
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, 2022

☐ 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



PATHWARD FINANCIAL, INC.™

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

42-1406262

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

5501 South Broadband Lane, Sioux Falls, South Dakota 57108

(Address of principal executive offices and Zip Code)

(877) 497-7497

(Registrant's telephone number, including area code)

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

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

Indicate 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated
filer ☒

Accelerated
filer ☐

Non-accelerated
filer ☐

Smaller reporting
company ☐

Emerging growth
company ☐

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

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

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 1, 2023: |
|---|----------------------------------|
| Common Stock, \$.01 par value | 27,561,385 Shares |
| Nonvoting Common Stock, \$.01 par value | 0 Nonvoting shares |

PATHWARD FINANCIAL, INC.
FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PATHWARD FINANCIAL, INC. AND SUBSIDIARIES Condensed Consolidated Statements of Financial Condition

(Dollars in thousands, except per share data)

| | December 31, 2022 | September 30, 2022 |
|---|---------------------|---------------------|
| | (Unaudited) | (Audited) |
| ASSETS | | |
| Cash and cash equivalents | \$ 369,169 | \$ 388,038 |
| Securities available for sale, at fair value | 1,847,778 | 1,882,869 |
| Securities held to maturity, at amortized cost (fair value \$37,658 and \$38,171, respectively) | 40,565 | 41,682 |
| Federal Reserve Bank and Federal Home Loan Bank Stock, at cost | 28,812 | 28,812 |
| Loans held for sale | 17,148 | 21,071 |
| Loans and leases | 3,509,730 | 3,536,305 |
| Allowance for credit losses | (52,592) | (45,947) |
| Accrued interest receivable | 20,170 | 17,979 |
| Premises, furniture, and equipment, net | 41,029 | 41,710 |
| Rental equipment, net | 231,129 | 204,371 |
| Goodwill and intangible assets | 333,938 | 335,196 |
| Other assets | 272,349 | 295,324 |
| Total assets | \$ 6,659,225 | \$ 6,747,410 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits | \$ 5,789,132 | \$ 5,866,037 |
| Long-term borrowings | 34,977 | 36,028 |
| Accrued expenses and other liabilities | 175,983 | 200,205 |
| Total liabilities | 6,000,092 | 6,102,270 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, 3,000,000 shares authorized, no shares issued, none outstanding at December 31, 2022 and September 30, 2022, respectively | — | — |
| Common stock, \$0.01 par value; 90,000,000 shares authorized, 28,358,583 and 28,878,177 shares issued, 28,211,239 and 28,788,124 shares outstanding at December 31, 2022 and September 30, 2022, respectively | 282 | 288 |
| Common stock, Nonvoting, \$0.01 par value; 3,000,000 shares authorized, no shares issued, none outstanding at December 31, 2022 and September 30, 2022, respectively | — | — |
| Additional paid-in capital | 620,681 | 617,403 |
| Retained earnings | 246,891 | 245,394 |
| Accumulated other comprehensive loss | (201,690) | (213,080) |
| Treasury stock, at cost, 147,344 and 90,053 common shares at December 31, 2022 and September 30, 2022, respectively | (6,824) | (4,835) |
| Total equity attributable to parent | 659,340 | 645,170 |
| Noncontrolling interest | (207) | (30) |
| Total stockholders' equity | 659,133 | 645,140 |
| Total liabilities and stockholders' equity | \$ 6,659,225 | \$ 6,747,410 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended December 31, | |
|--|---------------------------------|-------------------------|
| | 2022 | 2021 |
| (Dollars in thousands, except per share data) | | |
| Interest and dividend income: | | |
| Loans and leases, including fees | \$ 68,396 | \$ 65,035 |
| Mortgage-backed securities | 10,412 | 3,864 |
| Other investments | 6,252 | 3,992 |
| | <u>85,060</u> | <u>72,891</u> |
| Interest expense: | | |
| Deposits | 142 | 141 |
| FHLB advances and other borrowings | 861 | 1,137 |
| | <u>1,003</u> | <u>1,278</u> |
| Net interest income | 84,057 | 71,613 |
| Provision for credit losses | <u>9,776</u> | <u>186</u> |
| Net interest income after provision for credit losses | 74,281 | 71,427 |
| Noninterest income: | | |
| Refund transfer product fees | 677 | 579 |
| Refund advance fee income | 617 | 1,233 |
| Card and deposit fees | 37,718 | 25,369 |
| Rental income | 12,708 | 11,077 |
| Gain (loss) on sale of securities | — | 137 |
| Gain on sale of trademarks | 10,000 | 50,000 |
| Gain (loss) on sale of other | 502 | (3,465) |
| Other income | 3,555 | 1,661 |
| Total noninterest income | <u>65,777</u> | <u>86,591</u> |
| Noninterest expense: | | |
| Compensation and benefits | 43,017 | 38,225 |
| Refund transfer product expense | 105 | 138 |
| Refund advance expense | 27 | 183 |
| Card processing | 22,683 | 7,172 |
| Occupancy and equipment expense | 8,312 | 8,349 |
| Operating lease equipment depreciation | 9,628 | 8,449 |
| Legal and consulting | 9,459 | 6,208 |
| Intangible amortization | 1,258 | 1,488 |
| Impairment expense | 24 | — |
| Other expense | 10,546 | 12,224 |
| Total noninterest expense | <u>105,059</u> | <u>82,436</u> |
| Income before income tax expense | 34,999 | 75,582 |
| Income tax expense | <u>6,577</u> | <u>14,276</u> |
| Net income before noncontrolling interest | 28,422 | 61,306 |
| Net income (loss) attributable to noncontrolling interest | 580 | (18) |
| Net income attributable to parent | <u><u>\$ 27,842</u></u> | <u><u>\$ 61,324</u></u> |
| Earnings per common share: | | |
| Basic | \$ 0.98 | \$ 2.00 |
| Diluted | \$ 0.98 | \$ 2.00 |

See Notes to Condensed Consolidated Financial Statements.

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

| (Dollars in thousands) | Three Months Ended December 31, | |
|---|---------------------------------|-----------|
| | 2022 | 2021 |
| Net income before noncontrolling interest | \$ 28,422 | \$ 61,306 |
| Other comprehensive income (loss): | | |
| Change in net unrealized gain (loss) on debt securities | 14,708 | (9,140) |
| Net loss (gain) realized on investment securities | — | (137) |
| | 14,708 | (9,277) |
| Unrealized gain (loss) on currency translation | 387 | 66 |
| Deferred income tax effect | 3,705 | (2,336) |
| Total other comprehensive income (loss) | 11,390 | (6,875) |
| Total comprehensive income | 39,812 | 54,431 |
| Total comprehensive income (loss) attributable to noncontrolling interest | 580 | (18) |
| Comprehensive income attributable to parent | \$ 39,232 | \$ 54,449 |

See Notes to Condensed Consolidated Financial Statements.

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

(Dollars in thousands, except per share data)

| (Dollars in thousands, except per share data) | Pathward Financial, Inc. | | | | | | | | |
|--|--------------------------|----------------------------------|----------------------|--|-------------------|---|----------------------------|-------------------------------|--|
| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Pathward Financial Stockholders' Equity | Noncontrolling interest | Total Stockholders' Equity | |
| Three Months Ended December 31, 2022 | | | | | | | | | |
| Balance, September 30, 2022 | \$ 288 | \$ 617,403 | \$ 245,394 | \$ (213,080) | \$ (4,835) | \$ 645,170 | \$ (30) | \$ 645,140 | |
| Cash dividends declared on common stock (\$0.05 per share) | — | — | (1,402) | — | — | (1,402) | — | (1,402) | |
| Issuance of common stock due to restricted stock | 1 | — | — | — | — | 1 | — | 1 | |
| Repurchases of common stock | (7) | 7 | (24,943) | — | (1,989) | (26,932) | — | (26,932) | |
| Stock compensation | — | 3,271 | — | — | — | 3,271 | — | 3,271 | |
| Total other comprehensive income | — | — | — | 11,390 | — | 11,390 | — | 11,390 | |
| Net income | — | — | 27,842 | — | — | 27,842 | 580 | 28,422 | |
| Net investment by (distribution to) noncontrolling interests | — | — | — | — | — | — | (757) | (757) | |
| Balance, December 31, 2022 | \$ 282 | \$ 620,681 | \$ 246,891 | \$ (201,690) | \$ (6,824) | \$ 659,340 | \$ (207) | \$ 659,133 | |
| Three Months Ended December 31, 2021 | | | | | | | | | |
| Balance, September 30, 2021 | \$ 317 | \$ 604,484 | \$ 259,189 | \$ 7,599 | \$ (860) | \$ 870,729 | \$ 1,155 | \$ 871,884 | |
| Cash dividends declared on common stock (\$0.05 per share) | — | — | (1,521) | — | — | (1,521) | — | (1,521) | |
| Issuance of common stock due to ESOP | 1 | 2,885 | — | — | — | 2,886 | — | 2,886 | |
| Repurchases of common stock | (17) | 17 | (101,000) | — | (3,458) | (104,458) | — | (104,458) | |
| Stock compensation | — | 3,430 | — | — | — | 3,430 | — | 3,430 | |
| Total other comprehensive (loss) | — | — | — | (6,875) | — | (6,875) | — | (6,875) | |
| Net income | — | — | 61,324 | — | — | 61,324 | (18) | 61,306 | |
| Net investment by (distribution to) noncontrolling interests | — | — | — | — | — | — | (495) | (495) | |
| Balance, December 31, 2021 | \$ 301 | \$ 610,816 | \$ 217,992 | \$ 724 | \$ (4,318) | \$ 825,515 | \$ 642 | \$ 826,157 | |

See Notes to Condensed Consolidated Financial Statements.

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

| (Dollars in thousands) | Three Months Ended December 31, | |
|---|---------------------------------|---------------------|
| | 2022 | 2021 |
| Cash flows from operating activities: | | |
| Net income before noncontrolling interest | \$ 28,422 | \$ 61,306 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation, amortization and accretion, net | 14,566 | 15,322 |
| Provision for credit losses | 9,776 | 186 |
| Provision for deferred taxes | 2,255 | 8,015 |
| Originations of loans held for sale | (398,798) | (385,558) |
| Proceeds from sales of loans held for sale | 402,870 | 562,689 |
| Net change in loans held for sale | (84) | 8,805 |
| Net realized (gain) on securities held to maturity, net | — | (137) |
| Net realized (gain) loss on loans held for sale | (75) | 4,365 |
| Net realized loss on premise, furniture, and equipment | — | (23) |
| Net realized (gain) on lease receivables and equipment | (427) | (924) |
| Net realized (gain) on trademarks | (10,000) | (50,000) |
| Impairment on rental equipment | 24 | — |
| Net change in accrued interest receivable | (2,191) | (987) |
| Net change in other assets | 16,986 | (24,059) |
| Net change in accrued expenses and other liabilities | (24,222) | (45,303) |
| Stock compensation | 3,271 | 3,430 |
| Net cash provided by operating activities | 42,373 | 157,127 |
| Cash flows from investing activities: | | |
| Purchases of securities available for sale | — | (20,894) |
| Proceeds from maturities of and principal collected on securities available for sale | 49,069 | 91,297 |
| Proceeds from sales of securities held to maturity | — | 200 |
| Proceeds from maturities of and principal collected on securities held to maturity | 1,058 | 5,409 |
| Purchases of Federal Reserve Bank and Federal Home Loan Bank stock | (57,760) | (800) |
| Redemption of Federal Reserve Bank and Federal Home Loan Bank stock | 57,760 | 800 |
| Purchases of loans and leases | (67,649) | (57,713) |
| Proceeds from sales of loans and leases | — | 30,235 |
| Net change in loans and leases | 217,812 | (145,311) |
| Purchases of premises, furniture, and equipment | (1,989) | (1,949) |
| Proceeds from sales of premises, furniture, and equipment | — | 35 |
| Purchases of rental equipment | (164,245) | (103,643) |
| Proceeds from sales of rental equipment | 1,495 | 4,999 |
| Net change in rental equipment | (109) | (1,841) |
| Proceeds from sales of foreclosed real estate and repossessed assets | 1 | 1,659 |
| Proceeds from sale of trademarks | 10,000 | 50,000 |
| Net cash provided by (used in) investing activities | 45,443 | (147,517) |
| Cash flows from financing activities: | | |
| Net change in deposits | (76,905) | 1,010,598 |
| Principal payments on capital lease obligations | — | (7) |
| Principal payments on other liabilities | (573) | (598) |
| Payment of debt issuance costs | (504) | — |
| Dividends paid on common stock | (1,402) | (1,521) |
| Issuance of common stock due to restricted stock | 1 | — |
| Issuance of common stock due to ESOP | — | 2,886 |
| Repurchases of common stock | (26,932) | (104,458) |
| Distributions to noncontrolling interest | (757) | (495) |
| Net cash provided by (used in) financing activities | (107,072) | 906,405 |
| Effect of exchange rate changes on cash | 387 | 66 |
| Net change in cash and cash equivalents | (18,869) | 916,081 |
| Cash and cash equivalents at beginning of fiscal year | 388,038 | 314,019 |
| Cash and cash equivalents at end of fiscal period | \$ 369,169 | \$ 1,230,100 |

| (Dollars in thousands) | Three Months Ended December 31, | |
|--|---------------------------------|----------|
| | 2022 | 2021 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 478 | \$ 1,196 |
| Income taxes | 492 | 308 |
| Franchise taxes | 50 | 50 |
| Other taxes | 16 | 13 |
| Supplemental schedule of non-cash investing activities: | | |
| Transfers | | |
| Held for sale to loans and leases | — | 12 |
| Loans and leases to held for sale | — | 168,426 |
| Loans and leases to rental equipment | 1,405 | 988 |
| Rental equipment to loan and leases | 128,145 | 72,267 |

See Notes to Condensed Consolidated Financial Statements.

