META FINANCIAL GROUP INC
Form 10-Q
August 14, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

o 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)

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

121 East Fifth Street, Storm Lake, Iowa 50588
(Former name, former address and former fiscal year, if changed since last report)

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 x NO o

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 x NO o.

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

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

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

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

Class:	Outstanding at August 13, 2012:
Common Stock, $.01 par value	3,846,617 Common Shares

META FINANCIAL GROUP, INC.
FORM 10-Q

Table of Contents

Table of Contents

Item 1.Financial Statements (Unaudited)

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

ASSETS	June 30, 2012	September 30, 2011
Cash and cash equivalents	$ 166,435	$ 276,893
Investment securities available for sale	152,503	28,330
Mortgage-backed securities available for sale	815,888	590,918
Loans receivable - net of allowance for loan losses of $4,426 at June 30, 2012 and $4,926 at September 30, 2011	332,948	314,410
Federal Home Loan Bank Stock, at cost	2,120	4,737
Accrued interest receivable	5,865	4,133
Insurance receivable	2,689	2,264
Premises, furniture, and equipment, net	18,072	17,168
Bank-owned life insurance	14,710	14,322
Foreclosed real estate and repossessed assets	861	2,671
Intangible assets	2,049	1,315
MPS accounts receivable	6,292	7,677
Other assets	8,250	10,643
Total assets	$ 1,528,682	$ 1,275,481
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	$ 1,153,027	$ 945,956
Interest-bearing checking	34,340	31,249
Savings deposits	24,435	11,136
Money market deposits	37,866	36,717
Time certificates of deposit	100,871	116,562
Total deposits	1,350,539	1,141,620
Advances from Federal Home Loan Bank	11,000	11,000
Securities sold under agreements to repurchase	27,314	8,055
Subordinated debentures	10,310	10,310
Accrued interest payable	216	223
Contingent liability	3,031	3,649
Accrued expenses and other liabilities	20,573	20,047
Total liabilities	1,422,983	1,194,904
STOCKHOLDERS' EQUITY		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $.01 par value; 5,200,000 shares authorized at June 30,2012 and September 30, 2011, 4,012,999 and 3,372,999 shares issued and 3,846,617 and 3,146,867 shares outstanding at June 30, 2012and September 30, 2011, respectively	40	34

Additional paid-in capital	45,330	32,471
Retained earnings - substantially restricted	59,610	45,494
Accumulated other comprehensive income (loss)	3,508	6,336
Treasury stock, 166,382 and 226,132 common shares, at cost, at June 30, 2012 and September 30, 2011, respectively	(2,789)	(3,758)
Total stockholders' equity	105,699	80,577
Total liabilities and stockholders' equity	$ 1,528,682	$ 1,275,481

See Notes to Condensed Consolidated Financial Statements.

1

Table of Contents

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in Thousands, Except Share and Per Share Data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Interest and dividend income:				
Loans receivable, including fees	$4,615	$4,538	$13,647	$14,894
Mortgage-backed securities	3,848	5,232	13,833	13,583
Other investments	686	210	1,583	703
	9,149	9,980	29,063	29,180
Interest expense:				
Deposits	516	732	1,722	2,374
FHLB advances and other borrowings	341	421	1,000	1,284
	857	1,153	2,722	3,658
Net interest income	8,292	8,827	26,341	25,522
Provision (recovery) for loan losses	150	(161)	1,049	25
Net interest income after provision for loan losses	8,142	8,988	25,292	25,497
Non-interest income:				
Card fees	12,232	8,272	41,836	40,738
(Loss) gain on sale of securities available for sale, net	(401)	-	12,030	1,158
Loan fees	358	69	977	355
Deposit fees	154	144	459	488
Bank-owned life insurance income	131	132	389	395
Other income	1,232	91	478	350
Total non-interest income	13,706	8,708	56,169	43,484
Non-interest expense:				
Compensation and benefits	8,236	7,158	23,469	23,142
Card processing expense	3,672	5,898	13,970	19,241
Occupancy and equipment expense	2,083	2,166	6,269	6,376
Legal and consulting expense	861	974	4,146	3,724
Goodwill impairment	-	-	-	1,508
Marketing	317	251	809	923
Data processing expense	294	272	847	818
Other expense	2,608	2,593	7,565	8,449
Total non-interest expense	18,071	19,312	57,075	64,181
Income (loss) before income tax expense (benefit)	3,777	(1,616)	24,386	4,800

Income tax expense (benefit)	1,390	(596)	8,938	2,352
Net income (loss)	$2,387	$(1,020)	$15,448	$2,448
Earnings (loss) per common share:				
Basic	$0.67	$(0.33)	$4.66	$0.79
Diluted	$0.66	$(0.33)	$4.64	$0.79

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 June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$2,387	$(1,020)	$15,448	$2,448
Other comprehensive loss:				
Change in net unrealized gains on securities available for sale	5,440	10,579	7,449	8,619
Losses (gains) realized in net income	401	-	(12,030)	(1,158)
	5,841	10,579	(4,581)	7,461
Deferred income tax effect	2,234	4,039	(1,753)	2,847
Total other comprehensive income (loss)	3,607	6,540	(2,828)	4,614
Total comprehensive income	$5,994	$5,520	$12,620	$7,062

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

META FINANCIAL GROUP, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Nine Months Ended June 30, 2012 and 2011
(Dollars in Thousands, Except Share and Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2010	$ 34	$ 32,381	$ 42,475	$ 1,599	$ (4,445)	$ 72,044
Cash dividends declared on common stock ($.39 per share)	-	-	(1,216)	-	-	(1,216)
Issuance of 5,950 common shares from treasury stock due to issuance of restricted stock	-	(10)	-	-	123	113
Stock compensation	-	61	-	-	-	61
Change in net unrealized gains (losses) on securities available for sale	-	-	-	4,614	-	4,614
Net income	-	-	2,448	-	-	2,448
Balance, June 30, 2011	$ 34	$ 32,432	$ 43,707	$ 6,213	$ (4,322)	$ 78,064
Balance, September 30, 2011	$ 34	$ 32,471	$ 45,494	$ 6,336	$ (3,758)	$ 80,577
Cash dividends declared on common stock ($.39 per share)	-	-	(1,332)	-	-	(1,332)
Issuance of 640,000 common shares from the sales of equity securities	6	12,782	-	-	-	12,788
Issuance of 59,750 common shares from	-	50	-	-	969	1,019

treasury stock due to issuance of restricted stock						
Stock compensation	-	27	-	-	-	27
Change in net unrealized gains (losses) on securities available for sale	-	-	-	(2,828)	-	(2,828)
Net income	-	-	15,448	-	-	15,448
Balance, June 30, 2012	$ 40	$ 45,330	$ 59,610	$ 3,508	$ (2,789)	$ 105,699

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 15,448	$ 2,448
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	13,876	7,427
Disbursement of non-real estate consumer loans originated for sale	(617,928)	(693,486)
Proceeds from sale of non-real estate consumer loans	617,806	691,197
Disbursement of 1-4 family residential mortgage loans originated for sale	-	(2,074)
Proceeds from sale of 1-4 family residential mortgage loans	368	3,515
Loss (gain) on sale of loans	7	(175)
Provision for loan losses	1,049	25
Gain on sale of other assets	(166)	-
Gain on sale of securities available for sale, net	(12,030)	(1,158)
Net change in accrued interest receivable	(1,732)	529
Goodwill impairment	-	1,508
Net change in other assets	2,332	(983)
Net change in accrued interest payable	(7)	(145)
Net change in accrued expenses and other liabilities	(92)	7,926
Net cash provided by operating activities	18,931	16,554
Cash flow from investing activities:		
Purchase of securities available for sale	(898,546)	(259,896)
Proceeds from sales of securities available for sale	386,859	46,238
Proceeds from maturities and principal repayments of securities available for sale	158,738	95,460
Loans purchased	(6,320)	(1,039)
Net change in loans receivable	(16,560)	53,904
Proceeds from sales of foreclosed real estate	4,919	832
Federal Home Loan Bank stock purchases	(58,331)	-
Federal Home Loan Bank stock redemptions	60,948	(121)
Proceeds from the sale of premises and equipment	24	-
Purchase of premises and equipment	(3,554)	(1,249)
Other, net	1,754	(2,847)
Net cash used in investing activities	(370,069)	(68,718)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	224,610	59,953
Net change in time deposits	(15,691)	(28,818)
Net change in advances from Federal Home Loan Bank	-	(1,000)
Net change in securities sold under agreements to repurchase	19,259	778
Cash dividends paid	(1,332)	(1,216)
Proceeds from issuance of common shares, net of issuance costs	12,788	-
Stock compensation	27	61

Proceeds from exercise of stock options	1,019	113
Net cash provided by financing activities	240,680	29,871
Net change in cash and cash equivalents	(110,458)	(22,293)
Cash and cash equivalents at beginning of period	276,893	87,503
Cash and cash equivalents at end of period	$ 166,435	$ 65,210
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 2,729	$ 3,803
Income taxes	5,624	3,078
Supplemental schedule of non-cash investing activities:		
Loans transferred to foreclosed real estate	$ 3,040	$ 2,025

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

META FINANCIAL GROUP, INC. ®
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

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, 2011 included in Meta Financial Group, Inc.'s ("Meta Financial" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on December 20, 2011. Accordingly, footnote disclosures which would substantially duplicate the disclosure 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 interim period ended June 30, 2012, are not necessarily indicative of the results expected for the year ending September 30, 2012.

NOTE 2. CREDIT DISCLOSURES

Loans are considered impaired if full principal or interest payments are not probable in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent.

