

META FINANCIAL GROUP INC
Form 10-Q
February 06, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

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)

(712) 732-4117
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting

Company 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 February 5, 2013:
Common Stock, \$.01 par value	5,488,989 Common Shares

META FINANCIAL GROUP, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	December 31, 2012	September 30, 2012
Cash and cash equivalents	\$ 32,745	\$ 145,051
Investment securities available for sale	565,037	435,250
Mortgage-backed securities available for sale	758,955	681,442
Loans receivable - net of allowance for loan losses of \$3,963 at December 31, 2012 and \$3,971 at September 30, 2012	317,258	326,981
Federal Home Loan Bank Stock, at cost	11,375	2,120
Accrued interest receivable	8,800	6,710
Insurance receivable	539	581
Premises, furniture, and equipment, net	17,661	17,738
Bank-owned life insurance	32,957	14,832
Foreclosed real estate and repossessed assets	9	838
Intangible assets	2,185	2,035
MPS accounts receivable	6,077	5,763
Other assets	9,672	9,557
Total assets	\$ 1,763,270	\$ 1,648,898
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	\$ 1,132,218	\$ 1,181,299
Interest-bearing checking	32,709	33,094
Savings deposits	26,598	26,053
Money market deposits	39,750	38,585
Time certificates of deposit	84,983	100,763
Total deposits	1,316,258	1,379,794
Advances from Federal Home Loan Bank	11,000	11,000
Federal funds purchased	208,000	-
Securities sold under agreements to repurchase	12,303	26,400
Subordinated debentures	10,310	10,310
Accrued interest payable	218	177
Contingent liability	331	1,719
Accrued expenses and other liabilities	58,856	73,639
Total liabilities	1,617,276	1,503,039
STOCKHOLDERS' EQUITY		
	-	-

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Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at December 31, 2012 and September 30, 2012, respectively		
Common stock, \$.01 par value; 10,000,000 shares authorized, 5,576,099 and 5,576,099 shares issued, 5,481,727 and 5,443,881 shares outstanding at December 31, 2012 and September 30, 2012, respectively	56	56
Additional paid-in capital	78,760	78,769
Retained earnings - substantially restricted	63,189	60,776
Accumulated other comprehensive income	5,551	8,513
Treasury stock, 94,372 and 132,218 common shares, at cost, at December 31, 2012 and September 30, 2012, respectively	(1,562)	(2,255)
Total stockholders' equity	145,994	145,859
Total liabilities and stockholders' equity	\$ 1,763,270	\$ 1,648,898

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2012	2011
Interest and dividend income:		
Loans receivable, including fees	\$4,127	\$4,540
Mortgage-backed securities	2,934	4,787
Other investments	2,569	288
	9,630	9,615
Interest expense:		
Deposits	425	653
FHLB advances and other borrowings	408	324
	833	977
Net interest income	8,797	8,638
Provision for loan losses	-	699
Net interest income after provision for loan losses	8,797	7,939
Non-interest income:		
Card fees	11,536	13,913
Gain on sale of securities available for sale, net	1,654	1,050
Loan fees	268	329
Deposit fees	168	162
Bank-owned life insurance income	125	128
Loss on sale of foreclosed real estate	(400)	-
Other income	59	100
Total non-interest income	13,410	15,682
Non-interest expense:		
Compensation and benefits	8,277	7,176
Card processing expense	3,685	5,322
Occupancy and equipment expense	2,021	2,098
Legal and consulting expense	920	1,266
Data processing expense	320	275
Marketing	270	167
Other expense	2,585	2,487
Total non-interest expense	18,078	18,791
Income before income tax expense	4,129	4,830

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Income tax expense	1,004	1,739
Net income	\$3,125	\$3,091
Earnings per common share:		
Basic	\$0.57	\$0.97
Diluted	\$0.57	\$0.97

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended December 31,	
	2012	2011
Net income	\$3,125	\$3,091
Other comprehensive income (loss):		
Change in net unrealized gain (loss) on securities available for sale	(3,143)	3,504
Gains realized in net income	(1,654)	(1,050)
	(4,797)	2,454
Deferred income tax effect	(1,835)	938
Total other comprehensive income (loss)	(2,962)	1,516
Total comprehensive income	\$163	\$4,607

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Three Months Ended December 31, 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, 2011	\$34	\$32,471	\$45,494	\$ 6,336	\$(3,758)	\$ 80,577
Cash dividends declared on common stock (\$.13 per share)	-	-	(415)	-	-	(415)
Issuance of 44,398 common shares from treasury stock due to issuance of restricted stock	-	51	-	-	725	776
Stock compensation	-	13	-	-	-	13
Change in net unrealized gains (losses) on securities available for sale	-	-	-	1,516	-	1,516
Net income	-	-	3,091	-	-	3,091
Balance, December 31, 2011	\$34	\$32,535	\$48,170	\$ 7,852	\$(3,033)	\$ 85,558
Balance, September 30, 2012	\$56	\$78,769	\$60,776	\$ 8,513	\$(2,255)	\$ 145,859
Cash dividends declared on common stock (\$.13 per share)	-	-	(712)	-	-	(712)
Issuance of common shares from the sales of equity securities	-	(62)	-	-	-	(62)
Issuance of 37,846 common shares from treasury stock due to issuance of restricted stock	-	48	-	-	693	741
Stock compensation	-	5	-	-	-	5
	-	-	-	(2,962)	-	(2,962)

Change in net unrealized gains
(losses) on securities available
for sale

Net income	-	-	3,125	-	-	3,125
Balance, December 31, 2012	\$56	\$78,760	\$63,189	\$ 5,551	\$(1,562)	\$ 145,994

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended December	
	2012	31, 2011
Cash flows from operating activities:		
Net income	\$ 3,125	\$ 3,091
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion, net	5,057	2,864
Disbursement of non-real estate consumer loans originated for sale	-	(304,066)
Proceeds from sale of non-real estate consumer loans	-	304,717
Proceeds from sale of 1-4 family residential mortgage loans	-	373
Loss on sale of loans	-	2
Provision for loan losses	-	699
Gain on other assets	(7)	(13)
Gain on sale of securities available for sale, net	(1,654)	(1,050)
Net change in accrued interest receivable	(2,090)	(309)
Net change in other assets	(257)	812
Net change in accrued interest payable	41	(16)
Net change in accrued expenses and other liabilities	(16,171)	(3,813)
Net cash provided by (used in) operating activities	(11,956)	3,291
Cash flow from investing activities:		
Purchase of securities available for sale	(363,998)	(277,388)
Proceeds from sales of securities available for sale	110,516	45,595
Proceeds from maturities and principal repayments of securities available for sale	38,783	39,738
Purchase of bank owned life insurance	(18,000)	-
Loans purchased	(1,075)	(4,188)
Net change in loans receivable	10,798	(2,651)
Proceeds from sales of foreclosed real estate	427	350
Federal Home Loan Bank stock purchases	(116,901)	(6,007)
Federal Home Loan Bank stock redemptions	107,646	-
Proceeds from the sale of premises and equipment	5	30
Purchase of premises and equipment	(725)	(789)
Other, net	1,835	(938)
Net cash provided by (used in) investing activities	(230,689)	(206,248)
Cash flows from financing activities:		
Net change in checking, savings, and money market deposits	(47,756)	93,065
Net change in time deposits	(15,780)	(9,889)
Net change in federal funds purchased	208,000	-
Net change in securities sold under agreements to repurchase	(14,097)	(604)
Cash dividends paid	(712)	(415)

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Stock compensation	5	13
Proceeds from issuance of common stock	679	776
Net cash provided by (used in) financing activities	130,339	82,946
Net change in cash and cash equivalents	(112,306)	(120,011)
Cash and cash equivalents at beginning of period	145,051	276,893
Cash and cash equivalents at end of period	\$ 32,745	\$ 156,882
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 793	\$ 993
Income taxes	3,315	1,442
Supplemental schedule of non-cash investing activities:		
Loans transferred to foreclosed real estate	\$ -	\$ 1,720

See Notes to Condensed Consolidated Financial Statements.