NOTE 1. BASIS OF PRESENTATION

The interim unaudited Condensed Consolidated Financial Statements contained herein should be read in conjunction with the audited consolidated financial statements and accompanying notes to the consolidated financial statements for the fiscal year ended September 30, 2022 included in Pathward Financial, Inc.'s ("Pathward" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on November 22, 2022. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the three months ended December 31, 2022 are not necessarily indicative of the results expected for the fiscal year ending September 30, 2023.

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

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

Significant accounting policies in effect and disclosed within the Company's most recent audited consolidated financial statements as of September 30, 2022 remain substantially unchanged. The following ASU became effective for the Company on October 1, 2022, and did not have a material impact on the Company's significant accounting policies or Condensed Consolidated Financial Statements:

- ASU 2021-05, *Leases (Topic 842): Lessors - Certain Leases with Variable Lease Payments*.

NOTE 3. SIGNIFICANT EVENTS

Rebranding

On December 7, 2021, the Company executed a Purchase Agreement (the "Agreement") with Beige Key, LLC (the "Assignee") for the sale of all of the Company's worldwide right, title and interest in and to company names and tradenames including Meta and other "Meta" formative names including MetaBank and Meta Financial Group, and the domain names, social media accounts and goodwill associated with the foregoing (collectively, the "Meta" tradenames) in exchange for \$60.0 million in cash. Subject to the terms and conditions set forth in the Agreement, the Company had one year from the Agreement execution date to phase out and cease all use of the Meta tradenames.

The Company received \$50.0 million upon execution and delivery of the Agreement, at which time the Meta tradenames were assigned to the Assignee. The remaining \$10.0 million was released to the Company upon completion of phase out activities and recognized as noninterest income during the three months ended December 31, 2022.

The Company recognized \$3.7 million and zero of noninterest expense related to rebranding efforts during the three months ended December 31, 2022 and 2021, respectively.

NOTE 4. SECURITIES

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

(Dollars in thousands)

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|----------------|------------------------|---------------------------|--------------|
| Debt Securities AFS | | | | |
| At December 31, 2022 | | | | |
| Corporate securities | \$ 25,000 | \$ — | \$ (3,688) | \$ 21,312 |
| SBA securities | 103,325 | — | (7,560) | 95,765 |
| Obligations of states and political subdivisions | 2,453 | — | (102) | 2,351 |
| Non-bank qualified obligations of states and political subdivisions | 283,301 | 10 | (25,259) | 258,052 |
| Asset-backed securities | 146,906 | — | (11,630) | 135,276 |
| Mortgage-backed securities | 1,554,936 | — | (219,914) | 1,335,022 |
| Total debt securities AFS | \$ 2,115,921 | \$ 10 | \$ (268,153) | \$ 1,847,778 |
| At September 30, 2022 | | | | |
| Corporate securities | \$ 25,000 | \$ — | \$ (2,813) | \$ 22,187 |
| SBA securities | 105,238 | — | (7,470) | 97,768 |
| Obligations of states and political subdivisions | 2,469 | — | (125) | 2,344 |
| Non-bank qualified obligations of states and political subdivisions | 290,754 | — | (26,971) | 263,783 |
| Asset-backed securities | 160,806 | — | (13,016) | 147,790 |
| Mortgage-backed securities | 1,581,452 | — | (232,455) | 1,348,997 |
| Total debt securities AFS | \$ 2,165,719 | \$ — | \$ (282,850) | \$ 1,882,869 |
| Debt Securities HTM | | | | |
| At December 31, 2022 | | | | |
| Non-bank qualified obligations of states and political subdivisions | \$ 38,131 | \$ — | \$ (2,647) | \$ 35,484 |
| Mortgage-backed securities | 2,434 | — | (260) | 2,174 |
| Total debt securities HTM | \$ 40,565 | \$ — | \$ (2,907) | \$ 37,658 |
| At September 30, 2022 | | | | |
| Non-bank qualified obligations of states and political subdivisions | \$ 39,093 | \$ — | \$ (3,190) | \$ 35,903 |
| Mortgage-backed securities | 2,589 | — | (321) | 2,268 |
| Total debt securities HTM | \$ 41,682 | \$ — | \$ (3,511) | \$ 38,171 |

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

| | LESS THAN 12 MONTHS | | OVER 12 MONTHS | | TOTAL | |
|---|---------------------|---------------------------|----------------|---------------------------|--------------|---------------------------|
| | Fair Value | Gross Unrealized (Losses) | Fair Value | Gross Unrealized (Losses) | Fair Value | Gross Unrealized (Losses) |
| (Dollars in thousands) | | | | | | |
| Debt Securities AFS | | | | | | |
| At December 31, 2022 | | | | | | |
| Corporate securities | \$ — | \$ — | \$ 21,313 | \$ (3,688) | \$ 21,313 | \$ (3,688) |
| SBA securities | 79,470 | (4,652) | 16,294 | (2,908) | 95,764 | (7,560) |
| Obligations of state and political subdivisions | 255 | (17) | 2,096 | (85) | 2,351 | (102) |
| Non-bank qualified obligations of states and political subdivisions | 115,532 | (9,588) | 141,555 | (15,671) | 257,087 | (25,259) |
| Asset-backed securities | 59,854 | (2,236) | 75,422 | (9,394) | 135,276 | (11,630) |
| Mortgage-backed securities | 760,800 | (88,928) | 574,222 | (130,986) | 1,335,022 | (219,914) |
| Total debt securities AFS | \$ 1,015,911 | \$ (105,421) | \$ 830,902 | \$ (162,732) | \$ 1,846,813 | \$ (268,153) |
| At September 30, 2022 | | | | | | |
| Corporate securities | \$ — | \$ — | \$ 22,187 | \$ (2,813) | \$ 22,187 | \$ (2,813) |
| SBA securities | 97,767 | (7,470) | — | — | 97,767 | (7,470) |
| Obligations of state and political subdivisions | 2,345 | (125) | — | — | 2,345 | (125) |
| Non-bank qualified obligations of states and political subdivisions | 195,816 | (19,743) | 67,967 | (7,228) | 263,783 | (26,971) |
| Asset-backed securities | 64,886 | (1,838) | 82,904 | (11,178) | 147,790 | (13,016) |
| Mortgage-backed securities | 816,657 | (106,583) | 532,340 | (125,872) | 1,348,997 | (232,455) |
| Total debt securities AFS | \$ 1,177,471 | \$ (135,759) | \$ 705,398 | \$ (147,091) | \$ 1,882,869 | \$ (282,850) |
| Debt Securities HTM | | | | | | |
| At December 31, 2022 | | | | | | |
| Non-bank qualified obligations of states and political subdivisions | \$ — | \$ — | \$ 35,485 | \$ (2,647) | \$ 35,485 | \$ (2,647) |
| Mortgage-backed securities | 2,174 | (260) | — | — | 2,174 | (260) |
| Total debt securities HTM | \$ 2,174 | \$ (260) | \$ 35,485 | \$ (2,647) | \$ 37,659 | \$ (2,907) |
| At September 30, 2022 | | | | | | |
| Non-bank qualified obligations of states and political subdivisions | \$ 3,984 | \$ (300) | \$ 31,919 | \$ (2,890) | \$ 35,903 | \$ (3,190) |
| Mortgage-backed securities | 2,268 | (321) | — | — | 2,268 | (321) |
| Total debt securities HTM | \$ 6,252 | \$ (621) | \$ 31,919 | \$ (2890) | \$ 38,171 | \$ (3,511) |

At December 31, 2022, there were 194 securities AFS in an unrealized loss position. All of the mortgage-backed securities ("MBS") in an unrealized loss position at December 31, 2022 were government guaranteed. Management assessed each investment security with unrealized losses for credit loss and determined substantially all unrealized losses on these securities were due to credit spreads and interest rates versus credit loss. As part of that assessment, management evaluated and concluded that it is more-likely-than-not that the Company will not be required and does not intend to sell any of the securities prior to recovery of the amortized cost. At December 31, 2022, there was no allowance for credit losses ("ACL") for debt securities AFS.

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

(Dollars in thousands)

| | At December 31, 2022 | | At September 30, 2022 | |
|--|----------------------|---------------------|-----------------------|---------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Securities AFS at Fair Value | | | | |
| Due in one year or less | \$ 1,788 | \$ 1,783 | \$ 718 | \$ 715 |
| Due after one year through five years | 8,834 | 8,349 | 9,921 | 9,395 |
| Due after five years through ten years | 89,916 | 81,020 | 89,921 | 81,819 |
| Due after ten years | 460,447 | 421,604 | 483,707 | 441,943 |
| | 560,985 | 512,756 | 584,267 | 533,872 |
| Mortgage-backed securities | 1,554,936 | 1,335,022 | 1,581,452 | 1,348,997 |
| Total securities AFS, at fair value | \$ 2,115,921 | \$ 1,847,778 | \$ 2,165,719 | \$ 1,882,869 |
| Securities HTM at Fair Value | | | | |
| Due after ten years | \$ 38,131 | \$ 35,484 | \$ 39,093 | \$ 35,903 |
| | 38,131 | 35,484 | 39,093 | 35,903 |
| Mortgage-backed securities | 2,434 | 2,174 | 2,589 | 2,268 |
| Total securities HTM, at cost | \$ 40,565 | \$ 37,658 | \$ 41,682 | \$ 38,171 |

Equity Securities

The Company held \$3.4 million at December 31, 2022 and \$2.9 million at September 30, 2022 in marketable equity securities. The Company recognized zero and \$2.3 million in unrealized loss on marketable equity securities during the three months ended December 31, 2022 and 2021, respectively, which is attributable to an investee becoming publicly traded during fiscal year 2021. All other marketable equity securities and related activity were insignificant for the three months ended December 31, 2022 and 2021. No such securities were sold during the three months ended December 31, 2022.

Non-marketable equity securities with a readily determinable fair value totaled \$7.8 million at December 31, 2022 and \$7.2 million at September 30, 2022. The Company recognized \$0.1 million in unrealized gains and \$0.3 million in unrealized losses during the three months ended December 31, 2022 and 2021, respectively. No such securities were sold during the three months ended December 31, 2022.

Non-marketable equity securities without readily determinable fair value totaled \$18.2 million at December 31, 2022 and \$18.2 million at September 30, 2022. No such securities were sold during the three months ended December 31, 2022.