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

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

Table of Contents

Loan receivables at June 30, 2012 and September 30, 2011 are as follows:

	June 30, 2012	September 30, 2011
	(Dollars in Thousands)	
One to four family residential mortgage loans	$ 43,973	$ 33,753
One to four family residential mortgage loans held for sale	-	375
Commercial and multi-family real estate loans	191,415	194,414
Agricultural real estate loans	20,572	20,320
Consumer loans	39,059	32,418
Consumer loans held for sale	2,306	1,980
Commercial operating loans	15,023	14,955
Agricultural operating loans	25,132	21,200
Total Loans Receivable	337,480	319,415
Less:		
Allowance for loan losses	(4,426)	(4,926)
Net deferred loan origination fees	(106)	(79)
Total Loans Receivable, Net	$ 332,948	$ 314,410

Activity in the allowance for loan losses for the three and nine month periods ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Dollars in Thousands)	2012	2011	2012	2011
Beginning balance	$ 4,762	$ 4,741	$ 4,926	$ 5,234
Provision (recovery) for loan losses	150	(161)	1,049	25
Loan charge offs	(506)	(73)	(1,577)	(901)
Recoveries	20	375	28	524
Ending balance	$ 4,426	$ 4,882	$ 4,426	$ 4,882

7

Table of Contents

Allowance for loan losses and loans receivable for the three and nine month periods ended June 30, 2012 and 2011 is as follows:

	1-4 Family Residential	Commercial and Multi Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Unallocated	Total
Three Months Ended June 30, 2012								
Allowance for loan losses:								
Beginning balance	$147	$3,975	$-	$27	$37	$-	$576	$4,762
Provision (recovery) for loan losses	17	182	-	(12)	(1)	-	(36)	150
Loan charge offs	-	(502)	-	(4)	-	-	-	(506)
Recoveries	-	20	-	-	-	-	-	20
Ending balance	$164	$3,675	$-	$11	$36	$-	$540	$4,426
Nine Months Ended June 30, 2012								
Allowance for loan losses:								
Beginning balance	$165	$3,901	$-	$16	$36	$67	$741	$4,926
Provision (recovery) for loan losses	1	1,322	-	(3)	(3)	(67)	(201)	1,049
Loan charge offs	(3)	(1,568)	-	(6)	-	-	-	(1,577)
Recoveries	1	20	-	4	3	-	-	28
Ending balance	$164	$3,675	$-	$11	$36	$-	$540	$4,426
Ending balance: individually evaluated for impairment	$4	$1,157	$-	$-	$2	$-	$-	$1,163
Ending balance: collectively evaluated for impairment	$160	$2,518	$-	$11	$34	$-	$540	$3,263
Loans:								
Ending balance: individually evaluated for impairment	$78	$10,830	$-	$1	$78	$-	$-	$10,987
Ending balance: collectively evaluated for impairment	$43,895	$180,585	$20,572	$39,058	$14,945	$25,132	$-	$324,187

Table of Contents

	1-4 Family Residential	Commercial and Multi Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Unallocated	Total
Three Months Ended June 30, 2011								
Allowance for loan losses:								
Beginning balance	$82	$3,448	$38	$48	$92	$68	$965	$4,741
Provision (recovery) for loan losses	85	96	(38)	(297)	31	(3)	(35)	(161)
Loan charge offs	(37)	-	-	(7)	(29)	-	-	(73)
Recoveries	4	102	-	269	-	-	-	375
Ending balance	$134	$3,646	$-	$13	$94	$65	$930	$4,882
Nine Months Ended June 30, 2011								
Allowance for loan losses:								
Beginning balance	$50	$3,053	$111	$738	$131	$125	$1,026	$5,234
Provision (recovery) for loan losses	159	506	(111)	(379)	6	(60)	(96)	25
Loan charge offs	(79)	(15)	-	(764)	(43)	-	-	(901)
Recoveries	4	102	-	418	-	-	-	524
Ending balance	$134	$3,646	$-	$13	$94	$65	$930	$4,882
Ending balance: individually evaluated for impairment	$26	$1,665	$-	$-	$3	$-	$-	$1,694
Ending balance: collectively evaluated for impairment	$108	$1,981	$-	$13	$91	$65	$930	$3,188
Loans:								
Ending balance: individually evaluated for impairment	$219	$17,480	$19	$-	$64	$-	$-	$17,782
Ending balance: collectively evaluated for impairment	$34,420	$178,226	$16,093	$36,594	$15,734	$18,361	$-	$299,428

Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by our regulator, the Office of the Comptroller of the Currency (the "OCC"), to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current ne 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 savings association 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,” MetaBank (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.

Table of Contents

The asset classification of loans at June 30, 2012 and September 30, 2011, which excludes loans held for sale, are as follows:

June 30, 2012

	1-4 Family Residential	Commercial and Multi Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	$43,512	$ 166,263	$20,572	$38,832	$14,405	$25,132	$308,716
Watch	356	12,642	-	95	360	-	13,453
Special Mention	-	700	-	51	238	-	989
Substandard	105	11,810	-	51	20	-	11,986
Doubtful	-	-	-	30	-	-	30
	$43,973	$ 191,415	$20,572	$39,059	$15,023	$25,132	$335,174

September 30, 2011

	1-4 Family Residential	Commercial and Multi Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	$33,830	$ 161,109	$20,320	$31,967	$13,737	$14,500	$275,463
Watch	281	10,446	-	318	913	6,700	18,658
Special Mention	17	3,006	-	38	53	-	3,114
Substandard	-	19,827	-	60	252	-	20,139
Doubtful	-	26	-	35	-	-	61
	$34,128	$ 194,414	$20,320	$32,418	$14,955	$21,200	$317,435

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

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

The Company currently offers one, three, five, seven and ten year adjustable rate mortgage (ARM) loans. These loans have a fixed rate for the stated period and, thereafter, such loans adjust annually. These loans generally provide for an annual cap of up to 200 basis points and a lifetime cap of 600 basis points over the initial rate. As a consequence of using an initial fixed rate and caps, the interest rates on these loans may not be as rate sensitive as is the Company's cost of funds. The Company’s ARMs do not permit negative amortization of principal and are not convertible into a fixed rate loan. The Company’s delinquency experience on its ARM loans has generally been similar to its experience on fixed rate residential loans. Current market conditions make ARM loans less attractive to customers and very few are currently being originated.

Due to consumer demand, the Company also offers fixed-rate mortgage loans with terms up to 30 years, most of which conform to secondary market, i.e., Fannie Mae, Ginnie Mae, and Freddie Mac, standards. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions. The Company currently sells most, but not all, of its fixed-rate loans with terms greater than 15 years.

Table of Contents

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

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

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

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

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

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first one to five years, which then balloon or adjust annually thereafter. In addition, such loans generally amortize over a period of 10 to 20 years. Adjustable-rate agricultural real estate loans provide for a margin over the yields on the corresponding U.S. Treasury security or prime rate. Fixed-rate agricultural real estate loans generally have terms up to five years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan.

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

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

Management believes that various levels of drought weather conditions within our markets has the potential to negatively impact potential yields which would have a negative economic effect on our agricultural markets in fiscal 2012.

Consumer Lending- Retail Bank. The “Retail Bank” (generally referring to traditional banking operations in our four market areas) offers a variety of secured consumer loans, including home equity, home improvement, automobile, boat and loans secured by savings deposits. In addition, the Retail Bank offers other secured and unsecured consumer loans. The Retail Bank currently originates most of its consumer loans in its primary market area and surrounding areas. The Retail Bank originates consumer loans on both a direct and indirect basis.

The largest component of the Retail Bank’s consumer loan portfolio consists of home equity loans and lines of credit. Substantially all of the Retail Bank’s home equity loans and lines of credit are secured by second mortgages on principal residences. The Retail Bank will lend amounts which, together with all prior liens, typically may be up to 100% of the appraised value of the property securing the loan. Home equity loans and lines of credit generally have maximum terms of five years.

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

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

12

Table of Contents

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

Consumer Lending- Meta Payment Systems ("MPS"). MPS offers credit products on a nationwide basis in the following categories (1) sponsorship lending and (2) portfolio lending. In a sponsorship lending model, MPS typically originates loans and sells (without recourse) the resulting receivables to third party investors. In portfolio lending, the Company retains some or all receivables and relies on the borrower as the underlying source of repayment.

Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances.

The Company monitors concentrations of credit that may naturally occur and may take the form of a large volume of related loans to an individual, a specific industry, a geographic location or an occupation.

The Company will discontinue four of its credit sponsorship lending programs by the fourth fiscal quarter of 2012. For the year ended September 30, 2011 and the nine months ended June 30, 2012, these relationships provided approximately $3.4 million and $2.6 million, respectively, in total revenue (interest income plus non-interest income) to the Company. The Company believes that other sources of revenue from other developing non-sponsorship credit programs will eventually offset income that had been attributable to these relationships.

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

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

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial operating loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial operating loans may be substantially dependent on the success of the business itself (which, in turn, is likely to be dependent upon the general economic environment). The Company's commercial operating loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. Commercial operating loans have been a declining percentage of the Company’s loan portfolio since 2005.