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NOTE 1.

BASIS OF PRESENTATION

The interim unaudited condensed consolidated financial statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2012 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 21, 2012. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments), that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the interim period ended December 31, 2012, are not necessarily indicative of the results expected for the year ending September 30, 2013.

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 collectively evaluated for impairment. 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. Generally, non-accrual loans are considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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Loans receivable at December 31, 2012 and September 30, 2012 are as follows:

	December 31, 2012	September 30, 2012
	(Dollars in Thousands)	
One to four family residential mortgage loans	\$ 55,964	\$ 49,134
Commercial and multi-family real estate loans	176,884	191,905
Agricultural real estate loans	23,446	19,861
Consumer loans	30,736	32,838
Commercial operating loans	13,569	16,452
Agricultural operating loans	20,926	20,981
Total Loans Receivable	321,525	331,171
Less:		
Allowance for loan losses	(3,963)	(3,971)
Net deferred loan origination fees	(304)	(219)
Total Loans Receivable, Net	\$ 317,258	\$ 326,981

Activity in the allowance for loan losses and balances of loans receivable by portfolio segment for the three month periods ended December 31, 2012 and 2011 is as follows:

	Commercial and 1-4 Multi-Family		Agricultural		Commercial		Agricultural		
	Family Residential	Real Estate	Real Estate	Consumer	Operating	Operating	Unallocated	Total	

Three Months Ended December 31, 2012

Allowance for loan losses:

Beginning balance	\$193	\$3,113	\$1	\$3	\$49	\$-	\$612	\$3,971
Provision (recovery) for loan losses	(5)	(235)	-	-	1	18	221	-
Loan charge offs	-	(8)	-	-	-	-	-	(8)
Recoveries	-	-	-	-	-	-	-	-
Ending balance	\$188	\$2,870	\$1	\$3	\$50	\$18	\$833	\$3,963

Ending balance: individually evaluated for impairment	\$10	\$443	\$-	\$-	\$-	\$-	\$-	\$453
Ending balance: collectively evaluated for impairment	\$178	\$2,427	\$1	\$3	\$50	\$18	\$833	\$3,510

Loans:

Ending balance: individually evaluated for impairment	\$351	\$8,798	\$-	\$-	\$16	\$-	\$-	\$9,165
Ending balance: collectively evaluated for impairment	\$55,613	\$168,086	\$23,446	\$30,736	\$13,553	\$20,926	\$-	\$312,360

	Commercial and 1-4 Multi-Family		Agricultural		Commercial		Agricultural		Unallocated	Total
	Family Residential	Real Estate	Real Estate	Consumer	Operating	Operating	Operating			

Three Months Ended December 31, 2011

Allowance for loan losses:

Beginning balance	\$165	\$3,901	\$-	\$16	\$36	\$67	\$741	\$4,926
Provision (recovery) for loan losses	15	775	-	3	(2)	(2)	(90)	699
Loan charge offs	-	(1,067)	-	(2)	-	-	-	(1,069)
Recoveries	1	-	-	4	4	-	-	9
Ending balance	\$181	\$3,609	\$-	\$21	\$38	\$65	\$651	\$4,565

Ending balance: individually evaluated for impairment	\$11	\$1,425	\$-	\$-	\$3	\$-	\$-	\$1,439
Ending balance: collectively evaluated for impairment	\$170	\$2,184	\$-	\$21	\$35	\$65	\$651	\$3,126

Loans:

Ending balance: individually evaluated for impairment	\$178	\$14,608	\$-	\$-	\$91	\$-	\$-	\$14,877
Ending balance: collectively evaluated for impairment	\$37,328	\$179,836	\$20,070	\$34,359	\$12,549	\$22,071	\$-	\$306,213

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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 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 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 direct management to establish additional general or specific loss allowances.

The asset classification of loans at December 31, 2012 and September 30, 2012 are as follows:

December 31,
2012

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	\$55,431	\$ 152,721	\$23,373	\$30,736	\$ 13,154	\$ 19,126	\$294,541
Watch	193	10,097	73	-	-	1,800	12,163
Special Mention	15	3,809	-	-	399	-	4,223
Substandard	295	10,257	-	-	16	-	10,568
Doubtful	30	-	-	-	-	-	30
	\$55,964	\$ 176,884	\$23,446	\$30,736	\$ 13,569	\$20,926	\$321,525

September 30,
2012

	1-4 Family Residential	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Total
Pass	\$48,566	\$ 167,697	\$19,783	\$32,837	\$ 16,036	\$20,981	\$305,900
Watch	228	12,932	78	-	-	-	13,238
Special Mention	15	3,730	-	-	399	-	4,144
Substandard	295	7,546	-	1	17	-	7,859
Doubtful	30	-	-	-	-	-	30
	\$49,134	\$ 191,905	\$19,861	\$32,838	\$ 16,452	\$20,981	\$331,171

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

The Company originates one- to four-family residential mortgage loans with terms up to a maximum of 30 years and with loan-to-value ratios up to 100% of the lesser of the appraised value of the security property or the contract price at the time of origination. 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.

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The Company currently offers one, three, five, seven and ten year 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 relatively unattractive to customers.

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

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and, in order to supplement its loan portfolio, has purchased whole loan and participation interests in loans from other financial institutions. The purchased loans and loan participation interests are generally secured by properties 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 are underwritten with terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the security property at the time of origination, 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. 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.

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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 15 to 30 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 twenty years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan.

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

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

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 2013.

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 a direct 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, may be up to 90% of the appraised value of the property securing the loan. Home equity loans and lines of credit generally have maximum terms of five years.

The Retail Bank primarily originates automobile loans on a direct basis. 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.

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

Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus 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 portfolio lending on a nationwide basis. 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 which 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 discontinued four of its credit sponsorship lending programs in the fourth fiscal quarter of 2012. For the year ended September 30, 2012, these relationships provided approximately \$2.6 million in total revenue (interest income plus non-interest income) to the Company. For the three months ended December 31, 2012, the Company did not receive any revenue for these credit sponsorship lending programs.

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.

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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 current income. The loan will remain on a 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 December 31, 2012 and September 30, 2012 are as follows:

December 31, 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	\$20	\$-	\$ -	\$20	\$55,637	\$ 307	\$55,964
Commercial Real Estate and Multi-Family	-	-	-	-	175,463	1,421	176,884
Agricultural Real Estate	-	-	-	-	23,446	-	23,446
Consumer	186	19	14	219	30,517	-	30,736
Commercial Operating	-	-	-	-	13,553	16	13,569
Agricultural Operating	-	-	-	-	20,926	-	20,926
Total	\$206	\$19	\$ 14	\$239	\$319,542	\$ 1,744	\$321,525

September 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	\$-	\$-	\$ -	\$-	\$48,827	\$ 307	\$49,134
Commercial Real Estate and Multi-Family	-	-	-	-	190,482	1,423	191,905
Agricultural Real Estate	-	-	-	-	19,861	-	19,861
Consumer	21	16	63	100	32,738	-	32,838
Commercial Operating	-	-	-	-	16,434	18	16,452
Agricultural Operating	-	-	-	-	20,981	-	20,981
Total	\$21	\$16	\$ 63	\$100	\$329,323	\$ 1,748	\$331,171

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Impaired loans at December 31, 2012 and September 30, 2012 are as follows:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance
December 31, 2012			
Loans without a specific valuation allowance			
Residential 1-4 Family	\$245	\$ 245	\$-
Commercial Real Estate and Multi-Family	3,949	3,949	-
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	16	31	-
Agricultural Operating	-	-	-
Total	\$4,210	\$ 4,225	\$-
Loans with a specific valuation allowance			
Residential 1-4 Family	\$106	\$ 147	\$10
Commercial Real Estate and Multi-Family	4,849	8,741	443
Agricultural Real Estate	-	-	-
Consumer	-	-	-
Commercial Operating	-	-	-
Agricultural Operating	-	-	-
Total	\$4,955	\$ 8,888	\$453
September 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	\$352	\$ 393	\$16
Commercial Real Estate and Multi-Family	8,815	12,707	346
Agricultural Real Estate	-	-	-
Consumer	1	1	-
Commercial Operating	17	32	1
Agricultural Operating	-	-	-
Total	\$9,185	\$ 13,133	\$363

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The following table provides the average recorded investment in impaired loans for the three month periods ended December 31, 2012 and 2011.