Federal Reserve Bank ("FRB") Stock

The Bank is required by federal law to subscribe to capital stock (divided into shares of \$100 each) as a member of the FRB of Minneapolis with an amount equal to six per centum of the paid-up capital stock and surplus. One-half of the subscription is paid at time of application, and one-half is subject to call of the Board of Governors of the Federal Reserve System. FRB of Minneapolis stock held by the Bank totaled \$19.7 million at December 31, 2022 and September 30, 2022. These equity securities are 'restricted' in that they can only be owned by member banks.

Federal Home Loan Bank ("FHLB") Stock

The Company's borrowings from the FHLB are secured by specific investment securities. Such advances can be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities.

The investments in the FHLB stock are required investments related to the Company's membership in and current borrowings from the FHLB of Des Moines. The investments in the FHLB of Des Moines could be adversely impacted by the financial operations of the FHLB and actions of their regulator, the Federal Housing Finance Agency.

The FHLB stock is carried at cost since it is generally redeemable at par value. The carrying value of the stock held at the FHLB was \$9.1 million at December 31, 2022 and at September 30, 2022.

These equity securities are 'restricted' in that they can only be sold back to the respective institution from which they were acquired or another member institution at par. Therefore, FRB and FHLB stocks are less liquid than other marketable equity securities, and the fair value approximates cost.

Equity Security Impairment

The Company evaluates impairment for investments held at cost on at least an annual basis based on the ultimate recoverability of the par value. All other equity investments, including those under the equity method, are reviewed for other-than-temporary impairment on at least a quarterly basis. The Company recognized no impairment for such investments for the three months ended December 31, 2022 and 2021, respectively.

NOTE 5. LOANS AND LEASES, NET

Loans and leases consist of the following:

| (Dollars in thousands) | December 31, 2022 | September 30, 2022 |
|-------------------------------------|-------------------|--------------------|
| Term lending | \$ 1,160,100 | \$ 1,090,289 |
| Asset based lending | 359,516 | 351,696 |
| Factoring | 338,594 | 372,595 |
| Lease financing | 189,868 | 210,692 |
| Insurance premium finance | 436,977 | 479,754 |
| SBA/USDA | 357,084 | 359,238 |
| Other commercial finance | 164,734 | 159,409 |
| Commercial finance | 3,006,873 | 3,023,673 |
| Consumer credit products | 130,750 | 144,353 |
| Other consumer finance | 56,180 | 25,306 |
| Consumer finance | 186,930 | 169,659 |
| Tax services | 30,364 | 9,098 |
| Warehouse finance | 279,899 | 326,850 |
| Total loans and leases | 3,504,066 | 3,529,280 |
| Net deferred loan origination costs | 5,664 | 7,025 |
| Total gross loans and leases | 3,509,730 | 3,536,305 |
| Allowance for credit losses | (52,592) | (45,947) |
| Total loans and leases, net | \$ 3,457,138 | \$ 3,490,358 |

During the three months ended December 31, 2022 and 2021, the Company originated \$398.8 million and \$385.6 million of consumer finance and SBA/USDA as held for sale, respectively.

The Company sold held for sale loans resulting in proceeds of \$402.9 million and gain on sale of \$0.1 million during the three months ended December 31, 2022. The Company sold held for sale loans resulting in proceeds of \$562.7 million and loss on sale of \$4.4 million during the three months ended December 31, 2021.

Loans purchased and sold by portfolio segment, including participation interests, were as follows:

| (Dollars in thousands) | Three Months Ended December 31, | |
|----------------------------|---------------------------------|-------------------|
| | 2022 | 2021 |
| Loans Purchased | | |
| Loans held for investment: | | |
| Commercial finance | \$ — | \$ 1,720 |
| Warehouse finance | 67,649 | 55,993 |
| Total purchases | <u>\$ 67,649</u> | <u>\$ 57,713</u> |
| Loans Sold | | |
| Loans held for sale: | | |
| Commercial finance | \$ 855 | \$ 33,023 |
| Consumer finance | 402,015 | 376,444 |
| Community banking | — | 153,222 |
| Loans held for investment: | | |
| Community banking | — | 30,235 |
| Total sales | <u>\$ 402,870</u> | <u>\$ 592,924</u> |

Leasing Portfolio. The net investment in direct financing and sales-type leases was comprised of the following:

| (Dollars in thousands) | December 31, 2022 | September 30, 2022 |
|--|-------------------|--------------------|
| Carrying amount | \$ 194,480 | \$ 216,880 |
| Unguaranteed residual assets | 12,363 | 13,037 |
| Unamortized initial direct costs | 247 | 295 |
| Unearned income | (16,975) | (19,225) |
| Total net investment in direct financing and sales-type leases | <u>\$ 190,115</u> | <u>\$ 210,987</u> |

Undiscounted future minimum lease payments receivable for direct financing and sales-type leases, and a reconciliation to the carrying amount recorded at December 31, 2022 were as follows:

| (Dollars in thousands) | |
|--|-------------------|
| Remaining in 2023 | \$ 68,633 |
| 2024 | 66,589 |
| 2025 | 36,218 |
| 2026 | 14,037 |
| 2027 | 6,658 |
| Thereafter | 2,345 |
| Total undiscounted future minimum lease payments receivable for direct financing and sales-type leases | 194,480 |
| Third-party residual value guarantees | — |
| Total carrying amount of direct financing and sales-type leases | <u>\$ 194,480</u> |

The Company did not record any contingent rental income from direct financing and sales-type leases in the three months ended December 31, 2022.

The COVID-19 pandemic began impacting the U.S. and global economies in the first calendar quarter of 2020, with significant deterioration of macroeconomic conditions and markets into 2021. Although macroeconomic conditions and markets have improved since the beginning of 2021, other factors have been affecting the economic environment in 2022 including geopolitical conflict, supply chain disruptions, inflation, and rising interest rates. While the ultimate impact of the pandemic and these other factors on the Company's loan and lease portfolio remains difficult to predict, management continues to evaluate the loan and lease portfolio in order to assess the impact on repayment sources and underlying collateral that could result in additional losses and the impact to our customers and businesses as a result of COVID-19 and other factors impacting the economy and will refine its estimate as developments occur and more information becomes available.

Activity in the allowance for credit losses and balances of loans and leases by portfolio segment was as follows:

| (Dollars in thousands) | Three Months Ended December 31, 2022 | | | | |
|-------------------------------------|--------------------------------------|----------------------|-------------------|-----------------|------------------|
| | Beginning Balance | Provision (Reversal) | Charge-offs | Recoveries | Ending Balance |
| Allowance for credit losses: | | | | | |
| Term lending | \$ 24,621 | \$ 3,671 | \$ (1,817) | \$ 277 | \$ 26,752 |
| Asset based lending | 1,050 | 2,853 | — | — | 3,903 |
| Factoring | 6,556 | (764) | (121) | 3 | 5,674 |
| Lease financing | 5,902 | (438) | (406) | 180 | 5,238 |
| Insurance premium finance | 1,450 | (47) | (185) | 43 | 1,261 |
| SBA/USDA | 3,263 | (651) | — | 20 | 2,632 |
| Other commercial finance | 1,310 | 2,046 | — | — | 3,356 |
| Commercial finance | 44,152 | 6,670 | (2,529) | 523 | 48,816 |
| Consumer credit products | 1,400 | (137) | — | — | 1,263 |
| Other consumer finance | 63 | 1,740 | (179) | — | 1,624 |
| Consumer finance | 1,463 | 1,603 | (179) | — | 2,887 |
| Tax services | 5 | 1,637 | (1,731) | 698 | 609 |
| Warehouse finance | 327 | (47) | — | — | 280 |
| Total loans and leases | 45,947 | 9,863 | (4,439) | 1,221 | 52,592 |
| Unfunded commitments ⁽¹⁾ | 366 | (87) | — | — | 279 |
| Total | \$ 46,313 | \$ 9,776 | \$ (4,439) | \$ 1,221 | \$ 52,871 |

⁽¹⁾ Reserve for unfunded commitments is recognized within other liabilities on the Condensed Consolidated Statements of Financial Condition.

Three Months Ended December 31, 2021

| (Dollars in thousands) | Beginning Balance | Provision (Reversal) | Charge-offs | Recoveries | Ending Balance |
|-------------------------------------|-------------------|----------------------|-------------|------------|----------------|
| Allowance for credit losses: | | | | | |
| Term lending | \$ 29,351 | \$ (858) | \$ (2,085) | \$ 314 | \$ 26,722 |
| Asset based lending | 1,726 | 911 | (16) | 137 | 2,758 |
| Factoring | 3,997 | 12,502 | (1,275) | 18 | 15,242 |
| Lease financing | 7,629 | (822) | (16) | 66 | 6,857 |
| Insurance premium finance | 1,394 | (270) | (177) | 97 | 1,044 |
| SBA/USDA | 2,978 | 233 | (217) | 2 | 2,996 |
| Other commercial finance | 1,168 | 181 | — | — | 1,349 |
| Commercial finance | 48,243 | 11,877 | (3,786) | 634 | 56,968 |
| Consumer credit products | 1,242 | 385 | — | — | 1,627 |
| Other consumer finance | 6,112 | 1,560 | (819) | 107 | 6,960 |
| Consumer finance | 7,354 | 1,945 | (819) | 107 | 8,587 |
| Tax services | 2 | (714) | (254) | 2,567 | 1,601 |
| Warehouse finance | 420 | 47 | — | — | 467 |
| Community banking | 12,262 | (12,684) | — | 422 | — |
| Total loans and leases | 68,281 | 471 | (4,859) | 3,730 | 67,623 |
| Unfunded commitments ⁽¹⁾ | 690 | (285) | — | — | 405 |
| Total | \$ 68,971 | \$ 186 | \$ (4,859) | \$ 3,730 | \$ 68,028 |

⁽¹⁾ Reserve for unfunded commitments is recognized within other liabilities on the Condensed Consolidated Statements of Financial Condition.

Information on loans and leases that are deemed to be collateral dependent and are evaluated individually for the ACL was as follows:

| (Dollars in thousands) | At December 31, 2022 | At September 30, 2022 |
|-----------------------------------|----------------------|-----------------------|
| Term lending | \$ 2,847 | \$ 2,885 |
| Asset based lending | 10,363 | — |
| Factoring | — | 550 |
| Lease financing | 3,153 | 2,787 |
| SBA/USDA | 1,151 | 1,199 |
| Commercial finance ⁽¹⁾ | 17,514 | 7,421 |
| Total | \$ 17,514 | \$ 7,421 |

⁽¹⁾ For commercial finance, collateral dependent financial assets have collateral in the form of cash, equipment, or other business assets.

Management has identified certain structured finance credits for alternative energy projects in which a substantial cash collateral account has been established to mitigate credit risk. Due to the nature of the transactions and significant cash collateral positions, these credits are evaluated individually. The balance of these pass rated cash collateral loans totaled \$153.0 million and \$120.7 million at December 31, 2022 and at September 30, 2022, respectively.

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

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

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

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

The adverse classifications are as follows:

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

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

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

Loans and leases, or portions thereof, are generally charged off when collection of principal becomes doubtful. Typically, this is associated with a delay or shortfall in payments of 210 days or more for commercial insurance premium finance, 120 days or more for consumer credit products and leases, and 90 days or more for commercial finance loans. Action is taken to charge off electronic return originator ("ERO") loans if such loans have not been collected by the end of June and refund advance loans if such loans have not been collected by the end of the calendar year. Nonaccrual loans and troubled debt restructurings are generally individually evaluated for expected credit losses.

