, \$.01 par value	0 Nonvoting 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

(Dollars in Thousands, Except Share Data)	December 31, 2019	September 30, 2019
ASSETS	(Unaudited)	(Audited)
Cash and cash equivalents	\$ 152,189	\$ 126,545
Investment securities available for sale, at fair value	852,603	889,947
Mortgage-backed securities available for sale, at fair value	362,120	382,546
Investment securities held to maturity, at cost	116,313	127,582
Mortgage-backed securities held to maturity, at cost	6,804	7,182
Loans held for sale	264,266	148,777
Loans and leases	3,590,474	3,658,847
Allowance for loan and lease losses	(30,176)	(29,149)
Federal Home Loan Bank Stock, at cost	13,796	30,916
Accrued interest receivable	18,687	20,400
Premises, furniture, and equipment, net	38,671	45,932
Rental equipment, net	211,673	208,537
Bank-owned life insurance	90,458	89,827
Foreclosed real estate and repossessed assets	1,328	29,494
Goodwill	309,505	309,505
Intangible assets	50,151	52,810
Prepaid assets	14,813	9,476
Deferred taxes	19,752	18,884
Other assets	97,499	54,832
<b>Total assets</b>	<b>\$ 6,180,926</b>	<b>\$ 6,182,890</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits held for sale	\$ 288,975	\$ —
Deposits:		
Noninterest-bearing checking	2,927,967	2,358,010
Interest-bearing checking	67,642	185,768
Savings deposits	17,436	49,773
Money market deposits	42,286	76,911
Time certificates of deposit	23,454	109,275
Wholesale deposits	1,438,820	1,557,268
Total deposits	4,517,605	4,337,005
Short-term borrowings	194,000	646,019
Long-term borrowings	213,070	215,838
Accrued interest payable	6,620	9,414
Accrued expenses and other liabilities	123,588	130,656
<b>Total liabilities</b>	<b>5,343,858</b>	<b>5,338,932</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at December 31, 2019 and September 30, 2019, respectively	—	—
Common stock, \$.01 par value; 90,000,000 shares authorized, 37,269,496 and 37,821,508 shares issued, 37,172,081 and 37,807,064 shares outstanding at December 31, 2019 and September 30, 2019, respectively	372	378
Common stock, Nonvoting, \$.01 par value; 3,000,000 shares authorized, no shares issued or outstanding at December 31, 2019 and September 30, 2019, respectively	—	—
Additional paid-in capital	587,678	580,826
Retained earnings	244,005	252,813
Accumulated other comprehensive income	3,895	6,339
Treasury stock, at cost, 97,415 and 14,444 common shares at December 31, 2019 and September 30, 2019, respectively	(3,187)	(445)
<b>Total equity attributable to parent</b>	<b>832,763</b>	<b>839,911</b>
Noncontrolling interest	4,305	4,047
<b>Total stockholders' equity</b>	<b>837,068</b>	<b>843,958</b>
<b>Total liabilities and stockholders' equity</b>		



META FINANCIAL GROUP, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in Thousands, Except Share and Per Share Data)	Three Months Ended December 31,	
	2019	2018
Interest and dividend income:		
Loans and leases, including fees	\$ 68,702	\$ 60,498
Mortgage-backed securities	2,389	2,698
Other investments	6,534	11,780
	77,625	74,976
Interest expense:		
Deposits	9,340	10,596
FHLB advances and other borrowings	3,634	4,108
	12,974	14,704
Net interest income	64,651	60,272
Provision for loan and lease losses	3,407	9,099
Net interest income after provision for loan and lease losses	61,244	51,173
Noninterest income:		
Refund transfer product fees	192	261
Tax advance product fees	2,276	1,685
Payment card and deposit fees	21,499	20,807
Other bank and deposit fees	487	482
Rental income	12,351	10,890
Loss on sale of securities available for sale, net (includes \$0 and (\$22) reclassified from accumulated other comprehensive income (loss) for net gain (loss) on securities available for sale for the three months ended December 31, 2019 and 2018, respectively)	—	(22)
(Loss) gain on sale of other	(2,568)	1,266
Other income	3,246	2,382
Total noninterest income	37,483	37,751
Noninterest expense:		
Compensation and benefits	34,268	33,010
Refund transfer product expense	173	10
Tax advance product expense	1,132	452
Card processing	5,607	7,085
Occupancy and equipment expense	6,655	6,458
Operating lease equipment depreciation	8,280	7,765
Legal and consulting	4,674	3,969
Intangible amortization	2,676	4,383
Impairment expense	242	—
Other expense	12,091	11,163
Total noninterest expense	75,798	74,295
Income before income tax expense	22,929	14,629
Income tax expense (benefit) (includes \$0 and (\$5) reclassified from accumulated other comprehensive income (loss) for the three months ended December 31, 2019 and 2018, respectively)	680	(1,691)
Net income before noncontrolling interest	22,249	16,320
Net income attributable to noncontrolling interest	1,181	922
Net income attributable to parent	\$ 21,068	\$ 15,398
Earnings per common share		
Basic	\$ 0.56	\$ 0.39
Diluted	\$ 0.56	\$ 0.39

See Notes to Condensed Consolidated Financial Statements.



META FINANCIAL GROUP, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in Thousands)	Three Months Ended December 31,	
	2019	2018
Net income before noncontrolling interest	\$ 22,249	\$ 16,320
Other comprehensive income (loss):		
Change in net unrealized gain (loss) on debt securities	(3,412)	6,171
Loss realized in net income	—	22
	(3,412)	6,193
Unrealized gain (loss) on currency translation	116	(360)
Deferred income tax effect	(852)	1,433
Total other comprehensive income (loss)	(2,444)	4,400
Total comprehensive income	19,805	20,720
Total comprehensive income attributable to noncontrolling interest	1,181	922
Comprehensive income attributable to parent	\$ 18,624	\$ 19,798

See Notes to Condensed Consolidated Financial Statements.



META FINANCIAL GROUP, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

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

	Meta Financial Group, Inc. Stockholders' Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Total Meta Stockholders' Equity	Noncontrolling Interest	Total Equity
<b>Three Months Ended December 31, 2019</b>								
Balance, September 30, 2019	\$ 378	\$ 580,826	\$ 252,813	\$ 6,339	\$ (445)	\$ 839,911	\$ 4,047	\$ 843,958
Cash dividends declared on common stock (\$0.05 per share)	—	—	(1,870)	—	—	(1,870)	—	(1,870)
Issuance of common shares due to exercise of stock options	—	118	—	—	—	118	—	118
Issuance of common shares due to restricted stock	2	—	—	—	—	2	—	2
Issuance of common shares due to ESOP	1	3,219	—	—	—	3,220	—	3,220
Share repurchased	(9)	9	(28,006)	—	(2,742)	(30,748)	—	(30,748)
Stock compensation	—	3,506	—	—	—	3,506	—	3,506
Total other comprehensive income	—	—	—	(2,444)	—	(2,444)	—	(2,444)
Net income	—	—	21,068	—	—	21,068	1,181	22,249
Net investment by (distribution to) noncontrolling interests	—	—	—	—	—	—	(923)	(923)
Balance, December 31, 2019	<u>\$ 372</u>	<u>\$ 587,678</u>	<u>\$ 244,005</u>	<u>\$ 3,895</u>	<u>\$ (3,187)</u>	<u>\$ 832,763</u>	<u>\$ 4,305</u>	<u>\$ 837,068</u>
<b>Three Months Ended December 31, 2018</b>								
Balance, September 30, 2018	\$ 393	\$ 565,811	\$ 213,048	\$ (33,111)	\$ (1,989)	\$ 744,152	\$ 3,574	\$ 747,726
Adoption of Accounting Standards Update 2014-09, net of income taxes	—	—	1,502	—	—	1,502	—	1,502
Adoption of Accounting Standards Update 2016-01, net of income taxes	—	—	475	(475)	—	—	—	—
Cash dividends declared on common stock (\$0.05 per share)	—	—	(1,970)	—	—	(1,970)	—	(1,970)
Issuance of common shares due to exercise of stock options	—	54	—	—	—	54	—	54
Issuance of common shares due to restricted stock	2	—	—	—	—	2	—	2
Issuance of common shares due to ESOP	—	2,010	—	—	—	2,010	—	2,010
Shares repurchased	(1)	1	—	—	(2,367)	(2,367)	—	(2,367)
Stock compensation	—	4,280	—	—	—	4,280	—	4,280
Total other comprehensive income	—	—	—	4,400	—	4,400	—	4,400
Net income	—	—	15,398	—	—	15,398	922	16,320
Net investment by (distribution to) noncontrolling interests	—	—	—	—	—	—	(1,229)	(1,229)
Balance, December 31, 2018	<u>\$ 394</u>	<u>\$ 572,156</u>	<u>\$ 228,453</u>	<u>\$ (29,186)</u>	<u>\$ (4,356)</u>	<u>\$ 767,461</u>	<u>\$ 3,267</u>	<u>\$ 770,728</u>

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP, INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in Thousands)	Three Months Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income before noncontrolling interest	\$ 22,249	\$ 16,320
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	15,302	14,616
Stock compensation	3,506	4,280
Provision (recovery):		
Loan and lease losses	3,407	9,099
Deferred taxes	(16)	(6,787)
Loans held for sale:		
Originations	(16,175)	(7,469)
Proceeds from sales	143,035	22,611
Net change	11,111	6,571
Fair value adjustment of foreclosed real estate	83	—
Net realized (gain) loss:		
Other assets	108	(24)
Foreclosed real estate and repossessed assets	5,039	(15)
Securities available for sale, net	—	22
Loans held for sale	(1,851)	(550)
Leases receivable and equipment	(685)	(677)
Net change:		
Other assets	(12,917)	(18,004)
Accrued interest payable	(2,794)	3,486
Accrued expenses and other liabilities	(33,892)	9,454
Accrued interest receivable	618	(60)
Change in bank-owned life insurance value	(631)	(641)
Net cash provided by operating activities	135,497	52,232
Cash flows from investing activities:		
Securities available for sale:		
Purchases	—	(51,430)
Proceeds from sales	—	171,927
Proceeds from maturities and principal repayments	52,592	34,557
Securities held to maturity:		
Proceeds from maturities and principal repayments	11,062	10,423
Loans and leases:		
Purchases	(18,813)	(122,668)
Proceeds from sales	3,099	378
Net change	(167,929)	(299,400)
Proceeds from sales of foreclosed real estate and repossessed assets	23,085	105
Federal Home Loan Bank stock:		
Purchases	(244,240)	(235,000)
Redemption	261,360	242,800
Rental equipment:		
Purchases	(17,956)	(46,153)
Proceeds from sales	2,250	1,466
Net change	3,124	(611)
Premises, furniture, and equipment:		
Purchases	(2,108)	(5,729)
Proceeds from sales	—	19
Net cash (used in) investing activities	(94,474)	(299,316)
Cash flows from financing activities:		
Net change:		
Checking, savings, and money market deposits	674,696	353,642
Time certificates of deposit	(86,683)	(105,632)

Wholesale deposits	(118,481)	259,430
FHLB and other borrowings	(20,000)	—
Federal funds	(428,000)	(195,000)
Securities sold under agreements to repurchase	(4,019)	532
Net investment by (distribution to) noncontrolling interests	(923)	(1,229)

Proceeds from other liabilities	1,205	5,027
Principal payments:		
Other liabilities	(2,194)	(2,847)
Capital lease obligations	(1,818)	(16)
Cash dividends paid	(1,870)	(1,970)
Issuance of common stock due to ESOP	3,220	2,010
Issuance of common stock due to restricted stock	2	2
Proceeds from exercise of stock options and issuance of common stock	118	54
Shares repurchased	(30,748)	(2,367)
Net cash (used in) provided by financing activities	(15,495)	311,636
Effect of exchange rate changes on cash	116	(360)
Net change in cash and cash equivalents	25,644	64,192
Cash and cash equivalents at beginning of fiscal year	126,545	99,977
Cash and cash equivalents at end of fiscal year	<u>\$ 152,189</u>	<u>\$ 164,169</u>
	Three Months Ended December 31,	
	<u>2019</u>	<u>2018</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 10,180	\$ 18,190
Income taxes	220	595
Franchise taxes	40	—
Other taxes	12	49
Supplemental schedule of non-cash investing activities		
Transfers		
Loans and leases to foreclosed real estate and repossessed assets	41	—
Loans and leases to rental equipment	759	—
Rental equipment to loan and leases	599	—
Loans and leases to held for sale	251,913	39,452
Other assets to held for sale	7,836	—
Deposits to held for sale	286,648	—
Recognition of operating lease ROU assets, net of remeasurements	27,019	—

See Notes to Condensed Consolidated Financial Statements.

## 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, 2019 included in Meta Financial Group, Inc.'s ("Meta" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on November 26, 2019. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the three-month period ended December 31, 2019 are not necessarily indicative of the results expected for the fiscal year ending September 30, 2020.

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These changes and reclassifications did not impact previously reported net income or comprehensive income.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ADOPTED ACCOUNTING STANDARDS UPDATES ("ASU")

Significant accounting policies in effect and disclosed within the Company's most recent audited consolidated financial statements as of September 30, 2019 remain substantially unchanged with the exception of the policies impacted by the adoption of noted ASUs below.

### *Adopted ASUs*

*Leases* -- The Company adopted ASU 2016-02, *Leases (Topic 842)*, and subsequent related updates (collectively ASU 2016-02) on October 1, 2019, which requires lessees to recognize most leases on their balance sheet. Lessor accounting is largely unchanged. The ASU requires both quantitative and qualitative disclosures regarding key information about lease arrangements from both lessees and lessors. The Company elected the effective date transition method utilizing the adoption date as the first date of application of the revised guidance. As a result, prior period amounts have not been restated. Upon adoption, the Company elected certain transitional practical expedients offered through the guidance, including the 'package of practical expedients' whereby it did not reassess (i) whether any expired or existing contracts contain leases, (ii) the lease classification of any expired or existing leases, and (iii) initial direct costs for any existing leases, which resulted in the Company not recognizing a cumulative effect adjustment to retained earnings. Management evaluated Meta's leasing contracts and activities and developed methodologies and processes to estimate and account for the right-of-use ("ROU") assets and lease liabilities for building leases based on the present value of future lease payments. On October 1, 2019, the Company recorded ROU assets and lease liabilities totaling \$27.4 million and \$28.6 million, respectively. The impact to capital ratios as a result of increased risk-weighted assets was immaterial. The adoption of this guidance did not result in a material change to lessee expense recognition. The changes to lessor accounting, as well as change in customer behavior driven by the adoption of these ASUs, impact the results of Meta's lease financing businesses, including earlier recognition of expense due to a narrower definition of initial direct costs.

As a lessee, the Company enters into contracts to lease real estate, information technology equipment and other various types of equipment. Leases that transfer substantially all of the benefits and risks of ownership to the Company are classified as finance leases, while all others are classified as operating leases. At lease commencement for buildings, a lease liability and ROU asset are calculated and recognized on both types of leases. The lease liability is equal to the present value of the future minimum lease payments. The ROU asset is equal to the lease liability, plus any initial direct costs and prepaid lease payments, less any lessor incentives received. Operating lease ROU assets are included in other assets and finance lease ROU assets are included in premises and equipment, net. The Company uses the appropriate term Federal Home Loan Bank ("FHLB") rate to determine the discount rate for the present value calculation of future minimum lease payments when an implicit rate is not known for a given lease. The lease term used in the calculation includes any options to extend that the Company is reasonably certain to exercise. The Company has elected to not recognize assets or liabilities on its balance sheet related to short-term leases.

Subsequent to lease commencement, lease liabilities recorded for finance leases are measured using the effective interest rate method and the related ROU assets are amortized on a straight-line basis over the lease term. Interest expense and amortization expense are recorded separately on the Consolidated Statements of Operations in interest expense on borrowings and occupancy and equipment noninterest expense, respectively. At December 31, 2019, the Company had no finance lease ROU assets or lease liabilities. For operating leases, total lease cost is comprised of lease expense, short-term lease cost, variable lease cost and sublease income. Lease expense includes future minimum lease payments, which are recognized on a straight-line basis over the lease term, as well as common area maintenance charges, real estate taxes, insurance and other expenses, where applicable, which are expensed as incurred. Total lease cost for operating leases is recorded in occupancy and equipment noninterest expense. See Note 10. Operating Lease Right-of-Use Assets and Liabilities for further information.

The Company also adopted the following ASUs on October 1, 2019, none of which had a material impact on the Company's Condensed Consolidated Financial Statements:

- ASU 2018-02, *Income Statement -- Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The Company elected to not reclassify tax effects stranded in accumulated other comprehensive income.
- ASU 2018-09, *Codification Improvements*.

### **ASUs to be Adopted**

*Other Upcoming ASUs* - Refer to the Company's most recently audited consolidated financial statements for the year ended September 30, 2019 for the latest update on other ASUs relevant to the Company and not yet adopted as of December 31, 2019.

### NOTE 3. DIVESTITURES

On November 20, 2019, the Company announced that MetaBank entered into a definitive agreement with Central Bank, a state-chartered bank headquartered in Storm Lake, Iowa, for the sale of the Community Bank division, which is a component of the Company's Corporate segment. See Note 16. Segment Reporting for additional information on the Company's reporting segments. The sale would include substantially all of the Community Bank's deposits, branch locations, fixed assets and employees and a portion of the Community Bank's loan portfolio. In connection with MetaBank's entry into the agreement with Central Bank, the Company reclassified the assets and liabilities to be sold to Central Bank as held for sale. The remaining Community Bank loans not proposed to be sold to Central Bank would be retained by the Company under a servicing agreement with Central Bank. The closing of the transaction is subject to the satisfaction or waiver of certain conditions, the receipt of third party and regulatory approval and satisfaction of customary closing conditions. The transaction is expected to close in the 2020 fiscal second quarter.

The Company has summarized the Community Bank division results at, and for the three months ended, December 31, 2019 below.