	Three Months Ended December 31,	
	2012 Average Recorded Investment	2011 Average Recorded Investment
Residential 1-4 Family	\$ 446	\$ 145
Commercial Real Estate and Multi-Family	8,969	11,401
Agricultural Real Estate	-	646
Consumer	1	11
Commercial Operating	34	78
Agricultural Operating	-	-
Total	\$ 9,450	\$ 12,281

The Company's troubled debt restructurings ("TDR"), typically involve forgiving a portion of interest or principal on existing loans or making loans at a rate materially less than current market rates. Loans modified in a TDR during the three month periods ended December 31, 2012 and 2011 are as follows:

	Number of Loans	December 31, 2012		Number of Loans	December 31, 2011	
		Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance		Pre-Modification Outstanding Recorded Balance	Post-Modification Outstanding Recorded Balance
Residential 1-4 Family	-	\$ -	\$ -	-	\$ -	\$ -
Commercial Real Estate and Multi-Family	-	-	-	-	-	-
Agricultural Real Estate	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Commercial Operating	-	-	-	-	-	-
Agricultural Operating	-	-	-	-	-	-
Total	-	\$ -	\$ -	-	\$ -	\$ -

The following table provides information on TDR loans for which there was a payment default during the three month periods ended December 31, 2012 and 2011, that had been modified during the 12-month period prior to the default:

	During the Three Months Ended			
	December 31, 2012		December 31, 2011	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
Residential 1-4 Family	-	\$-	-	\$-
Commercial Real Estate and Multi Family	-	-	-	-
Agricultural Real Estate	-	-	-	-
Consumer	-	-	-	-

Commercial Operating	-	-	-	-
Agricultural Operating	-	-	-	-
Total	-	\$-	-	\$-

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NOTE 3. ALLOWANCE FOR LOAN LOSSES

During the three months ended December 31, 2012, the Company did not record a provision for loan loss, as the Company's analysis indicated the balance in the allowance for loan losses reflected probable losses in the loan portfolio. Further provisions were not considered necessary during the three months ended December 31, 2012, because the Company's total net charge-offs for the three months ended December 31, 2012 were \$8,000 and there were no adverse developments in the loan portfolio requiring additional provision. As a result, at December 31, 2012, the Company's allowance for loan losses remained at \$4.0 million.

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. All ESOP shares were allocated as of December 31, 2012. Diluted EPS shows the dilutive effect of additional common shares issuable pursuant to stock option agreements.

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A reconciliation of the income and common stock share amounts used in the computation of basic and diluted EPS for the three months ended December 31, 2012 and 2011 is presented below.

Three Months Ended December 31, (Dollars in Thousands, Except Share and Per Share Data)	2012	2011
Earnings		
Net Income	\$3,125	\$3,091
Basic EPS		
Weighted average common shares outstanding	5,462,154	3,177,570
Less weighted average unallocated ESOP and nonvested shares	-	-
Weighted average common shares outstanding	5,462,154	3,177,570
Earnings Per Common Share		
Basic	\$0.57	\$0.97
Diluted EPS		
Weighted average common shares outstanding for basic earnings per common share	5,462,154	3,177,570
Add dilutive effect of assumed exercises of stock options, net of tax benefits	36,346	3,061
Weighted average common and dilutive potential common shares outstanding	5,498,500	3,180,631
Earnings Per Common Share		
Diluted	\$0.57	\$0.97

Stock options totaling 141,751 and 460,775 were not considered in computing diluted EPS for the three months ended December 31, 2012 and 2011, respectively, because they were not dilutive.

NOTE 5.

SECURITIES

The amortized cost, gross unrealized gains and losses and estimated fair values of available for sale securities at December 31, 2012 and September 30, 2012 are presented below.

December 31, 2012	Amortized Cost	Gross Unrealized Gains (Dollars in Thousands)	Gross Unrealized (Losses)	Fair Value
Debt securities				
Trust preferred and corporate securities	\$71,442	\$ 1,205	\$ (3,364)	\$69,283
Agency securities	39,130	110	-	39,240
Small Business Administration securities	19,930	557	-	20,487
Obligations of states and political subdivisions	19,048	536	(112)	19,472
Non-bank qualified obligations of states and political subdivisions	417,896	1,608	(2,949)	416,555
Mortgage-backed securities	747,557	11,553	(155)	758,955
Total debt securities	\$1,315,003	\$ 15,569	\$ (6,580)	\$1,323,992

Gross

Gross

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September 30, 2012	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
		(Dollars in Thousands)		
Debt securities				
Trust preferred and corporate securities	\$67,615	\$ 1,399	\$ (3,517)	\$65,497
Asset backed securities	40,828	496	-	41,324
Agency securities	39,266	201	-	39,467
Small Business Administration securities	19,939	-	(25)	19,914
Obligations of states and political subdivisions	12,593	560	-	13,153
Non-bank qualified obligations of states and political subdivisions	254,789	1,487	(381)	255,895
Mortgage-backed securities	667,876	13,597	(31)	681,442
Total debt securities	\$1,102,906	\$ 17,740	\$ (3,954)	\$1,116,692

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

At December 31, 2012

Issuer(1)	Amortized Cost	Fair Value	Unrealized (Loss)	S&P Credit Rating	Moody's Credit Rating
	(Dollars in Thousands)				
Key Corp. Capital I	\$4,983	\$3,952	\$(1,031)	BBB-	Baa3
Huntington Capital Trust II SE	4,974	3,579	(1,395)	BB+	Baa3
PNC Capital Trust	4,957	4,187	(770)	BBB	Baa2
Total	\$14,914	\$11,718	\$(3,196)		

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

At September 30, 2012

Issuer(1)	Amortized Cost	Fair Value	Unrealized (Loss)	S&P Credit Rating	Moody's Credit Rating
	(Dollars in Thousands)				
Key Corp. Capital I	\$4,983	\$3,817	\$(1,166)	BBB-	Baa3
Huntington Capital Trust II SE	4,974	3,540	(1,434)	BB+	Baa3
PNC Capital Trust	4,956	4,107	(849)	BBB	Baa2
Total	\$14,913	\$11,464	\$(3,449)		

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

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 December 31, 2012 and September 30, 2012, are as follows:

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
December 31, 2012	(Dollars in Thousands)					
Debt securities						
Trust preferred and corporate securities	\$6,771	\$(120)	\$14,669	\$(3,244)	\$21,440	\$(3,364)
Obligations of states and political subdivisions	4,389	(112)	-	-	4,389	(112)
Non-bank qualified obligations of states and political subdivisions	211,290	(2,949)	-	-	211,290	(2,949)
Mortgage-backed securities	43,870	(155)	-	-	43,870	(155)
Total debt securities	\$266,320	\$(3,336)	\$14,669	\$(3,244)	\$280,989	\$(6,580)

September 30, 2012	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
Debt securities						
Trust preferred and corporate securities	\$-	\$-	\$14,396	\$(3,517)	\$14,396	\$(3,517)
Small Business Administration securities	19,914	(25)	-	-	19,914	(25)
Non-bank qualified obligations of states and political subdivisions	55,569	(381)	-	-	55,569	(381)
Mortgage-backed securities	28,731	(31)	-	-	28,731	(31)
Total debt securities	\$104,214	\$(437)	\$14,396	\$(3,517)	\$118,610	\$(3,954)

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.