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

The Company has various portfolios of consumer finance and tax services loans that present unique risks that are statistically managed. Due to the unique risks associated with these portfolios, the Company monitors other credit quality indicators in their evaluation of the appropriateness of the allowance for credit losses on these portfolios, and as such, these loans are not included in the asset classification table below. The outstanding balances of consumer finance loans and tax services loans were \$186.9 million and \$30.4 million at December 31, 2022, respectively, and \$169.7 million and \$9.1 million at September 30, 2022, respectively. The amortized cost basis of loans and leases by asset classification and year of origination was as follows:

| Amortized Cost Basis | | | | | | | | |
|--|---|----------------|----------------|----------------|---------------|---------------|----------------------------|------------------|
| (Dollars in thousands) At December 31, 2022 | Term Loans and Leases by Origination Year | | | | | | Revolving Loans and Leases | Total |
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | | |
| Term lending | | | | | | | | |
| Pass | \$ 232,029 | \$ 334,377 | \$ 155,092 | \$ 103,243 | \$ 28,013 | \$ 33,853 | \$ — | \$ 886,607 |
| Watch | 21,397 | 44,223 | 63,767 | 7,737 | 8,304 | 1,038 | — | 146,466 |
| Special Mention | 1,184 | 7,409 | 20,822 | 11,018 | 682 | 622 | — | 41,737 |
| Substandard | 2,741 | 24,094 | 22,333 | 23,005 | 6,757 | 3,409 | — | 82,339 |
| Doubtful | — | 993 | 832 | 676 | 389 | 61 | — | 2,951 |
| Total | 257,351 | 411,096 | 262,846 | 145,679 | 44,145 | 38,983 | — | 1,160,100 |
| Asset based lending | | | | | | | | |
| Pass | — | — | — | — | — | — | 143,772 | 143,772 |
| Watch | — | — | — | — | — | — | 166,726 | 166,726 |
| Special Mention | — | — | — | — | — | — | 27,796 | 27,796 |
| Substandard | — | — | — | — | — | — | 21,222 | 21,222 |

| | | | | | | | | |
|----------------------------------|------------|------------|------------|------------|------------|-----------|------------|--------------|
| Total | — | — | — | — | — | — | 359,516 | 359,516 |
| Factoring | | | | | | | | |
| Pass | — | — | — | — | — | — | 236,882 | 236,882 |
| Watch | — | — | — | — | — | — | 78,018 | 78,018 |
| Special Mention | — | — | — | — | — | — | 10,658 | 10,658 |
| Substandard | — | — | — | — | — | — | 13,036 | 13,036 |
| Total | — | — | — | — | — | — | 338,594 | 338,594 |
| Lease financing | | | | | | | | |
| Pass | 6,090 | 24,003 | 37,972 | 45,399 | 3,600 | 3,511 | — | 120,575 |
| Watch | 2,958 | 12,272 | 10,154 | 6,760 | 7,808 | 612 | — | 40,564 |
| Special Mention | — | — | 1,516 | 754 | 1,136 | 130 | — | 3,536 |
| Substandard | — | 8,452 | 6,607 | 4,765 | 4,600 | 100 | — | 24,524 |
| Doubtful | — | — | 232 | 262 | — | 175 | — | 669 |
| Total | 9,048 | 44,727 | 56,481 | 57,940 | 17,144 | 4,528 | — | 189,868 |
| Insurance premium finance | | | | | | | | |
| Pass | 191,200 | 243,138 | 115 | 22 | — | — | — | 434,475 |
| Watch | — | 1,349 | — | — | — | — | — | 1,349 |
| Special Mention | — | 508 | — | — | — | — | — | 508 |
| Substandard | — | 375 | 3 | — | — | — | — | 378 |
| Doubtful | — | 264 | 3 | — | — | — | — | 267 |
| Total | 191,200 | 245,634 | 121 | 22 | — | — | — | 436,977 |
| SBA/USDA | | | | | | | | |
| Pass | 4,346 | 196,049 | 35,798 | 58,948 | 9,770 | 19,273 | — | 324,184 |
| Watch | — | — | — | 56 | 2,985 | 3,939 | — | 6,980 |
| Special Mention | — | — | — | — | 210 | — | — | 210 |
| Substandard | — | — | 66 | 6,943 | 8,494 | 10,207 | — | 25,710 |
| Total | 4,346 | 196,049 | 35,864 | 65,947 | 21,459 | 33,419 | — | 357,084 |
| Other commercial finance | | | | | | | | |
| Pass | 23 | 25,899 | 39,156 | 27,228 | 21,490 | 17,396 | — | 131,192 |
| Watch | 1,350 | — | — | — | — | — | — | 1,350 |
| Substandard | 2,860 | — | 29,070 | — | — | 262 | — | 32,192 |
| Total | 4,233 | 25,899 | 68,226 | 27,228 | 21,490 | 17,658 | — | 164,734 |
| Warehouse finance | | | | | | | | |
| Pass | — | — | — | — | — | — | 279,899 | 279,899 |
| Total | — | — | — | — | — | — | 279,899 | 279,899 |
| Total loans and leases | | | | | | | | |
| Pass | 433,688 | 823,466 | 268,133 | 234,840 | 62,873 | 74,033 | 660,553 | 2,557,586 |
| Watch | 25,705 | 57,844 | 73,921 | 14,553 | 19,097 | 5,589 | 244,744 | 441,453 |
| Special Mention | 1,184 | 7,917 | 22,338 | 11,772 | 2,028 | 752 | 38,454 | 84,445 |
| Substandard | 5,601 | 32,921 | 58,079 | 34,713 | 19,851 | 13,978 | 34,258 | 199,401 |
| Doubtful | — | 1,257 | 1,067 | 938 | 389 | 236 | — | 3,887 |
| Total | \$ 466,178 | \$ 923,405 | \$ 423,538 | \$ 296,816 | \$ 104,238 | \$ 94,588 | \$ 978,009 | \$ 3,286,772 |

Amortized Cost Basis

(Dollars in thousands)

At September 30, 2022

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | Total |
|-----------------|------------|------------|------------|-----------|-----------|-----------|------|------|-----------|
| Term lending | | | | | | | | | |
| Pass | \$ 246,627 | \$ 240,018 | \$ 105,170 | \$ 60,417 | \$ 89,072 | \$ 61,229 | \$ — | \$ — | 802,533 |
| Watch | 45,539 | 24,318 | 45,052 | 11,698 | 21,077 | 9,799 | — | — | 157,483 |
| Special Mention | 9,500 | 24,885 | 14,300 | 2,861 | 619 | 242 | — | — | 52,407 |
| Substandard | 10,627 | 16,694 | 12,248 | 23,266 | 10,457 | 2,255 | — | — | 75,547 |
| Doubtful | 175 | 407 | 469 | 872 | 204 | 192 | — | — | 2,319 |
| Total | 312,468 | 306,322 | 177,239 | 99,114 | 121,429 | 73,717 | — | — | 1,090,289 |

Asset based lending

| | | | | | | | | |
|----------------------------------|------------|------------|------------|------------|------------|------------|--------------|--------------|
| Pass | — | — | — | — | — | — | 154,494 | 154,494 |
| Watch | — | — | — | — | — | — | 162,990 | 162,990 |
| Special Mention | — | — | — | — | — | — | 13,770 | 13,770 |
| Substandard | — | — | — | — | — | — | 20,442 | 20,442 |
| Total | — | — | — | — | — | — | 351,696 | 351,696 |
| Factoring | | | | | | | | |
| Pass | — | — | — | — | — | — | 254,883 | 254,883 |
| Watch | — | — | — | — | — | — | 86,219 | 86,219 |
| Special Mention | — | — | — | — | — | — | 9,174 | 9,174 |
| Substandard | — | — | — | — | — | — | 22,319 | 22,319 |
| Total | — | — | — | — | — | — | 372,595 | 372,595 |
| Lease financing | | | | | | | | |
| Pass | 7,407 | 38,818 | 31,408 | 26,552 | 12,361 | 823 | — | 117,369 |
| Watch | 8,799 | 17,098 | 10,284 | 6,655 | 2,899 | 151 | — | 45,886 |
| Special Mention | 151 | 6,151 | 2,644 | 481 | 2,876 | 2,811 | — | 15,114 |
| Substandard | 825 | 9,486 | 11,819 | 7,273 | 1,245 | — | — | 30,648 |
| Doubtful | 144 | 163 | 1,280 | 88 | — | — | — | 1,675 |
| Total | 17,326 | 71,716 | 57,435 | 41,049 | 19,381 | 3,785 | — | 210,692 |
| Insurance premium finance | | | | | | | | |
| Pass | 478,504 | 307 | 8 | — | — | — | — | 478,819 |
| Watch | 539 | 7 | — | — | — | — | — | 546 |
| Special Mention | 169 | 40 | — | — | — | — | — | 209 |
| Substandard | 106 | 46 | — | — | — | — | — | 152 |
| Doubtful | 14 | 14 | — | — | — | — | — | 28 |
| Total | 479,332 | 414 | 8 | — | — | — | — | 479,754 |
| SBA/USDA | | | | | | | | |
| Pass | 54,512 | 111,907 | 40,474 | 56,538 | 28,874 | 24,305 | — | 316,610 |
| Watch | — | 13,836 | 1,266 | 702 | — | 710 | — | 16,514 |
| Special Mention | — | 211 | — | 869 | — | — | — | 1,080 |
| Substandard | 4,149 | 10,968 | 4,278 | — | 1,094 | 4,545 | — | 25,034 |
| Total | 58,661 | 136,922 | 46,018 | 58,109 | 29,968 | 29,560 | — | 359,238 |
| Other commercial finance | | | | | | | | |
| Pass | 5,886 | 13,607 | 26,040 | 20,458 | 23,098 | 40,782 | — | 129,871 |
| Substandard | — | 9,538 | — | — | — | 20,000 | — | 29,538 |
| Total | 5,886 | 23,145 | 26,040 | 20,458 | 23,098 | 60,782 | — | 159,409 |
| Warehouse finance | | | | | | | | |
| Pass | — | — | — | — | — | — | 294,350 | 294,350 |
| Special Mention | — | — | — | — | — | — | 32,500 | 32,500 |
| Total | — | — | — | — | — | — | 326,850 | 326,850 |
| Total loans and leases | | | | | | | | |
| Pass | 792,936 | 404,657 | 203,100 | 163,965 | 153,405 | 127,139 | 703,727 | 2,548,929 |
| Watch | 54,877 | 55,259 | 56,602 | 19,055 | 23,976 | 10,660 | 249,209 | 469,638 |
| Special Mention | 9,820 | 31,287 | 16,944 | 4,211 | 3,495 | 3,053 | 55,444 | 124,254 |
| Substandard | 15,707 | 46,732 | 28,345 | 30,539 | 12,796 | 26,800 | 42,761 | 203,680 |
| Doubtful | 333 | 584 | 1,749 | 960 | 204 | 192 | — | 4,022 |
| Total | \$ 873,673 | \$ 538,519 | \$ 306,740 | \$ 218,730 | \$ 193,876 | \$ 167,844 | \$ 1,051,141 | \$ 3,350,523 |

Past due loans and leases were as follows:

(Dollars in thousands)

| | Accruing and Nonaccruing Loans and Leases | | | | | | Nonperforming Loans and Leases | | |
|--|---|------------------------|-----------------------|-------------------|--------------|---|---------------------------------------|-----------------------|-----------|
| | 30-59 Days Past Due | 60-89 Days Past Due | > 89 Days Past Due | Total Past Due | Current | Total Loans and Leases Receivable | > 89 Days Past Due and Accruing | Nonaccrual Balance | Total |
| At December 31, 2022 | | | | | | | | | |
| Loans held for sale | \$ — | \$ — | \$ — | \$ — | \$ 17,148 | \$ 17,148 | \$ — | \$ — | \$ — |
| Term lending | 12,706 | 8,917 | 10,715 | 32,338 | 1,127,762 | 1,160,100 | 7,180 | 8,694 | 15,874 |
| Asset based lending | — | — | — | — | 359,516 | 359,516 | — | 10,363 | 10,363 |
| Factoring | — | — | — | — | 338,594 | 338,594 | — | 705 | 705 |
| Lease financing | 4,012 | 1,690 | 3,228 | 8,930 | 180,938 | 189,868 | 3,016 | 3,912 | 6,928 |
| Insurance premium finance | 2,969 | 1,122 | 3,085 | 7,176 | 429,801 | 436,977 | 3,085 | — | 3,085 |
| SBA/USDA | 287 | — | 252 | 539 | 356,545 | 357,084 | — | 1,403 | 1,403 |
| Other commercial finance | — | — | — | — | 164,734 | 164,734 | — | — | — |
| Commercial finance | 19,974 | 11,729 | 17,280 | 48,983 | 2,957,890 | 3,006,873 | 13,281 | 25,077 | 38,358 |
| Consumer credit products | 2,719 | 2,485 | 2,424 | 7,628 | 123,122 | 130,750 | 2,429 | — | 2,429 |
| Other consumer finance | 38 | 48 | 69 | 155 | 56,025 | 56,180 | 64 | — | 64 |
| Consumer finance | 2,757 | 2,533 | 2,493 | 7,783 | 179,147 | 186,930 | 2,493 | — | 2,493 |
| Tax services | — | — | — | — | 30,364 | 30,364 | — | — | — |
| Warehouse finance | — | — | — | — | 279,899 | 279,899 | — | — | — |
| Total loans and leases held for investment | 22,731 | 14,262 | 19,773 | 56,766 | 3,447,300 | 3,504,066 | 15,774 | 25,077 | 40,851 |
| Total loans and leases | \$ 22,731 | \$ 14,262 | \$ 19,773 | \$ 56,766 | \$ 3,464,448 | \$ 3,521,214 | \$ 15,774 | \$ 25,077 | \$ 40,851 |
| | | | | | | | | | |
| (Dollars in thousands) | | | | | | | | | |
| | Accruing and Nonaccruing Loans and Leases | | | | | | Nonperforming Loans and Leases | | |
| | 30-59 Days Past Due | 60-89 Days Past Due | > 89 Days Past Due | Total Past Due | Current | Total Loans and Leases Receivable | > 89 Days Past Due and Accruing | Nonaccrual Balance | Total |
| At September 30, 2022 | | | | | | | | | |
| Loans held for sale | \$ — | \$ — | \$ — | \$ — | \$ 21,071 | \$ 21,071 | \$ — | \$ — | \$ — |
| Term lending | 14,066 | 2,576 | 4,458 | 21,100 | 1,069,189 | 1,090,289 | 2,035 | 7,576 | 9,611 |
| Asset based lending | — | — | 68 | 68 | 351,628 | 351,696 | 39 | 29 | 68 |
| Factoring | — | — | — | — | 372,595 | 372,595 | — | 569 | 569 |
| Lease financing | 8,265 | 2,253 | 1,714 | 12,232 | 198,460 | 210,692 | 440 | 3,750 | 4,190 |
| Insurance premium finance | 2,550 | 1,379 | 1,628 | 5,557 | 474,197 | 479,754 | 1,628 | — | 1,628 |
| SBA/USDA | — | — | — | — | 359,238 | 359,238 | — | 1,451 | 1,451 |
| Other commercial finance | — | — | — | — | 159,409 | 159,409 | — | — | — |
| Commercial finance | 24,881 | 6,208 | 7,868 | 38,957 | 2,984,716 | 3,023,673 | 4,142 | 13,375 | 17,517 |
| Consumer credit products | 3,209 | 2,558 | 2,669 | 8,436 | 135,917 | 144,353 | 2,669 | — | 2,669 |
| Other consumer finance | 113 | 51 | 124 | 288 | 25,018 | 25,306 | 124 | — | 124 |
| Consumer finance | 3,322 | 2,609 | 2,793 | 8,724 | 160,935 | 169,659 | 2,793 | — | 2,793 |
| Tax services | — | — | 8,873 | 8,873 | 225 | 9,098 | 8,873 | — | 8,873 |
| Warehouse finance | — | — | — | — | 326,850 | 326,850 | — | — | — |
| Total loans and leases held for investment | 28,203 | 8,817 | 19,534 | 56,554 | 3,472,726 | 3,529,280 | 15,808 | 13,375 | 29,183 |
| Total loans and leases | \$ 28,203 | \$ 8,817 | \$ 19,534 | \$ 56,554 | \$ 3,493,797 | \$ 3,550,351 | \$ 15,808 | \$ 13,375 | \$ 29,183 |

Nonaccrual loans and leases by year of origination were as follows:

| (Dollars in thousands) | Amortized Cost Basis | | | | | | | | | |
|--|---|-----------------|-----------------|-----------------|-----------------|---------------|----------------------------|------------------|------------------------|--|
| | Term Loans and Leases by Origination Year | | | | | | Revolving Loans and Leases | Total | Nonaccrual with No ACL | |
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | | | | |
| At December 31, 2022 | | | | | | | | | | |
| Term lending | \$ — | \$ 1,454 | \$ 1,783 | \$ 1,627 | \$ 3,691 | \$ 139 | \$ — | \$ 8,694 | \$ 2,847 | |
| Asset based lending | — | — | — | — | — | — | 10,363 | 10,363 | — | |
| Factoring | — | — | — | — | — | — | 705 | 705 | — | |
| Lease financing | — | — | 804 | 1,188 | 1,736 | 184 | — | 3,912 | 713 | |
| SBA/USDA | — | — | — | 1,151 | — | 252 | — | 1,403 | 1,151 | |
| Commercial finance | — | 1,454 | 2,587 | 3,966 | 5,427 | 575 | 11,068 | 25,077 | 4,711 | |
| Total nonaccrual loans and leases | \$ — | \$ 1,454 | \$ 2,587 | \$ 3,966 | \$ 5,427 | \$ 575 | \$ 11,068 | \$ 25,077 | \$ 4,711 | |

| (Dollars in thousands) | Amortized Cost Basis | | | | | | | | | |
|--|---|-----------------|-----------------|-----------------|-----------------|---------------|----------------------------|------------------|------------------------|--|
| | Term Loans and Leases by Origination Year | | | | | | Revolving Loans and Leases | Total | Nonaccrual with No ACL | |
| | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | | | | |
| At September 30, 2022 | | | | | | | | | | |
| Term lending | \$ 251 | \$ 1,110 | \$ 1,964 | \$ 989 | \$ 3,096 | \$ 166 | \$ — | \$ 7,576 | \$ 2,885 | |
| Asset based lending | — | — | — | — | — | — | 29 | 29 | — | |
| Factoring | — | — | — | — | — | — | 569 | 569 | 550 | |
| Lease financing | 977 | 310 | 2,442 | 13 | 8 | — | — | 3,750 | — | |
| SBA/USDA | — | — | 1,199 | — | — | 252 | — | 1,451 | 1,199 | |
| Commercial finance | 1,228 | 1,420 | 5,605 | 1,002 | 3,104 | 418 | 598 | 13,375 | 4,634 | |
| Total nonaccrual loans and leases | \$ 1,228 | \$ 1,420 | \$ 5,605 | \$ 1,002 | \$ 3,104 | \$ 418 | \$ 598 | \$ 13,375 | \$ 4,634 | |

Loans and leases that are 90 days or more delinquent and accruing by year of origination were as follows:

| (Dollars in thousands) | Amortized Cost Basis | | | | | | | | | |
|--|---|-----------------|-----------------|---------------|---------------|--------------|----------------------------|------------------|--|--|
| | Term Loans and Leases by Origination Year | | | | | | Revolving Loans and Leases | Total | | |
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | | | | |
| At December 31, 2022 | | | | | | | | | | |
| Term lending | \$ — | \$ 358 | \$ 6,136 | \$ 472 | \$ 170 | \$ 44 | \$ — | \$ 7,180 | | |
| Lease financing | — | 2,754 | 75 | 126 | 40 | 21 | — | 3,016 | | |
| Insurance premium finance | — | 3,073 | 7 | 5 | — | — | — | 3,085 | | |
| Commercial finance | — | 6,185 | 6,218 | 603 | 210 | 65 | — | 13,281 | | |
| Consumer credit products | — | 1,816 | 535 | 29 | 44 | — | 5 | 2,429 | | |
| Other consumer finance | — | — | — | — | — | — | 64 | 64 | | |
| Consumer finance | — | 1,816 | 535 | 29 | 44 | — | 69 | 2,493 | | |
| Total 90 days or more delinquent and accruing | \$ — | \$ 8,001 | \$ 6,753 | \$ 632 | \$ 254 | \$ 65 | \$ 69 | \$ 15,774 | | |

| Amortized Cost Basis | | | | | | | | | |
|---|---|----------|--------|--------|--------|--------|----------------------------|------|--------|
| (Dollars in thousands) | | | | | | | | | |
| At September 30, 2022 | Term Loans and Leases by Origination Year | | | | | | Revolving Loans and Leases | | Total |
| | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | | | |
| Term lending | \$ 207 | \$ 720 | \$ 716 | \$ 130 | \$ 70 | \$ 192 | \$ — | \$ — | 2,035 |
| Asset based lending | — | — | — | — | — | — | — | 39 | 39 |
| Lease financing | 8 | 158 | 98 | 131 | 45 | — | — | — | 440 |
| Insurance premium finance | 1,513 | 110 | 5 | — | — | — | — | — | 1,628 |
| Commercial finance | 1,728 | 988 | 819 | 261 | 115 | 192 | 39 | — | 4,142 |
| Consumer credit products | 2,123 | 481 | 42 | 23 | — | — | — | — | 2,669 |
| Other consumer finance | — | 124 | — | — | — | — | — | — | 124 |
| Consumer finance | 2,123 | 605 | 42 | 23 | — | — | — | — | 2,793 |
| Tax services | 8,873 | — | — | — | — | — | — | — | 8,873 |
| Total 90 days or more delinquent and accruing | \$ 12,724 | \$ 1,593 | \$ 861 | \$ 284 | \$ 115 | \$ 192 | \$ 39 | \$ — | 15,808 |

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

The following table provides the average recorded investment in nonaccrual loans and leases:

| (Dollars in thousands) | | Three Months Ended December 31, | |
|------------------------|----|---------------------------------|-----------|
| | | 2022 | 2021 |
| Term lending | \$ | 8,796 | \$ 13,922 |
| Asset based lending | | 4,272 | 4,011 |
| Factoring | | 708 | 12,247 |
| Lease financing | | 3,623 | 3,033 |
| SBA/USDA | | 1,420 | 216 |
| Commercial finance | | 18,819 | 33,429 |
| Total loans and leases | \$ | 18,819 | \$ 33,429 |

The recognized interest income on the Company's nonaccrual loans and leases for the three months ended December 31, 2022 and 2021 was not significant.

The Company's troubled debt restructurings ("TDRs") typically involve forgiving a portion of interest or principal on existing loans, making loans at a rate materially less than current market rates, or extending the term of the loan. No loans were modified in a TDR during the three months ended December 31, 2022. There were \$10.1 million of commercial finance loans and \$0.1 million of consumer finance loans that were modified in a TDR during the three months ended December 31, 2021, all of which were modified to extend the term of the loan.

During the three months ended December 31, 2022, the Company had \$0.1 million of commercial finance loans that were modified in a TDR within the previous 12 months and for which there was a payment default. During the three months ended December 31, 2021, the Company had \$2.3 million of commercial finance loans and \$0.5 million of consumer finance loans that were modified in a TDR within the previous 12 months and for which there was a payment default. TDR net charge-offs and the impact of TDRs on the Company's allowance for credit losses were insignificant during the three months ended December 31, 2022 and December 31, 2021.

NOTE 6. EARNINGS PER COMMON SHARE ("EPS")

The Company has granted restricted share awards with dividend rights that are considered to be participating securities. Accordingly, a portion of the Company's earnings is allocated to those participating securities in the earnings per share calculation under the two-class method. Basic EPS is computed using the two-class method by dividing income available to common stockholders after the allocation of dividends and undistributed earnings to the participating securities by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated using the more dilutive of the treasury stock method or the two-class method. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, and is computed after giving consideration to the weighted average dilutive effect of the Company's stock options, performance share units, and nonvested restricted stock, where applicable. Diluted EPS under the two-class method also considers the allocation of earnings to the participating securities. Antidilutive securities are disregarded in earnings per share calculations. Diluted EPS shown below reflects the two-class method, as diluted EPS under the two-class method was more dilutive than under the treasury stock method.