(Dollars in Thousands)	Community Bank Sold <sup>(1)</sup>	Community Bank Retained <sup>(2)</sup>	Total Community Bank
<b>At December 31, 2019</b>			
Loans and leases, net	\$ 250,383	\$ 934,491	\$ 1,184,874
Other assets	8,932	51,143	60,075
Deposits	288,975	1,394	290,369
Other liabilities	3,518	778	4,296
<b>Three Months Ended December 31, 2019</b>			
Net interest income	\$ 987	\$ 9,596	\$ 10,583
Provision for loan and lease losses	(1,750)	—	(1,750)
Noninterest income	290	(3,507)	(3,217)
Noninterest expense	1,878	2,684	4,562
Income before income tax expense	\$ 1,149	\$ 3,405	\$ 4,554

(1) Reflects balances to be included in the transaction with Central Bank and classified as held for sale at December 31, 2019. Consolidated Statements of Operations balances reflect the activity on the assets and liabilities included in the sale subsequent to the held-for-sale classification date, or announcement date, November 20, 2019, through the period ended December 31, 2019.

(2) Reflects balances excluded from the transaction with Central Bank and related Consolidated Statements of Operations activity for the period ended December 31, 2019.

The Company recognized \$1.9 million in non-recurring income and \$0.2 million in non-recurring expense during the three months ended December 31, 2019 related to the reclassification of certain Community Bank assets and liabilities to held for sale and is reflected in the Company's provision for loan and leases losses, noninterest income, and noninterest expense on the Company's Condensed Consolidated Statement of Operations. The Company also recognized \$0.3 million in compensation and benefits expense and \$0.6 million in legal and consulting expenses in the three months ended December 31, 2019 related to Community Bank transaction.

#### NOTE 4. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of available for sale ("AFS") and held to maturity ("HTM") debt securities at December 31, 2019 and September 30, 2019 are presented below.

At December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
<b>Debt securities AFS</b>				
SBA securities	\$ 178,500	\$ 2,446	\$ (26)	\$ 180,920
Obligations of states and political subdivisions	858	16	—	874
Non-bank qualified obligations of states and political subdivisions	369,676	5,236	(923)	373,989
Asset-backed securities	302,426	195	(5,801)	296,820
Mortgage-backed securities	358,070	5,518	(1,468)	362,120
<b>Total debt securities AFS</b>	<b>\$ 1,209,530</b>	<b>\$ 13,411</b>	<b>\$ (8,218)</b>	<b>\$ 1,214,723</b>

At September 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
(Dollars in Thousands)				
Debt securities AFS				
SBA securities	\$ 182,327	\$ 3,655	\$ —	\$ 185,982
Obligations of states and political subdivisions	858	16	—	874
Non-bank qualified obligations of states and political subdivisions	396,430	5,030	(903)	400,557
Asset-backed securities	305,603	262	(3,331)	302,534
Mortgage-backed securities	378,670	5,731	(1,855)	382,546
Total debt securities AFS	<u>\$ 1,263,888</u>	<u>\$ 14,694</u>	<u>\$ (6,089)</u>	<u>\$ 1,272,493</u>

At December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
(Dollars in Thousands)				
Debt securities HTM				
Non-bank qualified obligations of states and political subdivisions	\$ 116,313	\$ 104	\$ (1,292)	\$ 115,125
Mortgage-backed securities	6,804	2	(32)	6,774
Total debt securities HTM	<u>\$ 123,117</u>	<u>\$ 106</u>	<u>\$ (1,324)</u>	<u>\$ 121,899</u>

At September 30, 2019	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Losses)	Fair Value
(Dollars in Thousands)				
Debt securities HTM				
Non-bank qualified obligations of states and political subdivisions	\$ 127,582	\$ 108	\$ (1,403)	\$ 126,287
Mortgage-backed securities	7,182	14	(13)	7,183
Total debt securities HTM	<u>\$ 134,764</u>	<u>\$ 122</u>	<u>\$ (1,416)</u>	<u>\$ 133,470</u>

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 and 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 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 the Company determines 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.

GAAP requires that, at acquisition, an enterprise classify debt securities into one of three categories: AFS, HTM or trading. AFS securities are carried at fair value on the consolidated statements of financial condition, and unrealized holding gains and losses are excluded from earnings and recognized as a separate component of equity in accumulated other comprehensive income ("AOCI"). HTM debt securities are measured at amortized cost. Both AFS and HTM are subject to review for other-than-temporary impairment. The Company had no trading securities at December 31, 2019 or September 30, 2019.



Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and September 30, 2019, were as follows:

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
At December 31, 2019						
(Dollars in Thousands)						
Debt securities AFS						
SBA securities	\$ 13,583	\$ (26)	\$ —	\$ —	\$ 13,583	\$ (26)
Non-bank qualified obligations of states and political subdivisions	60,135	(226)	50,431	(697)	110,566	(923)
Asset-backed securities	147,594	(1,920)	124,114	(3,881)	271,708	(5,801)
Mortgage-backed securities	1,704	—	85,715	(1,468)	87,419	(1,468)
<b>Total debt securities AFS</b>	<b>\$ 223,016</b>	<b>\$ (2,172)</b>	<b>\$ 260,260</b>	<b>\$ (6,046)</b>	<b>\$ 483,276</b>	<b>\$ (8,218)</b>

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
At September 30, 2019						
(Dollars in Thousands)						
Debt securities AFS						
SBA securities	\$ 10,262	\$ —	\$ —	\$ —	\$ 10,262	\$ —
Non-bank qualified obligations of states and political subdivisions	66,326	(177)	55,428	(726)	121,754	(903)
Asset-backed securities	158,176	(1,823)	93,259	(1,508)	251,435	(3,331)
Mortgage-backed securities	1,713	(1)	89,634	(1,854)	91,347	(1,855)
<b>Total debt securities AFS</b>	<b>\$ 236,477</b>	<b>\$ (2,001)</b>	<b>\$ 238,321</b>	<b>\$ (4,088)</b>	<b>\$ 474,798</b>	<b>\$ (6,089)</b>

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
At December 31, 2019						
(Dollars in Thousands)						
Debt securities HTM						
Non-bank qualified obligations of states and political subdivisions	\$ 5,686	\$ (3)	\$ 99,199	\$ (1,289)	\$ 104,885	\$ (1,292)
Mortgage-backed securities	3,525	(13)	1,635	(19)	5,160	(32)
<b>Total debt securities HTM</b>	<b>\$ 9,211</b>	<b>\$ (16)</b>	<b>\$ 100,834</b>	<b>\$ (1,308)</b>	<b>\$ 110,045</b>	<b>\$ (1,324)</b>

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
At September 30, 2019						
(Dollars in Thousands)						
Debt securities HTM						
Non-bank qualified obligations of states and political subdivisions	\$ 5,967	\$ (6)	\$ 109,368	\$ (1,397)	\$ 115,335	\$ (1,403)
Mortgage-backed securities	1,471	—	1,803	(13)	3,274	(13)
<b>Total debt securities HTM</b>	<b>\$ 7,438</b>	<b>\$ (6)</b>	<b>\$ 111,171</b>	<b>\$ (1,410)</b>	<b>\$ 118,609</b>	<b>\$ (1,416)</b>

At December 31, 2019, the investment portfolio included securities with current unrealized losses that have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Because (i) the declines in fair value were due to changes in market interest rates, not in estimated cash flows, (ii) the Company does not intend or has not made a decision to sell these securities and (iii) it is not more likely than not that the Company will be required to sell the securities before recovery of their amortized cost basis, which may occur at maturity, no other-than-temporary impairment was recorded at December 31, 2019.

The amortized cost and fair value of debt securities by contractual maturity are shown below. Certain securities have call features that allow the issuer to call the security prior to maturity. Expected maturities may differ from contractual maturities in mortgage-backed securities ("MBS") because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, MBS are not included in the maturity categories in the following maturity summary. The expected maturities of certain SBA securities may differ from contractual maturities because the borrowers may have the right to prepay the obligation. However, certain prepayment penalties may apply.

Securities AFS at Fair Value

At December 31, 2019	Amortized Cost	Fair Value
<b>(Dollars in Thousands)</b>		
Due in one year or less	\$ 666	\$ 667
Due after one year through five years	16,081	16,403
Due after five years through ten years	49,732	50,850
Due after ten years	784,981	784,683
	<u>851,460</u>	<u>852,603</u>
Mortgage-backed securities	358,070	362,120
Total securities AFS, at fair value	<u>\$ 1,209,530</u>	<u>\$ 1,214,723</u>

At September 30, 2019	Amortized Cost	Fair Value
<b>(Dollars in Thousands)</b>		
Due in one year or less	\$ —	\$ —
Due after one year through five years	16,749	17,143
Due after five years through ten years	50,263	51,840
Due after ten years	818,206	820,964
	<u>885,218</u>	<u>889,947</u>
Mortgage-backed securities	378,670	382,546
Total securities AFS, at fair value	<u>\$ 1,263,888</u>	<u>\$ 1,272,493</u>

Securities HTM at Fair Value

At December 31, 2019	Amortized Cost	Fair Value
<b>(Dollars in Thousands)</b>		
Due after ten years	\$ 116,313	\$ 115,125
	<u>116,313</u>	<u>115,125</u>
Mortgage-backed securities	6,804	6,774
Total securities HTM, at cost	<u>\$ 123,117</u>	<u>\$ 121,899</u>

At September 30, 2019	Amortized Cost	Fair Value
<b>(Dollars in Thousands)</b>		
Due after ten years	\$ 127,582	\$ 126,287
	<u>127,582</u>	<u>126,287</u>
Mortgage-backed securities	7,182	7,183
Total securities HTM, at cost	<u>\$ 134,764</u>	<u>\$ 133,470</u>

Other investments, at cost, which are included in other assets on the consolidated statement of financial condition, include equity securities without a readily determinable fair value and shares of stock in the FHLB of Des Moines. Equity securities without a readily determinable fair value totaled \$9.5 million at December 31, 2019 and \$6.5 million at September 30, 2019. FHLB of Des Moines stock held by MetaBank at December 31, 2019 and September 30, 2019 totaled \$13.8 million and \$30.9 million, respectively. The decrease in FHLB stock directly correlates with lower short-term borrowings balances at December 31, 2019 compared to September 30, 2019. The Company's wholly-owned subsidiary, MetaBank, is required by federal law to maintain FHLB stock as a member of FHLB of Des Moines. These equity securities are 'restricted' in that they can only be sold back to the respective institution from which they were acquired or another member institution at par. Therefore, FHLB stock is less liquid than other marketable equity securities, and the fair value approximates cost. The Company evaluates impairment for investments held at cost on at least an annual basis based on the ultimate recoverability of the par value. No impairment was recognized for such investments for the three months ended December 31, 2019.

**NOTE 5. LOANS AND LEASES, NET**

Loans and leases at December 31, 2019 and September 30, 2019 were as follows:

(Dollars in Thousands)	December 31, 2019	September 30, 2019
<b>National Lending</b>		
Term lending <sup>(1)</sup>	\$ 695,347	\$ 641,742
Asset based lending <sup>(1)</sup>	250,633	250,465
Factoring	285,776	296,507
Lease financing <sup>(1)</sup>	223,715	177,915
Insurance premium finance	349,299	361,105
SBA/USDA	90,269	88,831
Other commercial finance	99,617	99,665
Commercial finance	1,994,656	1,916,230
Consumer credit products	115,843	106,794
Other consumer finance	154,772	161,404
Consumer finance	270,615	268,198
Tax services	101,739	2,240
Warehouse finance	272,522	262,924
Total National Lending	2,639,532	2,449,592
<b>Community Banking</b>		
Commercial real estate and operating	682,399	883,932
Consumer one-to-four family real estate and other	220,588	259,425
Agricultural real estate and operating	40,778	58,464
Total Community Banking	943,765	1,201,821
Total loans and leases	3,583,297	3,651,413
Net deferred loan origination fees (costs)	7,177	7,434
Total gross loans and leases	3,590,474	3,658,847
Allowance for loan and lease losses	(30,176)	(29,149)
Total loans and leases, net <sup>(2)</sup>	\$ 3,560,298	\$ 3,629,698

(1) The Company has updated the presentation of its loan and lease table beginning in the fiscal 2020 first quarter. The new presentation includes a new category called term lending. Certain balances previously included in the asset based lending and lease financing categories have been reclassified into the new term lending category during the fiscal 2020 first quarter. Prior period balances have been conformed to the new presentation.

(2) As of December 31, 2019, the remaining balance of acquired loans and leases from the acquisition of Crestmark Bancorp, Inc. ("Crestmark") and its bank subsidiary, Crestmark Bank (the "Crestmark Acquisition") was \$276.7 million and the remaining balances of the credit and interest rate mark discounts related to the acquired loans and leases held for investment were \$5.0 million and \$2.6 million, respectively, while the remaining balance of the interest rate mark premium related to the acquired loans held for sale was \$0.7 million. On August 1, 2018, the Company acquired loans and leases from the Crestmark Acquisition totaling \$1.06 billion and recorded related credit and interest rate mark discounts of \$12.3 million and \$6.0 million, respectively.

During the three months ended December 31, 2019, the Company transferred \$251.9 million of Community Banking loans to held for sale. During the three months ended December 31, 2018, the Company transferred \$39.5 million of consumer credit product loans to held for sale.

During the three months ended December 31, 2019 and 2018, the Company originated \$16.2 million and \$7.5 million, respectively, of SBA/USDA and consumer credit product loans as held for sale.

The Company sold held for sale loans resulting in proceeds of \$143.0 million and gains on sale of \$1.9 million during the three months ended December 31, 2019. During the three months ended December 31, 2018, the Company sold held for sale loans resulting in proceeds of \$22.6 million and gains on sale of \$0.6 million.

Loans purchased and sold by portfolio segment, including participation interests, for the three months ended December 31, 2019 and 2018 were as follows:

(Dollars in Thousands)	Three Months Ended	
	December 31, 2019	December 31, 2018
<b>Loans Purchased</b>		
<b>Loans held for investment:</b>		
Total National Lending	\$ 14,464	\$ 111,587
Total Community Banking	4,349	11,081
<b>Total purchases</b>	<b>18,813</b>	<b>122,668</b>
<b>Loans Sold</b>		
Loans held for sale	143,035	22,611
<b>Loans held for investment:</b>		
Total Community Banking	3,099	378
<b>Total sales</b>	<b>\$ 146,134</b>	<b>\$ 22,989</b>

*Leasing Portfolio*

Effective October 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842) and related ASUs on a modified retrospective basis, electing the practical expedients and optional transition method. As such, the following leasing disclosures include information at, or for the quarter, ended December 31, 2019.

The net investment in direct financing and sales-type leases was comprised of the following as of December 31, 2019 and September 30, 2019:

(Dollars in Thousands)	December 31, 2019	September 30, 2019
Carrying Amount	\$ 239,351	\$ 191,733
Unguaranteed residual assets	16,260	13,353
Unamortized initial direct costs	1,856	1,790
Unearned income	(31,896)	(27,171)
<b>Total net investment in direct financing and sales-type leases</b>	<b>\$ 225,571</b>	<b>\$ 179,705</b>

The carrying amount of direct financing and sales-type leases subject to residual value guarantees was \$8.8 million at December 31, 2019.

The components of total lease income were as follows:

(Dollars in Thousands)	Quarter Ended December 31, 2019	
<b>Interest income - loans and leases</b>		
Interest income on net investments in direct financing and sales-type leases	\$	4,087
<b>Leasing and equipment finance non-interest income</b>		
Lease income from operating lease payments		11,203
Profit (loss) recorded on commencement date on sales-type leases		471
Other <sup>(1)</sup>		750
<b>Total leasing and equipment finance non-interest income</b>		<b>12,424</b>
<b>Total lease income</b>	<b>\$</b>	<b>16,511</b>

<sup>(1)</sup> Other leasing and equipment finance non-interest income consists of gains (losses) on sales of leased equipment, fees and service charges on leases and gains (losses) on sales of leases.

Undiscounted future minimum lease payments receivable for direct financing and sales-type leases and a reconciliation to the carrying amount recorded at December 31, 2019 were as follows:

(Dollars in Thousands)	At December 31, 2019
2020	\$ 66,919
2021	70,629
2022	50,676
2023	29,908
2024	16,795
Thereafter	4,414
Equipment under leases not yet commenced	10
Total undiscounted future minimum lease payments receivable for direct financing and sales-type leases	239,351
Third-party residual value guarantees	—
Total carrying amount of direct financing and sales-type leases	\$ 239,351

The Company did not record any contingent rental income from direct financing and sales-type leases in the three months ended December 31, 2019.

Activity in the allowance for loan and lease losses and balances of loans and leases by portfolio segment for each of the three months ended December 31, 2019 and 2018 was as follows:

Allowance for loan and lease losses: Three Months Ended December 31, 2019	Beginning balance	Provision (recovery) for loan and lease losses	Charge-offs	Recoveries	Ending balance
	(Dollars in Thousands)				
<b>National Lending</b>					
Term lending	\$ 5,533	\$ 3,401	\$ (2,295)	\$ 111	\$ 6,750
Asset based lending	2,437	(461)	—	19	1,995
Factoring	3,261	257	(389)	419	3,548
Lease financing	1,275	504	(215)	131	1,695
Insurance premium finance	1,024	141	(285)	90	970
SBA/USDA	383	382	—	—	765
Other commercial finance	683	(523)	—	—	160
Commercial finance	14,596	3,701	(3,184)	770	15,883
Consumer credit products	1,044	63	—	—	1,107
Other consumer finance	5,118	476	(734)	29	4,889
Consumer finance	6,162	539	(734)	29	5,996
Tax services	—	911	—	739	1,650
Warehouse finance	263	6	—	—	269
Total National Lending	21,021	5,157	(3,918)	1,538	23,798
<b>Community Banking</b>					
Commercial real estate and operating	6,208	(1,543)	—	—	4,665
Consumer one-to-four family real estate and other	1,053	(22)	—	—	1,031
Agricultural real estate and operating	867	(185)	—	—	682
Total Community Banking	8,128	(1,750)	—	—	6,378
Total	\$ 29,149	\$ 3,407	\$ (3,918)	\$ 1,538	\$ 30,176

Allowance for loan and lease losses:	Beginning balance	Provision (recovery) for loan and lease losses	Charge-offs	Recoveries	Ending balance
Three Months Ended December 31, 2018	(Dollars in Thousands)				
<b>National Lending</b>					
Term lending	\$ 89	\$ 710	\$ (328)	\$ 1,364	\$ 1,835
Asset based lending	47	724	—	4	775
Factoring	64	1,223	(250)	26	1,062
Lease financing	30	600	(352)	260	538
Insurance premium finance	1,031	93	(208)	56	972
SBA/USDA	13	240	—	—	253
Other commercial finance	28	263	—	—	291
Commercial finance	1,302	3,853	(1,138)	1,710	5,727
Consumer credit products	785	366	—	—	1,151
Other consumer finance	2,820	3,023	(1,624)	3	4,222
Consumer finance	3,605	3,389	(1,624)	3	5,373
Tax services	—	1,496	(42)	92	1,546
Warehouse finance	65	111	—	—	176
<b>Total National Lending</b>	<b>4,972</b>	<b>8,849</b>	<b>(2,804)</b>	<b>1,805</b>	<b>12,822</b>
<b>Community Banking</b>					
Commercial real estate and operating	6,220	350	—	—	6,570
Consumer one-to-four family real estate and other	632	87	—	—	719
Agricultural real estate and operating	1,216	(187)	—	150	1,179
<b>Total Community Banking</b>	<b>8,068</b>	<b>250</b>	<b>—</b>	<b>150</b>	<b>8,468</b>
<b>Total</b>	<b>\$ 13,040</b>	<b>\$ 9,099</b>	<b>\$ (2,804)</b>	<b>\$ 1,955</b>	<b>\$ 21,290</b>

The following tables provide details regarding the allowance for loan and lease losses and balance by type of allowance as of December 31, 2019 and September 30, 2019.