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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 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 December 31, 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 December 31, 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.

NOTE 6.

COMMITMENTS AND CONTINGENCIES

At December 31, 2012 and September 30, 2012, the Company had outstanding commitments to originate and purchase loans and unused lines of credit totaling \$56.8 million and \$56.4 million, respectively. It is expected that outstanding loan commitments will be funded with existing liquid assets. At December 31, 2012, the Company had seven commitments to purchase securities available for sale totaling \$42.1 million.

Legal Proceedings

In addition to the previously disclosed ATM lawsuits, there were two additional lawsuits filed concerning ATMs sponsored by MetaBank, 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: Steve Klemetson, Individually and on Behalf of All Others Similarly Situated, vs. Temecula Stage Stop, Temecula Wine and Beer Garden, Ed Dool, National Link Incorporated, MetaBank, Meta Payment Systems, and Does 1-10, inclusive, Case No. 3:12-cv-02636-MMA-WVG, filed in the United States District Court for the Southern District of California; and Pete Orcino, Individually and on Behalf of All Others Similarly Situated, vs. United Oil Gas Station, National Link Incorporated, MetaBank, Meta Payment Systems, and Does 1-10, inclusive, Case No. 3:12-cv-02861-IEG-WMC, filed in the United States District Court for the Southern District of California. 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.

On December 20, 2012, H.R. 4367 was signed into law relating to ATM disclosures. The Electronic Funds Transfer Act ("EFTA") previously required ATM operators to provide two separate notices to consumers about the fees that could be charged for use of an ATM, both an onscreen disclosure and a physical placard attached to the machine. If the physical placard was not attached, the ATM operator could be found liable for noncompliance. This led to numerous lawsuits alleging noncompliance with the placard requirement, even though the user had to accept the imposition of the fee via the onscreen notice. H.R. 4367 removes the physical placard requirement from the EFTA, and retains the onscreen disclosure and acceptance of fees.

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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 award 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 possible loss is approximately \$0 to \$0.8 million as of the filing date of this Quarterly Report on Form 10-Q.

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

See Note 12 to the Condensed Consolidated Financial Statements for a discussion of the settlement of OTS enforcement matters and on-going compliance matters.

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

NOTE 7.

STOCK OPTION PLAN

The Company maintains the 2002 Omnibus Incentive Plan, 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.

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.

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A summary of option activity for the three months ended December 31, 2012 is presented below:

	Number of Shares (Dollars in Thousands, Except Share and Per Share Data)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
Options outstanding, September 30, 2012	389,358	\$23.52	5.08	\$1,199
Granted	-	-		
Exercised	(10,000)	8.25		
Forfeited or expired	-	-		
Options outstanding, December 31, 2012	379,358	\$23.92	4.80	\$705
Options exercisable, December 31, 2012	373,858	\$23.85	4.76	\$704

The Company had no outstanding nonvested shares at December 31, 2012 or September 30, 2012. In addition, there was no grant activity for the three months ended December 31, 2012.

At December 31, 2012, stock based compensation expense not yet recognized in income totaled \$14,000 which is expected to be recognized over a weighted average remaining period of 0.61 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.

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The following tables present segment data for the Company for the three months ended December 31, 2012 and 2011, respectively.

	Retail Banking	Meta Payment Systems®	All Others	Total
Three Months Ended December 31, 2012				
Interest income	\$6,056	\$ 3,574	\$-	\$9,630
Interest expense	672	38	123	833
Net interest income (expense)	5,384	3,536	(123)	8,797
Provision (recovery) for loan losses	-	-	-	-
Non-interest income	1,916	11,494	-	13,410
Non-interest expense	4,824	12,989	265	18,078
Income (loss) before tax	2,476	2,041	(388)	4,129
Income tax expense (benefit)	644	505	(145)	1,004
Net income (loss)	\$1,832	\$ 1,536	\$(243)	\$3,125
Inter-segment revenue (expense)	\$2,922	\$ (2,922)	\$-	\$-
Total assets	516,299	1,244,971	2,000	1,763,270
Total deposits	207,035	1,111,712	(2,489)	1,316,258

	Retail Banking	Meta Payment Systems®	All Others	Total
Three Months Ended December 31, 2011				
Interest income	\$6,481	\$ 3,134	\$-	\$9,615
Interest expense	824	38	115	977
Net interest income (expense)	5,657	3,096	(115)	8,638
Provision (recovery) for loan losses	700	(1)	-	699
Non-interest income	1,803	13,873	6	15,682
Non-interest expense	4,783	13,942	66	18,791
Income (loss) before tax	1,977	3,028	(175)	4,830
Income tax expense (benefit)	716	1,093	(70)	1,739
Net income (loss)	\$1,261	\$ 1,935	\$(105)	\$3,091
Inter-segment revenue (expense)	\$2,627	\$ (2,627)	\$-	\$-
Total assets	304,342	1,052,934	1,929	1,359,205
Total deposits	213,801	1,011,858	(863)	1,224,796

The following tables present gross profit data for MPS for the three months ended December 31, 2012 and 2011.

Three Months Ended December 31,	2012	2011
Interest income	\$ 3,574	\$ 3,134
Interest expense	38	38
Net interest income	3,536	3,096
Provision (recovery) for loan losses	-	(1)

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Non-interest income	11,494	13,873
Card processing expense	3,680	5,310
Gross Profit	11,350	11,660
Other non-interest expense	9,309	8,632
Income (loss) before tax	2,041	3,028
Income tax expense (benefit)	505	1,093
Net Income (Loss)	\$ 1,536	\$ 1,935

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NOTE 9.

NEW ACCOUNTING PRONOUNCEMENTS

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 was required to apply this ASU prospectively for interim and annual periods beginning after December 15, 2011. In the period of adoption, a reporting entity was 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. The Company adopted this update in the first quarter of fiscal 2013 and the adoption did not 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.

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.

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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 December 31, 2012 or September 30, 2012. 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.

The following table summarizes the assets of the Company for which fair values are determined on a recurring basis at December 31, 2012 and September 30, 2012.

(Dollars in Thousands)	Fair Value at December 31, 2012			
	Total	Level 1	Level 2	Level 3
Debt securities				
Trust preferred and corporate securities	\$69,283	\$-	\$69,283	\$-
Agency securities	39,240	-	39,240	-
Small Business Administration securities	20,487	-	20,487	-
Obligations of states and political subdivisions	19,472	-	19,472	-
Non-bank qualified obligations of states and political subdivisions	416,555	-	416,555	-
Mortgage-backed securities	758,955	-	758,955	-
Securities available for sale	\$1,323,992	\$-	\$1,323,992	\$-

(Dollars in Thousands)	Fair Value at September 30, 2012			
	Total	Level 1	Level 2	Level 3
Debt securities				
Trust preferred and corporate securities	\$65,497	\$-	\$65,497	\$-
Asset backed securities	41,324	-	41,324	-
Agency securities	39,467	-	39,467	-
Small Business Administration securities	19,914	-	19,914	-
Obligations of states and political subdivisions	13,153	-	13,153	-
Non-bank qualified obligations of states and political subdivisions	255,895	-	255,895	-
Mortgage-backed securities	681,442	-	681,442	-
Securities available for sale	\$1,116,692	\$-	\$1,116,692	\$-

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.

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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. Subsequent to initial recognition, 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.

The following table summarizes the assets of the Company for which fair values are determined on a non-recurring basis at December 31, 2012 and September 30, 2012.