A reconciliation of net income and common stock share amounts used in the computation of basic and diluted earnings per share is presented below.

| | Three Months Ended December 31, | |
|---|---------------------------------|------------|
| | 2022 | 2021 |
| (Dollars in thousands, except per share data) | | |
| Basic income per common share: | | |
| Net income attributable to Pathward Financial, Inc. | \$ 27,842 | \$ 61,324 |
| Dividends and undistributed earnings allocated to participating securities | (403) | (953) |
| Basic net earnings available to common stockholders | 27,439 | 60,371 |
| Undistributed earnings allocated to nonvested restricted stockholders | 383 | 929 |
| Reallocation of undistributed earnings to nonvested restricted stockholders | (382) | (929) |
| Diluted net earnings available to common stockholders | \$ 27,440 | \$ 60,371 |
| Total weighted-average basic common shares outstanding | 28,024,541 | 30,238,621 |
| Effect of dilutive securities⁽¹⁾ | | |
| Performance share units | 62,282 | 22,034 |
| Total effect of dilutive securities | 62,282 | 22,034 |
| Total weighted-average diluted common shares outstanding | 28,086,823 | 30,260,655 |
| Net earnings per common share: | | |
| Basic earnings per common share | \$ 0.98 | \$ 2.00 |
| Diluted earnings per common share ⁽²⁾ | \$ 0.98 | \$ 2.00 |

⁽¹⁾ Represents the effect of the assumed exercise of stock options and vesting of performance share units and restricted stock, as applicable, utilizing the treasury stock method.

⁽²⁾ Excluded from the computation of diluted earnings per share for the three months ended December 31, 2022 and 2021, respectively, were 411,794 and 477,488 weighted average shares of nonvested restricted stock because their inclusion would be anti-dilutive.

NOTE 7. RENTAL EQUIPMENT, NET

Rental equipment consists of the following:

(Dollars in thousands)

| | December 31, 2022 | September 30, 2022 |
|---------------------------------------|-------------------|--------------------|
| Computers and IT networking equipment | \$ 20,176 | \$ 21,669 |
| Motor vehicles and other | 110,196 | 107,648 |
| Other furniture and equipment | 58,624 | 34,254 |
| Solar panels and equipment | 141,759 | 133,765 |
| Total | 330,755 | 297,336 |
| Accumulated depreciation | (100,921) | (94,355) |
| Unamortized initial direct costs | 1,295 | 1,390 |
| Net book value | \$ 231,129 | \$ 204,371 |

Future minimum lease payments expected to be received for operating leases at December 31, 2022 were as follows:

(Dollars in thousands)

| | |
|-------------------|------------|
| Remaining in 2023 | \$ 29,248 |
| 2024 | 32,077 |
| 2025 | 24,537 |
| 2026 | 16,058 |
| 2027 | 9,912 |
| Thereafter | 10,930 |
| Total | \$ 122,762 |

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

The Company held a total of \$309.5 million of goodwill at December 31, 2022. The recorded goodwill is a result of multiple business combinations that occurred from 2015 to 2018. There have been no changes to the carrying amount of goodwill during the three months ended December 31, 2022.

The changes in the carrying amount of the Company's intangible assets were as follows:

| (Dollars in thousands) | Trademark ⁽¹⁾ | Non-Compete | Customer Relationships ⁽²⁾ | All Others ⁽³⁾ | Total |
|--------------------------------|--------------------------|-------------|---------------------------------------|---------------------------|------------|
| Intangible Assets | | | | | |
| At September 30, 2022 | \$ 8,605 | \$ — | \$ 12,395 | \$ 4,691 | \$ 25,691 |
| Amortization during the period | (351) | — | (776) | (131) | (1,258) |
| At December 31, 2022 | \$ 8,254 | \$ — | \$ 11,619 | \$ 4,560 | \$ 24,433 |
| Gross carrying amount | \$ 14,624 | \$ 2,481 | \$ 82,088 | \$ 9,940 | \$ 109,133 |
| Accumulated amortization | (6,370) | (2,481) | (59,551) | (5,162) | (73,564) |
| Accumulated impairment | — | — | (10,918) | (218) | (11,136) |
| At December 31, 2022 | \$ 8,254 | \$ — | \$ 11,619 | \$ 4,560 | \$ 24,433 |
| At September 30, 2021 | \$ 9,823 | \$ 40 | \$ 17,868 | \$ 5,417 | \$ 33,148 |
| Acquisitions during the period | — | — | — | 1 | 1 |
| Amortization during the period | (263) | (39) | (1,054) | (132) | (1,488) |
| At December 31, 2021 | \$ 9,560 | \$ 1 | \$ 16,814 | \$ 5,286 | \$ 31,661 |
| Gross carrying amount | \$ 14,624 | \$ 2,481 | \$ 82,088 | \$ 10,142 | \$ 109,335 |
| Accumulated amortization | (5,064) | (2,480) | (55,026) | (4,638) | (67,208) |
| Accumulated impairment | — | — | (10,248) | (218) | (10,466) |
| At December 31, 2021 | \$ 9,560 | \$ 1 | \$ 16,814 | \$ 5,286 | \$ 31,661 |

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

⁽²⁾ Book amortization period of 10-30 years. Amortized using the accelerated method.

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

The estimated amortization expense of intangible assets assumes no activities, such as acquisitions, which would result in additional amortizable intangible assets. Estimated amortization expense of intangible assets in the remaining nine months of fiscal 2023 and subsequent fiscal years at December 31, 2022 was as follows:

| | |
|---|-----------|
| (Dollars in thousands) | |
| Remaining in 2023 | \$ 3,688 |
| 2024 | 4,134 |
| 2025 | 3,572 |
| 2026 | 3,226 |
| 2027 | 2,580 |
| Thereafter | 7,233 |
| Total anticipated intangible amortization | \$ 24,433 |

There were no impairments to intangible assets during the three months ended December 31, 2022 and 2021. Intangible impairment expense is recorded within the impairment expense line of the Condensed Consolidated Statements of Operations.

NOTE 9. OPERATING LEASE RIGHT-OF-USE ASSETS AND LIABILITIES

Operating lease ROU assets, included in other assets, were \$29.3 million and \$32.7 million at December 31, 2022 and 2021, respectively.

Operating lease liabilities, included in accrued expenses and other liabilities, were \$31.2 million and \$34.5 million at December 31, 2022 and 2021, respectively.

Undiscounted future minimum operating lease payments and a reconciliation to the amount recorded as operating lease liabilities at December 31, 2022 were as follows:

(Dollars in thousands)

| | | |
|--|----|---------|
| Remaining in 2023 | \$ | 2,983 |
| 2024 | | 3,913 |
| 2025 | | 3,718 |
| 2026 | | 3,195 |
| 2027 | | 3,092 |
| Thereafter | | 18,640 |
| Total undiscounted future minimum lease payments | | 35,541 |
| Discount | | (4,357) |
| Total operating lease liabilities | \$ | 31,184 |

The weighted-average discount rate and remaining lease term for operating leases at December 31, 2022 were as follows:

| | |
|---|--------|
| Weighted-average discount rate | 2.36 % |
| Weighted-average remaining lease term (years) | 10.46 |

The components of total lease costs for operating leases were as follows:

| | Three Months Ended December 31, | |
|---------------------------------------|---------------------------------|----------|
| | 2022 | 2021 |
| (Dollars in thousands) | | |
| Lease expense | \$ 1,014 | \$ 1,137 |
| Short-term and variable lease cost | 42 | 35 |
| Sublease income | (333) | (176) |
| Total lease cost for operating leases | \$ 723 | \$ 996 |

NOTE 10. STOCKHOLDERS' EQUITY

Repurchase of Common Stock

The Company's Board of Directors authorized the September 3, 2021 share repurchase program to repurchase up to 6,000,000 shares of the Company's outstanding common stock. This authorization is effective from September 3, 2021 through September 30, 2024. During the three months ended December 31, 2022, and 2021, the Company repurchased 653,994 and 1,711,501 shares, respectively, as part of the share repurchase programs.

Under the repurchase programs, repurchased shares were retired and designated as authorized but unissued shares. The Company accounts for repurchased shares using the par value method under which the repurchase price is charged to paid-in capital up to the amount of the original proceeds of those shares. When the repurchase price is greater than the original issue proceeds, the excess is charged to retained earnings. As of December 31, 2022, 3,640,983 shares of common stock remained available for repurchase.

For the three months ended December 31, 2022, and 2021, the Company also repurchased 57,291 and 61,172 shares, or \$2.0 million and \$3.4 million of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock.

Retirement of Treasury Stock

The Company accounts for the retirement of repurchased shares, including treasury stock, using the par value method under which the repurchase price is charged to paid-in capital up to the amount of the original proceeds of those shares. When the repurchase price is greater than the original issue proceeds, the excess is charged to retained earnings. The Company retired zero shares of common stock held in treasury during the three months ended December 31, 2022 and 2021, respectively.

NOTE 11. STOCK COMPENSATION

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

Compensation expense for share-based awards is recorded over the vesting period at the fair value of the award at the time of the grant. The exercise price of options or fair value of nonvested (restricted) shares and performance share units granted under the Company's 2002 Omnibus Incentive Plan is equal to the fair market value of the underlying stock at the grant date, adjusted for dividends where applicable. The Company has elected, with the adoption of ASU 2016-09, to record forfeitures as they occur.

The following tables show the activity of nonvested (restricted) shares and PSUs granted, vested, or forfeited under the 2002 Omnibus Incentive Plan for the three months ended December 31, 2022. There were no options granted, exercised, or forfeited under this plan during the three months ended December 31, 2022.

| (Dollars in thousands, except per share data) | | | |
|---|------------------|--------------------------------------|-------|
| | Number of Shares | Weighted Average Fair Value at Grant | |
| Nonvested shares outstanding, September 30, 2022 | 474,348 | \$ | 36.52 |
| Granted | 135,417 | | 36.68 |
| Vested | (181,240) | | 34.71 |
| Forfeited or expired | (1,017) | | 41.82 |
| Nonvested shares outstanding, December 31, 2022 | 427,508 | \$ | 37.32 |
| Performance share units outstanding, September 30, 2022 | 96,689 | \$ | 42.59 |
| Granted ⁽¹⁾ | 59,115 | | 38.94 |
| Vested | — | | — |
| Forfeited or expired | — | | — |
| Performance share units outstanding, December 31, 2022 | 155,804 | \$ | 41.20 |

⁽¹⁾ The number of PSUs granted reflects the target number of PSUs able to be earned under a given award.

At December 31, 2022, stock-based compensation expense not yet recognized in income totaled \$10.9 million, which is expected to be recognized over a weighted average remaining period of 1.73 years.

NOTE 12. INCOME TAXES

The Company recorded an income tax expense of \$6.6 million for the three months ended December 31, 2022, resulting in an effective tax rate of 18.79%, compared to an income tax expense of \$14.3 million, or an effective tax rate of 18.89%, for the three months ended December 31, 2021. The Company's effective tax rate was lower than the U.S. statutory rate of 21% primarily because of the anticipated effect of investment tax credits during fiscal year 2023. The Company's effective tax rate in the future will depend in part on actual investment tax credits generated from qualified solar energy property.