Recorded Investment	Allowance			Loans and Leases		
	Ending balance: individually evaluated for impairment	Ending balance: collectively evaluated for impairment	Total	Ending balance: individually evaluated for impairment	Ending balance: collectively evaluated for impairment	Total
As of December 31, 2019	(Dollars in Thousands)					
<b>National Lending</b>						
Term lending	\$ 1,299	\$ 5,451	\$ 6,750	\$ 25,912	\$ 669,435	\$ 695,347
Asset based lending	109	1,886	1,995	525	250,108	250,633
Factoring	1,075	2,473	3,548	3,900	281,876	285,776
Lease financing	299	1,396	1,695	2,195	221,520	223,715
Insurance premium finance	—	970	970	—	349,299	349,299
SBA/USDA	486	279	765	3,683	86,586	90,269
Other commercial finance	—	160	160	—	99,617	99,617
<b>Commercial finance</b>	<b>3,268</b>	<b>12,615</b>	<b>15,883</b>	<b>36,215</b>	<b>1,958,441</b>	<b>1,994,656</b>
Consumer credit products	—	1,107	1,107	—	115,843	115,843
Other consumer finance	—	4,889	4,889	1,708	153,064	154,772
Consumer finance	—	5,996	5,996	1,708	268,907	270,615
Tax services	—	1,650	1,650	—	101,739	101,739
Warehouse finance	—	269	269	—	272,522	272,522
<b>Total National Lending</b>	<b>3,268</b>	<b>20,530</b>	<b>23,798</b>	<b>37,923</b>	<b>2,601,609</b>	<b>2,639,532</b>
<b>Community Banking</b>						
Commercial real estate and operating	—	4,665	4,665	823	681,576	682,399
Consumer one-to-four family real estate and other	—	1,031	1,031	69	220,519	220,588
Agricultural real estate and operating	—	682	682	2,793	37,985	40,778
<b>Total Community Banking</b>	<b>—</b>	<b>6,378</b>	<b>6,378</b>	<b>3,685</b>	<b>940,080</b>	<b>943,765</b>
<b>Total</b>	<b>\$ 3,268</b>	<b>\$ 26,908</b>	<b>\$ 30,176</b>	<b>\$ 41,608</b>	<b>\$ 3,541,689</b>	<b>\$ 3,583,297</b>



Recorded Investment	Allowance			Loans and Leases		
	Ending balance: individually evaluated for impairment	Ending balance: collectively evaluated for impairment	Total	Ending balance: individually evaluated for impairment	Ending balance: collectively evaluated for impairment	Total
As of September 30, 2019	(Dollars in Thousands)					
<b>National Lending</b>						
Term lending	\$ 450	\$ 5,083	\$ 5,533	\$ 19,568	\$ 622,174	\$ 641,742
Asset based lending	—	2,437	2,437	378	250,087	250,465
Factoring	1,262	1,999	3,261	3,824	292,683	296,507
Lease financing	112	1,163	1,275	1,213	176,702	177,915
Insurance premium finance	—	1,024	1,024	—	361,105	361,105
SBA/USDA	51	332	383	3,841	84,990	88,831
Other commercial finance	—	683	683	—	99,665	99,665
Commercial finance	1,875	12,721	14,596	28,824	1,887,406	1,916,230
Consumer credit products	—	1,044	1,044	—	106,794	106,794
Other consumer finance	—	5,118	5,118	1,472	159,932	161,404
Consumer finance	—	6,162	6,162	1,472	266,726	268,198
Tax services	—	—	—	—	2,240	2,240
Warehouse finance	—	263	263	—	262,924	262,924
<b>Total National Lending</b>	<b>1,875</b>	<b>19,146</b>	<b>21,021</b>	<b>30,296</b>	<b>2,419,296</b>	<b>2,449,592</b>
<b>Community Banking</b>						
Commercial real estate and operating	—	6,208	6,208	258	883,674	883,932
Consumer one-to-four family real estate and other	—	1,053	1,053	100	259,325	259,425
Agricultural real estate and operating	—	867	867	2,985	55,479	58,464
<b>Total Community Banking</b>	<b>—</b>	<b>8,128</b>	<b>8,128</b>	<b>3,343</b>	<b>1,198,478</b>	<b>1,201,821</b>
<b>Total</b>	<b>\$ 1,875</b>	<b>\$ 27,274</b>	<b>\$ 29,149</b>	<b>\$ 33,639</b>	<b>\$ 3,617,774</b>	<b>\$ 3,651,413</b>

Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the Bank's primary regulator, the Office of the Comptroller of the Currency (the "OCC"), to be of lesser quality as "substandard," "doubtful" or "loss." The loan and lease 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 a 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-** A special mention asset is a credit 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 will have well-defined weaknesses creating a distinct possibility the Bank will sustain some loss if the weaknesses are not corrected. Loss potential does not have to exist for an asset to be classified as substandard.

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

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

General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When assets are classified as "loss," the Company 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 Company'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 and leases to an individual, a specific industry, or a geographic location. 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 Company's Tier 1 Capital plus the Allowance for Loan and Lease Losses.

Beginning in the first quarter of fiscal year 2020, the Company implemented changes to the risk rating approach on certain commercial finance portfolios as part of a streamlining process to provide a more consistent risk rating approach across all of its lending portfolios. Based upon a study of the Company's special mention commercial finance loans and leases, the Company determined that approximately \$117.0 million of those loans and leases should be rated as watch under the new approach. Prior to the first quarter of fiscal year 2020, none of the Company's commercial finance loans and leases were rated as watch. Based on Meta's allowance methodology, these changes in risk ratings did not have a direct impact on the allowance for loan and lease losses. Despite the movement of certain commercial finance loans between risk rating categories, the aggregate balance of watch and special mention loans and leases within the commercial finance portfolio decreased slightly to \$139.7 million at December 31, 2019, compared to \$145.0 million at September 30, 2019.

The Company has various portfolios of consumer finance and tax services loans that present unique risks. Due to the unique risks associated with these portfolios, the Company monitors other credit quality indicators in their evaluation of the appropriateness of the allowance for loan losses on these portfolios, and as such, these loans are not included in the asset classification table below, beginning in the first quarter of fiscal year 2020. The September 30, 2019 asset classification table has been conformed to the current presentation. The outstanding balances of consumer finance loans and tax services loans were \$270.6 million and \$101.7 million at December 31, 2019, respectively, and \$268.2 million and \$2.2 million at September 30, 2019, respectively.

The asset classifications of loans and leases at December 31, 2019 and September 30, 2019 were as follows:

Asset Classification	Pass	Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2019	(Dollars in Thousands)					
<b>National Lending</b>						
Term lending	\$ 631,408	\$ 33,446	\$ 4,581	\$ 25,847	\$ 65	\$ 695,347
Asset based lending	193,824	51,348	4,936	525	—	250,633
Factoring	250,382	26,130	5,364	3,900	—	285,776
Lease financing	218,187	3,334	—	2,194	—	223,715
Insurance premium finance	344,668	869	634	2,926	202	349,299
SBA/USDA	78,259	1,569	6,758	3,683	—	90,269
Other commercial finance	98,926	691	—	—	—	99,617
Commercial finance	1,815,654	117,387	22,273	39,075	267	1,994,656
Warehouse finance	272,522	—	—	—	—	272,522
<b>Total National Lending</b>	<b>2,088,176</b>	<b>117,387</b>	<b>22,273</b>	<b>39,075</b>	<b>267</b>	<b>2,267,178</b>
<b>Community Banking</b>						
Commercial real estate and operating	674,189	1,225	3,389	3,596	—	682,399
Consumer one-to-four family real estate and other	219,223	428	781	156	—	220,588
Agricultural real estate and operating	21,789	4,804	5,873	8,312	—	40,778
<b>Total Community Banking</b>	<b>915,201</b>	<b>6,457</b>	<b>10,043</b>	<b>12,064</b>	<b>—</b>	<b>943,765</b>
<b>Total loans and leases</b>	<b>\$ 3,003,377</b>	<b>\$ 123,844</b>	<b>\$ 32,316</b>	<b>\$ 51,139</b>	<b>\$ 267</b>	<b>\$ 3,210,943</b>

Asset Classification	Pass	Watch	Special Mention	Substandard	Doubtful	Total
September 30, 2019	(Dollars in Thousands)					
<b>National Lending</b>						
Term lending	\$ 585,382	\$ —	\$ 36,792	\$ 19,024	\$ 544	\$ 641,742
Asset based lending	192,427	—	57,660	378	—	250,465
Factoring	256,048	—	36,635	3,824	—	296,507
Lease financing	171,785	—	4,917	1,213	—	177,915
Insurance premium finance	361,105	—	—	—	—	361,105
SBA/USDA	76,609	—	8,381	3,841	—	88,831
Other commercial finance	99,057	—	608	—	—	99,665
Commercial finance	1,742,413	—	144,993	28,280	544	1,916,230
Warehouse finance	262,924	—	—	—	—	262,924
<b>Total National Lending</b>	<b>2,005,337</b>	<b>—</b>	<b>144,993</b>	<b>28,280</b>	<b>544</b>	<b>2,179,154</b>
<b>Community Banking</b>						
Commercial real estate and operating	875,933	1,494	2,884	3,621	—	883,932
Consumer one-to-four family real estate and other	257,575	946	708	196	—	259,425
Agricultural real estate and operating	39,409	4,631	5,876	8,548	—	58,464
<b>Total Community Banking</b>	<b>1,172,917</b>	<b>7,071</b>	<b>9,468</b>	<b>12,365</b>	<b>—</b>	<b>1,201,821</b>
<b>Total loans and leases</b>	<b>\$ 3,178,254</b>	<b>\$ 7,071</b>	<b>\$ 154,461</b>	<b>\$ 40,645</b>	<b>\$ 544</b>	<b>\$ 3,380,975</b>

## National Lending

### Commercial Finance

The Company's commercial finance product lines include asset-based lending, factoring, leasing, insurance premium finance, and other commercial finance products offered on a nationwide basis.

*Term Lending.* Through its Crestmark division, the Bank originates a variety of collateralized conventional term loans and notes receivable, with terms ranging from three years to 25 years. These term loans may be secured by equipment, recurring revenue streams, or real estate. Credit risk is managed through setting loan amounts appropriate for the collateral by utilizing information ranging from equipment cost, appraisals, valuations, or lending history. The Bank follows standardized loan policies and established and authorized credit limits and applies attentive portfolio management, which includes monitoring past dues, financial performance, financial covenants, and industry trends.

*Asset-Based Lending.* Through its Crestmark division, the Bank provides asset-based loans secured by short-term assets such as inventory, accounts receivable, and work-in-process. Asset-based loans may also be secured by real estate and equipment. The primary sources of repayment are the operating income of the borrower, the collection of the receivables securing the loan, and/or the sale of the inventory securing the loan. Loans are typically revolving lines of credit with terms of one year to three years, whereby the Bank withholds a contingency reserve representing the difference between the amount advanced and the fair value of the invoice amount or other collateral value. Credit risk is managed through advance rates appropriate for the collateral, standardized loan policies, established and authorized credit limits, attentive portfolio management and the use of lock box agreements and similar arrangements that result in the Company receiving and controlling the debtors' cash receipts.

*Factoring.* Through its Crestmark division, the Bank provides factoring lending where clients provide detailed inventory, accounts receivable, and work-in-process reports for lending arrangements. The factoring clients are diversified as to industry and geography. With these loans, the Crestmark division withholds a contingency reserve, which is the difference between the fair value of the invoice amount or other collateral value and the amount advanced. This reserve is withheld for nonpayment of factored receivables, service fees and other adjustments. Credit risk is managed through standardized advance policies, established and authorized credit limits, verification of receivables, attentive portfolio management and the use of lock box agreements and similar arrangements that result in the Company receiving and controlling the client's cash receipts. In addition, clients generally guarantee the payment of purchased accounts receivable.

*Lease Financing.* Through its Crestmark division, the Bank provides creative, flexible lease solutions for technology, capital equipment and select transportation assets like tractors and trailers. Direct financing leases and sales-type leases substantially transfer the benefits and risks of equipment ownership to the lessee. The lease may contain provisions that transfer ownership to the lessee at the end of the initial term, contain a bargain purchase option or allow for purchase of the equipment at fair market value. Residual values are estimated at the inception of the lease. Lease maturities are generally no greater than 84 months. The focus in this lease financing category is to support middle market companies by providing a variety of financing products to help them meet their business objectives.

*Insurance Premium Finance.* Through its AFS/IBEX division the Bank provides, on a national basis, short-term, primarily collateralized financing to facilitate the commercial customers' purchase of insurance for various forms of risk, otherwise known as insurance premium financing. This includes, but is not limited to, policies for commercial property, casualty and liability risk. Premiums are advanced either directly to the insurance carrier or through an intermediary/broker and repaid by the policyholder with interest during the policy term. The policyholder generally makes a 20% to 25% down payment to the insurance broker and finances the remainder over nine months to 10 months on average. The down payment is set such that if the policy is canceled, the unearned premium is typically sufficient to cover the loan balance and accrued interest. The AFS/IBEX division markets itself to the insurance community as a competitive option based on service, reputation, competitive terms, cost and ease of operation.

*Small Business Administration ("SBA") and United States Department of Agriculture ("USDA").* The Bank originates loans through programs partially guaranteed by the SBA or USDA. These loans are made to small businesses and professionals with what the Bank believes are lower risk characteristics. Certain guaranteed portions of these loans are generally sold to the secondary market.

*Other Commercial Finance.* Included in this category of loans are the Company's healthcare receivables loan portfolio primarily comprised of loans to individuals for medical services received. The majority of these loans are guaranteed by the hospital providing the service to the debtor and this guarantee serves to reduce credit risk as the guarantors agree to repurchase severely delinquent loans. Credit risk is minimized on these loans based on the guarantor's repurchase agreement. This loan category also includes commercial real estate loans to customers of the Crestmark division.

#### Consumer Finance

*Consumer Credit Products.* The Bank designs its credit program relationships with certain desired outcomes. Three high priority outcomes are liquidity, credit protection, and risk retention. The Bank believes the benefits of these outcomes not only support its goals but the goals of the credit program partner as well. The Bank designs its program credit protections in a manner so that the Bank earns a reasonable risk adjusted return, but is protected by certain layers of credit support, similar to what you would find in structured finance. The Bank will hold a sizable portion of the originated asset on its own balance sheet, but retains the flexibility to sell a portion of the originated asset to other interested parties, thereby supporting program liquidity.

Through December 31, 2019, the Bank has launched two consumer credit programs. The loan products offered under these programs are generally closed-end installment loans with terms between 12 months and 84 months and revolving lines of credit with durations between six months and 60 months.

*Other Consumer Finance.* The Bank's purchased student loan portfolios are seasoned, floating rate, private portfolios that are serviced by a third-party servicer. The portfolio purchased during the first quarter of fiscal year 2018 is indexed to one-month of the London Interbank Offered Rate ("LIBOR"), while the portfolio purchased in the first quarter of fiscal year 2017 is indexed to three-month LIBOR plus various margins. The Company received written notification on June 18, 2018 from ReliaMax Surety Company ("ReliaMax"), the company that provided insurance coverage for the student loan portfolios, which informed policy holders that the South Dakota Division of Insurance filed a petition to have ReliaMax declared insolvent and to adopt a plan of liquidation. An Order of Liquidation was entered on June 27, 2018 by the Sixth Circuit Court in Hughes County, South Dakota, declaring ReliaMax insolvent and appointing the South Dakota Division of Insurance as liquidator to adopt a plan of liquidation. The Company expects to ultimately recover a portion of the unearned premiums, though the Company can provide no assurance as to the timing and amount of any such recovery.

#### Tax Services

The Bank's tax services division provides short-term taxpayer advance loans. Taxpayers are underwritten to determine eligibility for these unsecured loans. Due to the nature of taxpayer advance loans, it typically takes no more than three e-file cycles (the period of time between scheduled IRS payments) from when the return is accepted by the IRS to collect from the borrower. In the event of default, the Bank has no recourse against the tax consumer. The Bank will charge off the balance of a taxpayer advance loan if there is a balance at the end of the calendar year, or when collection of principal becomes doubtful.

Through its tax services division, the Bank provides short-term electronic return originator ("ERO") advance loans on a nationwide basis. These loans are typically utilized by tax preparers to purchase tax preparation software and to prepare tax office operations for the upcoming tax season. EROs go through an underwriting process to determine eligibility for the unsecured advances. ERO loans are not collateralized. Collection on ERO advances begins once the ERO begins to process refund transfers. Generally, the Bank will charge off the balance of an ERO advance loan if there is a balance at the end of June, or when collection of principal becomes doubtful.

#### Warehouse Finance

The Bank participates in several asset-backed warehouse lines of credit whereby the Bank is in a senior, secured position as the first out participant. These facilities are primarily collateralized by consumer receivables, with the Bank holding a senior collateral position enhanced by a subordinate party structure.

## Community Banking

### Commercial Real Estate and Operating

The Company engages in commercial and multi-family real estate lending in the community bank's primary market areas and surrounding areas. These loans are secured primarily by apartment buildings, office buildings, and hotels. Commercial and multi-family real estate loans generally are underwritten with terms not exceeding 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property securing the loan, and are typically secured by guarantees of the borrowers.