Table of Contents

Generally, when a loan becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result of this action, previously accrued interest income on the loan is reversed against interest income. The loan will remain on non-accrual status until the loan has been brought current or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

Past due loans at June 30, 2012 and September 30, 2011 are as follows:

June 30, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Non-Accrual Loans	Total Loans Receivable
Residential 1-4 Family	$484	$257	$ -	$741	$43,170	$ 62	$43,973
Commercial Real Estate and Multi Family	-	-	-	-	186,651	4,764	191,415
Agricultural Real Estate	-	-	-	-	20,572	-	20,572
Consumer	20	59	64	143	38,916	-	39,059
Commercial Operating	360	-	-	360	14,643	20	15,023
Agricultural Operating	-	-	-	-	25,132	-	25,132
Total	$864	$316	$ 64	$1,244	$329,084	$ 4,846	$335,174
September 30, 2011							
Residential 1-4 Family	$51	$30	$ -	$81	$33,920	$ 127	$34,128
Commercial Real Estate and Multi Family	2,460	-	-	2,460	178,929	13,025	194,414
Agricultural Real Estate	-	-	-	-	20,320	-	20,320
Consumer	26	14	24	64	32,354	-	32,418
Commercial Operating	-	-	-	-	14,925	30	14,955
Agricultural Operating	-	-	-	-	21,200	-	21,200
Total	$2,537	$44	$ 24	$2,605	$301,648	$ 13,182	$317,435

Impaired loans at June 30, 2012 and September 30, 2011 are as follows:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance
June 30, 2012			

Loans without a specific valuation allowance						
Residential 1-4 Family	$	-	$	-	$	-
Commercial Real Estate and Multi Family		-		-		-
Agricultural Real Estate		-		-		-
Consumer		-		-		-
Commercial Operating		-		-		-
Agricultural Operating		-		-		-
Total	$	-	$	-	$	-
Loans with a specific valuation allowance						
Residential 1-4 Family	$	78	$	119	$	4
Commercial Real Estate and Multi Family		10,830		14,281		1,157
Agricultural Real Estate		-		-		-
Consumer		1		1		-
Commercial Operating		78		121		2
Agricultural Operating		-		-		-
Total	$	10,987	$	14,522	$	1,163

Table of Contents

September 30, 2011	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance			
Residential 1-4 Family	$ -	$ -	$ -
Commercial Real Estate and Multi Family	-	-	-
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	-	-	-
Agricultural Operating	-	-	-
Total	$ -	$ -	$ -
Loans with a specific valuation allowance			
Residential 1-4 Family	$ 127	$ 172	$ 1
Commercial Real Estate and Multi Family	13,025	18,427	1,845
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	30	45	3
Agricultural Operating	-	-	-
Total	$ 13,182	$ 18,644	$ 1,849

The following table provides the average recorded investment in impaired loans for the three and nine month periods ended June 30, 2012 and 2011.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012 Average Recorded Investment	2011 Average Recorded Investment	2012 Average Recorded Investment	2011 Average Recorded Investment
Residential 1-4 Family	$ 77	$ 245	$ 116	$ 173
Commercial Real Estate and Multi Family	12,129	13,691	14,609	9,760
Agricultural Real Estate	-	1,366	-	1,730
Consumer	1	-	5	6
Commercial Operating	80	84	79	111
Agricultural Operating	-	-	-	5
Total	$ 12,287	$ 15,386	$ 14,809	$ 11,785

Table of Contents

The Company's troubled debt restructurings ("TDR"), which involved forgiving a portion of interest or principal of existing loans or making loans at a rate materially less than current market rates, are included in the below table. Loans modified in a TDR during the three and nine month periods ended June 30, 2012 and 2011 are as follows:

	For the Three Months Ended June 30, 2012			For the Three Months Ended June 30, 2011		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Residential 1-4 Family	1	$ 16	$ 16	2	$ 286	$ 286
Commercial Real Estate and Multi Family	-	-	-	-	-	-
Agricultural Real Estate	-	-	-	-	-	-
Consumer	1	1	1	-	-	-
Commercial Operating	-	-	-	1	7	7
Agricultural Operating	-	-	-	-	-	-
Total	2	$ 17	$ 17	3	$ 293	$ 293

	For the Nine Months Ended June 30, 2012			For the Nine Months Ended June 30, 2011		
	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance	Number of Loans	Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Residential 1-4 Family	1	$ 16	$ 16	2	$ 286	$ 286
Commercial Real Estate and Multi Family	-	-	-	3	3,531	3,531
Agricultural Real Estate	-	-	-	-	-	-
Consumer	1	1	1	-	-	-
Commercial Operating	-	-	-	2	39	39
Agricultural Operating	-	-	-	-	-	-
Total	2	$ 17	$ 17	7	$ 3,856	$ 3,856

The following table provides information on TDR loans for which there was a payment default during the three and nine month periods ended June 30, 2012 and 2011, that had been modified during the 12-month period prior to the default:

	During the Three Months Ended			
	June 30, 2012		June 30, 2011	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential 1-4 Family	-	$-	1	$42
Commercial Real Estate and Multi Family	-	-	-	-
Agricultural Real Estate	-	-	-	-
Consumer	-	-	-	-
Commercial Operating	-	-	-	-
Agricultural Operating	-	-	-	-

Total	-	$-	1	$42

16

Table of Contents

	During the Nine Months Ended			
	June 30, 2012		June 30, 2011	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential 1-4 Family	-	$-	1	$42
Commercial Real Estate and Multi Family	-	-	-	-
Agricultural Real Estate	-	-	-	-
Consumer	-	-	-	-
Commercial Operating	-	-	-	-
Agricultural Operating	-	-	-	-
Total	-	$-	1	$42

NOTE 3. ALLOWANCE FOR LOAN LOSSES

At June 30, 2012, the Company's allowance for loan losses was $4.4 million, a decrease of $0.5 million from $4.9 million at September 30, 2011. During the three months ended June 30, 2012, the Company recorded a provision for loan losses of $0.2 million.

During the three and nine months ended June 30, 2012, the Company recorded a provision for its Retail Bank division in the amount of $0.2 million and $1.1 million, respectively, due to increases in the general reserves caused by increases in the historical loss rates for commercial real estate and multi-family loans.

The Company's total net charge-offs for the three and nine months ended June 30, 2012 were $0.5 million and $1.5 million, respectively.

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

The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets, non-performing loans, TDR loans, the composition of its loan portfolio and the general economic environment within which the Company and its borrowers operate.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses.

NOTE 4. EARNINGS PER COMMON SHARE ("EPS")

Basic EPS is computed by dividing income (loss) available to common stockholders (the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Allocated ESOP shares are considered outstanding for earnings per common share calculations as they are committed to be issued; unallocated ESOP shares are not considered outstanding. Diluted EPS shows the dilutive effect of additional common shares issuable pursuant to stock option agreements.

Table of Contents

A reconciliation of the income and common stock share amounts used in the computation of basic and diluted EPS for the three and nine months ended June 30, 2012 and 2011 is presented below.

Three Months Ended June 30, (Dollars in Thousands, Except Share and Per Share Data)	2012	2011
Earnings		
Net Income (Loss)	$2,387	$(1,020)
Basic EPS		
Weighted average common shares outstanding	3,565,159	3,117,363
Less weighted average unallocated ESOP and nonvested shares	-	(1,667)
Weighted average common shares outstanding	3,565,159	3,115,696
Earnings (Loss) Per Common Share		
Basic	$0.67	$(0.33)
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	3,565,159	3,115,696
Add dilutive effect of assumed exercises of stock options, net of tax benefits	24,942	617
Weighted average common and dilutive potential common shares outstanding	3,590,101	3,116,313
Earnings (Loss) Per Common Share		
Diluted	$0.66	$(0.33)

Table of Contents

Nine Months Ended June 30, (Dollars in Thousands, Except Share and Per Share Data)	2012	2011
Earnings		
Net Income	$15,448	$2,448
Basic EPS		
Weighted average common shares outstanding	3,313,636	3,114,954
Less weighted average unallocated ESOP and nonvested shares	-	(1,667)
Weighted average common shares outstanding	3,313,636	3,113,287
Earnings Per Common Share		
Basic	$4.66	$0.79
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	3,313,636	3,113,287
Add dilutive effect of assumed exercises of stock options, net of tax benefits	14,720	-
Weighted average common and dilutive potential common shares outstanding	3,328,356	3,113,287
Earnings Per Common Share		
Diluted	$4.64	$0.79

Stock options totaling 267,602 and 329,561 were not considered in computing diluted EPS for the three and nine months ended June 30, 2012, respectively, because they were not dilutive. Stock options totaling 451,640 and 406,776 were not considered in computing diluted EPS for the three and nine months ended June 30, 2011, respectively, because they were not dilutive.

Table of Contents

NOTE 5. SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of available for sale securities at June 30, 2012 and September 30, 2011 are presented below.

June 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(Dollars in Thousands)			
Debt securities				
Trust preferred and corporate securities	$77,193	$ 756	$ (3,477)	$74,472
Asset backed securities	21,319	-	(234)	21,085
Agency securities	39,401	-	(66)	39,335
Obligations of states and political subdivisions	17,119	507	(15)	17,611
Mortgage-backed securities	807,678	8,819	(609)	815,888
Total debt securities	$962,710	$ 10,082	$ (4,401)	$968,391

September 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	(Dollars in Thousands)			
Debt securities				
Trust preferred and corporate securities	$30,582	$ -	$ (8,470)	$22,112
Obligations of states and political subdivisions	5,937	281	-	6,218
Mortgage-backed securities	572,467	18,591	(140)	590,918
Total debt securities	$608,986	$ 18,872	$ (8,610)	$619,248

Included in securities available for sale are trust preferred securities (“TPS”) as follows:

At June 30, 2012

Issuer(1)	Book Value	Fair Value	Unrealized (Loss)	S&P Credit Rating	Moody Credit Rating
	(Dollars in Thousands)				
Key Corp. Capital I	$ 4,983	$ 3,811	$ (1,172)	BBB-	Baa3
Huntington Capital Trust II SE	4,973	3,810	(1,163)	BB+	Baa3
PNC Capital Trust	4,956	4,002	(954)	BBB	Baa2
Total	$ 14,912	$ 11,623	$ (3,289)		

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

MetaBank accepted a redemption offer on two corporate TPS available for sale during the quarter ended June 30, 2012. This resulted in a $10.0 million reduction of substandard assets and the recording of a pre-tax loss of $1.4 million, but increased book value by $1.5 million pre-tax at June 30, 2012 as the redemption price was higher than the market price reflected in equity.