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

| | Three Months Ended December 31, | |
|--|---------------------------------|-----------|
| | 2022 | 2021 |
| (Dollars in thousands) | | |
| Provision at statutory rate | \$ 7,228 | \$ 15,876 |
| Tax-exempt income | (203) | (172) |
| State income taxes | 1,510 | 3,087 |
| Interim period effective rate adjustment | 1,119 | 1,827 |
| Tax credit investments, net - federal | (3,062) | (5,670) |
| IRC 162(m) nondeductible compensation | 136 | 263 |
| Other, net | (151) | (935) |
| Income tax expense | \$ 6,577 | \$ 14,276 |
| Effective tax rate | 18.79 % | 18.89 % |

NOTE 13. REVENUE FROM CONTRACTS WITH CUSTOMERS

Topic 606 applies to all contracts with customers unless such revenue is specifically addressed under existing guidance. The table below presents the Company's revenue by operating segment. For additional descriptions of the Company's operating segments, including additional financial information and the underlying management accounting process, see Note 14. Segment Reporting to the Condensed Consolidated Financial Statements.

| | Consumer | | Commercial | | Corporate Services/Other | | Consolidated Company | |
|--|-----------|-----------|------------|-----------|--------------------------|-----------|----------------------|------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| (Dollars in thousands) | | | | | | | | |
| Three Months Ended December 31, | | | | | | | | |
| Net interest income ⁽¹⁾ | \$ 34,272 | \$ 26,110 | \$ 42,324 | \$ 45,087 | \$ 7,461 | \$ 416 | \$ 84,057 | \$ 71,613 |
| Noninterest income: | | | | | | | | |
| Refund transfer product fees | 677 | 579 | — | — | — | — | 677 | 579 |
| Refund advance fee income ⁽¹⁾ | 617 | 1,233 | — | — | — | — | 617 | 1,233 |
| Card and deposit fees | 37,452 | 25,132 | 261 | 231 | 5 | 6 | 37,718 | 25,369 |
| Rental income ⁽¹⁾ | — | — | 12,515 | 11,077 | 193 | — | 12,708 | 11,077 |
| Gain (loss) on sale of securities ⁽¹⁾ | — | — | — | — | — | 137 | — | 137 |
| Gain on sale of trademarks | — | — | — | — | 10,000 | 50,000 | 10,000 | 50,000 |
| Gain (loss) on sale of other ⁽¹⁾ | — | — | 502 | 4,864 | — | (8,329) | 502 | (3,465) |
| Other income ⁽¹⁾ | 793 | 765 | 1,084 | 2,785 | 1,678 | (1,889) | 3,555 | 1,661 |
| Total noninterest income | 39,539 | 27,709 | 14,362 | 18,957 | 11,876 | 39,925 | 65,777 | 86,591 |
| Revenue | \$ 73,811 | \$ 53,819 | \$ 56,686 | \$ 64,044 | \$ 19,337 | \$ 40,341 | \$ 149,834 | \$ 158,204 |

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

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

Refund Transfer Product Fees. Refund transfer fees are specific to the Banking as a Service ("BaaS") business line and reflect product fees offered by the Company through third-party tax preparers and tax preparation software providers where the Company acts as the partnering financial institution. A refund transfer allows a taxpayer to pay tax preparation and filing fees directly from their federal or state government tax refund, with the remainder of the refund being disbursed in accordance with the terms and conditions of the taxpayer agreement, which may include satisfaction of other disbursement obligations before going directly to the taxpayer via check, direct deposit, or prepaid card. Refund transfer fees are recognized by the Company immediately after the taxpayer's refund has been disbursed in accordance with the contract and is based on standalone pricing included within the terms and conditions. Certain expenses to tax preparation software providers are netted with refund transfer fee income as the Company is considered the agent in these contractual relationships. All refund transfer fees are recorded within the Consumer reporting segment.

Card and Deposit Fees. Card fees relate to the BaaS business line and consists of income from prepaid cards and merchant services, including interchange fees from prepaid cards processed through card association networks, merchant services and other card related services. Interchange rates are generally set by card association networks based on transaction volume and other factors. Since interchange fees are generated by cardholder activity, the Company recognizes the income as transactions occur. Fee income for merchant services and other card related services reflect account management and transaction fees charged to merchants for processing card association network transactions. The associated income is recognized as transactions occur or as services are performed. For the Company's internally managed prepaid card programs, fees are based on standalone pricing within the terms and conditions of the cardholder agreement. The Company is considered the principal of these relationships resulting in all fee income being presented on a gross basis within the Condensed Consolidated Statement of Operations. For the Company's sponsorship prepaid card programs where a third-party is considered the Program Manager, the fees are based on standalone pricing within the terms and conditions of the Program Agreement. For these relationships, the Company is considered the agent and certain expenses with the Program Manager, networks and associations are netted with card fee revenue. All card fee income is included in the Consumer reporting segment.

Deposit fees relate to the BaaS and Commercial Finance business lines and consist of income from banking and deposit-related services, including account services, overdraft protection, and wire transfers. Fee income for account services is recognized over the course of the month as the performance obligation is satisfied. Fee income for overdraft protection and wire transfers is recognized point in time when such event occurs. For BaaS, the fees for account services and overdraft protection are based on standalone pricing within the terms and conditions of the Program Agreement with the sponsorship partner. For these relationships, the Company is considered the agent and certain expenses with the partner are netted with deposit fee revenue. For Commercial Finance, fees for wire transfers are based on standalone pricing within the terms and conditions of the customer deposit agreement. Bank and deposit fees for the BaaS and Commercial Finance business lines are included in the Consumer and Commercial reporting segments, respectively. Also included within Card and Deposit Fees for the Consumer reporting segment are servicing fees the Company recognizes for custodial off-balance sheet deposits. This fee income is for services the Bank performs to maintain records of cardholder funds placed at one or more third-party banks insured by the FDIC. The servicing fee is typically reflective of the effective federal funds rate ("EFFR").

NOTE 14. SEGMENT REPORTING

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

The Company reports its results of operations through the following three business segments: Consumer, Commercial, and Corporate Services/Other. The BaaS business line is reported in the Consumer segment. The Commercial Finance business line is reported in the Commercial segment. The Corporate Services/Other segment includes certain shared services as well as treasury related functions such as the investment portfolio, warehouse finance, wholesale deposits and borrowings.

The following tables present segment data for the Company:

(Dollars in thousands)

| Three Months Ended December 31, | Consumer | | Commercial | | Corporate Services/Other | | Total | |
|---|-----------|-----------|------------|-----------|--------------------------|-----------|-----------|-----------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Net interest income | \$ 34,272 | \$ 26,110 | \$ 42,324 | \$ 45,087 | \$ 7,461 | \$ 416 | \$ 84,057 | \$ 71,613 |
| Provision (reversal of) for credit losses | 3,240 | 1,262 | 6,583 | 11,591 | (47) | (12,667) | 9,776 | 186 |
| Noninterest income | 39,539 | 27,709 | 14,362 | 18,957 | 11,876 | 39,925 | 65,777 | 86,591 |
| Noninterest expense | 34,494 | 19,661 | 32,749 | 33,046 | 37,816 | 29,729 | 105,059 | 82,436 |
| Income (loss) before income tax expense | 36,077 | 32,896 | 17,354 | 19,407 | (18,432) | 23,279 | 34,999 | 75,582 |
| Total assets | 393,898 | 550,336 | 3,476,942 | 3,260,619 | 2,788,385 | 3,798,703 | 6,659,225 | 7,609,658 |
| Total goodwill | 87,145 | 87,145 | 222,360 | 222,360 | — | — | 309,505 | 309,505 |
| Total deposits | 5,624,919 | 6,325,193 | 6,628 | 6,840 | 157,585 | 193,536 | 5,789,132 | 6,525,569 |

NOTE 15. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The fair value hierarchy is as follows:

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

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

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

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

The fair value of debt securities available for sale, categorized primarily as Level 2, is recorded using prices obtained from independent asset pricing services that are based on observable transactions, but not quoted markets. Management reviews the prices obtained from independent asset pricing services for unusual fluctuations and compares to current market trading activity.

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

The following tables summarize the fair values of debt securities available for sale and equity securities as they are measured at fair value on a recurring basis.

| (Dollars in thousands) | At December 31, 2022 | | | |
|---|----------------------|-------------|---------------------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Debt securities AFS | | | | |
| Corporate securities | \$ 21,312 | \$ — | \$ 21,312 | — |
| SBA securities | 95,765 | — | 95,765 | — |
| Obligations of states and political subdivisions | 2,351 | — | 2,351 | — |
| Non-bank qualified obligations of states and political subdivisions | 258,052 | — | 258,052 | — |
| Asset-backed securities | 135,276 | — | 135,276 | — |
| Mortgage-backed securities | 1,335,022 | — | 1,335,022 | — |
| Total debt securities AFS | \$ 1,847,778 | \$ — | \$ 1,847,778 | — |
| Common equities and mutual funds ⁽¹⁾ | \$ 3,437 | \$ 3,437 | — | — |
| Non-marketable equity securities ⁽²⁾ | \$ 7,822 | \$ — | \$ — | — |

⁽¹⁾ Equity securities at fair value are included within other assets on the Condensed Consolidated Statements of Financial Condition at December 31, 2022.

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

| (Dollars in thousands) | At September 30, 2022 | | | |
|---|-----------------------|-------------|---------------------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Debt securities AFS | | | | |
| Corporate securities | \$ 22,187 | \$ — | \$ 22,187 | — |
| SBA securities | 97,768 | — | 97,768 | — |
| Obligations of states and political subdivisions | 2,344 | — | 2,344 | — |
| Non-bank qualified obligations of states and political subdivisions | 263,783 | — | 263,783 | — |
| Asset-backed securities | 147,790 | — | 147,790 | — |
| Mortgage-backed securities | 1,348,997 | — | 1,348,997 | — |
| Total debt securities AFS | \$ 1,882,869 | \$ — | \$ 1,882,869 | — |
| Common equities and mutual funds ⁽¹⁾ | \$ 2,874 | \$ 2,874 | — | — |
| Non-marketable equity securities ⁽²⁾ | \$ 7,212 | \$ — | \$ — | — |

⁽¹⁾ Equity securities at fair value are included within other assets on the Consolidated Statements of Financial Condition at September 30, 2022.

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

Loans and Leases. The Company does not record loans and leases at fair value on a recurring basis. However, if a loan or lease is individually evaluated for risk of credit loss and repayment is expected to be solely provided by the values of the underlying collateral, the Company measures fair value on a nonrecurring basis. Fair value is determined by the fair value of the underlying collateral less estimated costs to sell. The fair value of the collateral is determined based on the internal estimates and/or assessment provided by third-party appraisers and the valuation relies on discount rates ranging from 4% to 35%.

The following table summarizes the assets of the Company that are measured at fair value in the Condensed Consolidated Statements of Financial Condition on a non-recurring basis:

| (Dollars in thousands) | At December 31, 2022 | | | |
|--|----------------------|---------|---------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Loans and leases, net individually evaluated for credit loss | | | | |
| Commercial finance | \$ 8,544 | \$ — | \$ — | \$ 8,544 |
| Total loans and leases, net individually evaluated for credit loss | 8,544 | — | — | 8,544 |
| Foreclosed assets, net | — | — | — | — |
| Total | \$ 8,544 | \$ — | \$ — | \$ 8,544 |

| (Dollars in thousands) | At September 30, 2022 | | | |
|--|-----------------------|---------|---------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Loans and leases, net individually evaluated for credit loss | | | | |
| Commercial finance | \$ 1,575 | \$ — | \$ — | \$ 1,575 |
| Total loans and leases, net individually evaluated for credit loss | 1,575 | — | — | 1,575 |
| Foreclosed assets, net | 1 | — | — | 1 |
| Total | \$ 1,576 | \$ — | \$ — | \$ 1,576 |

| Quantitative Information About Level 3 Fair Value Measurements | | | | | |
|--|---------------------------------|----------------------------------|---------------------|---------------------------------|-----------------|
| (Dollars in thousands) | Fair Value at December 31, 2022 | Fair Value at September 30, 2022 | Valuation Technique | Unobservable Input | Range of Inputs |
| Loans and leases, net individually evaluated for credit loss | \$ 8,544 | \$ 1,575 | Market approach | Appraised values ⁽¹⁾ | 15% - 59% |

⁽¹⁾ The Company generally relies on external appraisers to develop this information. Management reduced the appraised value by estimating selling costs and other inputs in a range of 15% to 59%.

Management discloses the estimated fair value of financial instruments, including assets and liabilities on and off the Condensed Consolidated Statements of Financial Condition, for which it is practicable to estimate fair value. These fair value estimates were made at December 31, 2022 and September 30, 2022 based on relevant market information and information about financial instruments. Fair value estimates are intended to represent the price at which an asset could be sold or a liability could be settled. However, since there is no active market for certain financial instruments of the Company, the estimates of fair value are subjective in nature, involve uncertainties, and include matters of significant judgment. Changes in assumptions as well as tax considerations could significantly affect the estimated values. Accordingly, 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.