(Dollars in Thousands)	Fair Value at December 31, 2012			
	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
One to four family residential mortgage loans	\$96	\$-	\$-	\$96
Commercial and multi-family real estate loans	4,406	-	-	4,406
Total Impaired Loans	4,502	-	-	4,502
Foreclosed Assets, net	9	-	-	9
Total	\$4,511	\$-	\$-	\$4,511

(Dollars in Thousands)	Fair Value at September 30, 2012			
	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
One to four family residential mortgage loans	\$336	\$-	\$-	\$336
Commercial and multi-family real estate loans	8,469	-	-	8,469
Consumer loans	1	-	-	1
Commercial operating loans	16	-	-	16
Total Impaired Loans	8,822	-	-	8,822
Foreclosed Assets, net	838	-	-	838
Total	\$9,660	\$-	\$-	\$9,660

(Dollars in Thousands)	Quantitative Information About Level 3 Fair Value Measurements		
	Fair Value at December 31, 2012	Valuation Technique	Unobservable Input
Impaired Loans, net	\$ 4,502	Market approach	Appraised values (1)
Foreclosed Assets, net	9	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 December 31, 2012 and September 30, 2012, as more fully described below. The operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the Bank's capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

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The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at December 31, 2012 and September 30, 2012. The information presented is subject to change over time based on a variety of factors.

	Carrying Amount	Estimated Fair Value	December 31, 2012		
			Level 1	Level 2	Level 3
(Dollars in Thousands)					
Financial assets					
Cash and cash equivalents	\$32,745	\$32,745	\$32,745	\$-	\$-
Securities available for sale	1,323,992	1,323,992	-	1,323,992	-
Loans receivable:					
One to four family residential mortgage loans	55,964	53,914	-	-	53,914
Commercial and multi-family real estate loans	176,884	172,097	-	-	172,097
Agricultural real estate loans	23,446	23,888	-	-	23,888
Consumer loans	30,736	31,359	-	-	31,359
Commercial operating loans	13,569	14,496	-	-	14,496
Agricultural operating loans	20,926	22,487	-	-	22,487
Total loans receivable	321,525	318,241	-	-	318,241
FHLB stock	11,375	11,375	-	11,375	-
Accrued interest receivable	8,800	8,800	8,800	-	-
Financial liabilities					
Noninterest bearing demand deposits	1,132,218	1,132,218	1,132,218	-	-
Interest bearing demand deposits, savings, and money markets	99,057	99,057	99,057	-	-
Certificates of deposit	84,983	85,818	-	85,818	-
Total deposits	1,316,258	1,317,093	1,231,275	85,818	-
Advances from FHLB	11,000	13,655	-	13,655	-
Federal funds purchased	208,000	208,000	-	208,000	-
Securities sold under agreements to repurchase	12,303	12,303	-	12,303	-
Subordinated debentures	10,310	10,316	-	10,316	-
Accrued interest payable	218	218	218	-	-
Off-balance-sheet instruments, loan commitments	-	-	-	-	-

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	Carrying Amount	Estimated Fair Value	September 30, 2012		
			Level 1	Level 2	Level 3
(Dollars in Thousands)					
Financial assets					
Cash and cash equivalents	\$145,051	\$145,051	\$145,051	\$-	\$-
Securities available for sale	1,116,692	1,116,692	-	1,116,692	-
Loans receivable:					
One to four family residential mortgage loans	49,134	49,936	-	-	49,936
Commercial and multi-family real estate loans	191,905	194,781	-	-	194,781
Agricultural real estate loans	19,861	21,033	-	-	21,033
Consumer loans	32,838	33,488	-	-	33,488
Commercial operating loans	16,452	15,396	-	-	15,396
Agricultural operating loans	20,981	22,714	-	-	22,714
Total loans receivable	331,171	337,348	-	-	337,348
FHLB stock	2,120	2,120	-	2,120	-
Accrued interest receivable	6,710	6,710	6,710	-	-
Financial liabilities					
Noninterest bearing demand deposits	1,181,299	1,181,299	1,181,299	-	-
Interest bearing demand deposits, savings, and money markets	97,732	97,732	97,732	-	-
Certificates of deposit	100,763	101,701	-	101,701	-
Total deposits	1,379,794	1,380,732	1,279,031	101,701	-
Advances from FHLB	11,000	13,999	-	13,999	-
Securities sold under agreements to repurchase	26,400	26,400	-	26,400	-
Subordinated debentures	10,310	10,318	-	10,318	-
Accrued interest payable	177	177	177	-	-
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 December 31, 2012 and September 30, 2012.

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

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 December 31, 2012 and September 30, 2012. 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, which approximates fair value adjustments for credit quality considerations.

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. At December 31, 2012 and September 30, 2012 there were no loans held for sale.

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FEDERAL HOME LOAN BANK (THE “FHLB”) STOCK

The fair value of such stock is assumed to approximate book value since the Company is 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 December 31, 2012 and September 30, 2012 for advances with similar terms and remaining maturities.

FEDERAL FUNDS PURCHASED

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

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 December 31, 2012 and September 30, 2012 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.

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NOTE 11.

INTANGIBLE ASSETS

The changes in the carrying amount of the Company's intangible assets for the three months ended December 31, 2012 and 2011 are as follows:

	Meta Payment Systems® Patents	Meta Payment Systems® Other	Total
Balance as of September 30, 2012	\$ 2,026	\$ 9	\$ 2,035
Acquisitions during the period	166	-	166
Amortization during the period	(9)	(7)	(16)
Balance as of December 31, 2012	\$ 2,183	\$ 2	\$ 2,185

	Meta Payment Systems® Patents	Meta Payment Systems® Other	Total
Balance as of September 30, 2011	\$ 1,315	\$ -	\$ 1,315
Acquisitions during the period	253	-	253
Amortization during the period	(6)	-	(6)
Balance as of December 31, 2011	\$ 1,562	\$ -	\$ 1,562

At December 31, 2012, the Company had 22 patents which are amortizing.

The Company tests intangible assets for impairment at least annually or more often if conditions indicate a possible impairment.

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. Satisfaction of the requirements of the Consent Orders is subject to the ongoing review and supervision of the OCC with respect to the Bank and the Federal Reserve with respect to the Company. The Bank and the Company have and expect to continue to expend significant management and financial resources to address areas that were cited in the Consent Orders; such matters

include capital preservation and enhancement commensurate with the Bank's risk profile, improvement of core earnings from interest income, management and board oversight of the Bank, risk management and internal controls, compliance management, and Bank Secrecy Act compliance.

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There can be no assurance that our regulators will ultimately determine that we have met all of the requirements of the Consent Orders to their satisfaction. If our regulators believe that we have not made sufficient progress in complying with the Consent Orders, they could seek to impose additional regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties. If any of these measures is imposed in the future, it could have a material adverse effect on our financial condition and results of operations and on our ability to raise additional capital.

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

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.

You can identify forward-looking statements by words such as "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," "could," "future" or the negative of those terms or other words or phrases of similar meaning. You should read statements that contain these words carefully because they discuss our future expectations or state other "forward-looking" information. These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company's 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 (the functions of which were transferred to the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve) 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 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.

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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 December 31, 2012, compared to September 30, 2012, and the consolidated results of operations for the three months ended December 31, 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, 2012.

CORPORATE DEVELOPMENTS AND OVERVIEW OF FINANCIAL RESULTS

MPS 2013 fiscal first quarter net income was \$1.5 million compared to net income of \$1.9 million in the 2012 first quarter. This decrease was primarily the result of a decrease in non-interest income of \$2.4 million, primarily from a decrease of card fees, offset in part by an increase in net interest income of \$0.4 million, a decrease in non-interest expense of \$1.0 million, and a decrease in tax expense of \$0.6 million. MPS 2013 fiscal first quarter revenue of \$15.1 million decreased \$1.9 million compared to fiscal 2012 due to a temporary interruption at one MPS business partner and discontinuance of certain credit sponsorship programs. The average internal net interest yield MPS received for its deposits was 1.33% in the 2012 fiscal first quarter and 1.30% in the comparable 2013 period. The decrease resulted from a lower interest rate environment.