Table of Contents

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at June 30, 2012 and September 30, 2011, are as follows:

June 30, 2012	LESS THAN 12 MONTHS Fair Value	LESS THAN 12 MONTHS Unrealized (Losses)	OVER 12 MONTHS Fair Value	OVER 12 MONTHS Unrealized (Losses)	TOTAL Fair Value	TOTAL Unrealized (Losses)
			(Dollars in Thousands)			
Debt securities						
Trust preferred and corporate securities	$ 14,645	$ (188)	$ 11,623	$ (3,289)	$ 26,268	$ (3,477)
Asset backed securities	21,085	(234)	-	-	21,085	(234)
Agency securities	39,335	(66)	-	-	39,335	(66)
Obligations of states and political subdivisions	1,644	(15)	-	-	1,644	(15)
Mortgage-backed securities	94,839	(609)	-	-	94,839	(609)
Total debt securities	$ 171,548	$ (1,112)	$ 11,623	$ (3,289)	$ 183,171	$ (4,401)

September 30, 2011	LESS THAN 12 MONTHS Fair Value	LESS THAN 12 MONTHS Unrealized (Losses)	OVER 12 MONTHS Fair Value	OVER 12 MONTHS Unrealized (Losses)	TOTAL Fair Value	TOTAL Unrealized (Losses)
			(Dollars in Thousands)			
Debt securities						
Trust preferred and corporate securities	$5,713	$(42)	$16,399	$(8,428)	$22,112	$(8,470)
Obligations of states and political subdivisions	-	-	-	-	-	-
Mortgage-backed securities	23,886	(140)	-	-	23,886	(140)
Total debt securities	$29,599	$(182)	$16,399	$(8,428)	$45,998	$(8,610)

Management has implemented a process to identify securities that could potentially have a credit impairment that is other-than-temporary. This process involves 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, monitoring the rating of the security and projecting cash flows. Other factors, but not necessarily all, considered are: that the risk of loss is minimized and easier to determine due to the single-issuer, rather than pooled, nature of the individual securities; the financial condition of issuer; and whether there have been any payment deferrals or defaults to-date. Such factors are subject to change over time.

Management also determines if it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost basis which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized in earnings.

For all securities that are considered temporarily impaired, the Company does not intend to sell these securities (has not made a decision to sell) and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, which may occur at maturity. The Company believes that it will collect all principal and interest due on all investments that have amortized cost in excess of fair value that are considered only temporarily impaired.

At June 30, 2012, the investment portfolio included securities with current unrealized losses which have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Because the declines in fair value were due to changes in market interest rates and other market factors, not in estimated cash flows, no other-than-temporary impairment was recorded at June 30, 2012. In addition, the Company has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

Table of Contents

NOTE 6. COMMITMENTS AND CONTINGENCIES

At both June 30, 2012 and September 30, 2011, the Company had outstanding commitments to originate and purchase loans and unused lines of credit totaling $48.0 million. It is expected that outstanding loan commitments will be funded with existing liquid assets. At June 30, 2012, the Company had two commitments to purchase securities available for sale totaling $0.5 million.

Legal Proceedings

In re Meta Financial Group, Inc., Securities Litigation; Case No. C10-4108MWB. Two former stockholders filed separate purported class action lawsuits against the Company and certain of its officers alleging violations of certain federal securities laws. The cases were filed on October 22, 2010 and November 5, 2010 in the United States District Court for the Northern District of Iowa purportedly on behalf of those who purchased the Company's stock between May 14, 2009 and October 15, 2010. On January 12, 2011, Judge Mark W. Bennett appointed The Eden Partnership lead plaintiff and on March 14, 2011 Eden Partnership filed its amended complaint. The amended complaint alleges that the named officers violated Sections 10(b) and 20(a) of the Securities Exchange Act and SEC Rule 10b-5 in connection with certain allegedly false and misleading public statements made between May 14, 2009 and October 15, 2010 by the Company and its officers. Defendants moved to dismiss the amended complaint in its entirety but on July 18, 2011, the court denied the motion and ordered that discovery proceed. The parties conducted a mediation on December 5, 2011 and reached a tentative settlement of the matter. On March 8, 2012, the court preliminarily approved the terms of the settlement, directed that notice of the settlement be provided to all prospective class members and set the case for a final fairness hearing on June 29, 2012. At the June 29 hearing, the court entered an order approving the settlement, and the case was dismissed with prejudice. The Company did not incur losses in addition to the amounts that it had previously expensed.

Brown v. Haahr, et al., CL 123931. On December 9, 2011, a stockholder derivative complaint was filed in the Iowa District Court for Polk County against certain officers and directors of the Company. The suit alleges that named parties breached their fiduciary duties to the Company by, among other things, making statements between May, 2009 and October, 2010, which plaintiff claims were false and misleading and by allegedly failing to implement adequate internal controls and means of supervision at the Company. The individual defendants intend to vigorously defend the suit. The parties have reached a settlement subject to court approval. The Company expects to incur an expense of $0.1 million in addition to amounts previously expensed.

James L. Frey, individually and on behalf of all others similarly situated v. Legacy Stonebriar Hotel, Ltd. Dba Westin Stonebriar Hotel and Meta Financial Group, Inc., Case No. 4:11-cv-122 and James Buechler v. Meta Financial Group, Inc., MetaBank, Meta Payment Systems, and Does 1-10, inclusive, Case No. 1:12-cv-01568-WMN, filed in the United States District Court for the District of Maryland; and Douglas Johnson on behalf of himself and all others similarly situated, v. Smarte Cash International, Inc., and Meta Financial Group, Inc. a/k/a MetaBank, Case No. 12-cv-00923-DWF-FLN; and Douglas Johnson on behalf of himself and all others similarly situated, v. Fairmont Hotels & Resorts (U.S.), Inc. and Meta Financial Group, Inc., a/k/a MetaBank, Case No. 1:12-cv-11338. In addition to the previously disclosed ATM lawsuits, there were four additional lawsuits filed concerning ATMs sponsored by the Bank, each involving claims that a notification required to be placed upon an automated teller machine was absent on a specific date, in violation of Regulation E of the Electronic Fund Transfer Act. The cases were filed in the United States District Court for the Eastern District of Texas, Sherman Division and filed in the United States District Court for the District of Massachusetts. The Company denies liability in these matters, and will contest these lawsuits with the ATM operators, which are each obligated to indemnify the Company for losses, costs and expenses in these matters. An estimate of a range of possible loss cannot be made at this stage of the litigation because the extent of the Company’s indemnification by the ATM operators is unknown.

Table of Contents

Richard J. Strauss, M.D., on behalf of himself and all others similarly situated, v. MetaBank, Index No. 3481/12. A class action complaint has been filed in the Supreme Court of the State of New York, County of Nassau. The complaint alleges that the plaintiff was the holder of two gift cards issued by the Bank. The complaint further alleges that after the expiration date on the cards, plaintiff's attempts to obtain replacement cards were unsuccessful due to the Bank's refusal to issue replacement cards. The Complaint contains several causes of action including breach of contract and violation of New York state law. The Company denies liability in these matters and intends to vigorously defend the suit. An estimate of a range of possible loss cannot be made at this early stage of the litigation.

Patrick Finn and Light House Management Group, Inc. as Receiver for First United Funding, LLC and Corey N. Johnston v. MetaBank et al., Case No. 5:11-cv-04041. On May 4, 2011, Patrick Finn and Light House Management Group, Inc. as Receivers for First United Funding, LLC and Corey N. Johnston ("Receivers") filed a complaint, against the Bank in the United States District Court for the Northern District of Iowa requesting judgment avoiding approximately $1.5 million of transfers that allegedly resulted in a profit to the Bank arising from the Bank's participation in loans originated by First United Funding, LLC. Similar complaints have been filed by the Receivers against other lenders who purchased participation interests in the same or similar loans originated by First United Funding, LLC. The complaint states that First United Funding, LLC and Corey N. Johnston were involved in a criminal enterprise to defraud creditors. Under a variety of theories, Receivers claim that loan repayments to the Bank constitute fraudulent transfers and the Bank was unjustly enriched to the detriment of these creditors. The Bank intends to vigorously defend the case. An estimate of a range of reasonably possible loss is approximately $0 to $1.5 million as of the filing date of this Form 10-Q.

Indemnification Recovery Litigation. The Bank utilizes various third parties for, among other things, its processing needs, both with respect to standard bank operations and with respect to its MPS division. MPS was notified in April 2008 by one of the processors that the processor's computer system had been breached, which led to the unauthorized load and spending of funds from Bank-issued cards. The Bank believes the amount in question to be approximately $2.0 million. The processor and program manager both have agreements with the Bank to indemnify it for any losses as a result of such unauthorized activity, and the matter is reflected as such in its financial statements. In addition, the Bank has given notice to its own insurer. The Bank has been notified by the processor that its insurer has denied the claim filed. The Bank made demand for payment and filed a demand for arbitration to recover the unauthorized loading and spending amounts and certain damages. The Bank has settled its claim with the program manager, and has received an arbitration award against the processor. That arbitration has been entered as a judgment in the State of South Dakota, which judgment has been transferred to the State of Florida for garnishment proceedings against the processor and its insurer. The Company's estimate of a range of reasonably possible loss is approximately $0 to $0.5 million as of the filing date of this Form 10-Q.

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

Other than the matters set forth above, there are no other new material pending legal proceedings or updates to which the Company or its subsidiaries is a party other than ordinary litigation routine to their respective business.

23

Table of Contents

NOTE 7. STOCK OPTION PLAN

The Company maintains 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 Stock Option Committee of the Board of Directors based on the performance of the award recipients or other relevant factors.

In accordance with ASC 718, Compensation – Stock Compensation, compensation expense for share based awards is recorded over the vesting period at the fair value of the award at the time of grant. The exercise price of options or fair value of nonvested shares granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock based compensation, since actual historical forfeiture rates on its stock based incentive awards has been negligible.

A summary of option activity for the nine months ended June 30, 2012 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
	(Dollars in Thousands, Except Share and Per Share Data)			
Options outstanding, September 30, 2011	485,352	$ 23.28	5.90	$ 463
Granted	-	-		
Exercised	(12,918)	15.40		
Forfeited or expired	(72,859)	24.15		
Options outstanding, June 30, 2012	399,575	$ 23.38	5.24	$ 464
Options exercisable, June 30, 2012	382,700	$ 23.38	5.25	$ 432

The Company had no outstanding nonvested shares at June 30, 2012 or September 30, 2011. In addition, there was no grant activity for the nine months ended June 30, 2012.

At June 30, 2012, stock based compensation expense not yet recognized in income totaled $27,000 which is expected to be recognized over a weighted average remaining period of 0.82 years.