The Company originates its community banking commercial operating loans primarily in the community bank's market areas. Most of these 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 may involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. The maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Generally, the maximum term on non-mortgage lines of credit is one year.

### Consumer One-to-Four Family Real Estate and Other

The Company originates one-to-four family residential mortgage loans in the community bank's primary market areas 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 property securing the loan or the contract price. However, the vast majority of these loans are originated with loan-to-value ratios below 80%. The Company also currently offers five- and ten-year ARM loans.

The Company also originates a variety of secured consumer loans, including home equity, home improvement, automobile and boat loans, as well as loans secured by savings deposits in its primary market areas and surrounding areas. Substantially all of the Company's home equity loans and lines of credit are secured by second mortgages on principal residences. The Bank will lend amounts which, together with all prior liens, may be up to 90% of the appraised value of the property securing the loan. Home equity loans and lines of credit generally have maximum terms of five years.

### Agricultural Real Estate and Operating

The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer, and other farm-related products, primarily in its market areas. 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, are due upon sale. 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 years to 10 years, after which the loan will balloon or the interest rate will adjust annually. These loans generally amortize over a period of 20 years to 25 years. Fixed-rate agricultural real estate loans typically have terms up to 10 years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan.

See Note 3. Divestitures for further information related to the Community Banking lending portfolio.

Past due loans and leases at December 31, 2019 and September 30, 2019 were as follows:

Past Due Loans and Leases	Accruing and Non-accruing Loans and Leases						Non-performing Loans and Leases		
	30-59 Days Past Due	60-89 Days Past Due	> 89 Days Past Due	Total Past Due	Current	Total Loans and Leases Receivable	> 89 Days Past Due and Accruing	Non-accrual balance	Total
December 31, 2019									
(Dollars in Thousands)									
Loans held for sale	\$ 63	\$ —	\$ —	\$ 63	\$ 264,361	\$ 264,424	\$ —	\$ —	\$ —
National Lending									
Term lending	12,300	2,767	12,679	27,746	667,601	695,347	1,316	12,372	13,688
Asset based lending	26	—	—	26	250,607	250,633	—	583	583
Factoring	—	—	—	—	285,776	285,776	—	205	205
Lease financing	3,757	758	1,893	6,408	217,307	223,715	1,286	729	2,015
Insurance premium finance	7,065	1,117	3,131	11,313	337,986	349,299	3,131	—	3,131
SBA/USDA	979	—	29	1,008	89,261	90,269	—	2,704	2,704
Other commercial finance	—	—	—	—	99,617	99,617	—	—	—
Commercial finance	24,127	4,642	17,732	46,501	1,948,155	1,994,656	5,733	16,593	22,326
Consumer credit products	953	430	318	1,701	114,142	115,843	318	—	318
Other consumer finance	1,342	804	1,330	3,476	151,296	154,772	1,330	—	1,330
Consumer finance	2,295	1,234	1,648	5,177	265,438	270,615	1,648	—	1,648
Tax services	—	—	—	—	101,739	101,739	—	—	—
Warehouse finance	—	—	—	—	272,522	272,522	—	—	—
Total National Lending	26,422	5,876	19,380	51,678	2,587,854	2,639,532	7,381	16,593	23,974
Community Banking									
Commercial real estate and operating	—	—	—	—	682,399	682,399	—	—	—
Consumer one-to-four family real estate and other	346	74	9	429	220,159	220,588	—	9	9
Agricultural real estate and operating	30	1,538	—	1,568	39,210	40,778	—	—	—
Total Community Banking	376	1,612	9	1,997	941,768	943,765	—	9	9
Total loans and leases held for investment	26,798	7,488	19,389	53,675	3,529,622	3,583,297	7,381	16,602	23,983
Total loans and leases	\$ 26,861	\$ 7,488	\$ 19,389	\$ 53,738	\$ 3,793,983	\$ 3,847,721	\$ 7,381	\$ 16,602	\$ 23,983

Past Due Loans and Leases	Accruing and Non-accruing Loans and Leases						Non-performing Loans and Leases		
	30-59 Days Past Due	60-89 Days Past Due	> 89 Days Past Due	Total Past Due	Current	Total Loans and Leases Receivable	> 89 Days Past Due and Accruing	Non-accrual balance	Total
September 30, 2019									
(Dollars in Thousands)									
Loans held for sale	\$ 1,122	\$ 755	\$ 964	\$ 2,841	\$ 145,936	\$ 148,777	\$ 964	\$ —	\$ 964
<b>National Lending</b>									
Term lending	2,162	910	14,098	17,170	624,572	641,742	2,241	12,146	14,387
Asset based lending	—	—	—	—	250,465	250,465	—	—	—
Factoring	—	—	—	—	296,507	296,507	—	1,669	1,669
Lease financing	1,160	1,134	1,736	4,030	173,885	177,915	1,530	308	1,838
Insurance premium finance	1,999	2,881	3,807	8,687	352,418	361,105	3,807	—	3,807
SBA/USDA	83	—	255	338	88,493	88,831	—	255	255
Other commercial finance	—	—	—	—	99,665	99,665	—	—	—
Commercial finance	5,404	4,925	19,896	30,225	1,886,005	1,916,230	7,578	14,378	21,956
Consumer credit products	627	557	239	1,423	105,371	106,794	239	—	239
Other consumer finance	932	1,005	1,078	3,015	158,389	161,404	1,078	—	1,078
Consumer finance	1,559	1,562	1,317	4,438	263,760	268,198	1,317	—	1,317
Tax services	—	—	2,240	2,240	—	2,240	2,240	—	2,240
Warehouse finance	—	—	—	—	262,924	262,924	—	—	—
<b>Total National Lending</b>	<b>6,963</b>	<b>6,487</b>	<b>23,453</b>	<b>36,903</b>	<b>2,412,689</b>	<b>2,449,592</b>	<b>11,135</b>	<b>14,378</b>	<b>25,513</b>
<b>Community Banking</b>									
Commercial real estate and operating	565	—	—	565	883,367	883,932	—	—	—
Consumer one-to-four family real estate and other	458	—	9	467	258,958	259,425	—	44	44
Agricultural real estate and operating	49	—	—	49	58,415	58,464	—	—	—
<b>Total Community Banking</b>	<b>1,072</b>	<b>—</b>	<b>9</b>	<b>1,081</b>	<b>1,200,740</b>	<b>1,201,821</b>	<b>—</b>	<b>44</b>	<b>44</b>
Total loans and leases held for investment	8,035	6,487	23,462	37,984	3,613,429	3,651,413	11,135	14,422	25,557
<b>Total loans and leases</b>	<b>\$ 9,157</b>	<b>\$ 7,242</b>	<b>\$ 24,426</b>	<b>\$ 40,825</b>	<b>\$ 3,759,365</b>	<b>\$ 3,800,190</b>	<b>\$ 12,099</b>	<b>\$ 14,422</b>	<b>\$ 26,521</b>

Certain loans and leases 90 days or more past due as to interest or principal continue to accrue because they are (1) well-secured and in the process of collection or (2) one-to-four family real estate loans or consumer loans exempt under regulatory rules from being classified as non-accrual until later delinquency, usually 120 days past due.

When analysis of borrower or lessee 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 or lease is evaluated for impairment. Often, this is associated with a delay or shortfall in scheduled payments, as described above.



Impaired loans and leases at December 31, 2019 and September 30, 2019 were as follows:

December 31, 2019	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans and leases without a specific valuation allowance	(Dollars in Thousands)		
<b>National Lending</b>			
Term lending	\$ 17,125	\$ 19,112	\$ —
Factoring	1,387	2,462	—
Lease financing	1,418	1,418	—
Commercial finance	19,930	22,992	—
Other consumer finance	1,708	1,806	—
Consumer finance	1,708	1,806	—
<b>Total National Lending</b>	<b>21,638</b>	<b>24,798</b>	<b>—</b>
<b>Community Banking</b>			
Commercial real estate and operating	823	823	—
Consumer one-to-four family real estate and other	69	69	—
Agricultural real estate and operating	2,793	2,793	—
<b>Total Community Banking</b>	<b>3,685</b>	<b>3,685</b>	<b>—</b>
<b>Total</b>	<b>\$ 25,323</b>	<b>\$ 28,483</b>	<b>\$ —</b>
<b>Loans and leases with a specific valuation allowance</b>			
<b>National Lending</b>			
Term lending	\$ 8,787	\$ 10,087	\$ 1,299
Asset based lending	525	525	109
Factoring	2,513	2,525	1,075
Lease financing	777	777	299
SBA/USDA	3,683	3,683	486
Commercial finance	16,285	17,597	3,268
<b>Total National Lending</b>	<b>16,285</b>	<b>17,597</b>	<b>3,268</b>
<b>Total</b>	<b>\$ 16,285</b>	<b>\$ 17,597</b>	<b>\$ 3,268</b>

September 30, 2019	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans and leases without a specific valuation allowance	(Dollars in Thousands)		
<b>National Lending</b>			
Term lending	\$ 12,644	\$ 13,944	\$ —
Asset based lending	378	378	—
Factoring	1,563	2,638	—
Lease financing	1,062	1,062	—
SBA/USDA	2,595	2,595	—
Commercial finance	18,242	20,617	—
Other consumer finance	1,472	1,539	—
Consumer finance	1,472	1,539	—
<b>Total National Lending</b>	<b>19,714</b>	<b>22,156</b>	<b>—</b>
<b>Community Banking</b>			
Commercial real estate and operating	258	258	—
Consumer one-to-four family real estate and other	100	100	—
Agricultural real estate and operating	2,985	2,985	—
<b>Total Community Banking</b>	<b>3,343</b>	<b>3,343</b>	<b>—</b>
<b>Total</b>	<b>\$ 23,057</b>	<b>\$ 25,499</b>	<b>\$ —</b>
<b>Loans and leases with a specific valuation allowance</b>			
<b>National Lending</b>			
Term lending	\$ 6,924	\$ 6,951	\$ 450
Factoring	2,261	3,601	1,262
Lease financing	151	151	112
SBA/USDA	1,246	1,246	51
Commercial finance	10,582	11,949	1,875
<b>Total National Lending</b>	<b>10,582</b>	<b>11,949</b>	<b>1,875</b>
<b>Total</b>	<b>\$ 10,582</b>	<b>\$ 11,949</b>	<b>\$ 1,875</b>

The following table provides the average recorded investment in impaired loans and leases for the three-month periods ended December 31, 2019 and 2018.

Three Months Ended December 31,	2019		2018	
	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
	(Dollars in Thousands)			
<b>National Lending</b>				
Term lending	\$ 19,537	\$ 74	\$ 5,709	\$ 79
Asset based lending	427	—	—	—
Factoring	3,849	—	2,780	5
Lease financing	3,686	—	3,602	10
SBA/USDA	3,788	—	—	—
Commercial finance	31,287	74	12,091	94
Other consumer finance	1,551	35	—	—
Consumer finance	1,551	35	—	—
<b>Total National Lending</b>	<b>32,838</b>	<b>109</b>	<b>12,091</b>	<b>94</b>
<b>Community Banking</b>				
Commercial real estate and operating	446	13	404	4
Consumer one-to-four family real estate and other	90	8	139	2
Agricultural real estate and operating	2,921	42	1,473	25
<b>Total Community Banking</b>	<b>3,457</b>	<b>63</b>	<b>2,016</b>	<b>31</b>
<b>Total loans and leases</b>	<b>\$ 36,295</b>	<b>\$ 172</b>	<b>\$ 14,107</b>	<b>\$ 125</b>

The Company's troubled debt restructurings ("TDRs") typically involve forgiving a portion of interest or principal on existing loans, making loans at a rate materially less than current market rates, or extending the term of the loan. There were \$0.6 million of Community Banking loans and \$0.4 million of National Lending loans that were modified in a TDR during the three months ended December 31, 2019, all of which were modified to extend the term of the loan. There were \$0.1 million of Community Banking loans and \$0.1 million of National Lending loans and leases that were modified in a TDR during the three months ended December 31, 2018.

During the quarter ended December 31, 2019, the Company had \$1.2 million of Community Banking loans and \$0.3 million of National Lending loans that were modified in a TDR within the previous 12 months and for which there was a payment default. During the quarter ended December 31, 2018, the Company had no loans that were modified in a TDR within the previous 12 months and for which there was a payment default. TDR net charge-offs and the impact of TDRs on the Company's allowance for loan and lease losses were insignificant during the quarters ended December 31, 2019 and December 31, 2018.

At December 31, 2019, foreclosed and repossessed assets totaled \$1.3 million, compared to \$29.5 million at September 30, 2019. At December 31, 2019 and September 30, 2019, the Company had established a valuation allowance of \$0.1 million for repossessed assets. There were no impairments on any foreclosed and repossessed assets at either date. The Company had no loans or leases in the process of foreclosure at December 31, 2019 or September 30, 2019.

## NOTE 6. EARNINGS PER COMMON SHARE

Earnings per common share is computed after deducting any preferred dividends, if applicable. The Company has granted restricted share awards with dividend rights that are considered to be participating securities. Accordingly, a portion of the Company's earnings is allocated to those participating securities in the earnings per share calculation. Basic earnings per common share is computed by dividing income available to common stockholders after the allocation of dividends and undistributed earnings to the participating securities by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, and is computed after giving consideration to the weighted average dilutive effect of the Company's stock options and after the allocation of earnings to the participating securities. Antidilutive options are disregarded in earnings per share calculations.

A reconciliation of net income and common stock share amounts used in the computation of basic and diluted earnings per share for the three months ended December 31, 2019 and 2018 is presented below.

Three Months Ended December 31,	2019	2018
(Dollars in Thousands, Except Share and Per Share Data)		
Basic income per common share:		
Net income attributable to Meta Financial Group, Inc.	\$ 21,068	\$ 15,398
Weighted average common shares outstanding	37,431,788	39,335,054
Basic income per common share	\$ 0.56	\$ 0.39
Diluted income per common share:		
Net income attributable to Meta Financial Group, Inc.	\$ 21,068	\$ 15,398
Weighted average common shares outstanding	37,431,788	39,335,054
Outstanding options - based upon the two-class method	34,090	71,453
Weighted average diluted common shares outstanding	37,465,878	39,406,507
Diluted income per common share	\$ 0.56	\$ 0.39

NOTE 7. RENTAL EQUIPMENT, NET

Rental equipment was as follows as of December 31, 2019 and September 30, 2019.

	December 31, 2019	September 30, 2019
(Dollars in Thousands)		
Computers and IT networking equipment	\$ 32,733	\$ 37,352
Motor vehicles and other	106,133	98,149
Office furniture and equipment	2,900	2,875
Solar panels and equipment	117,166	116,505
<b>Total</b>	<b>258,932</b>	<b>254,881</b>
Accumulated depreciation	(49,314)	(46,344)
Unamortized initial direct costs	2,055	—
<b>Net book value</b>	<b>\$ 211,673</b>	<b>\$ 208,537</b>

Undiscounted future minimum lease payments expected to be received for operating leases at December 31, 2019 were as follows:

(Dollars in Thousands)		
2020	\$	25,787
2021		29,922
2022		23,016
2023		17,437
2024		11,813
Thereafter		23,145
<b>Total undiscounted future minimum lease payments receivable for operating leases</b>	<b>\$</b>	<b>131,120</b>

NOTE 8. FORECLOSED REAL ESTATE AND REPOSSESSED ASSETS

During the period ended December 31, 2019, the Company sold its other real estate owned ("OREO"), which consisted of assets related to a Community Bank agriculture real estate customer. The sale occurred via public auction and consisted of 30-plus parcels of land. The sale of 30-plus parcels closed in the first quarter of fiscal 2020. The Company applied Subtopic ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets* to record the sale. Below is a summary of the sale transaction, as reflected in the Company's financial statements for the period ending December 31, 2019.

	Three Months Ended December 31, 2019
(Dollars in Thousands)	
Purchase price	\$ 23,083
Carrying value of OREO	28,122
Loss on sale	(5,039)
Deferred income recognized	1,096
<b>Net impact</b>	<b>\$ (3,943)</b>

The Company recognized a \$5.0 million loss from the sale of foreclosed property during the quarter ended December 31, 2019, which is included in the "(Loss) gain on sale of other" line on the Consolidated Statements of Operations. The Company also recognized \$1.1 million in deferred rental income and \$0.2 million in OREO expenses related to these foreclosed properties during the quarter ended December 31, 2019.

**NOTE 9. GOODWILL AND INTANGIBLE ASSETS**

The Company held a total of \$309.5 million of goodwill as of December 31, 2019. The recorded goodwill is a result of multiple business combinations that have been consummated since fiscal year 2015, with the most recent being the merger with Crestmark pursuant to the Crestmark Acquisition that closed on August 1, 2018. Goodwill is assessed for impairment at a reporting unit level, which is one level below the operating segments. The Company has changed its basis of presentation for segments. See Note 16. Segment Reporting for additional information on the Company's segment reporting.

The changes in the carrying amount of the Company's goodwill and intangible assets for the three months ended December 31, 2019 and 2018 were as follows:

(Dollars in Thousands)	Consumer	Commercial	Corporate Services/Other	Total
<b>Goodwill</b>				
September 30, 2019	\$ 87,145	\$ 222,360	\$ —	\$ 309,505
Acquisitions	—	—	—	—
Impairment	—	—	—	—
December 31, 2019	<u>\$ 87,145</u>	<u>\$ 222,360</u>	<u>\$ —</u>	<u>\$ 309,505</u>
September 30, 2018	\$ 87,145	\$ 216,125	\$ —	\$ 303,270
Acquisitions	—	—	—	—
Impairment	—	—	—	—
December 31, 2018	<u>\$ 87,145</u>	<u>\$ 216,125</u>	<u>\$ —</u>	<u>\$ 303,270</u>

(Dollars in Thousands)	Trademark <sup>(1)</sup>	Non-Compete <sup>(2)</sup>	Customer Relationships <sup>(3)</sup>	All Others <sup>(4)</sup>	Total
<b>Intangible Assets</b>					
Balance as of September 30, 2019	\$ 11,959	\$ 827	\$ 33,207	\$ 6,817	\$ 52,810
Acquisitions during the period	—	—	—	17	17
Amortization during the period	(264)	(113)	(2,115)	(184)	(2,676)
Balance as of December 31, 2019	<u>\$ 11,695</u>	<u>\$ 714</u>	<u>\$ 31,092</u>	<u>\$ 6,650</u>	<u>\$ 50,151</u>
Gross carrying amount	\$ 14,624	\$ 2,480	\$ 82,088	\$ 10,719	\$ 109,911
Accumulated amortization	(2,929)	(1,766)	(40,748)	(3,410)	(48,853)
Accumulated impairment	—	—	(10,248)	(659)	(10,907)
Balance as of December 31, 2019	<u>\$ 11,695</u>	<u>\$ 714</u>	<u>\$ 31,092</u>	<u>\$ 6,650</u>	<u>\$ 50,151</u>

(1) Book amortization period of 5-15 years. Amortized using the straight line and accelerated methods.