The fiscal year 2013 Retail Bank first quarter net income was \$1.8 million compared to net income of \$1.3 million in the 2012 first quarter. The increase was primarily attributable to a decrease in provision for loan losses from the first quarter of fiscal 2012 to the first quarter of fiscal 2013 and an increase in gain on sale of securities available for sale of \$1.1 million (\$0.7 million after taxes). Retail Bank checking balances continued to grow from \$59.0 million at December 31, 2011 to \$65.6 million, or 11%, at December 31, 2012.

Tangible book value per common share decreased slightly by \$0.19, or 1%, from \$26.42 at September 30, 2012 to \$26.23 per share at December 31, 2012 primarily due to the issuance of shares to the Meta Financial Group, Inc. Employee Stock Ownership Plan. Overall cost of funds at the Retail Bank was 0.23% during the 2013 fiscal first quarter compared to 0.35% for the same quarter last year.

At December 31, 2012, Non-Performing Assets have decreased by \$0.8 million to \$1.8 million compared to \$2.6 million at September 30, 2012.

FINANCIAL CONDITION

At December 31, 2012, the Company's assets grew by \$114.4 million, or 6.9%, to \$1.8 billion compared to \$1.6 billion at September 30, 2012. 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 increases in the Company's bank-owned life insurance ("BOLI") and Federal Home Loan Bank ("FHLB") stock, offset in part by a decrease in cash and cash equivalents and net loans receivable.

Total cash and cash equivalents were \$32.8 million at December 31, 2012, a decrease of \$112.3 million from \$145.1 million at September 30, 2012. 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 FHLB and the Federal Reserve Bank of Chicago (“FRB”). Federal funds sold deposits may be maintained with the FHLB. At December 31, 2012, the Company did not have any federal funds sold.

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The total of mortgage-backed securities and investment securities available for sale increased \$207.3 million, or 18.6%, to \$1.3 billion at December 31, 2012 as compared to September 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 three month period ended December 31, 2012, the Company purchased \$170.3 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 and \$193.7 million of investment securities available for sale.

The Bank's portfolio of net loans receivable decreased \$9.7 million, or 3.0%, to \$317.3 million at December 31, 2012 from \$327.0 million at September 30, 2012. This decrease primarily relates to lower commercial and multi-family real estate loans of \$15.0 million, \$2.9 million in commercial operating loans and \$1.6 million in MPS consumer loans, partially offset by an increase in residential mortgage loans of \$6.8 million and \$3.6 million in agricultural real estate loans.

The Company's BOLI increased \$18.1 million to \$32.9 million at December 31, 2012 from \$14.8 million at September 30, 2012. This increase was due to the Company's purchases of additional life insurance to take advantage of additional BOLI capacity allowed under regulatory guidelines along with generating additional tax-advantaged income. The BOLI also provides death benefits to the Bank against the loss of key executives and death benefits to the employee's family equal to one times salary at the time of death.

Foreclosed real estate and repossessed assets decreased to \$9,000 as compared to \$0.8 million at September 30, 2012, primarily due to a sale of two properties in the commercial and multi-family real estate loan category. These sales, after expenses, resulted in a loss of \$0.4 million during the quarter.

Total deposits decreased \$63.5 million, or 4.6%, to \$1.3 billion at December 31, 2012 from \$1.4 billion at September 30, 2012. Deposits attributable to MPS were down \$55.7 million, or 4.8%, at December 31, 2012, compared to September 30, 2012. Additionally, certificates of deposits decreased by \$15.8 million primarily related to maturities exceeding new volume. The average balance of total deposits and interest-bearing liabilities was \$1.4 billion for the three month period ended December 31, 2012 compared to \$1.1 billion for the same period in the prior fiscal year.

Total borrowings, primarily in the form of federal funds purchased, increased \$193.9 million from \$47.7 million at September 30, 2012 to \$241.6 million at December 31, 2012, primarily due to prefunding of investments on the anticipation of tax deposits increasing early in the second quarter of the fiscal year 2013 as a result of income tax refunds placed on prepaid cards.

At December 31, 2012, the Company's stockholders' equity totaled \$146.0 million, up \$0.1 million from \$145.9 million at September 30, 2012. At December 31, 2012, the Bank continues to exceed all regulatory requirements for classification as a well-capitalized institution. See "Liquidity and Capital Resources" for further information.

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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 December 31, 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.

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	
	December 31, 2012	September 30, 2012
Non-Performing Loans	(Dollars in Thousands)	
Non-Accruing Loans:		
1-4 Family (2)	\$ 307	\$ 307
Commercial & Multi Family (1) (2)	1,421	1,423
Commercial Operating (1) (2)	16	18
Total	1,744	1,748
Accruing Loans Delinquent 90 Days or More		
Consumer	14	63
Total	14	63
Total Non-Performing Loans	1,758	1,811
Other Assets		
Foreclosed Assets:		
1-4 Family	9	9
Commercial & Multi Family	-	827
Commercial Business	-	2
Total	9	838
Total Other Assets	9	838
Total Non-Performing Assets	\$ 1,767	\$ 2,649
Total as a Percentage of Total Assets	0.10 %	0.16 %

(1)

At December 31, 2012, the Company had \$326,000 of TDRs in Commercial & Multi Family and \$16,000 of TDRs in Commercial Operating.

(2) At September 30, 2012, the Company had \$328,000 of TDRs in Commercial & Multi Family and \$18,000 of TDRs in Commercial Operating.

In addition to the non-performing TDRs in (1) and (2), the Company had an additional \$6.4 million TDRs performing in accordance with their terms at December 31, 2012 and September 30, 2012.

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At December 31, 2012 and September 30, 2012, non-performing loans totaled \$1.8 million, representing 0.6% of total loans.

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 December 31, 2012, the Company had classified a total of \$10.6 million of its assets as substandard, \$30,000 as doubtful and none as loss. This compares to classifications at September 30, 2012 of \$8.7 million as substandard, \$30,000 as doubtful and none as loss. See Note 2 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 appropriateness 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 believes that future losses in this portfolio may be somewhat higher than recent historical experience. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years primarily due to higher commodity prices as well as above average yields which have created positive economic conditions for most farmers in our markets. 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 have 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.

At December 31, 2012 and September 30, 2012, the Company had established an allowance for loan losses totaling \$4.0 million. Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current

economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at December 31, 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.

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The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. In addition to the factors mentioned above, future additions to the allowance for loan losses may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio. In addition, our regulators have the ability to order us to 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, 2012 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 December 31, 2012 and September 30, 2012 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.

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. 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.

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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. Due to the uncertainty of health claims, the approach includes a process which may differ significantly from other methodologies and still produce an estimate in accordance with U.S. GAAP. 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.

Investment 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 investment securities that could potentially have a credit impairment that is other than temporary. This process involves the consideration of the length of time and extent to which the fair value has been less than the amortized cost basis, review of available information regarding the financial position of the issuer, monitoring the rating of the investment security, cash flow projections, and the Company’s intent to sell an investment security or whether it is more likely than not the Company will be required to sell the investment security before the recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that an investment security is deemed to be other-than-temporarily impaired, an impairment loss is recognized. If the Company intends to sell an investment security or it is more likely than not that the Company would be required to sell an investment 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 investment security and if it is not more likely than not that the Company would be required to sell an investment security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. For those investment 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 investment security. The present value is determined using the best estimate of cash flows discounted at the effective interest rate implicit to the investment security at the date of purchase or the current yield to accrete an asset- backed or floating rate investment 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.

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.