NOTE 8.SEGMENT INFORMATION

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose results are reviewed by the chief operating decision-maker. Operating segments are aggregated into reportable segments if certain criteria are met. The Company has determined that it has two reportable segments. The first reportable segment, Retail Banking, a division of the Bank, operates as a traditional community bank providing deposit, loan and other related products to individuals and small businesses, primarily in the communities where their offices are located. The second reportable segment, MPS, a division of the Bank, provides products and services to financial institutions and other businesses. These products and services include issuance of prepaid debit cards, sponsorship of ATMs into the debit networks, credit programs, ACH origination services, gift card programs, rebate programs, travel programs and tax related programs. Other programs are in the process of development. The remaining grouping under the caption "All Others" consists of the operations of the Company and inter-segment eliminations. Transactions between affiliates, the resulting revenues of which are shown in the intersegment revenue category, are conducted at market prices, meaning prices that would be paid if the companies were not affiliates.

Table of Contents

The following tables present segment data for the Company for the three and nine months ended June 30, 2012 and 2011, respectively.

	Retail Banking	Meta Payment Systems®	All Others	Total
Three Months Ended June 30, 2012				
Interest income	$5,981	$ 3,168	$-	$9,149
Interest expense	670	64	123	857
Net interest income (expense)	5,311	3,104	(123)	8,292
Provision (recovery) for loan losses	150	-	-	150
Non-interest income	1,526	12,172	8	13,706
Non-interest expense	4,878	13,208	(15)	18,071
Income (loss) before tax	1,809	2,068	(100)	3,777
Income tax expense (benefit)	642	792	(44)	1,390
Net income (loss)	$1,167	$ 1,276	$(56)	$2,387
Inter-segment revenue (expense)	$2,846	$ (2,846)	$-	$-
Total assets	321,727	1,205,016	1,939	1,528,682
Total deposits	212,713	1,139,229	(1,403)	1,350,539

	Retail Banking	Meta Payment Systems®	All Others	Total
Three Months Ended June 30, 2011				
Interest income	$7,157	$ 2,823	$-	$9,980
Interest expense	1,005	33	115	1,153
Net interest income (expense)	6,152	2,790	(115)	8,827
Provision (recovery) for loan losses	100	(261)	-	(161)
Non-interest income	497	8,199	12	8,708
Non-interest expense	4,941	14,312	59	19,312
Income (loss) before tax	1,608	(3,062)	(162)	(1,616)
Income tax expense (benefit)	605	(1,135)	(66)	(596)
Net income (loss)	$1,003	$ (1,927)	$(96)	$(1,020)
Inter-segment revenue (expense)	$2,332	$ (2,332)	$-	$-
Total assets	317,464	755,058	1,958	1,074,480
Total deposits	217,977	710,927	(315)	928,589

Table of Contents

	Retail Banking	Meta Payment Systems®	All Others	Total
Nine Months Ended June 30, 2012				
Interest income	$19,629	$ 9,434	$-	$29,063
Interest expense	2,218	145	359	2,722
Net interest income (expense)	17,411	9,289	(359)	26,341
Provision (recovery) for loan losses	1,050	(1)	-	1,049
Non-interest income	14,477	41,667	25	56,169
Non-interest expense	15,031	41,911	133	57,075
Income (loss) before tax	15,807	9,046	(467)	24,386
Income tax expense (benefit)	5,798	3,330	(190)	8,938
Net income (loss)	$10,009	$ 5,716	$(277)	$15,448
Inter-segment revenue (expense)	$8,835	$ (8,835)	$-	$-
Total assets	321,727	1,205,016	1,939	1,528,682
Total deposits	212,713	1,139,229	(1,403)	1,350,539

	Retail Banking	Meta Payment Systems®	All Others	Total
Nine Months Ended June 30, 2011				
Interest income	$20,321	$ 8,853	$6	$29,180
Interest expense	3,186	120	352	3,658
Net interest income (expense)	17,135	8,733	(346)	25,522
Provision (recovery) for loan losses	400	(375)	-	25
Non-interest income	2,906	40,543	35	43,484
Non-interest expense	17,159	46,672	350	64,181
Income (loss) before tax	2,482	2,979	(661)	4,800
Income tax expense (benefit)	1,460	1,150	(258)	2,352
Net income (loss)	$1,022	$ 1,829	$(403)	$2,448
Inter-segment revenue (expense)	$7,220	$ (7,220)	$-	$-
Total assets	317,464	755,058	1,958	1,074,480
Total deposits	217,977	710,927	(315)	928,589

Table of Contents

The following tables present gross profit data for MPS for the three and nine months ended June 30, 2012 and 2011.

Three Months Ended June 30,	2012	2011
Interest income	$ 3,168	$ 2,823
Interest expense	64	33
Net interest income	3,104	2,790
Provision (recovery) for loan losses	-	(261)
Non-interest income	12,172	8,199
Card processing expense	3,665	5,878
Gross Profit	11,611	5,372
Other non-interest expense	9,543	8,434
Income (loss) before tax	2,068	(3,062)
Income tax expense (benefit)	792	(1,135)
Net Income (Loss)	$ 1,276	$ (1,927)

Nine Months Ended June 30,	2012	2011
Interest income	$ 9,434	$ 8,853
Interest expense	145	120
Net interest income	9,289	8,733
Provision (recovery) for loan losses	(1)	(375)
Non-interest income	41,667	40,543
Card processing expense	13,928	19,222
Gross Profit	37,029	30,429
Other non-interest expense	27,983	27,450
Income (loss) before tax	9,046	2,979
Income tax expense (benefit)	3,330	1,150
Net Income (Loss)	$ 5,716	$ 1,829

NOTE 9.NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements
This ASU applies to all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity (repo arrangements). It focuses the transferor's assessment of effective control of its contractual rights and obligations by removing the requirement to assess its ability to exercise those rights or honor those obligations. The ASU is effective for the first interim or annual period beginning on or after December 15, 2011. It is effective prospectively for transactions or modifications of existing transactions that occur on or after the effective date. The Company adopted this ASU in the second quarter of fiscal year 2012 and the adoption did not have a material effect on the Company's consolidated financial condition, results of operations or cash flow.

27

Table of Contents

Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS
This ASU was issued concurrently with IFRS 13, Fair Value Measurements, to provide largely identical guidance about fair value measurement and disclosure requirements. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13.

A public entity is required to apply this ASU prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. In the period of adoption, a reporting entity will be required to disclose a change, if any, in valuation technique and related inputs that result from applying the ASU and to quantify the total effect, if practicable. The Company adopted this ASU in the second quarter of fiscal year 2012 and the adoption did not have a material effect on the Company's consolidated financial condition, results of operations or cash flow.

Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income
In June 2011, FASB issued ASU 2011-05 Comprehensive Income, which provides an entity with the option to present the total comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU 2011-12 temporarily defers the effective date of the requirement in ASU 2011-05 to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income. The guidance in ASU 2011-05, as amended by ASU 2011-12, is effective for fiscal years, and the interim periods within those years, beginning after December 15, 2011 and early adoption is permitted. The Company anticipates adopting this update in the first quarter of fiscal 2013 and does not expect the adoption to have a material effect on the Company's consolidated financial condition, results of operations or cash flow.

Accounting Standards Update No. 2011-08, Intangibles — Goodwill and Other (Topic 350)
The objective of this update is to simplify how entities test goodwill for impairment. This update adds a qualitative analysis to step one of the two-step process, which enables the Company to qualitatively determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount, and if not, skip the two step test for goodwill impairment. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, but early adoption is permitted. The Company anticipates adopting this update in the first quarter of fiscal year 2013 and does not expect the adoption to have a material effect on the Company's consolidated financial condition, results of operations or cash flow.

NOTE 10.FAIR VALUE MEASUREMENTS

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 expands 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.

28

Table of Contents

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 markets 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.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale. Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using an independent pricing service. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency securities that are traded by dealers or brokers in active over-the-counter markets. The Company had no Level 1 or Level 3 securities at June 30, 2012 or September 30, 2011. Level 2 securities include agency mortgage-backed securities, asset-backed securities, callable agency securities, municipal bonds and corporate debt securities.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), 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 (Level 2 inputs). The Company obtains, reviews and compares the valuations and methodologies from two third party providers. These third party providers utilize several sources for valuing fixed-income securities. Sources utilized by the third party provider include pricing models that vary based by asset class and include available trade, bid, and other market information. This methodology includes broker quotes, proprietary models, descriptive terms and conditions databases, as well as extensive quality control programs.

Table of Contents

The following table summarizes the assets of the Company for which fair values are determined on a recurring basis at June 30, 2012 and September 30, 2011.

	Fair Value at June 30, 2012			
(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Debt securities				
Trust preferred and corporate securities	$ 74,472	$ -	$ 74,472	$ -
Asset backed securities	21,085	-	21,085	-
Agency securities	39,335	-	39,335	-
Obligations of states and political subdivisions	17,611	-	17,611	-
Mortgage-backed securities	815,888	-	815,888	-
Securities available for sale	$ 968,391	$ -	$ 968,391	$ -

	Fair Value at September 30, 2011			
(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Debt securities				
Trust preferred and corporate securities	$ 22,112	$ -	$ 22,112	$ -
Obligations of states and political subdivisions	6,218	-	6,218	-
Mortgage-backed securities	590,918	-	590,918	-
Securities available for sale	$ 619,248	$ -	$ 619,248	$ -

The Company's management reviews the status and potential impairment of all securities in a loss position on a monthly basis. In its review, management considers duration of unrealized losses and reviews credit rating changes. Other factors, but not necessarily all, considered are: that the risk of loss is minimized and easier to determine due to the single-issuer, rather than pooled, nature of the individual securities, the financial condition of the issuer, and whether there have been any payment deferrals or defaults to-date. Such factors are subject to change over time.

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.

Loans. The Company does not record loans at fair value on a recurring basis. However, if a loan is considered impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan in accordance with ASC 310, Receivables.

Table of Contents

The following table summarizes the assets of the Company for which fair values are determined on a non-recurring basis at June 30, 2012 and September 30, 2011.