(2) Book amortization period of 3-5 years. Amortized using the straight line method.

(3) Book amortization period of 10-30 years. Amortized using the accelerated method.

(4) Book amortization period of 3-20 years. Amortized using the straight line method.

(Dollars in Thousands)	Trademark <sup>(1)</sup>	Non-Compete <sup>(2)</sup>	Customer Relationships <sup>(3)</sup>	All Others <sup>(4)</sup>	Total
<b>Intangible Assets</b>					
Balance as of September 30, 2018	\$ 12,987	\$ 1,297	\$ 48,455	\$ 7,980	\$ 70,719
Acquisitions during the period	—	—	—	30	30
Amortization during the period	(257)	(118)	(3,762)	(246)	(4,383)
Balance as of December 31, 2018	<u>\$ 12,730</u>	<u>\$ 1,179</u>	<u>\$ 44,693</u>	<u>\$ 7,764</u>	<u>\$ 66,366</u>
Gross carrying amount	\$ 14,624	\$ 2,480	\$ 82,088	\$ 10,981	\$ 110,173
Accumulated amortization	(1,894)	(1,301)	(27,147)	(2,509)	(32,851)
Accumulated impairment	—	—	(10,248)	(708)	(10,956)
Balance as of December 31, 2018	<u>\$ 12,730</u>	<u>\$ 1,179</u>	<u>\$ 44,693</u>	<u>\$ 7,764</u>	<u>\$ 66,366</u>

(1) Book amortization period of 5-15 years. Amortized using the straight line and accelerated methods.

(2) Book amortization period of 3-5 years. Amortized using the straight line method.

(3) Book amortization period of 10-30 years. Amortized using the accelerated method.

(4) Book amortization period of 3-20 years. Amortized using the straight line method.

The estimated amortization expense of intangible assets assumes no activities, such as acquisitions, which would result in additional amortizable intangible assets. Estimated amortization expense of intangible assets in the remaining nine months of fiscal 2020 and subsequent fiscal years at December 31, 2019 was as follows:

(Dollars in Thousands)	\$	
Remaining in 2020		8,311
2021		8,528
2022		6,402
2023		5,084
2024		4,366
2025		3,809
Thereafter		13,651
Total anticipated intangible amortization	<u>\$</u>	<u>50,151</u>

The Company tests intangible assets for impairment at least annually or more often if conditions indicate a possible impairment. There were no impairments to intangible assets during the three months ended December 31, 2019 and 2018.

## NOTE 10. OPERATING LEASE RIGHT-OF-USE ASSETS AND LIABILITIES

Operating lease ROU assets, included in other assets, were \$26.3 million at December 31, 2019.

Operating lease liabilities, included in accrued expenses and other liabilities, were \$27.7 million at December 31, 2019.

Undiscounted future minimum operating lease payments and a reconciliation to the amount recorded as operating lease liabilities were as follows:

(Dollars in Thousands)	At December 31, 2019
2020	\$ 2,657
2021	3,448
2022	3,131
2023	2,442
2024	2,443
Thereafter	18,241
Total undiscounted future minimum lease payments	32,362
Discount	(4,636)
Total operating lease liabilities	\$ 27,726

The weighted-average discount rate and remaining lease term for operating leases were as follows:

	At December 31, 2019
Weighted-average discount rate	2.40%
Weighted-average remaining lease term (years)	12.24

The components of total lease costs for operating leases, included in occupancy and equipment noninterest expense, were as follows:

(Dollars in Thousands)	Three Months Ended December 31, 2019
Lease expense	\$ 744
Short-term and variable lease cost	178
Sublease income	(189)
Total lease cost for operating leases	\$ 733

## NOTE 11. STOCKHOLDERS' EQUITY

**Repurchase of Common Stock**

During the quarter ended December 31, 2019, the Company repurchased 899,371 of its shares, at an average price of \$34.17. This exhausted the remaining 319,228 shares that were available for repurchase by the Company at the beginning of fiscal 2020 under the share repurchase program announced during the fiscal 2019 second quarter. In addition, the Company also announced on November 20, 2019, that its Board of Directors authorized a new share repurchase program to repurchase up to an additional 7,500,000 shares of the Company's outstanding common stock. The new authorization is effective November 21, 2019 through December 31, 2022.

For the three months ended December 31, 2019, and 2018, the Company also repurchased 82,971 and 64,628 shares, or \$2.7 million and \$2.4 million of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock.



NOTE 12. STOCK COMPENSATION

The Company maintains the Meta Financial Group, Inc. 2002 Omnibus Incentive Plan, as amended and restated (the "2002 Omnibus Incentive Plan"), 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 the grant. The exercise price of options or fair value of nonvested (restricted) shares granted under the Company's incentive plan is equal to the fair market value of the underlying stock at the grant date. The Company has elected, with the adoption of ASU 2016-09, to record forfeitures as they occur.

The following tables show the activity of options and nonvested restricted shares granted, exercised, or forfeited under the 2002 Omnibus Incentive Plan for the three months ended December 31, 2019:

(Dollars in Thousands, Except Per Share Data)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
Options outstanding, September 30, 2019	59,835	\$ 8.06	1.54	\$ 1,469
Granted	—	—	—	—
Exercised	(15,030)	7.85	1.33	367
Forfeited or expired	—	—	—	—
Options outstanding, December 31, 2019	44,805	\$ 8.14	1.27	\$ 1,271
Options exercisable, December 31, 2019	44,805	\$ 8.14	1.27	\$ 1,271

(Dollars in Thousands, Except Per Share Data)	Number of Shares	Weighted Average Fair Value at Grant
Nonvested shares outstanding, September 30, 2019	926,122	\$ 29.54
Granted	154,422	32.82
Vested	(230,067)	29.47
Forfeited or expired	(3,817)	32.96
Nonvested shares outstanding, December 31, 2019	846,660	\$ 30.14

At December 31, 2019, stock-based compensation expense not yet recognized in income totaled \$13.3 million, which is expected to be recognized over a weighted average remaining period of 2.61 years.

## NOTE 13. INCOME TAXES

The Company recorded an income tax expense of \$0.7 million for the three months ended December 31, 2019, resulting in an effective tax rate of 2.97%, compared to an income tax benefit of \$1.7 million, or an effective tax rate of (11.56%), for the three months ended December 31, 2018. The Company's effective tax rate was lower than the U.S. statutory rate of 21% primarily because of the anticipated effect of investment tax credits during fiscal year 2019. The Company's effective tax rate in the future will depend in part on actual investment tax credits earned as part of its financing of solar energy projects.

The table below compares the income tax expense components for the periods presented.

Three Months Ended December 31,	2019	2018
(Dollars in Thousands)		
Provision at statutory rate	\$ 4,567	\$ 3,072
Tax-exempt income	(294)	(1,201)
State income taxes	1,090	701
Interim period effective rate adjustment	860	5,263
Tax credit investments, net - federal	(4,800)	(9,568)
Research tax credit	(1,709)	—
IRC 162(m) nondeductible compensation	838	—
Other, net	128	42
Income tax expense (benefit)	\$ 680	\$ (1,691)
Effective tax rate	2.97%	(11.56)%

## NOTE 14. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments to extend credit that are not reflected in the accompanying Condensed Consolidated Financial Statements as described below.

At December 31, 2019 and September 30, 2019, unfunded loan commitments approximated \$1.04 billion and \$978.1 million, respectively, excluding undisbursed portions of loans in process. 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.

The Company had no commitments to purchase securities at December 31, 2019 or September 30, 2019. The Company had no commitments to sell securities at December 31, 2019 or September 30, 2019.

The exposure to credit loss in the event of non-performance 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. At December 31, 2019 and at September 30, 2019, the Company had an allowance for credit losses on off-balance sheet credit exposures of \$0.1 million. This amount is maintained as a separate liability account within other liabilities.

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 October 14, 2016, with a lawsuit captioned Card Limited, LLC v. MetaBank dba Meta Payment Systems, Civil No. 2:16-cv-00980 in the United States District Court for the District of Utah. This action was initiated by a former prepaid program manager of the Bank, which was terminated by the Bank in fiscal year 2016. Card Limited alleges that, after all of the programs were wound down, there were two accounts with positive balances to which Card Limited is entitled. The Bank's position is that Card Limited is not entitled to the funds contained in said accounts. The total amount to which Card Limited claims it is entitled is \$4.0 million. The Court ruled in favor of MetaBank on cross motions for summary judgment and vacated the trial. Card Limited has the right to appeal once the ruling is finalized. The Bank intends to continue to vigorously defend this claim, if appealed. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation.

On February 9, 2018, the Bank's AFS/IBEX division filed a lawsuit in the United States District Court for the Eastern District of New York captioned AFS/IBEX, a division of MetaBank v. Aegis Managing Agency Limited ("AMA"), Aegis Syndicate 1225 (together with AMA, the "Aegis defendants"), CRC Insurance Services, Inc. ("CRC"), and Transportation Underwriters, Inc. The suit was filed against commercial insurance underwriters and brokers that facilitated the issuance of commercial insurance policies to Red Hook Construction Group-II, LLC ("Red Hook"). The Bank's position is that both CRC and Transportation Underwriters represented to the Bank that, upon cancellation of the insurance policies prior to their stated terms, any unearned premiums would be refunded. The Bank then provided insurance premium financing to Red Hook, and Red Hook executed a written premium finance agreement pursuant to which Red Hook assigned its rights to any unearned premiums to the Bank. After the policies were cancelled, the Aegis defendants failed to return the unearned insurance premiums totaling just over \$1.6 million owed to the Bank under the insurance policies and the premium finance agreement. The Bank is seeking recovery of all amounts to which it is entitled at law or equity and intends to vigorously pursue its claims against the defendants.

The Bank was served on December 24, 2018, with a lawsuit captioned The Ohio Valley Bank Company v. MetaBank dba Refund Advantage, Case No. 18 CV 134 in the Court of Common Pleas, Gallia County, Ohio. This action alleges that MetaBank breached a contract with The Ohio Valley Bank Company by terminating the contract before the term expired, resulting in over \$3.0 million in damages. The Bank intends to vigorously defend this claim. The Company has established an accrual for this claim.

From time to time, the Company or its subsidiaries are subject to certain legal proceedings and claims in the ordinary course of business. Accruals have been recorded when the outcome is probable and can be reasonably estimated. While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company's financial position or its results of operations, legal proceedings are inherently uncertain and unfavorable resolution of some or all of these matters could, individually or in the aggregate, have a material adverse effect on the Company's and its subsidiaries' respective businesses, financial condition or results of operations.

## NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

Topic 606 applies to all contracts with customers unless such revenue is specifically addressed under existing guidance. The table below presents the Company's revenue by operating segment. For additional descriptions of the Company's operating segments, including additional financial information and the underlying management accounting process, see Note 16. Segment Reporting to the Condensed Consolidated Financial Statements.

(Dollars in Thousands)	Consumer		Commercial		Corporate Services/Other		Consolidated Company	
	2019	2018	2019	2018	2019	2018	2019	2018
Three Months Ended December 31,								
Net interest income <sup>(1)</sup>	\$ 20,012	\$ 13,674	\$ 39,736	\$ 35,951	\$ 4,903	\$ 10,647	\$ 64,651	\$ 60,272
Noninterest income:								
Refund transfer product fees	192	261	—	—	—	—	192	261
Tax advance product fees <sup>(1)</sup>	2,276	1,685	—	—	—	—	2,276	1,685
Payment card and deposit fees	21,499	20,807	—	—	—	—	21,499	20,807
Other bank and deposit fees	—	—	278	293	209	189	487	482
Rental income <sup>(1)</sup>	4	—	11,034	10,890	1,313	—	12,351	10,890
Loss on sale of securities available-for-sale, net <sup>(1)</sup>	—	—	—	—	—	(22)	—	(22)
Gain (loss) on other <sup>(1)</sup>	240	—	2,339	1,225	(5,147)	41	(2,568)	1,266
Other income <sup>(1)</sup>	553	138	1,329	1,524	1,364	720	3,246	2,382
Total noninterest income (expense)	24,764	22,891	14,980	13,932	(2,261)	928	37,483	37,751
Revenue	\$ 44,776	\$ 36,565	\$ 54,716	\$ 49,883	\$ 2,642	\$ 11,575	\$ 102,134	\$ 98,023

<sup>(1)</sup> These revenues are not within the scope of Topic 606. Additional details are included in other footnotes to the accompanying financial statements. The scope of Topic 606 explicitly excludes net interest income as well as many other revenues for financial assets and liabilities, including loans, leases, and securities.

Following is a discussion of key revenues within the scope of Topic 606. The Company provides services to customers that have related performance obligations that must be completed to recognize revenue. Revenues are generally recognized immediately upon the completion of the service or over time as services are performed. Any services performed over time generally require that the Company renders services each period; therefore, the Company measures progress in completing these services based upon the passage of time. Revenue from contracts with customers did not generate significant contract assets and liabilities.

#### Refund Transfer Product Fees

Refund transfer fees are specific to the tax products offered by Refund Advantage and EPS. These fees are for products, services such as payment processing, and product referral commissions. Software partner fees paid and/or incurred are recorded on a net basis. The Company's obligation for product fees and commissions is satisfied at the time of the product delivery and obligation for payment processing is satisfied at the time of processing. The transaction price for such activity is based upon stand-alone fees within the terms and conditions. As of December 31, 2019 and September 30, 2019, there were no receivables related to refund transfer fees, which reflect earned revenue with unconditional rights to payment for product fee income. All refund transfer fees are recorded within the Consumer reporting segment.

#### Card Fees

Card fees relate to MPS, Community Bank, Refund Advantage and EPS products. These fees are for products and services such as card activation, product support, processing, and servicing. The Company earns these fees based upon the underlying terms and conditions with each cardholder over the contract term. Agreements with the Company's cardholders are considered daily service contracts as they are not fixed in duration. The Company's obligation for card activation and product support fees is satisfied at the time of product delivery, while the obligation for processing and servicing is satisfied over the course of each month. The transaction price for such activity is based upon the stand-alone fees within the terms and conditions of the cardholder agreements. Card fee revenue also includes income from sponsorships, associations and networks, and interchange income. Sponsorship income relates to fees charged to the Company's ATM sponsorship partners, where the obligation is satisfied over the course of each month. Association and network income reflect incentives, performance bonuses and rebates with MasterCard and Visa. The obligation for such income is satisfied at the time when certain thresholds of transaction volume have been met. Interchange income is generated by cardholder activity, and therefore the Company's obligations are satisfied as activity occurs. The transaction price for such activity is based on underlying rates and activity thresholds within the terms and conditions of the applicable agreements. Card fee revenue also includes breakage revenue. Breakage represents the estimated amount that will not be redeemed by the holder of unregistered, unused prepaid cards for goods or services. Breakage revenue is recognized ratably over the expected customer usage period and is an estimate based on cardholder behavior and breakage rates. Breakage is also impacted by escheatment laws. Card fees are recorded within both the Consumer and Commercial reporting segments, the substantial majority of which is derived from the Company's payments divisions and reported in payments card and deposit fees. Card fees related to the Community Bank are reported within other bank and deposit fees.

### *Bank and Deposit Fees*

Fees are earned on depository accounts for commercial and consumer customers and include fees for account services, overdraft services, safety deposit box rentals, and event-driven services (i.e. returned checks, ATM surcharge, card replacement, wire transfers, and stop pays). The Company's obligation for event-driven services is satisfied at the time of the event when the service is delivered, while its obligation for account services is satisfied over the course of each month. The Company's obligation for overdraft services is satisfied at the time of overdraft. The transaction price for such activity is based upon stand-alone fees within the terms and conditions of the deposit agreements. Bank and deposit fees are recorded within both the Consumer and Commercial reporting segments, the majority of which are derived from the Company's payments divisions. Bank and deposit fees related to the Community Bank are reported within other bank and deposit fees.

### *Principal vs Agent*

The Consumer reporting segment includes principal/agent relationships. Within this segment, MPS relationships are recorded on a gross basis within the Consolidated Statements of Operations, as Meta is the principal in the contract, with the exception of association/network contracts and partner/processor contracts for prepaid cards, which are recorded on a net basis within the Consolidated Statements of Operations as Meta is the agent in these contracts. Also within this segment, Tax Service relationships are recorded on a gross basis within the Consolidated Statements of Operations, as Meta is the principal in the contract, with the exception of contracts with software providers and merchants, which are recorded on a net basis within the Consolidated Statements of Operations as Meta is the agent in these contracts.

## NOTE 16. SEGMENT REPORTING

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose results are reviewed by the chief operating decision-maker. Operating segments are aggregated into reportable segments if certain criteria are met.

In the Annual Report on Form 10-K for the year ended September 30, 2019, the Company reported its results of operations through three business segments: *Payments*, *Banking*, and *Corporate Services/Other*. Beginning October 1, 2019, segments are now aligned with the new management operating structure implemented by the Company for fiscal year 2020. The Company accordingly has changed its basis of presentation for segments, and following such change, reports its results of operations through the following three business segments: *Consumer*, *Commercial*, and *Corporate Services/Other*. The Meta Payment Systems and Tax Services divisions, formally reported in the *Payments* segment, are now included in the *Consumer* segment. The Warehouse Finance, Consumer Credit Products and ClearBalance business lines, previously reported in the *Banking* segment, are now included in the *Consumer* segment. The Crestmark and AFS divisions, formally reported in the *Banking* segment, are now included in the *Commercial* segment. The Community Bank division and Student Loan lending portfolio, previously reported in the *Banking* segment, are now included in the *Corporate Services/Other* segment. The *Corporate Services/Other* segment also includes certain shared services as well as treasury related functions such as the investment portfolio, wholesale deposits and borrowings. Prior periods have been reclassified to conform to the current period presentation. The Company does not report indirect general and administrative expenses in the *Consumer* and *Commercial* segments.