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RESULTS OF OPERATIONS

General. Total revenue (interest income plus non-interest income) for the three months ended December 31, 2012 was \$23.0 million compared to \$25.3 million for the same period in fiscal year 2012. The revenue decrease was largely attributable to a decrease in card fee income and interest earned on mortgage-backed securities. The Company recorded net income of \$3.1 million, or 57 cents per diluted share, for the three months ended December 31, 2012 compared to net income of \$3.1 million, or 97 cents per diluted share, for the same period in fiscal year 2012. Although the Company's net income increased during the period, income per share decreased as the Company's weighted average number of common shares outstanding increased. See Note 4 to the Condensed Consolidated Financial Statements. 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 increased from \$8.6 million to \$8.8 million for the three month period ended December 31, 2012 from the prior year comparable period. Total non-interest income decreased from \$15.7 million to \$13.4 million for the three month period ended December 31, 2012 from the prior year comparable period, and total non-interest expense decreased from \$18.8 million to \$18.1 million during the same time periods.

Net Interest Income. Net interest income for the fiscal 2013 first quarter increased by \$0.2 million, or 1.8%, to \$8.8 million from \$8.6 million for the same period in the prior fiscal year primarily due to a decrease in interest expense; total interest income essentially held constant. Net interest margin decreased to 2.50% for the first quarter of fiscal year 2013 as compared to 3.02% for the same period in fiscal year 2012. Overall, asset yields declined by 64 basis points due primarily to a change in asset mix which included highly rated investment grade asset backed, agency, corporate and municipal bonds. Our government guaranteed mortgage-backed securities comprised 42% of average interest earning assets for the quarter ended December 31, 2012 compared to 57% one year ago. The Company's average interest-earning assets for the fiscal 2013 first quarter grew by \$404.4 million, or 35.5%, to \$1.5 billion, up from \$1.1 billion during the same quarter last fiscal year.

The Company's average total deposits and interest-bearing liabilities for the 2013 first fiscal quarter increased \$346.2 million, or 31%, to \$1.45 billion from \$1.10 billion for the same quarter last year. This increase was generated primarily from an increase in MPS-generated non-interest bearing deposits, slightly offset by a decrease in more costly certificates of deposit of \$16.8 million. MPS average quarterly deposits increased \$260.3 million, or 31%, from the same period last year. This increase resulted almost entirely from growth in existing core prepaid card programs. Overall, rates on all deposits and interest-bearing liabilities decreased by 12 basis points from 0.35% in the 2012 first fiscal quarter to 0.23% in the 2013 period. At December 31, 2012, low- and no-cost checking deposits represented 92% of total deposits compared to 90% one year earlier. The growth in deposits was driven by an increase of \$98.2 million, or 8.9%, in deposits generated by MPS at December 31, 2012 as compared to one year earlier.

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

Three Months Ended December

31, (Dollars in Thousands)	Average Outstanding Balance	2012 Interest Earned / Paid	Yield / Rate		Average Outstanding Balance	2011 Interest Earned / Paid	Yield / Rate	
Interest-earning assets:								
Loans receivable	\$ 329,596	\$4,127	4.97	%	\$ 320,446	\$4,540	5.64	%
Mortgage-backed securities	651,834	2,934	1.79	%	652,522	4,787	2.92	%
Other investments and fed funds sold	562,203	2,569	2.48	%	166,296	288	0.69	%
Total interest-earning assets	1,543,633	\$9,630	2.72	%	1,139,264	\$9,615	3.36	%
Non-interest-earning assets	73,531				64,905			
Total assets	\$ 1,617,164				\$ 1,204,169			
Non-interest bearing deposits	\$ 1,102,822	\$-	0.00	%	\$ 848,623	\$-	0.00	%
Interest-bearing liabilities:								
Interest-bearing checking	32,196	40	0.49	%	32,598	80	0.98	%
Savings	26,229	10	0.15	%	11,532	9	0.31	%
Money markets	39,785	28	0.28	%	38,119	42	0.44	%
Time deposits	96,857	347	1.42	%	113,660	522	1.83	%
FHLB advances	127,352	265	0.83	%	42,134	199	1.88	%
Other borrowings	25,049	143	2.26	%	17,451	125	2.85	%
Total interest-bearing liabilities	347,468	833	0.95	%	255,494	977	1.52	%
Total deposits and interest-bearing liabilities	1,450,290	\$833	0.23	%	1,104,117	\$977	0.35	%
Other non-interest bearing liabilities	20,680				19,329			
Total liabilities	1,470,970				1,123,446			
Stockholders' equity	146,194				80,723			
Total liabilities and stockholders' equity	\$ 1,617,164				\$ 1,204,169			
Net interest income and net interest rate spread including non-interest bearing deposits		\$8,797	2.49	%		\$8,638	3.01	%
Net interest margin			2.50	%			3.02	%

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Provision for Loan Losses. The Company did not recognize a provision for loan losses in the first quarter of fiscal year 2013 compared to a provision for loan losses of \$0.7 million in the first quarter of the prior fiscal year. This was the result of the evaluation of the allowance for loan loss as explained in Note 3 to the Condensed Consolidated Financial Statements.

Non-Interest Income. Non-interest income for the quarter ended December 31, 2012 decreased by \$2.3 million, or 14.5%, to \$13.4 million from \$15.7 million in the prior fiscal year first quarter. Fees earned on MPS-related programs decreased to \$11.5 million for the first quarter of fiscal year 2013, compared to \$13.9 million for the same quarter in fiscal year 2012 due to a temporary interruption at one MPS business partner. The re-implementation of the program began in late December 2012 and we believe the program will reach approximately the same level that preceded the beginning of the interruption by the fiscal 2013 third quarter. The decrease in card fees was offset in part by a \$0.6 million increase in gain on sale of securities available for sale.

Non-Interest Expense. Non-interest expense decreased by \$0.7 million, or 3.8%, to \$18.1 million for the first quarter of fiscal year 2013 from \$18.8 million for the same quarter in fiscal year 2012. Compensation expense increased \$1.1 million to \$8.3 million for the three months ended December 31, 2012 as compared to \$7.2 million for the same period in fiscal year 2012 due primarily to an 8% increase in overall staffing, primarily due to hiring in compliance-related areas. This increase was more than offset by a decrease in card processing expense which decreased \$1.6 million to \$3.7 million for the three months ended December 31, 2012 as compared to \$5.3 million for the same period in fiscal year 2012, due to lower volumes in one prepaid card program and improved prepaid card plastic pricing.

Income Tax. Income tax expense for the first quarter of fiscal year 2013 was \$1.0 million, or an effective tax rate of 24.3%, compared to an income tax expense of \$1.7 million, or an effective tax rate of 36.0%, for the same period in the prior fiscal year. The decrease in effective tax rate is mainly the result of an increase in the volume of tax exempt municipal bonds owned by the Company in the first quarter of fiscal year 2013. The interest income on these bonds is exempt from federal and state income taxation resulting in a permanent difference between book and taxable income. Bank-owned life insurance increased by \$18.1 million due to the purchase of additional life insurance in late December 2012. Because this purchase occurred so late in the quarter, it did not have a material effect on the Company's effective tax rate during the first quarter of fiscal year 2013.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At December 31, 2012, the Company had commitments to originate and purchase loans and unused lines of credit totaling \$56.8 million. The Company believes that loan repayments and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Regulations require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth the Bank's actual capital and required capital amounts and ratios at December 31, 2012 which, at that date, exceeded the minimum capital adequacy requirements.