	Fair Value at June 30, 2012			
(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
One to four family residential mortgage loans	$ 74	$ -	$ -	$ 74
Commercial and multi-family real estate loans	9,673	-	-	9,673
Consumer loans	1	-	-	1
Commercial operating loans	76	-	-	76
Total Impaired Loans	9,824	-	-	9,824
Foreclosed Assets, net	861	-	-	861
Total	$ 10,685	$ -	$ -	$ 10,685

	Fair Value at September 30, 2011			
(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Impaired Loans, net	$ 11,333	$ -	$ -	$ 11,333
Foreclosed Assets, net	2,671	-	-	2,671
Total	$ 14,004	$ -	$ -	$ 14,004

	Quantitative Information About Level 3 Fair Value Measurements		
(Dollars in Thousands)	Fair Value at 6/30/12	Valuation Technique	Unobservable Input
Impaired Loans, net	$ 9,824	Market approach	Appraised values (1)
Foreclosed Assets, net	861	Market approach	Appraised values (1)

(1) The Company generally relies on external appraisers to develop this information. Management reduced the appraised value by estimated selling costs in a range of 4% to 10%.

The following table discloses the Company’s estimated fair value amounts of its financial instruments. It is management’s belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company at June 30, 2012 and September 30, 2011, as more fully described below. The operations of the Company are man–aged from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the finan–cial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company’s inherent value is the Bank’s capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

Table of Contents

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at June 30, 2012 and September 30, 2011. The information presented is subject to change over time based on a variety of factors.

	June 30, 2012				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(Dollars in Thousands)				
Financial assets					
Cash and cash equivalents	$166,435	$166,435	$166,435	$-	$-
Securities available for sale	968,391	968,391	-	968,391	-
Loans receivable, net:					
One to four family residential mortgage loans	43,973	45,734	-	-	45,734
Commercial and multi-family real estate loans	191,415	192,295	-	-	192,295
Agricultural real estate loans	20,572	21,830	-	-	21,830
Consumer loans	39,059	39,524	-	-	39,524
Consumer loans held for sale	2,306	2,306	-	2,306	-
Commercial operating loans	15,023	14,982	-	-	14,982
Agricultural operating loans	25,132	26,076	-	-	26,076
Total loans receivable, net	337,480	342,747	-	2,306	340,441
FHLB stock	2,120	2,120	-	2,120	-
Accrued interest receivable	5,865	5,865	5,865	-	-
Financial liabilities					
Noninterest bearing demand deposits	1,153,027	1,153,027	1,153,027	-	-
Interest bearing demand deposits, savings, and money markets	96,641	96,641	96,641	-	-
Certificates of deposit	100,871	101,883	-	101,883	-
Total deposits	1,350,539	1,351,551	1,249,668	101,883	-
Advances from FHLB	11,000	14,184	-	14,184	-
Securities sold under agreements to repurchase	27,314	27,314	-	27,314	-
Subordinated debentures	10,310	10,321	-	10,321	-
Accrued interest payable	216	216	216	-	-
Off-balance-sheet instruments, loan commitments	-	-	-	-	-

Table of Contents

	September 30, 2011 Carrying Amount	Estimated Fair Value
	(Dollars in Thousands)	
Financial assets		
Cash and cash equivalents	$ 276,893	$ 276,893
Securities available for sale	619,248	619,248
Loans receivable, net:	314,410	316,152
FHLB stock	4,737	4,737
Accrued interest receivable	4,133	4,133
Financial liabilities		
Noninterest bearing demand deposits	945,956	945,956
Interest bearing demand deposits, savings, and money markets	79,102	79,102
Certificates of deposit	116,562	118,288
Total deposits	1,141,620	1,143,346
Advances from FHLB	11,000	14,128
Securities sold under agreements to repurchase	8,055	8,055
Subordinated debentures	10,310	10,325
Accrued interest payable	223	223
Off-balance-sheet instruments, loan commitments	-	-

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at June 30, 2012 and September 30, 2011.

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

SECURITIES AVAILABLE FOR SALE
Securities available for sale are recorded at fair value on a recurring basis. Fair values for investment securities are based on obtaining quoted prices on nationally recognized securities exchanges, or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

LOANS RECEIVABLE, NET
The fair value of loans is estimated using an entrance price concept. The fair value of loans was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities. When using the discounting method to determine fair value, loans were gathered by homogeneous groups with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers at June 30, 2012 and September 30, 2011. In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value for consideration of credit quality.

Loans held for sale are carried at the lower of cost or fair market value. The carrying value of these loans approximate fair market value as they are generally sold at par within days of their origination.

33

FEDERAL HOME LOAN BANK (THE "FHLB") STOCK
The fair value of such stock is assumed to approximate book value since the Company is generally able to redeem this stock at par value.

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

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

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

ADVANCES FROM FHLB
The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates at June 30, 2012 and September 30, 2011 for advances with similar terms and remaining maturities.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND SUBORDINATED DEBENTURES
The carrying amount of securities sold under agreements to repurchase is assumed to approximate fair value. The fair value of subordinated debentures was estimated by discounting the expected future cash flows using derived interest rates approximating market as of June 30, 2012 and September 30, 2011 over the contractual maturity of such borrowings.

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

LOAN COMMITMENTS
The commitments to originate and purchase loans have terms that are consistent with current market terms. Accordingly, the Company estimates that the fair values of these commitments are not significant.

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

34

Table of Contents

NOTE 11.GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of the Company's goodwill and intangible assets for the nine months ended June 30, 2012 and 2011 are as follows:

	Retail Banking Goodwill	Meta Payment Systems® Patents	Meta Payment Systems® Other	Total
	(Dollars in Thousands)			
Balance as of September 30, 2011	$ -	$ 1,315	$ -	$ 1,315
Acquisitions during the period	-	733	27	760
Amortization during the period	-	(11)	(11)	(22)
Write-offs during the period	-	(4)	-	(4)
Balance as of June 30, 2012	$ -	$ 2,033	$ 16	$ 2,049

	Retail Banking Goodwill	Meta Payment Systems® Patents	Meta Payment Systems® Other	Total
	(Dollars in Thousands)			
Balance as of September 30, 2010	$ 1,508	$ 1,078	$ 77	$ 2,663
Acquisitions during the period	-	330	-	330
Amortization during the period	-	-	(77)	(77)
Write-offs during the period	(1,508)	-	-	(1,508)
Balance as of June 30, 2011	$ -	$ 1,408	$ -	$ 1,408

The Company has eleven patents which are amortizing at June 30, 2012.

The Company tests goodwill and intangible assets for impairment at least annually or more often if conditions indicate a possible impairment. The Company wrote-off $1.5 million of goodwill through the income statement during the three months ended December 31, 2010 due primarily to the decline in the stock price of the Company during that period.

NOTE 12. REGULATORY MATTERS AND SETTLEMENT OF OTS ENFORCEMENT ACTIONS

As previously disclosed in our Annual Report on Form 10-K, on July 15, 2011, the Company and the Bank each stipulated and consented to a Cease and Desist Order (the “Consent Orders”) issued by the Office of Thrift Supervision (the “OTS”). Since the issuance of the supervisory directives and the Consent Orders, the Company and the Bank have been continuing to cooperate with the OTS, and, as of July 21, 2011, its successors, the Federal Reserve and the OCC, to correct those aspects of its operations that were addressed in the Consent Orders. Management of the Company and the Bank believe they have made substantial progress and that the Company and the Bank are in material compliance with the Consent Orders. Notwithstanding our belief as to substantial progress and compliance, we can provide no assurances as to whether the OCC and the Federal Reserve will concur with our belief or what actions would be taken by the OCC and the Federal Reserve if they do not so concur. Failure to conform to the requirements of the Consent Orders or the expectations of our regulators could result in material adverse consequences for the Company and the Bank.

Table of Contents

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

META FINANCIAL GROUP, INC®.
AND SUBSIDIARIES

FORWARD LOOKING STATEMENTS

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

These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company's balance sheet and income statements; growth and expansion; new products and services, such as those offered by the Bank or Meta Payment Systems® ("MPS"), a division of the Bank; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company's financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), as well as efforts of the United States Treasury in conjunction with bank regulatory agencies to stimulate the economy and protect the financial system; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services offered by the Company as well as risks (including reputational and litigation) attendant thereto and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third-party vendors; the scope of restrictions and compliance requirements imposed by the supervisory directives and/or the Consent Orders entered into by the Company and the Bank with the Office of Thrift Supervision ("OTS") and any other such actions which may be initiated; the impact of changes in financial services' laws and regulations, including but not limited to our relationship with our regulators, the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve; technological changes, including but not limited to the protection of electronic files or databases; acquisitions; litigation risk in general, including but not limited to those risks involving the MPS division; the growth of the Company's business as well as expenses related thereto; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default.

The foregoing list of factors is not exclusive. Additional discussions of factors affecting the Company's business and prospects are contained in the Company's periodic filings with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries.

Table of Contents

GENERAL

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

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

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at June 30, 2012, compared to September 30, 2011, and the consolidated results of operations for the three and nine months ended June 30, 2012 and 2011. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2011.

CORPORATE DEVELOPMENTS AND OVERVIEW OF FINANCIAL RESULTS

MPS 2012 fiscal third quarter net income was $1.3 million compared to a net loss of $1.9 million in the 2011 third quarter. This increase was primarily the result of an increase in non-interest income of $4.0 million, primarily from an increase of card fees, an increase in net interest income of $0.3 million and a decrease in non-interest expense of $1.1 million which was partially offset by an increase in tax expense of $1.9 million and an increase of provision for loan loss of $0.3 million.

The fiscal year 2012 Retail Bank third quarter net income was $1.2 million compared to net income of $1.0 million in the 2011 third quarter. Retail Bank checking balances continued to grow from $54.3 million at June 30, 2011 to $60.8 million, or 12%, at June 30, 2012.