The following tables present segment data for the Company for the three months ended December 31, 2019 and 2018, respectively.

(Dollars in Thousands)	Consumer	Commercial	Corporate Services/Other	Total
<b>Three Months Ended December 31, 2019</b>				
Net interest income	\$ 20,012	\$ 39,736	\$ 4,903	\$ 64,651
Provision (recovery) for loan and lease losses	980	3,701	(1,274)	3,407
Noninterest income (loss)	24,764	14,980	(2,261)	37,483
Noninterest expense	16,783	26,726	32,289	75,798
Income (loss) before income tax expense (benefit)	27,013	24,289	(28,373)	22,929
Total assets	720,873	2,494,253	2,965,800	6,180,926
Total goodwill	87,145	222,360	—	309,505
Total deposits <sup>(1)</sup>	2,999,184	13,855	1,793,541	4,806,580

<sup>(1)</sup> Total deposits includes deposits held for sale at December 31, 2019.

(Dollars in Thousands)	Consumer	Commercial	Corporate Services/Other	Total
<b>Three Months Ended December 31, 2018</b>				
Net interest income	\$ 13,674	\$ 35,951	\$ 10,647	\$ 60,272
Provision for loan and lease losses	1,973	3,854	3,272	9,099
Noninterest income	22,891	13,932	928	37,751
Noninterest expense	18,129	29,552	26,614	74,295
Income (loss) before income tax expense (benefit)	16,463	16,477	(18,311)	14,629
Total assets	612,999	2,074,250	3,495,516	6,182,765
Total goodwill	87,145	216,125	—	303,270
Total deposits	2,763,948	7,177	2,165,322	4,936,447

**NOTE 17. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

The fair value hierarchy is as follows:

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

**Level 2 Inputs** - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market.

**Level 3 Inputs** - Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

There were no transfers between levels of the fair value hierarchy at December 31, 2019 or September 30, 2019.

**Available for Sale and Held to Maturity Debt Securities.** Debt securities available for sale are recorded at fair value on a recurring basis and debt securities held to maturity are carried at amortized cost.

The fair values of available for sale debt 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 provider'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 on 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, our Investment Committee reviews mark-to-market changes in the securities portfolio for reasonableness.

**Equity Securities.** Marketable equity securities and certain non-marketable equity securities are recorded at fair value on a recurring basis. The fair values of marketable equity securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The following table summarizes the fair values of debt securities available for sale and equity securities at December 31, 2019 and September 30, 2019, as they are measured at fair value on a recurring basis.

(Dollars in Thousands)	Fair Value At December 31, 2019			
	Total	Level 1	Level 2	Level 3
Debt securities AFS				
SBA securities	\$ 180,920	\$ —	\$ 180,920	\$ —
Obligations of states and political subdivisions	874	—	874	—
Non-bank qualified obligations of states and political subdivisions	373,989	—	373,989	—
Asset-backed securities	296,820	—	296,820	—
Mortgage-backed securities	362,120	—	362,120	—
Total debt securities AFS	\$ 1,214,723	\$ —	\$ 1,214,723	\$ —
Common equities and mutual funds <sup>(1)</sup>	\$ 2,947	\$ 2,947	\$ —	\$ —
Non-marketable equity securities <sup>(2)</sup>	\$ 2,640	\$ —	\$ —	\$ —

  

(Dollars in Thousands)	Fair Value At September 30, 2019			
	Total	Level 1	Level 2	Level 3
Debt securities AFS				
SBA securities	\$ 185,982	\$ —	\$ 185,982	\$ —
Obligations of states and political subdivisions	874	—	874	—
Non-bank qualified obligations of states and political subdivisions	400,557	—	400,557	—
Asset-backed securities	302,534	—	302,534	—
Mortgage-backed securities	382,546	—	382,546	—
Total debt securities AFS	\$ 1,272,493	\$ —	\$ 1,272,493	\$ —
Common equities and mutual funds <sup>(1)</sup>	\$ 2,606	\$ 2,606	\$ —	\$ —
Non-marketable equity securities <sup>(2)</sup>	\$ 1,669	\$ —	\$ —	\$ —

<sup>(1)</sup> Equity securities at fair value are included within other assets on the consolidated statement of financial condition at December 31, 2019 and September 30, 2019.

<sup>(2)</sup> Consists of certain non-marketable equity securities that are measured at fair value using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

**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 and Leases.** The Company does not record loans and leases at fair value on a recurring basis. However, if a loan or lease is considered impaired, an allowance for loan and lease losses is established. Once a loan or lease is identified as individually impaired, management measures impairment in accordance with ASC 310, *Receivables*. See Note 5. Loans and Leases, Net for further information.

The following table summarizes the assets of the Company that are measured at fair value in the Condensed Consolidated Statements of Financial Condition on a non-recurring basis as of December 31, 2019 and September 30, 2019.

(Dollars in Thousands)	Fair Value At December 31, 2019			
	Total	Level 1	Level 2	Level 3
Impaired loans and leases, net				
Commercial finance	\$ 13,017	\$ —	\$ —	\$ 13,017
Total National Lending	13,017	—	—	13,017
Total impaired loans and leases, net	13,017	—	—	13,017
Foreclosed assets, net	1,328	—	—	1,328
Total	\$ 14,345	\$ —	\$ —	\$ 14,345

  

(Dollars in Thousands)	Fair Value At September 30, 2019			
	Total	Level 1	Level 2	Level 3
Impaired loans and leases, net				
Commercial finance	\$ 8,707	\$ —	\$ —	\$ 8,707
Total National Lending	8,707	—	—	8,707
Total impaired loans and leases, net	8,707	—	—	8,707
Foreclosed assets, net	29,494	—	—	29,494
Total	\$ 38,201	\$ —	\$ —	\$ 38,201

(Dollars in Thousands)	Quantitative Information About Level 3 Fair Value Measurements				
	Fair Value at December 31, 2019	Fair Value at September 30, 2019	Valuation Technique	Unobservable Input	Range of Inputs
Impaired loans and leases, net	\$ 13,017	8,707	Market approach	Appraised values <sup>(1)</sup>	4.00 - 10.00%
Foreclosed assets, net	\$ 1,328	29,494	Market approach	Appraised values <sup>(1)</sup>	4.00 - 30.00%

<sup>(1)</sup> The Company generally relies on external appraisers to develop this information. Management reduced the appraised value by estimating selling costs and other inputs in a range of 4% to 30%.

The following tables disclose the Company's estimated fair value amounts of its financial instruments at the dates set forth below. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of December 31, 2019 and September 30, 2019, 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.



The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at December 31, 2019 and September 30, 2019.

(Dollars in Thousands)	December 31, 2019				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash and cash equivalents	\$ 152,189	\$ 152,189	\$ 152,189	\$ —	\$ —
Debt securities available for sale	1,214,723	1,214,723	—	1,214,723	—
Debt securities held to maturity	123,117	121,899	—	121,899	—
Common equities and mutual funds <sup>(1)</sup>	2,947	2,947	2,947	—	—
Non-marketable equity securities <sup>(1)(2)</sup>	12,140	12,140	—	9,500	—
Loans held for sale	264,266	264,266	—	264,266	—
Loans and leases receivable	3,583,297	3,557,579	—	—	3,557,579
Federal Home Loan Bank stock	13,796	13,796	—	13,796	—
Accrued interest receivable	18,687	18,687	18,687	—	—
<b>Financial liabilities</b>					
Deposits held for sale	288,975	288,975	—	288,975	—
Deposits	4,517,605	4,527,377	3,290,280	1,237,096	—
Overnight federal funds purchased	194,000	194,000	194,000	—	—
Federal Home Loan Bank advances	110,000	110,733	—	110,733	—
Other short- and long-term borrowings	103,070	106,716	—	106,716	—
Accrued interest payable	6,620	6,620	6,620	—	—

<sup>(1)</sup> Equity securities at fair value are included within other assets on the consolidated statement of financial condition at December 31, 2019 and September 30, 2019.

<sup>(2)</sup> Includes certain non-marketable equity securities that are measured at fair value using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

(Dollars in Thousands)	September 30, 2019				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash and cash equivalents	\$ 126,545	\$ 126,545	\$ 126,545	\$ —	\$ —
Debt securities available for sale	1,272,493	1,272,493	—	1,272,493	—
Debt securities held to maturity	134,764	133,470	—	133,470	—
Common equities and mutual funds <sup>(1)</sup>	2,606	2,606	2,606	—	—
Non-marketable equity securities <sup>(1)(2)</sup>	8,169	8,169	—	6,500	—
Loans held for sale	148,777	148,777	—	148,777	—
Loans and leases receivable	3,651,413	3,622,597	—	—	3,622,597
Federal Home Loan Bank stock	30,916	30,916	—	30,916	—
Accrued interest receivable	20,400	20,400	20,400	—	—
<b>Financial liabilities</b>					
Deposits	4,337,005	4,338,510	2,920,516	1,417,994	—
Overnight federal funds purchased	642,000	642,000	642,000	—	—
Federal Home Loan Bank advances	110,000	110,691	—	110,691	—
Other short- and long-term borrowings	109,857	113,876	—	113,876	—
Accrued interest payable	9,414	9,414	9,414	—	—

<sup>(1)</sup> Equity securities at fair value are included within other assets on the consolidated statement of financial condition at December 31, 2019 and September 30, 2019.

<sup>(2)</sup> Includes certain non-marketable equity securities that are measured at fair value using NAV per share (or its equivalent) as a practical expedient and are excluded from the fair value hierarchy.

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at December 31, 2019 and September 30, 2019.

#### CASH AND CASH EQUIVALENTS

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

#### DEBT SECURITIES AVAILABLE FOR SALE AND EQUITY SECURITIES

Debt securities available for sale and equity securities are recorded at fair value on a recurring basis. Fair values for these 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. Non-marketable equity securities are measured at fair value using NAV per share (or its equivalent) as a practical expedient.

#### LOANS HELD FOR SALE

The carrying amount of loans held for sale is assumed to approximate the fair value.

#### LOANS AND LEASES, NET

The fair values of loans and leases were estimated using an exit price methodology. The exit price estimation of fair value is based on the present value of expected cash flows, which are based on the contractual terms of the loans, adjusted for prepayments and a discount rate based on the relative risk of the cash flows. Other considerations include the loan type, remaining life of the loan and credit risk.

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

The fair value of FHLB 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 HELD FOR SALE

The carrying amount of deposits held for sale is assumed to approximate the fair value.

#### DEPOSITS

The carrying values of noninterest-bearing checking deposits, interest-bearing checking deposits, savings, money markets, and wholesale non-maturing deposits are assumed to approximate fair value since deposits are immediately withdrawable without penalty. The fair value of time certificate deposits and wholesale certificate deposits are estimated using a discounted cash flows calculation that applies the FHLB Des Moines curve to aggregated expected maturities of time deposits. In accordance with Subtopic 825-10, *Financial Instruments*, no value has been assigned to the Company's long-term relationships with its deposit customers (core value of deposits intangible) as such intangibles are not financial instruments as defined under Subtopic 825-10.

#### 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, SUBORDINATED DEBENTURES AND OTHER BORROWINGS

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

Fair value estimates are made at a specific point in time and are 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.

#### NOTE 18. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after December 31, 2019. During this period, up to the filing date, management did not identify any material subsequent events that would require recognition or disclosure in our Condensed Consolidated Financial Statements as of or for the quarter ended December 31, 2019.

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" or "the Company" or "us") and its wholly-owned subsidiary, MetaBank® ("MetaBank" or "the Bank") may from time to time make written or oral "forward-looking statements," including statements contained in this Quarterly Report on Form 10-Q, the Company's other filings with the Securities and Exchange Commission (the "SEC"), the Company's reports to stockholders, and other communications by the Company and MetaBank, 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 of similar meaning or similar expressions. 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 are based on information currently available to us and assumptions about future events, and include statements with respect to the Company's beliefs, expectations, estimates, and intentions, which 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 risks, uncertainties and other factors may cause our actual growth, results of operations, financial condition, cash flows, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company's statements of financial condition and operations; growth and expansion; expectations concerning the Company's acquisitions and divestitures, including potential benefits of, and other expectations for the Company in connection with, such transactions; new products and services, such as those offered by MetaBank or the Company's Payments divisions (which include Meta Payment Systems, Refund Advantage, EPS Financial and Specialty Consumer Services); credit quality and adequacy of reserves; technology; and the Company's employees. The following factors, among others, could cause the Company's financial performance and results of operations to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: maintaining our executive management team; expected growth opportunities may not be realized or may take longer to realize than expected; the risk that the transaction with Central Bank may not occur on a timely basis or at all; the parties ability to obtain third party and regulatory approvals, and otherwise satisfy the other conditions to closing the transaction with Central Bank, on a timely basis or at all; factors relating to the Company's share repurchase program; actual changes in interest rates and the Fed Funds rate; additional changes in tax laws; 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 Congress and the United States Treasury in conjunction with bank regulatory agencies to stimulate the economy and protect the financial system; inflation, market, and monetary fluctuations; the timely and efficient development of, and acceptance of, new products and services offered by the Company or its strategic partners, 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, including, in connection with the Company's refund advance business, the risk of reduced volume of refund advance loans as a result of reduced customer demand for or acceptance of usage of Meta's strategic partners' refund advance products; any actions which may be initiated by our regulators in the future; the impact of changes in financial services laws and regulations, including, but not limited to, laws and regulations relating to the tax refund industry and the insurance premium finance industry; our relationship with our primary regulators, the Office of the Comptroller of the Currency and the Federal Reserve, as well as the Federal Deposit Insurance Corporation, which insures MetaBank's deposit accounts up to applicable limits; technological changes, including, but not limited to, the protection of electronic files or databases; acquisitions; litigation risk, in general, including, but not limited to, those risks involving MetaBank's divisions; the growth of the Company's business, as well as expenses related thereto; continued maintenance by MetaBank of its status as a well-capitalized institution, particularly in light of our growing deposit base, a portion of which has been characterized as "brokered;" changes in consumer spending and saving habits; and the success of the Company at maintaining its high quality asset level and managing and collecting assets of borrowers in default should problem assets increase.

The foregoing list of factors is not exclusive. We caution you not to place undue reliance on these forward-looking statements. The forward-looking statements included in this Quarterly Report speak only as of the date hereof. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in its entirety by the cautionary statements contained or referred to in this section. Additional discussions of factors affecting the Company's business and prospects are reflected under the caption "Risk Factors" and in other sections of the Company's Annual Report on Form 10-K for the Company's fiscal year ended September 30, 2019, and in other filings made with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries, whether as a result of new information, changed circumstances, or future events or for any other reason.

## 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 and the Bank, and all direct or indirect subsidiaries of Meta on a consolidated basis.

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

The following discussion focuses on the consolidated financial condition of the Company at December 31, 2019, compared to September 30, 2019, and the consolidated results of operations for the three months ended December 31, 2019 and 2018. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2019 and the related management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

## EXECUTIVE SUMMARY

The Company recorded net income of \$21.1 million, or \$0.56 per diluted share, for the quarter ended December 31, 2019, comparing favorably to net income of \$15.4 million, or \$0.39 per diluted share, that was recorded for the fiscal 2019 first quarter. Total revenue for the fiscal 2020 first quarter was \$102.1 million, compared to \$98.0 million for the same quarter in fiscal 2019, an increase of 4%. The improvement in revenue and net income was driven primarily by the Company's improved earning asset mix and growth in its core deposit base.

Growth in loan and lease balances, along with the continued optimization of the earning asset mix of the balance sheet, during the first quarter of fiscal year 2020 led to net interest income of \$64.7 million, net interest margin ("NIM") of 4.94% and net interest margin, tax-equivalent ("NIM, TE") of 4.99%. The Company's average gross loans and leases increased by \$614.8 million, or 20%, while average noninterest-bearing deposits increased by \$242.9 million, or 10%, when compared to the same period in fiscal 2019. Average deposits from the payments divisions increased nearly 12% to \$2.78 billion when compared to the same period in fiscal 2019. Management anticipates that NIM will continue to expand as the Company continues to grow and optimize the loan and lease portfolio, along with leveraging growth from its payments divisions' core deposits. Overall, the Company's cost of funds averaged 1.01% during the fiscal 2020 first quarter, compared to 1.14% during the prior year period.

Noninterest income for the quarter ended December 31, 2019 was \$37.5 million, compared to \$37.8 million for the same period of the prior year. This decrease was primarily due to a \$2.6 million loss on sale of other during the fiscal 2020 first quarter. Additionally, increases in rental income, other income, payments card and deposit fees, and tax advance product fees partially offset the loss on sale of other when comparing the fiscal 2020 first quarter to the same period of the prior year. For the quarter ended December 31, 2019, noninterest expense was \$75.8 million. The increase in noninterest expense over the prior year fiscal first quarter was driven by increases in compensation and benefits expense, other expense, legal and consulting expense, tax advance product expense and operating lease equipment depreciation, partially offset by decreases in intangible amortization and card processing expense.

On November 20, 2019, the Company announced that MetaBank entered into a definitive agreement with Central Bank, a state-chartered bank headquartered in Storm Lake, Iowa, for the sale of the Community Bank division. The sale would include substantially all of the Community Bank's deposits, branch locations, fixed assets and employees and a portion of the Community Bank's loan portfolio. The final loan and deposit balances to be included in the transaction will depend on the outstanding balance of the Community Bank deposits at the time of closing. As of December 31, 2019, the Community Bank deposits were approximately \$290 million. The final loan balances to be included in the transaction are expected to approximately match the final Community Bank deposit amount. The closing of the transaction is subject to the satisfaction or waiver of certain conditions, the receipt of third party and regulatory approval and satisfaction of customary closing conditions. The transaction is expected to close in the 2020 fiscal second quarter.