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At December 31, 2012	Actual		Minimum Requirement For Capital Adequacy Purposes			Minimum Requirement to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
			(Dollars in Thousands)				
MetaBank							
Tangible capital (to tangible assets)	\$ 144,309	8.23	% \$ 26,303	1.50	% \$ n/a	n/a	%
Tier 1 (core) capital (to adjusted total assets)	144,309	8.23	70,142	4.00	87,677	5.00	
Tier 1 (core) capital (to risk-weighted assets)	144,309	21.64	26,679	4.00	40,019	6.00	
Total risk-based capital (to risk-weighted assets)	148,272	22.23	53,359	8.00	66,698	10.00	

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. At December 31, 2012, the Bank exceeded all requirements for the well capitalized category.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

MARKET RISK

The Company is exposed to the impact of interest rate changes and changes in the market value of its investments.

The Company originates predominantly adjustable-rate loans and fixed-rate loans up to ten years. Long-term fixed-rate residential mortgages are generally sold into the secondary market. As a result of its lending practices, the Company’s loan portfolio is relatively short in duration and yields respond quickly to the overall level of interest rates.

The Company’s primary objective for its investment portfolio is to provide the liquidity necessary to meet the Company’s cash demands. This portfolio may also be used in the ongoing management of interest rate risk. As a result, funds may be invested among various categories of security types and maturities based upon the Company’s need for liquidity and its desire to create an economic hedge against the effects that changes in interest rates may have on the overall market value of the Company.

The Company offers a full range of deposit products which are generally short term in nature. Interest-bearing checking, savings, and money market accounts generally provide a stable source of funds for the bank and also respond relatively quickly to changes in short term interest rates. The Company offers certificates of deposit with maturities of three months through five years, which serve to extend the duration of the overall deposit portfolio. A significant and increasing portion of the Company’s deposit portfolio is concentrated in non-interest-bearing checking accounts. These accounts serve to decrease the Company’s overall cost of funds and reduce its sensitivity to changes in short term interest rates.

The Company also has wholesale borrowings, predominantly advances from the FHLB and FRB, including both overnight advances and advances that carry fixed terms and fixed rates of interest. The Company utilizes this portfolio to manage liquidity demands and also, when appropriate, in the ongoing management of interest rate risk.

The Board of Directors has established limits on the level of acceptable interest rate risk for the Bank. There can be no assurance, however, that, in the event of an adverse change in interest rates, the Company's efforts to limit interest rate risk will be successful.

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Net Portfolio Value. The Bank uses a Net Portfolio Value (“NPV”) approach to the quantification of interest rate risk. This approach calculates the difference between the present value of expected cash flows from assets and the present value of expected cash flows from liabilities, as well as cash flows from any off-balance sheet contracts. Management of the Bank’s assets and liabilities is performed within the context of the marketplace, but also within limits established by the Board of Directors on the amount of change in NPV that is acceptable given certain interest rate changes.

Presented below, at December 31, 2012 and September 30, 2012, is an analysis of the Bank’s interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. Down 100 basis points and down 200 basis points are not presented for December 31, 2012 and September 30, 2012 due to the extremely low rate environment. At both December 31, 2012 and September 30, 2012, the Bank’s interest rate risk profile was within the interest sensitivity limits set by the Board of Directors.

Change in Interest Rates	December 31, 2012			Change in Interest Rates	September 30, 2012		
	Estimated NPV Amount (Dollars in Thousands)	Estimated Increase in NPV			Estimated NPV Amount (Dollars in Thousands)	Estimated Increase in NPV	
		Amount	Percent			Amount	Percent
Basis Points				Basis Points			
+200 bp	101,239	(50,727)	-33.38 %	+200 bp	136,871	(10,121)	-6.89 %
+100 bp	131,002	(20,964)	-13.80 %	+100 bp	148,798	1,806	1.23 %
-	151,966	-	-	-	146,992	-	-

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

In addition to the NPV approach, the Bank also reviews gap reports, which measure the differences in assets and liabilities repricing in given time periods, and net income simulations to assess its interest rate risk profile. Management reviews its interest rate risk profile on a quarterly basis.

Item 4.

Controls and Procedures

CONTROLS AND PROCEDURES

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

DISCLOSURE CONTROLS AND PROCEDURES

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

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at December 31, 2012, the Company's disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this report was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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INTERNAL CONTROL OVER FINANCIAL REPORTING

With the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the Company's fiscal quarter ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on such evaluation, management concluded that, as of the end of the period covered by this report, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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META FINANCIAL GROUP, INC.

PART II - OTHER INFORMATION

FORM 10-Q

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

Item Risk Factors – In addition to the risk factor set forth below and the other information set forth in this report, you 1A. should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2012. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also materially and adversely affect us in the future.

Recent Court Ruling May Ultimately Affect Validity of CFPB Actions

A recent decision by a three-judge appellate panel of the US Court of Appeals for the District of Columbia Circuit (the “DC Circuit”) may affect whether, and to what extent, actions taken by Richard Cordray as the Director of the Consumer Financial Protection Bureau (the “CFPB”) will be viewed as lawful. Though the case in question, Noel Canning vs NLRB, is an action challenging the purported recess appointments of certain NLRB administrators, and not Director Cordray, the case is significant in that the reasoning thereof is being used by plaintiffs in State National Bank of Big Spring v. Geithner to attack Director Cordray’s appointment, which was also a “recess” appointment. The DC Circuit held, among other things, that the appointment of the NLRB administrators by the President violated the Recess Appointments Clause of the US Constitution because it was not made during a recess that occurred between sessions of Congress. The DC Circuit’s decision is at odds with that of another appellate court, the US Court of Appeals for the Eleventh Circuit. Commentators have surmised that the conflict between the courts will propel the case, perhaps on an accelerated timetable, to the US Supreme Court for resolution.

Even if the Cordray appointment is ultimately held to have been unlawful (which is by no means certain), due to the particular language of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) pursuant to which the CFPB was created, it appears that certain powers to promulgate rules, regulate, and examine financial institutions may still exist, though those powers may be subject to exercise by the Secretary of the Treasury (the “Secretary”). Under the Dodd-Frank Act, until the Director is appointed with the advice and consent of the Senate, the Secretary has administrative authority over laws, regulations and financial institutions that were previously administered by other federal banking agencies such as the Federal Reserve Board and the Office of the Comptroller of the Currency. On the other hand, it is clear under the Dodd-Frank Act that so-called new regulatory powers given to the CFPB, such as the ability to supervise non-depository institutions, may not be so exercised by the Secretary. In addition, there are various hybrid laws, such as the Electronic Funds Transfer Act, which predate the Dodd-Frank Act but which also contain new provisions (i.e. the remittance provisions) that may be considered beyond the scope of the Secretary’s power. Finally, even if Director Cordray’s appointment is held to be invalid, a reviewing court may nonetheless hold that all actions taken by the CFPB will be considered valid because the Director was acting under a cloak of apparent authority.

The decision may also play a part in determining whether new legislation will be passed respecting the structure and funding of the CFPB, and whether Director Cordray will be appointed when his current term expires. Though it is not possible to predict the outcome of the recess appointment controversy, the decision will have implications for the Company with respect to regulations that apply to it and to competition from financial actors that may or may not be subject to regulations promulgated by the CFPB.

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

Item 3. Defaults Upon Senior Securities – None

Item 4. Mine Safety Disclosures – Not Applicable

Item 5. Other Information – None

Item 6. Exhibits

See Index to Exhibits.

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META FINANCIAL GROUP, INC.

SIGNATURES

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

META FINANCIAL GROUP, INC.

Date: February 6, 2013

By: /s/ J. Tyler Haahr
J. Tyler Haahr, President,
and Chief Executive Officer

Date: February 6, 2013

By: /s/ David W. Leedom
David W. Leedom, Executive Vice
President
and Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit Number	Description
<u>31.1</u>	Section 302 certification of Chief Executive Officer.
<u>31.2</u>	Section 302 certification of Chief Financial Officer.
<u>32.1</u>	Section 906 certification of Chief Executive Officer.
<u>32.2</u>	Section 906 certification of Chief Financial Officer.
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