During the quarter ended March 31, 2012, the Company executed a strategic sale of its Ginnie Mae securities portfolio to enhance capital levels. The securities sold comprised the entire portfolio of Ginnie Mae securities which had an amortized cost of $307.9 million, and constituted approximately 43% of the Bank's mortgage-backed securities portfolio at December 31, 2011. The sale resulted in the recognition of an $11.4 million gain ($7.2 million after taxes). The resulting addition to the Bank's capital will help to support current and expected future growth. The Company believes it was an opportune time to realize the high value of Ginnie Mae securities given market conditions relative to Fannie Mae and Freddie Mac mortgage-backed securities. The Company immediately replaced the sold securities with Fannie Mae securities of similar average lives.

At June 30, 2012, Non-Performing Assets have decreased by $10.1 million to $5.8 million compared to $15.9 million at September 30, 2011.

The Company intends to discontinue four of its credit sponsorship lending programs by the fourth fiscal quarter of 2012. For the year ended September 30, 2011 and the nine months ended June 30, 2012, these relationships provided approximately $3.4 million and $2.6 million, respectively, in total revenue (interest income plus non-interest income) to the Company. The Company believes that other sources of revenue from other developing non-sponsorship credit programs will eventually offset income that had been attributable to these relationships.

The Company raised approximately $12.8 million in additional capital, all of which qualifies as Tier 1 capital for regulatory purposes, through the issuance of 640,000 common shares through three private placement transactions during the 2012 fiscal third quarter. These transactions will help finance growth and bolstered our regulatory capital ratios.

Table of Contents

MetaBank accepted a redemption offer on two corporate trust preferred securities (TPS) available for sale during this quarter. This resulted in a $10.0 million reduction of substandard assets and the recording of a pre-tax loss of $1.4 million, but increased book value by $1.5 million pre-tax at June 30, 2012 as the redemption price was higher than the market price reflected in equity.

FINANCIAL CONDITION

At June 30, 2012, the Company's assets grew by $253.2 million, or 19.9%, to $1.5 billion compared to $1.3 billion at September 30, 2011. The increase in assets was reflected primarily in increases in the Company's mortgage-backed and investment securities available for sale and, to a lesser extent, in an increase in the Company's net loans receivable, offset in part by a decrease in cash and cash equivalents.

Total cash and cash equivalents were $166.4 million at June 30, 2012, a decrease of $110.5 million from $276.9 million at September 30, 2011. The decline primarily was the result of the Company's investing its excess liquidity in mortgage-backed securities and investment securities. The Company maintains its cash equivalent investments in interest-bearing overnight deposits with the Federal Home Loan Bank of Des Moines ("FHLB") and the Federal Reserve Bank of Chicago ("FRB"). Federal funds sold deposits may be maintained with the FHLB. At June 30, 2012, the Company did not have any federal funds sold.

The total of mortgage-backed securities and investment securities available for sale increased $349.1 million, or 56.4%, to $968.4 million at June 30, 2012, as purchases exceeded investment maturities, sales, and principal paydowns. The Company's portfolio of securities available for sale consists primarily of mortgage-backed securities, which have relatively short expected lives. During the nine month period ended June 30, 2012, the Company purchased $769.6 million of mortgage-backed securities with estimated future maturities of five years or less (primarily due to anticipated prepayments) and stated maturities of 30 years or less. In addition, the Company purchased $129.0 million of investment securities which were comprised primarily of corporate, municipal, agency and asset-backed bonds. During the quarter ended March 31, 2012, the Company executed a strategic sale of securities to enhance capital levels. The securities sold comprised the Bank's entire portfolio of Ginnie Mae securities which had an amortized cost of $307.9 million. The sale resulted in the recognition of an $11.4 million gain ($7.2 million after taxes). The resulting addition to the Bank's capital will help to support current and expected future growth. The Company believes it was an opportune time to realize the high value of Ginnie Mae securities given market conditions relative to Fannie Mae and Freddie Mac mortgage-backed securities. The Company immediately replaced the securities sold with Fannie Mae securities of similar average lives.

The Bank's portfolio of net loans receivable increased $18.5 million, or 5.9%, to $332.9 million at June 30, 2012. This increase primarily relates to an increase of $9.8 million in residential mortgage loans, $9.1 million in MPS consumer loans and $3.9 million in agricultural operating loans, partially offset by a decrease in commercial real estate and multi family loans of $3.0 million and a decrease in Retail Bank consumer loans of $2.2 million.

Foreclosed real estate and repossessed assets decreased to $0.9 million as compared to $2.7 million at September 30, 2011, primarily due to the resolution and disposal of a $2.0 million bank-owned property during April 2012 which resulted in the recognition of $1.1 million in income related to interest and expenses recovered by the Company. This decrease was partially offset by the previously disclosed foreclosure and transfer of a $1.7 million commercial and multi-family real estate loan which was subsequently written down by $0.9 million during the quarter ended March 31, 2012. This relationship was reported in non-performing loans at September 30, 2011.

Total deposits increased $208.9 million, or 18.3%, to $1.4 billion at June 30, 2012. The Bank continues to increase its low- and no-cost deposit portfolio. Deposits attributable to MPS were up $214.0 million, or 23.1%, at June 30, 2012, as compared to September 30, 2011. This increase results mostly from growth in existing core prepaid card programs. Partially offsetting the above increase was a $15.7 million decrease in certificates of deposits primarily related to a decrease in public funds. The average balance of total deposits was $1.2 billion for the nine month period ended June 30, 2012 compared to $1.0 billion for the same period in the prior fiscal year.

Table of Contents

Total borrowings increased $19.2 million, or 65.6%, from $29.4 million at September 30, 2011 to $48.6 million at June 30, 2012, primarily due to the increase of securities sold under agreements to repurchase.

At June 30, 2012, the Company's stockholders' equity totaled $105.7 million, up $25.1 million from $80.6 million at September 30, 2011. The increase was related to private placement transactions, net income, offset by a decrease in the accumulated other comprehensive income relating to the Company's securities available for sale portfolio and by the payment of dividends on the Company's common stock (see "Results of Operations" below). In addition, the Company raised approximately $12.8 million in additional capital, all of which qualifies as Tier 1 capital for regulatory purposes, through the issuance of 640,000 common shares through three private placement transactions during the 2012 fiscal third quarter. At June 30, 2012, the Bank continues to exceed all regulatory requirements for classification as a well-capitalized institution. See "Liquidity and Capital Resources" for further information.

Non-performing Assets and Allowance for Loan Losses

Generally, when a loan becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result of this action, previously accrued interest income on the loan is reversed against interest income. The loan will remain on non-accrual status until the loan has been brought current or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

The Company believes that the level of allowance for loan losses at June 30, 2012 is appropriate and adequately reflects probable losses related to these loans; however, there can be no assurance that all loans will be fully collectible or that the present level of the allowance will be adequate in the future. See "Allowance for Loan Losses" below.

Table of Contents

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

	Non-Performing Assets As Of	
	June 30, 2012	September 30, 2011
Non-Performing Loans	(Dollars in Thousands)	
Non-Accruing Loans:		
1-4 Family (2)	$ 62	$ 127
Commercial & Multi Family (1) (2)	4,764	13,025
Commercial Operating (1) (2)	20	30
Total	4,846	13,182
Accruing Loans Delinquent 90 Days or More		
Consumer	64	24
Total	64	24
Total Non-Performing Loans	4,910	13,206
Other Assets		
Foreclosed Assets:		
1-4 Family	22	451
Commercial & Multi Family	837	181
Agricultural Real Estate	-	2,020
Commercial Business	2	19
Total	861	2,671
Total Other Assets	861	2,671
Total Non-Performing Assets	$ 5,771	$ 15,877
Total as a Percentage of Total Assets	0.38 %	1.24 %

(1) At June 30, 2012, the Company had $331,000 of TDRs in Commercial & Multi Family and $20,000 of TDRs in Commercial Operating.

(2) At September 30, 2011, the Company had $42,000 of TDRs in 1-4 Family, $3.9 million in Commercial & Multi Family and $30,000 in Commercial Operating.

In addition to the non-performing TDRs in (1) and (2), the Company had an additional $6.4 million and $4.8 million of TDRs performing in accordance with their terms at June 30, 2012 and September 30, 2011, respectively.

At June 30, 2012, non-performing loans totaled $4.9 million, representing 1.5% of total loans, compared to $13.2 million, or 4.1% of total loans at September 30, 2011. The majority of this decrease from September 30, 2011 relates to three commercial loan relationships totaling $8.5 million, one of which was partially charged off with the remaining $1.7 million transferred to foreclosed real estate and repossessed assets at December 31, 2011. During the quarter ended March 31, 2012, the Company wrote off $0.9 million from this commercial relationship through other non-interest income. In addition, a $3.9 million commercial loan that was modified via a TDR is now fully performing in compliance with all terms. The third loan was paid off during the quarter ended June 30, 2012.

Table of Contents

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the OCC to be of lesser quality, as "substandard", "doubtful" or "loss." An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the savings association will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all the weaknesses inherent in those classified as “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 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 loan losses equal to 100% of that portion of the asset so classified or to charge-off such amount. The Bank’s determination 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 discovery of additional information in the future may also affect both the level of classification and the amount of loss allowances.

On the basis of management's review of its loans and other assets, at June 30, 2012, the Company had classified a total of $17.8 million of its assets as substandard, $30,000 as doubtful and none as loss. This compares to classifications at September 30, 2011 of $42.7 million as substandard, $60,000 as doubtful and none as loss. At June 30, 2012, $5.0 million out of a total of $17.8 million of substandard assets is attributable to the trust preferred securities as compared to $19.9 million out of a total of $42.7 million of substandard assets at September 30, 2011. See Note 10 to the Condensed Consolidated Financial Statements.