In connection with MetaBank's entry into the agreement with Central Bank, the Company reclassified the assets and liabilities to be sold to Central Bank as held for sale. In connection with the reclassification of the loans being sold in the Central Bank transaction to held for sale, the Company recorded a reduction to the provision for loan and lease losses within the community bank portfolio of \$1.8 million during the fiscal first quarter. The remaining Community Bank loans not proposed to be sold to Central Bank would be retained by the Company under a servicing agreement with Central Bank. Also during the fiscal 2020 first quarter, the Company recognized the following pre-tax expenses related to the Community Bank transaction: \$0.6 million in legal and consulting expense and \$0.3 million in compensation and benefits expense and other miscellaneous income and expense.

During the quarter ended December 31, 2019, the Company also disposed of assets related to a previously disclosed Community Bank agricultural relationship that were held in other real estate owned ("OREO"), which represented 46 basis points of non-performing assets as of September 30, 2019. As part of this disposition, the Company recognized a \$5.0 million loss from the sale of foreclosed property during the quarter ended December 31, 2019, which is included in the "(Loss) gain on sale of other" line on the Consolidated Statements of Operations. The Company also recognized \$1.1 million in deferred rental income and \$0.2 million in OREO expenses related to these foreclosed properties.

The Company's nonperforming assets at December 31, 2019, were \$29.8 million, representing 0.48% of total assets, compared to \$56.5 million, or 0.91% of total assets at September 30, 2019. The decrease in nonperforming assets was primarily driven by the previously mentioned reduction in foreclosed and repossessed assets.

During the quarter ended December 31, 2019, the Company repurchased 899,371 of its shares, at an average price of \$34.17. This exhausted the remaining 319,228 shares that were available for repurchase by the Company at the beginning of fiscal 2020 under the share repurchase program announced during the fiscal 2019 second quarter. In addition, the Company also announced on November 20, 2019, that its Board of Directors authorized a new share repurchase program to repurchase up to an additional 7,500,000 shares of the Company's outstanding common stock. The new authorization is effective from November 21, 2019 through December 31, 2022.

## FINANCIAL CONDITION

At December 31, 2019, the Company's total assets decreased by \$2.0 million to \$6.18 billion compared to September 30, 2019, primarily due to a decrease in the investment portfolio, while partially being offset by an increase in total loans and leases.

Total cash and cash equivalents was \$152.2 million at December 31, 2019, an increase of 20%, from \$126.5 million at September 30, 2019. The Company maintains its cash investments primarily in interest-bearing overnight deposits with the FHLB of Des Moines and the Federal Reserve Bank. At December 31, 2019, the Company did not have any federal funds sold.

The total investment portfolio decreased \$69.4 million, or 5%, to \$1.34 billion at December 31, 2019, compared to \$1.41 billion at September 30, 2019, as maturities, sales, and principal pay downs exceeded purchases. The Company's portfolio of securities customarily consists primarily of MBS, which have expected lives much shorter than the stated final maturity, non-bank qualified obligations of states and political subdivisions ("NBQ"), which mature in approximately 15 years or less, and other tax exempt municipal mortgage related pass through securities which have average lives much shorter than their stated final maturities. All MBS held by the Company at December 31, 2019 were issued by a U.S. Government agency or instrumentality. Of the total MBS at December 31, 2019, \$362.1 million, at fair value, were classified as available for sale, and \$6.8 million, at cost, were classified as held to maturity. Of the total investment securities at December 31, 2019, \$852.6 million, at fair value, were classified as available for sale and \$116.3 million, at cost, were classified as held to maturity. During the three-month period ended December 31, 2019, the Company did not purchase any investment securities.

Loans held for sale at December 31, 2019 totaled \$264.3 million, increasing from \$148.8 million at September 30, 2019. This increase was primarily driven by the transfer of \$251.9 million of community banking loans to held for sale and \$16.2 million of SBA/USDA loans and consumer credit product loans originated into held for sale. See Note 3 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q for further discussion related to the community banking loans transferred to held for sale. The Company sold held for sale loans resulting in proceeds of \$143.0 million during the fiscal year 2020 first quarter, which was primarily comprised of \$111.7 million of consumer credit product loans sold.

The Company's portfolio of gross loans and leases decreased by \$68.1 million, or 2%, to \$3.58 billion at December 31, 2019, from \$3.65 billion at September 30, 2019. The decrease was primarily driven by the transfer of community banking loans to held for sale, partially offset by an increase in national lending loans and leases.

National Lending loans and leases increased \$189.9 million, or 8% to \$2.64 billion at December 31, 2019 compared to September 30, 2019. Within the National Lending portfolios, tax services loans increased \$99.5 million, commercial finance loans and leases increased \$78.4 million, warehouse finance portfolio increased \$9.6 million, consumer finance portfolio increased \$2.4 million at December 31, 2019 compared to September 30, 2019. During the first quarter of fiscal 2020 the Company began originating taxpayer advances and ERO loans in preparation of the 2019 tax season, which led to the increase in tax services loans compared to September 30, 2019.

Community Banking loans decreased \$258.1 million, or 21%, at December 31, 2019 compared to September 30, 2019, primarily due to the aforementioned transfer of loans to held for sale. See Note 5 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

Through the Bank, the Company owns stock in the FHLB due to the Bank's membership and participation in this banking system. The FHLB requires a level of stock investment based on a pre-determined formula. The Company's investment in such stock decreased \$17.1 million, or 55%, to \$13.8 million at December 31, 2019, from \$30.9 million at September 30, 2019. The decrease in FHLB stock directly correlates with lower short-term borrowings balances at December 31, 2019 compared to September 30, 2019.

Total end-of-period deposits increased \$180.6 million, or 4%, at December 31, 2019 to \$4.52 billion as compared to September 30, 2019, primarily related to increases of \$570.0 million in noninterest-bearing deposits, partially offset by decreases of \$118.4 million in wholesale deposits, \$118.1 million in interest-bearing checking deposits, \$85.8 million in certificates of deposit, \$34.6 million in money market deposits, and \$32.3 million in savings deposits. The decrease in interest-bearing deposits, certificate of deposits, money market deposits and savings deposits was related to the transfer of \$286.6 million of deposits to held for sale during the fiscal 2020 first quarter. See Note 3 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

The average balance of total deposits and interest-bearing liabilities was \$5.13 billion for the three-month period ended December 31, 2019, compared to \$5.10 billion for the same period of the prior fiscal year. The average balance of noninterest-bearing deposits for the three-month period ended December 31, 2019 increased by \$242.9 million, or 10%, to \$2.73 billion compared to the same period in the prior year.

The Company's total borrowings decreased \$454.8 million, or 53%, from \$861.9 million at September 30, 2019 to \$407.1 million at December 31, 2019, primarily due to a decrease in short-term borrowings. The Company's short-term borrowings fluctuate on a daily basis due to the nature of a portion of its noninterest-bearing deposit base, primarily related to payroll processing timing with a higher volume of short-term borrowings 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. The Company also has an available no-fee line of credit with JP Morgan of \$25.0 million with no funds advanced at December 31, 2019.

At December 31, 2019, the Company's stockholders' equity totaled \$837.1 million, a decrease of \$6.9 million, from \$844.0 million at September 30, 2019. The decrease was primarily attributable to a reduction in retained earnings related to activity from the Company's share repurchase programs, offset in part by an increase in additional paid-in capital. At December 31, 2019, the Bank continued 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 and Lease Losses

Generally, when a loan or lease becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan or lease on a non-accrual status and, as a result, previously accrued interest income on the loan or lease is reversed against current income. The loan or lease will generally remain on a non-accrual status until six months of good payment history has been established or management believes the financial status of the borrower has been significantly restored. Certain relationships in the table below are over 90 days past due and still accruing. The Company considers these relationships as being in the process of collection. Insurance premium finance loans, consumer finance and tax services loans are generally not placed on non-accrual status, but are instead written off when the collection of principal and interest become doubtful.

Loans and leases, or portions thereof, are charged off when collection of principal becomes doubtful. Generally, this is associated with a delay or shortfall in payments of greater than 210 days for insurance premium finance, 180 days for tax and other specialty lending loans, 120 days for consumer credit products and 90 days for other loans. Action is taken to charge off ERO loans if such loans have not been collected by the end of June and taxpayer advance loans if such loans have not been collected by the end of the calendar year. Non-accrual loans and troubled debt restructurings are generally considered impaired.

The Company believes that the level of allowance for loan and lease losses at December 31, 2019 was appropriate and reflected probable losses related to these loans and leases; however, there can be no assurance that all loans and leases will be fully collectible or that the present level of the allowance will be adequate in the future. See "Allowance for Loan and Lease Losses" below.



The table below sets forth the amounts and categories of non-performing assets in the Company's portfolio as of the dates set forth below. Foreclosed assets include assets acquired in settlement of loans.

(Dollars in thousands)	Non-Performing Assets As Of	
	December 31, 2019	September 30, 2019
<u>Non-performing loans and leases</u>		
Non-accruing loans and leases:		
Term lending	\$ 12,372	\$ 12,146
Asset based lending	583	—
Factoring	205	1,669
Lease financing	729	308
SBA/USDA	2,704	255
Commercial finance	16,593	14,378
Total National Lending	16,593	14,378
Consumer one-to-four family real estate and other	9	44
Total Community Banking	9	44
Total	16,602	14,422
Accruing loans and leases delinquent 90 days or more:		
Held for sale loans	—	964
Term lending	1,316	2,241
Lease financing	1,286	1,530
Insurance premium finance	3,131	3,807
Commercial finance	5,733	7,578
Consumer credit products	318	239
Other consumer finance	1,330	1,078
Consumer finance	1,648	1,317
Tax services	—	2,240
Total National Lending	7,381	11,135
Total	7,381	11,135
Total non-performing loans and leases	23,983	26,521
<u>Other assets</u>		
Non-performing operating leases	4,466	457
Foreclosed and repossessed assets:		
Commercial finance	1,328	1,372
Agricultural real estate and operating	—	28,122
Total	1,328	29,494
Total other assets	5,794	29,951
Total non-performing assets	\$ 29,777	\$ 56,472
Total as a percentage of total assets	0.48%	0.91%

At December 31, 2019, non-performing loans and leases totaled \$24.0 million, representing 0.62% of total loans and leases, compared to \$26.5 million, or 0.70% of total loans and leases at September 30, 2019.

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

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

On the basis of management’s review of its loans, leases, and other assets, at December 31, 2019, the Company had classified \$51.1 million of its assets as substandard, \$0.3 million as doubtful and none as loss. At September 30, 2019, the Company classified \$40.6 million of its assets as substandard, \$0.5 million as doubtful and none as loss.

*Allowance for Loan and Lease Losses.* The allowance for loan and lease losses is established through a provision for loan and lease losses based on management’s evaluation of the risk inherent in its loan and lease portfolio and changes in the nature and volume of its loan and lease activity, including those loans and leases that are being specifically monitored by management. Such evaluation, which includes a review of loans and leases for which full collectability may not be reasonably assured, includes consideration of, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan and lease loss experience and other factors that warrant recognition in providing for an appropriate loan and lease loss allowance.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the appropriateness of its allowance for loan and lease losses. The current economic environment continues to show signs of stability in the Bank’s markets. The Bank’s average loss rates over the past three years were low relative to industry averages for such years. The Bank does not believe it is likely that these low loss conditions will continue indefinitely. Each loan and lease segment is evaluated using both historical loss factors as well as other qualitative factors, in order to determine the amount of risk the Company believes exists within that segment.

Management believes that, based on a detailed review of the loan and lease portfolio, historic loan and lease losses, current economic conditions, the size of the loan and lease portfolio and other factors, the level of the allowance for loan and lease losses at December 31, 2019 reflected an appropriate allowance against probable losses from the lending portfolio. Although the Company maintains its allowance for loan and lease losses at a level it considers to be appropriate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan and lease losses will not be required in future periods. In addition, the Company’s determination of the allowance for loan and lease losses is subject to review by the OCC, which can require the establishment of additional general or specific allowances.

At December 31, 2019, the Company had established an allowance for loan and lease losses totaling \$30.2 million, compared to \$29.1 million at September 30, 2019. The increase in the Company’s allowance for loan and lease losses was driven primarily by increases in the allowance of \$1.6 million in tax service loans and \$1.3 million in commercial finance, partially offset by a decrease of \$1.8 million in the community banking portfolio, which was related to the transfer of loans to held for sale in connection with the pending sale of the Community Bank division.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's financial statements are prepared in accordance with GAAP. The financial information contained within these financial statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. Management has identified its critical accounting policies, which are those policies that, in management's view, are most important in the portrayal of our financial condition and results of operations, and include those for the allowance for loan and lease losses, goodwill and identifiable intangible assets. These policies involve complex and subjective decisions and assessments. Some of these estimates may be uncertain at the time they are made, could change from period to period, and could have a material impact on the financial statements. A discussion of the Company's critical accounting policies and estimates can be found in the Company's Annual Report on Form 10-K for the year ended September 30, 2019. There were no significant changes to these critical accounting policies and estimates during the first three months of fiscal year 2019.

## RESULTS OF OPERATIONS

*General.* The Company recorded net income of \$21.1 million, or \$0.56 per diluted share, for the three months ended December 31, 2019, compared to net income of \$15.4 million, or \$0.39 per diluted share, for the three months ended December 31, 2018. Total revenue for the fiscal 2020 first quarter was \$102.1 million, compared to \$98.0 million for the same quarter in fiscal 2019, an increase of 4%. The increase in net income and revenue was primarily due to the improvement in net interest income, attributable to an enhanced interest-earning asset mix.

Net interest income for the fiscal 2020 first quarter increased by \$4.4 million, or 7%, to \$64.7 million from \$60.3 million for the same quarter in fiscal 2019, primarily due to growth in loan and lease balances within the Company's commercial and warehouse finance portfolios. The quarterly average outstanding balance of loans and leases as a percentage of interest-earning assets for the quarter ended December 31, 2019 increased to 72%, from 60% for the quarter ended December 31, 2018, while the quarterly average balance of total investments as a percentage of interest-earning assets decreased to 26% from 39% over that same period.

Net interest margin was 4.94% in the fiscal 2020 first quarter, an increase of 34 basis points from 4.60% in the fiscal 2019 first quarter. NIM, TE was 4.99% in the fiscal 2020 first quarter, an increase of 23 basis points from 4.76% in the fiscal 2019 first quarter. The increases in NIM and NIM, TE in the fiscal 2020 first quarter, compared to the same period of the prior year, were primarily attributable to higher net loan and lease yields attained through the commercial finance portfolio.

The overall reported tax equivalent yield ("TEY") on average earning assets increased by nine basis points to 5.98% when comparing the fiscal 2020 first quarter to the same period of the prior fiscal year. The improvement was driven primarily by the Company's improved earning asset mix, which reflects increased balances in the National Lending portfolio. The fiscal 2020 first quarter TEY on the securities portfolio decreased by 48 basis points to 2.65% compared to the same period of the prior year TEY of 3.13%, primarily due to a lower interest rate environment during the current period compared to the prior year period.

The Company's average interest-earning assets for the fiscal 2020 first quarter increased by \$10.0 million to \$5.20 billion, from the comparable quarter in 2019. The increase was primarily attributable to growth in the Company's average loan and lease portfolio of \$614.8 million, of which \$576.8 million was related to an increase in National Lending loans and leases and \$38.0 million was related to Community Banking loans. This increase was partially offset by a decrease in total investment securities of \$659.1 million, which decreased as the Company continued to utilize sales of securities and cash flow from its amortizing securities portfolio to fund loan growth.

The Company's average balance of total deposits and interest-bearing liabilities was \$5.13 billion for the three-month period ended December 31, 2019, compared to \$5.10 billion for the same period in the prior year, representing an increase of 1%. This increase was primarily due to an increase in average noninterest-bearing deposits of \$242.9 million, average interest-bearing checking of \$60.8 million, average money market deposits of \$26.2 million, and the average balance of total borrowings of \$23.2 million, partially offset by decreases in average wholesale deposits of \$225.7 million and average time deposits of \$90.1 million.

Overall, the Company's cost of funds for all deposits and borrowings averaged 1.01% during the fiscal 2020 first quarter, compared to 1.14% for the 2019 first fiscal quarter. This decrease was primarily due to a decrease in overnight borrowings rates as well as an increase in the average balance of the Company's noninterest-bearing deposits. The Company's overall cost of deposits was 0.81% in the 2020 fiscal first quarter, compared to 0.92% in the same quarter of 2019.

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 and leases have been included in the table as loans carrying a zero yield.

Three Months Ended December 31,	2019			2018		
(Dollars in Thousands)	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate <sup>(1)</sup>	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate <sup>(1)</sup>
<b>Interest-earning assets:</b>						
Cash & fed funds sold	\$ 99,597	\$ 412	1.65%	\$ 45,383	\$ 555	4.85%
Mortgage-backed securities	376,358	2,389	2.53%	381,285	2,698	2.81%
Tax exempt investment securities	490,982	2,339	2.40%	1,237,198	7,803	3.17%
Asset-backed securities	303,885	2,354	3.08%	298,445	2,712	3.61%
Other investment securities	197,513	1,429	2.88%	110,879	710	2.54%
Total investments	1,368,738	8,511	2.65%	2,027,807	13,923	3.13%
Total commercial finance	1,980,509	44,781	9.00%	1,562,054	39,281	9.98%
Total consumer finance	270,612	5,790	8.51%	291,421	6,230	8.48%
Total tax services	24,429	33	0.54%	11,009	2	0.07%
Total warehouse finance	265,564	4,174	6.25%	99,818	1,632	6.49%
National Lending loans and leases	2,541,114	54,778	8.58%	1,964,302	47,145	9.52%
Community Banking loans	1,194,082	13,924	4.64%	1,156,072	13,353	4.58%
Total loans and leases	3,735,196	68,702	7.32%	3,120,374	60,498	7.69%
Total interest-earning assets	5,203,531	\$ 77,625	5.98%	5,193,564	\$ 74,976	5.89%
Noninterest-earning assets	918,973			787,973		
Total assets	\$ 6,122,504			\$ 5,981,537		
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking	\$ 163,693	\$ 153	0.37%	\$ 102,880	\$ 58	0.23%
Savings	48,776	9	0.08%	53,661	10	0.07%
Money markets	80,528	205	1.01%	54,288	64	0.47%
Time deposits	114,924	595	2.06%	205,049	881	1.71%
Wholesale deposits	1,472,820	8,378	2.26%	1,698,492	9,583	2.24%
Total interest-bearing deposits	1,880,741	9,340	1.98%	2,114,370	10,596	1.99%
Overnight fed funds purchased	302,804	1,450	1.91%	393,315	2,481	2.50%
FHLB advances	110,000	678	2.45%	—	—	—%
Subordinated debentures	73,658	1,160	6.26%	73,504	1,161	6.27%
Other borrowings	33,589	346	4.10%	30,058	466	6.15%
Total borrowings	520,051	3,634	2.78%	496,877	4,108	3.28%
Total interest-bearing liabilities	2,400,792	12,974	2.15%	2,611,247	14,704	2.23%
Noninterest-bearing deposits	2,732,062	—	—%	2,489,148	—	—%
Total deposits and interest-bearing liabilities	5,132,854	\$ 12,974	1.01%	5,100,395	\$ 14,704	1.14%
Other noninterest-bearing liabilities	150,319			128,900		
Total liabilities	5,283,173			5,229,295		
Shareholders' equity	839,331			752,242		
Total liabilities and shareholders' equity	\$ 6,122,504			\$ 5,981,537		
Net interest income and net interest rate spread including noninterest-bearing deposits		\$ 64,651	4.97%		\$ 60,272	4.75%
Net interest margin			4.94%			4.60%
Tax-equivalent effect			0.05%			0.16%
Net interest margin, tax-equivalent <sup>(2)</sup>			4.99%			4.76%

<sup>(1)</sup> Tax rate used to arrive at the TEY for the three months ended December 31, 2019 and 2018 was 21%.

<sup>(2)</sup> Net interest margin expressed on a fully-taxable-equivalent basis ("net interest margin, tax-equivalent") is a non-GAAP financial measure. The tax-equivalent adjustment to net interest income recognizes the estimated income tax savings when comparing taxable and tax-exempt assets and adjusting for federal and state exemption of interest income. The Company believes that it is a standard practice in the banking industry to present net interest margin expressed on a fully taxable equivalent basis and, accordingly, believes the presentation of this non-GAAP financial measure may be useful for peer comparison purposes.

**Provision for Loan and Lease Losses.** The Company recorded a \$3.4 million provision for loan and lease losses for the quarter ended December 31, 2019, as compared to a \$9.1 million provision for loan and lease losses for the same period of the prior year. The decrease in provision was primarily within the consumer finance portfolio, as well as within the community bank portfolio, which was related to the transfer of loans to held for sale in connection with the pending sale of the Community Bank division. Also see Note 5 to the Condensed Consolidated Financial Statements included in this quarterly report.

**Noninterest Income.** Noninterest income for the fiscal 2020 first quarter decreased to \$37.5 million from \$37.8 million for the same period in the prior fiscal year. This decrease was primarily due to a \$2.6 million loss on sale of other during the fiscal 2020 first quarter compared to a gain on sale of other of \$1.3 million during the fiscal 2019 first quarter. The loss on sale of other during the current period was driven primarily by the loss on sale of OREO, partially offset by gains on the sale of loans and leases. See Note 3 to the Condensed Consolidated Financial Statements included in this quarterly report. Additionally, increases in rental income, other income, payments card and deposit fees, and tax advance product fees partially offset the loss on sale of other when comparing the fiscal 2020 first quarter to the same period of the prior year.

**Noninterest Expense.** Noninterest expense increased 2% to \$75.8 million for the fiscal 2020 first quarter, from \$74.3 million for the same quarter of fiscal 2019. The increase in noninterest expense when comparing the fiscal 2020 first quarter to the same period of the prior year was driven by increases in compensation and benefits expense, other expense, legal and consulting expense, tax advance product expense and operating lease equipment depreciation, partially offset by decreases in intangible amortization and card processing expense.

**Income Tax.** The Company recorded income tax expense of \$0.7 million, or an effective tax rate of 2.97%, for the fiscal 2020 first quarter, compared to an income tax benefit of \$1.7 million, or an effective tax rate of (11.56)%, for the fiscal 2019 first quarter. The recorded income tax expense during the current quarter was due to an increase in net income before tax, as well as less investment tax credits recognized ratably when compared to the prior year quarter.

The Company originated \$17.9 million in solar leases during the fiscal 2020 first quarter, compared to \$35.6 million in solar leases originated during the fiscal 2019 first quarter. Investment tax credits related to solar leases are recognized ratably based on income throughout each fiscal year. The timing and impact of future solar tax credits are expected to vary from period to period, and Meta intends to undertake only those tax credit opportunities that meet the Company's underwriting and return criteria.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, derived principally through its Payments divisions, and to a lesser extent through its Community Bank division, borrowings, principal and interest payments on loans and mortgage-backed securities, and maturing investment securities. In addition, the Company utilizes wholesale deposit sources to provide temporary funding when necessary or when favorable terms are available. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments are influenced by the level of interest rates, general economic conditions and competition. The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At December 31, 2019, the Company had commitments to originate and purchase loans and unused lines of credit totaling \$1.04 billion. 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, which replaced earlier frameworks adopted in 1988 ("Basel I") and 2004 (Basel II). 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 revised the risk-based capital requirements applicable to financial institution holding companies and their depository institution subsidiaries, including us and the Bank, as compared to U.S. general risk-based capital rules. The Basel III Capital Rules revised the definitions and the components of regulatory capital, as well as addressed other issues affecting the numerator in banking institutions' regulatory capital ratios. In addition, the Basel III Capital Rules implemented certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The Basel III Capital Rules became effective for us and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Pursuant to the Basel III Capital Rules, the Company and the Bank, respectively, are subject to regulatory capital adequacy requirements promulgated by the Federal Reserve and the OCC. Failure by the Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by our regulators that could have a material adverse effect on our consolidated financial statements. Under the capital requirements and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the 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 ratios (set forth in the table below) of total risk-based capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier 1 capital (as defined) to average assets (as defined). At December 31, 2019, 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 tables below include 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 analysis.

At December 31, 2019	Company	Bank	Minimum to be Adequately Capitalized Under Prompt Corrective Action Provisions	Minimum to be Well Capitalized Under Prompt Corrective Action Provisions
Tier 1 leverage capital ratio	8.28%	9.70%	4.00%	5.00%
Common equity Tier 1 capital ratio	10.10	12.18	4.50	6.50
Tier 1 capital ratio	10.46	12.24	6.00	8.00
Total capital ratio	12.74	12.90	8.00	10.00

The following table provides certain non-GAAP financial measures used to compute certain of the ratios included in the table above, as well as a reconciliation of such non-GAAP financial measures to the most directly comparable financial measure in accordance with GAAP:

	Standardized Approach <sup>(1)</sup> December 31, 2019
	(Dollars in Thousands)
Total stockholders' equity	\$ 837,068
Adjustments:	
LESS: Goodwill, net of associated deferred tax liabilities	304,020
LESS: Certain other intangible assets	47,855
LESS: Net deferred tax assets from operating loss and tax credit carry-forwards	16,876
LESS: Net unrealized gains on available-for-sale securities	3,897
LESS: Noncontrolling interest	4,305
Common Equity Tier 1 Capital <sup>(1)</sup>	460,115
Long-term borrowings and other instruments qualifying as Tier 1	13,661
Tier 1 minority interest not included in common equity tier 1 capital	2,372
<b>Total Tier 1 Capital</b>	<b>476,148</b>
Allowance for loan and lease losses	30,239
Subordinated debentures (net of issuance costs)	73,684
<b>Total Capital</b>	<b>580,071</b>

<sup>(1)</sup> Capital ratios were determined using the Basel III capital rules that became effective on January 1, 2015. Basel III revised the definition of capital, increased minimum capital ratios, and introduced a minimum common equity tier 1 capital ratio; those changes are being fully phased in through the end of 2021.

The following table provides a reconciliation of tangible common equity and tangible common equity excluding AOCI, each of which is used in calculating tangible book value data, to Total Stockholders' Equity at December 31, 2019. Each of tangible common equity and tangible common equity excluding AOCI is a non-GAAP financial measure that is commonly used within the banking industry.

	December 31, 2019
	(Dollars in Thousands)
Total Stockholders' Equity	\$ 837,068
LESS: Goodwill	309,505
LESS: Intangible assets	50,151
Tangible common equity	477,412
LESS: AOCI	3,895
Tangible common equity excluding AOCI	473,517

Since January 1, 2016, the Company and the Bank have been required 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 is 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. The implementation of the capital conservation buffer by annual increments finished on January 1, 2019, so that the required Common Equity Tier 1 risk-based, Tier 1 risk-based and total risk-based capital ratios with the buffer are currently 7.0%, 8.5% and 10.5%, respectively.

Based on current and expected continued profitability and subject to continued access to capital markets, we believe that the Company and the Bank will continue to meet the capital conservation buffer of 2.5% in addition to required minimum capital ratios.

## CONTRACTUAL OBLIGATIONS

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations" in the Company's Annual Report on Form 10-K for its fiscal year ended September 30, 2019 for a summary of our contractual obligations as of September 30, 2019. There were no material changes outside the ordinary course of our business in contractual obligations from September 30, 2019 through December 31, 2019.

## OFF-BALANCE SHEET FINANCING ARRANGEMENTS

For discussion of the Company's off-balance sheet financing arrangements as of December 31, 2019, see Note 14 to our consolidated financial statements included in Part I, Item 1 "Financial Statements" of this Quarterly Report on Form 10-Q. Depending on the extent to which the commitments or contingencies described in Note 14 occur, the effect on the Company's capital and net income could be significant.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

## MARKET RISK

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

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

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 the need 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 wholesale deposit portfolio and the relatively short-term nature of its borrowed funds. The Company believes that its growing portfolio of longer duration, low-cost deposits generated from its payments divisions 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 compress the Company's net interest margin.

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 Company’s interest rate risk analysis is designed to compare income and economic valuation 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 monitor interest rate risk, the Board of Directors has created an Asset/Liability Committee whose principal responsibilities are to assess the Bank’s asset/liability mix and implement strategies that will enhance income while managing the Bank’s vulnerability to changes in interest rates.

The Company uses two approaches to model interest rate risk: Earnings at Risk (“EAR analysis”) and Economic Value of Equity (“EVE analysis”). Under EAR analysis, net interest income is calculated for each interest rate scenario to the net interest income forecast in the base case. EAR analysis measures the sensitivity of interest-sensitive earnings over a one-year minimum time horizon. The results are affected by projected rates, prepayments, caps and floors. Management exercises its best judgment in making assumptions regarding events that management can influence, such as non-contractual deposit re-pricing, as well as events outside of management’s control, such as customer behavior on loan and deposit activity and the effect that competition has on both loan and deposit pricing. These assumptions are subjective and, as a result, net interest income simulation results will differ from actual results due to the timing, magnitude, and frequency of interest rate changes, changes in market conditions, customer behavior and management strategies, among other factors. We perform various sensitivity analyses on assumptions of deposit attrition and deposit re-pricing, as well as market-implied forward rates and various likely and extreme interest rate scenarios, including 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 -200, -100, +100, +200, +300, and +400 basis point parallel shifts in market interest rates over the next one-year period. Due to the current low level of interest rates, only -100 and -200 basis point parallel shifts are represented.

The Company was within Board policy limits for all interest rate scenarios as of December 31, 2019. The table below shows the results of the scenarios as of December 31, 2019:

		Net Sensitive Earnings at Risk						
		Change in Interest Income/Expense for a given change in interest rates						
		Over / (Under) Base Case Parallel Shift						
(Dollars in thousands)	Book Value	-200	-100	Base	100	200	300	400
Total Interest-Sensitive Income	5,285,616	259,001	276,552	297,425	319,075	341,022	362,436	383,662
Total Interest-Sensitive Expense	2,168,885	13,731	23,751	37,462	50,434	63,308	76,183	89,061
Net Interest-Sensitive Income	3,116,731	245,270	252,801	259,963	268,641	277,714	286,253	294,601
Percentage Change from Base	—	-5.7 %	-2.8 %	—%	3.3 %	6.8 %	10.1 %	13.3 %
Board Policy Limits	—	-12.0 %	-8.0 %	—%	-8.0 %	-10.0 %	-15.0 %	-20.0 %

The EAR analysis reported at December 31, 2019, shows that in all rising rate scenarios, more assets than liabilities would reprice over the modeled one-year period.

IRR is a snapshot in time. The Company's business and deposits are very predictably cyclical on a weekly, monthly and yearly basis. The Company's static IRR results could 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 noninterest-bearing deposit base, primarily related to payroll processing and timing of when certain programs are prefunded and when the funds are received.

The Company believes that its growing portfolio of noninterest-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 would likely remain low, with less of an increase in the cost of funds expected relative to many other banks.

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 -200, -100, +100, +200, +300 and +400 basis point parallel shifts in market interest rates. Due to the current low level of interest rates, only -100 and -200 basis point parallel shifts are represented.

The Company was within Board policy limits for all scenarios. The table below shows the results of the scenarios as of December 31, 2019:

Economic Value Sensitivity as of December 31, 2019

	Standard (Parallel Shift)					
	Economic Value of Equity at Risk%					
	-200	-100	100	200	300	400
Percentage Change from Base	-12.0 %	-5.0 %	3.3 %	5.2 %	6.3 %	7.4 %
Board Policy Limits	-20.0 %	-10.0 %	-10.0 %	-20.0 %	-25.0 %	-35.0 %

The EVE at risk reported at December 31, 2019 shows that as interest rates increase, the economic value of equity position will be relatively neutral. When viewing total asset versus total liability economic value, projected total assets are affected similarly on a percentage basis as compared to projected total liabilities in a rising rate environment.

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. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Management, under the direction of its Chief Executive Officer and Chief Financial Officer, is responsible for maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "1934 Act") that are designed to ensure that information required to be disclosed in reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report on Form 10-Q, management evaluated the Company's disclosure controls and procedures. The evaluation was performed under the direction of the Company's Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of December 31, 2019, of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, at December 31, 2019, the Company's disclosure controls and procedures were not effective in timely alerting them to material information relating to the Company required to be included in the Company's periodic SEC filings.

In the third fiscal quarter of 2019, the Company identified a material weakness in the control environment of the Crestmark division, which was acquired by the Company on August 1, 2018. The material weakness resulted from the aggregation of control deficiencies at the Crestmark division relating to Information Technology ("IT") system access, program change controls and review procedures related to new loan accounts and client record maintenance changes. Accordingly, management determined the aggregation of these deficiencies represents a material weakness in internal controls over financial reporting on the basis that they could result in a material misstatement potentially impacting the Company's financial statement accounts and disclosures that would not be prevented or detected on a timely basis. Also, the deficiencies could impact maintaining effective segregation of duties, as well as the effectiveness of dependent controls relating to the financial statements. In addition, these deficiencies could affect the controls and underlying data that support the effectiveness of system-generated reports.

#### REMEDIATION FOR REPORTED MATERIAL WEAKNESS

The Company is in process of implementing a remediation plan to address the material weakness described above with respect to the internal controls environment of the Crestmark division and is committed to maintaining a strong internal controls environment. To address the material weakness, the Company re-evaluated IT governance and controls, updated procedures related to access management, trained IT personnel related to user access to IT systems, and is in process of automating change management applications. As of December 31, 2019, management was continuing its remediation efforts. If the material weakness is not remediated, however, these deficiencies could result in material misstatements to the Company's Condensed Consolidated Financial Statements.

#### INTERNAL CONTROL OVER FINANCIAL REPORTING

Management conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the fiscal first quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Based on this evaluation, management concluded that, as of the end of the period covered by this report, there were no changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the fiscal first quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting except as set forth above.

META FINANCIAL GROUP, INC.  
PART II - OTHER INFORMATION

FORM 10-Q

Item 1. Legal Proceedings. - See "Legal Proceedings" under Note 14 to the Notes to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors. - A description of our risk factors can be found in "Item 1A. Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. There were no material changes to those risk factors during the three months ended December 31, 2019.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None

(b) None

(c) Issuer Purchases of Equity Securities

Meta's Board of Directors authorized a 2,000,000 share repurchase program that was scheduled to expire on September 30, 2021. The share repurchase program was announced on March 26, 2019 and became effective on May 1, 2019. All remaining shares available for repurchase under this program were repurchased during the fiscal 2020 first quarter.

In addition, Meta's Board of Directors authorized a 7,500,000 share repurchase program that is scheduled to expire on December 31, 2022. The share repurchase program was announced on November 20, 2019 and became effective on November 21, 2019.

The table below sets forth information regarding repurchases of our common stock during the first fiscal quarter of 2020.

Period	Total Number of Shares Repurchased <sup>(1)</sup>	Average Price Paid per Share <sup>(1)(2)</sup>	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Repurchased Under the Programs
October 1 to 31	387,863	\$ 33.02	319,228	—
November 1 to 30	225,765	35.07	212,700	7,287,300
December 1 to 31	285,743	35.16	284,472	7,002,828
<b>Total</b>	<b>899,371</b>		<b>816,400</b>	

<sup>(1)</sup> These columns also reflect (a) shares acquired in satisfaction of the tax withholding obligations of holders of restricted stock unit awards, which vested during the quarter, and (b) shares repurchased pursuant to trading plans effected in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934.

<sup>(2)</sup> The average price paid per share is calculated on a trade date basis for all open market transactions and excludes commissions and other transaction expenses.

Item 6. Exhibits.

Exhibit Number	Description
<a href="#">31.1</a>	Section 302 certification of Chief Executive Officer.
<a href="#">31.2</a>	Section 302 certification of Chief Financial Officer.
<a href="#">32.1</a>	Section 906 certification of Chief Executive Officer.
<a href="#">32.2</a>	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

META FINANCIAL GROUP, INC.

SIGNATURES

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

META FINANCIAL GROUP, INC.

Date: February 6, 2020

By: /s/ Bradley C. Hanson  
Bradley C. Hanson,  
President, Chief Executive Officer and Director

Date: February 6, 2020

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

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bradley C. Hanson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Meta Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2020

/s/ Bradley C. Hanson  
President and Chief Executive Officer

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Glen W. Herrick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Meta Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2020

/s/ Glen W. Herrick

Executive Vice President and Chief Financial Officer



CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Meta Financial Group, Inc. (the "Company") for the quarterly period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley C. Hanson, the Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Bradley C. Hanson  
Name: Bradley C. Hanson  
President and Chief Executive Officer  
February 6, 2020

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Meta Financial Group, Inc. (the "Company") for the quarterly period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glen W. Herrick, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Glen W. Herrick

Name: Glen W. Herrick

Executive Vice President and Chief Financial Officer

February 6, 2020