Allowance for Loan Losses. The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets and non-performing loans, the composition of its loan portfolio and the general economic environment within which the Company and its borrowers operate.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. The economic slowdown, which recently has shown some signs of abating, continues to strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. It should be noted that a sizeable portion of the Company’s consumer loan portfolio is secured by residential real estate. Over the past three years, loss rates in the commercial and multi-family real estate market have remained moderate. Management concludes that future losses in this portfolio may be somewhat higher than recent historical experience. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years primarily due to higher commodity prices as well as above average yields which have created positive economic conditions for most farmers in our markets during these past three years. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that various levels of drought weather conditions within our markets has the potential to negatively impact potential yields which would have a negative economic effect on our agricultural markets. In addition, management believes the continuing recessionary economic environment may also negatively impact consumers’ repayment capacities.

Table of Contents

At June 30, 2012, the Company has established an allowance for loan losses totaling $4.4 million compared to $4.9 million at September 30, 2011. Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at June 30, 2012 reflects an appropriate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods.

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

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with U.S. GAAP. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that: (i) involve the most complex and subjective decisions and assessments which may be uncertain at the time the estimate was made, and (ii) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements, management has identified the policies described below as Critical Accounting Policies. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented in Part II, Item 8 "Consolidated Financial Statements and Supplementary Data" of its Annual Report on Form 10-K for the year ended September 30, 2011 and information contained herein.

Allowance for Loan Losses. The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies, and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio, it will enhance its methodology accordingly. Management may have reported a materially different amount for the provision for loan losses in the consolidated statement of operations to change the allowance for loan losses if its assessment of the above factors were different. Although management believes the levels of the allowance at both June 30, 2012 and September 30, 2011 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions or other factors could result in increasing losses.

Goodwill and Intangible Assets. Intangible assets include patents filed by the MPS division. Intangible assets are tested annually for impairment or more often if conditions indicate a possible impairment. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate future cash flows, risk-adjusted discount rates, future economic and market conditions, comparison of the Company's market value to book value and determination of appropriate market comparables. Actual future results may differ from those estimates.

Table of Contents

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

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

Self-Insurance. The Company has a self-insured healthcare plan for its employees up to certain limits. To mitigate a portion of these risks, the Company has a stop-loss insurance policy through a commercial insurance carrier for coverage in excess of $55,000 per individual occurrence with an unlimited lifetime maximum. The estimate of self-insurance liability is based upon known claims and an estimate of incurred, but not reported ("IBNR") claims. IBNR claims are estimated using historical claims lag information received by a third party claims administrator. Although management believes it uses the best information available to determine the accrual, unforeseen health claims could result in adjustments to the accrual.

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

Security Impairment. Management continually monitors the investment security portfolio for impairment on a security by security basis. Management has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves the consideration of length of time and extent to which the fair value has been less than the amortized cost basis, review of available information regarding the financial position of the issuer, monitoring the rating of the security, cash flow projections, and the Company's intent to sell a security or whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized. If the Company intends to sell a security or it is more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the Company recognizes an other-than-temporary impairment in earnings for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. For those securities, the Company separates the total impairment into a credit loss component recognized in earnings, and the amount of the loss related to other factors is recognized in other comprehensive income net of taxes.

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

Table of Contents

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

RESULTS OF OPERATIONS

General. The Company recorded net income of $2.4 million, or 66 cents per diluted share, for the three months ended June 30, 2012 compared to a net loss of $1.0 million, or 33 cents per diluted share, for the same period in fiscal year 2011. Net earnings for the three month period ended June 30, 2012 were primarily impacted by an increase in card fee income of $4.0 million, a reduction in card processing expense of $2.2 million, a recovery of $1.1 million on a bank-owned real estate property, an increase in income tax expense of $2.0 million due to increased profitability, and an increase in compensation and benefits of $1.1 million.

The Company recorded net income of $15.4 million, or $4.64 per diluted share, for the nine months ended June 30, 2012 compared to $2.4 million, or 79 cents per diluted share, for the same period in fiscal year 2011. Net earnings for the nine month period ended June 30, 2012 were primarily impacted by a pre-tax gain on sale of securities of $12.0 million, an increase in card fee income of $1.1 million, a reduction in card processing expense of $5.3 million, an increase in income tax expense of $6.5 million due to increased profitability, and non-recurrence of goodwill impairment of $1.5 million.

The change in net income for the current period was affected by many factors within the general categories of net interest income, net interest income after provision for loan losses, total non-interest income, total non-interest expense, and income tax expense. Those factors are discussed in more detail below. In general, net interest income decreased from $8.8 million to $8.3 million for the three month period ended June 30, 2012 from the prior year comparable period. Total non-interest income increased from $8.7 million to $13.7 for the three month period ended June 30, 2012 from the prior year comparable period, and total non-interest expense decreased from $19.3 million to $18.1 million during the same time periods.

Net Interest Income. Net interest income for the 2012 fiscal third quarter decreased by $0.5 million, or 6.1%, to $8.3 million from $8.8 million for the same period in the prior fiscal year. Net interest margin decreased to 2.40% for the third quarter of fiscal year 2012 as compared to 3.29% for the same period in 2011. Overall, asset yields declined by 107 basis points due primarily to a change in asset mix to more government guaranteed mortgage-backed securities and highly rated investment grade asset backed, agency, corporate and municipal bonds. Our government guaranteed mortgage-backed securities comprise 60% of average interest earning assets compared to 56% one year ago. The Company's average interest-earning assets for the 2012 third quarter grew by $310.8 million, or 29%, to $1.39 billion, up from $1.08 billion during the same quarter last year.

Overall, rates on all deposits and interest-bearing liabilities decreased by 18 basis points from 0.44% in the 2011 third fiscal quarter to 0.26% in 2012. At June 30, 2012, low- and no-cost checking deposits represented 91% of total deposits compared to 86% one year earlier. The growth in deposits was driven by an increase of $428.3 million, or 60%, in deposits generated by MPS at June 30, 2012 as compared to one year earlier.

44

Table of Contents

For the nine months ended June 30, 2012, net interest income was $26.3 million compared to $25.5 million for the same period in the prior fiscal year. Contributing to this increase was a 51 basis point decrease in rates paid on interest-bearing liabilities and a 22% increase in earning assets. These were partially offset by asset yields that decreased 67 basis points, in part, due to faster prepayment rates in the Company's mortgage-backed securities portfolio as compared to the prior fiscal year. 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. No tax equivalent adjustments have been made, as these are not considered to be significant. Non-accruing loans have been included in the table as loans carrying a zero yield.

Table of Contents

The following tables present, for the periods indicated, the Company's total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments have been made, as these are not considered to be significant. Non-accruing loans have been included in the table as loans carrying a zero yield.

Three Months Ended June 30,	2012				2011			
(Dollars in Thousands)	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate		Average Outstanding Balance	Interest Earned / Paid	Yield / Rate	
Interest-earning assets:								
Loans receivable	$331,588	$4,616	5.60	%	$327,650	$4,538	5.56	%
Mortgage-backed securities	836,003	3,847	1.85	%	600,672	5,232	3.49	%
Other investments and fed funds sold	220,024	686	1.25	%	148,490	210	0.57	%
Total interest-earning assets	1,387,615	$9,149	2.65	%	1,076,812	$9,980	3.72	%
Non-interest-earning assets	62,405				60,937			
Total assets	$1,450,020				$1,137,749			
Non-interest bearing deposits	$1,059,983	$-	0.00	%	$786,346	$-	0.00	%
Interest-bearing liabilities:								
Interest-bearing checking	34,227	60	0.71	%	33,396	87	1.04	%
Savings	22,235	10	0.18	%	11,620	9	0.31	%
Money markets	38,240	29	0.31	%	34,403	55	0.64	%
Time deposits	103,135	417	1.63	%	117,103	581	1.99	%
FHLB advances	39,433	192	1.96	%	44,144	299	2.72	%
Other borrowings	30,467	149	1.97	%	15,687	122	3.12	%
Total interest-bearing liabilities	267,737	857	1.29	%	256,353	1,153	1.80	%
Total deposits and interest-bearing liabilities	1,327,720	$857	0.26	%	1,042,699	$1,153	0.44	%
Other non-interest bearing liabilities	22,713				19,278			
Total liabilities	1,350,433				1,061,977			
Shareholders' equity	99,587				75,772			
Total liabilities and shareholders' equity	$1,450,020				$1,137,749			
Net interest income and net interest rate spread including non-interest bearing deposits		$8,292	2.39	%		$8,827	3.28	%
Net interest margin			2.40	%			3.29	%

Table of Contents

Nine Months Ended June 30, (Dollars in Thousands)	2012 Average Outstanding Balance	Interest Earned / Paid	Yield / Rate		2011 Average Outstanding Balance	Interest Earned / Paid	Yield / Rate	
Interest-earning assets:								
Loans receivable	$325,478	$13,647	5.60	%	$344,370	$14,894	5.78	%
Mortgage-backed securities	775,507	13,833	2.38	%	541,363	13,583	3.35	%
Other investments and fed funds sold	205,750	1,583	1.03	%	187,132	703	0.50	%
Total interest-earning assets	1,306,735	$29,063	2.97	%	1,072,865	$29,180	3.64	%
Non-interest-earning assets	61,407				66,364			
Total assets	$1,368,142				$1,139,229			
Non-interest bearing deposits	$999,537	$-	0.00	%	$783,239	$-	0.00	%
Interest-bearing liabilities:								
Interest-bearing checking	33,647	205	0.81	%	33,063	326	1.32	%
Savings	15,386	29	0.25	%	11,151	29	0.35	%
Money markets	38,221	104	0.36	%	34,543	186	0.72	%
Time deposits	107,231	1,384	1.72	%	120,278	1,833	2.04	%
FHLB advances	43,151	595	1.84	%	40,994	909	2.96	%
Other borrowings	22,526	405	2.40	%	16,463	375	3.05	%
Total interest-bearing liabilities	260,162	2,722	1.40	%	256,492	3,658	1.91	%
Total deposits and interest-bearing liabilities	1,259,699	$2,722	0.29	%	1,039,731	$3,658	0.47	%
Other non-interest bearing liabilities	21,130				17,428			
Total liabilities	1,280,829				1,057,159			
Shareholders' equity	87,313				82,070			
Total liabilities and shareholders' equity	$							