The following tables present the carrying amount and estimated fair value of the financial instruments held by the Company:

| At December 31, 2022 | | | | | |
|--|-----------------|----------------------|------------|-----------|-----------|
| (Dollars in thousands) | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Cash and cash equivalents | \$ 369,169 | \$ 369,169 | \$ 369,169 | \$ — | \$ — |
| Debt securities available for sale | 1,847,778 | 1,847,778 | — | 1,847,778 | — |
| Debt securities held to maturity | 40,565 | 37,658 | — | 37,658 | — |
| Common equities and mutual funds ⁽¹⁾ | 3,437 | 3,437 | 3,437 | — | — |
| Non-marketable equity securities ⁽¹⁾⁽²⁾ | 23,136 | 23,136 | — | 15,314 | — |
| Loans held for sale | 17,148 | 17,148 | — | 17,148 | — |
| Loans and leases | 3,504,066 | 3,484,705 | — | — | 3,484,705 |
| Federal Reserve Bank and Federal Home Loan Bank stocks | 28,812 | 28,812 | — | 28,812 | — |
| Accrued interest receivable | 20,170 | 20,170 | 20,170 | — | — |
| Financial liabilities | | | | | |
| Deposits | 5,789,132 | 5,788,923 | 5,782,075 | 6,848 | — |
| Other short- and long-term borrowings | 34,977 | 34,935 | — | 34,935 | — |
| Accrued interest payable | 717 | 717 | 717 | — | — |

⁽¹⁾ Equity securities at fair value are included within other assets on the Condensed Consolidated Statements of Financial Condition at December 31, 2022.

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

| At September 30, 2022 | | | | | |
|--|-----------------|----------------------|------------|-----------|-----------|
| (Dollars in thousands) | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | |
| Cash and cash equivalents | \$ 388,038 | \$ 388,038 | \$ 388,038 | \$ — | \$ — |
| Debt securities available for sale | 1,882,869 | 1,882,869 | — | 1,882,869 | — |
| Debt securities held to maturity | 41,682 | 38,171 | — | 38,171 | — |
| Common equities and mutual funds ⁽¹⁾ | 2,874 | 2,874 | 2,874 | — | — |
| Non-marketable equity securities ⁽¹⁾⁽²⁾ | 22,526 | 22,526 | — | 15,314 | — |
| Loans held for sale | 21,071 | 21,071 | — | 21,071 | — |
| Loans and leases | 3,529,280 | 3,525,803 | — | — | 3,525,803 |
| Federal Reserve Bank and Federal Home Loan Bank stocks | 28,812 | 28,812 | — | 28,812 | — |
| Accrued interest receivable | 17,979 | 17,979 | 17,979 | — | — |
| Financial liabilities | | | | | |
| Deposits | 5,866,037 | 5,865,854 | 5,858,283 | 7,571 | — |
| Other short- and long-term borrowings | 36,028 | 35,986 | — | 35,986 | — |
| Accrued interest payable | 192 | 192 | 192 | — | — |

⁽¹⁾ Equity securities at fair value are included within other assets on the Consolidated Statements of Financial Condition at September 30, 2022.

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

NOTE 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after December 31, 2022. During this period, up to the filing date of this Quarterly Report on Form 10-Q, management did not identify any material subsequent events that would require recognition or disclosure in our Condensed Consolidated Financial Statements as of or for the quarter ended December 31, 2022.

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

PATHWARD FINANCIAL, INC.® AND SUBSIDIARIES

FORWARD-LOOKING STATEMENTS

PATHWARD FINANCIAL, INC.TM ("Pathward Financial" or the "Company" or "us") and its wholly-owned subsidiary, PathwardTM, National Association ("Pathward, N.A" or "Pathward" or "the Bank") may from time to time make written or oral "forward-looking statements," including statements contained in this Quarterly Report on Form 10-Q, the Company's other filings with the Securities and Exchange Commission (the "SEC"), the Company's reports to stockholders, and other communications by the Company and Pathward, National Association, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

You can identify forward-looking statements by words such as "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," "could," "future," or the negative of those terms, or other words of similar meaning or similar expressions. You should carefully read statements that contain these words because they discuss our future expectations or state other "forward-looking" information. These forward-looking statements are based on information currently available to us and assumptions about future events, and include statements with respect to the Company's beliefs, expectations, estimates, and intentions, which are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such risks, uncertainties and other factors may cause our actual growth, results of operations, financial condition, cash flows, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Such statements address, among others, the following subjects: future operating results including our performance expectations; the impact of measures expected to increase efficiencies or reduce expenses; customer retention; loan and other product demand; expectations concerning acquisitions and divestitures; new products and services; credit quality; the level of net charge-offs and the adequacy of the allowance for credit losses; technology; and the Company's employees. The following factors, among others, could cause the Company's financial performance and results of operations to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: maintaining our executive management team; expected growth opportunities may not be realized or may take longer to realize than expected; the potential adverse effects of the ongoing COVID-19 pandemic and any governmental or societal responses thereto, or other unusual and infrequently occurring events, including the impact on financial markets from geopolitical conflicts such as the military conflict between Russia and Ukraine; our ability to achieve brand recognition for Pathward equal to or greater than we have enjoyed for MetaBank; our ability to successfully implement measures designed to reduce expenses and increase efficiencies; changes in trade, monetary, and fiscal policies and laws, including actual changes in interest rates and the Fed Funds rate; changes in tax laws; the strength of the United States' economy, and the local economies in which the Company operates; inflation, market, and monetary fluctuations; the timely and efficient development of new products and services offered by the Company or its strategic partners, as well as risks (including reputational and litigation) attendant thereto, and the perceived overall value of these products and services by users; Pathward's ability to maintain its Durbin Amendment exemption; the risks of dealing with or utilizing third parties, including, in connection with the Company's prepaid card and tax refund advance businesses, the risk of reduced volume of refund advance loans as a result of reduced customer demand for or usage of Pathward's strategic partners' refund advance products; our relationship with, and any actions which may be initiated by, our regulators; changes in financial services laws and regulations, including laws and regulations relating to the tax refund industry and the insurance premium finance industry; technological changes, including, but not limited to, the protection of our electronic systems and information; the impact of acquisitions and divestitures; litigation risk; the growth of the Company's business, as well as expenses related thereto; continued maintenance by Pathward of its status as a well-capitalized institution; changes in consumer spending and saving habits; losses from fraudulent or illegal activity; technological risks and developments and cyber threats, attacks, or events; and the success of the Company at maintaining its high quality asset level and managing and collecting assets of borrowers in default should problem assets increase.

The foregoing list of factors is not exclusive. We caution you not to place undue reliance on these forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q speak only as of the date hereof, and the Company does not undertake any obligation to update, revise, or clarify these forward-looking statements whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in its entirety by the cautionary statements contained or referred to in this section. Additional discussions of factors affecting the Company's business and prospects are reflected under the caption "Risk Factors" of the Company's Annual Report on Form 10-K for the Company's fiscal year ended September 30, 2022, and in the Company's other filings made with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries, whether as a result of new information, changed circumstances, or future events or for any other reason.

GENERAL

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

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

The following discussion focuses on the consolidated financial condition of the Company at December 31, 2022, compared to September 30, 2022, and the consolidated results of operations for the three months ended December 31, 2022 and 2021. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the fiscal year ended September 30, 2022 and the related management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2022.

EXECUTIVE SUMMARY

Business Highlights for the 2023 Fiscal First Quarter

- During the first quarter of fiscal year 2023, the Company recognized the remaining \$10.0 million as part of the agreement with Beige Key, LLC to cease all use of the Meta name and trademarks. The \$10.0 million was recognized as noninterest income as a gain on sale of trademarks. As part of the corporate rebrand, the Company recognized \$3.7 million of pre-tax expenses related to rebranding efforts during the first quarter of fiscal 2023. Since the first quarter of fiscal year 2022 through the first quarter of fiscal year 2023, the Company has recognized \$16.9 million in expenses related to rebranding efforts. The Company does not anticipate any further material expenses related to rebranding efforts.

Financial Highlights for the 2023 Fiscal First Quarter

- Total revenue for the first quarter was \$149.8 million, a decrease of \$8.4 million, or 5%, compared to the same quarter in fiscal 2022, primarily driven by the \$50.0 million gain on sale of trademarks recognized during the prior year period, partially offset by an increase in interest income and the \$10.0 million gain on sale of trademarks recognized during the first quarter of fiscal year 2023.
- Net interest margin ("NIM") increased 103 basis points to 5.62% for the first quarter from 4.59% during the same period of last year. The prior year period was impacted by excess cash associated with the Company's participation in the U.S. Treasury Department's Economic Impact Program.
- Total gross loans and leases at December 31, 2022 decreased \$174.5 million, or 5%, to \$3.51 billion compared to December 31, 2021 and decreased \$26.6 million, or 1%, when compared to September 30, 2022. The decrease compared to the prior year quarter was primarily due to a reduction in warehouse finance loans and the sale of the \$81.5 million student loan portfolio during the fiscal 2022 fourth quarter, partially offset by growth in the commercial finance portfolio. The primary driver for the decrease on a linked quarter basis was the reduction in warehouse finance loans.
- During the fiscal 2023 first quarter, the Company repurchased 653,994 shares of common stock at an average share price of \$38.10.

FINANCIAL CONDITION

At December 31, 2022, the Company's total assets decreased by \$88.2 million to \$6.66 billion compared to September 30, 2022, primarily due to decreases of \$35.1 million in securities available for sale, \$26.6 million in total loans and leases, and \$18.9 million in cash and cash equivalents.

Total cash and cash equivalents was \$369.2 million at December 31, 2022, decreasing from \$388.0 million at September 30, 2022. The Company maintains its cash investments primarily in interest-bearing overnight deposits with the FHLB of Des Moines and the FRB. At December 31, 2022, the Company did not have any federal funds sold.

The Company's investment security balances decreased \$36.2 million, or 2%, to \$1.89 billion at December 31, 2022, compared to \$1.92 billion at September 30, 2022, due to maturities and principal pay downs. The Company's portfolio of securities customarily consists primarily of MBS, which have expected lives much shorter than the stated final maturity, non-bank qualified obligations of states and political subdivisions, which mature in approximately 15 years or less, and other tax exempt municipal mortgage related pass through securities which have average lives much shorter than their stated final maturities. During the three months ended December 31, 2022, the Company made no purchases of investment securities.

Loans held for sale at December 31, 2022 totaled \$17.1 million, decreasing from \$21.1 million at September 30, 2022. This decrease was driven by a reduction in consumer credit products held for sale at December 31, 2022 compared to September 30, 2022.

Total gross loans and leases totaled \$3.51 billion at December 31, 2022, as compared to \$3.54 billion at September 30, 2022. The primary driver for the decrease on a linked quarter basis was a reduction in warehouse finance loans and commercial finance loans, partially offset by an increase in the consumer finance portfolio and the seasonal increase in tax services loans. See Note 5 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

Commercial finance loans, which comprised 86% of the Company's gross loan and lease portfolio, totaled \$3.01 billion at December 31, 2022, reflecting a reduction of \$16.8 million, or 1%, from September 30, 2022.

Through the Bank, the Company owns stock in the FHLB due to the Bank's membership and participation in this banking system as well as stock in the Federal Reserve Bank. The FHLB requires a level of stock investment based on a pre-determined formula. The Company's investment in these stocks was \$28.8 million at December 31, 2022 and at September 30, 2022, as purchases were offset by redemptions of FHLB membership stock during the three months ended December 31, 2022.

Total end-of-period deposits decreased 1% to \$5.79 billion at December 31, 2022, compared to September 30, 2022, primarily driven by a decrease in noninterest-bearing deposits of \$68.0 million.

The Company's total borrowings decreased \$1.1 million, or 3%, from \$36.0 million at September 30, 2022 to \$35.0 million at December 31, 2022.

At December 31, 2022, the Company's stockholders' equity totaled \$659.1 million, an increase of \$14.0 million, from \$645.1 million at September 30, 2022. The increase was primarily attributable to a change in accumulated other comprehensive income ("AOCI"). The Company and Bank remained above the federal regulatory minimum capital requirements at December 31, 2022, and continued to be classified as well-capitalized, and in good standing with the regulatory agencies. See "Liquidity and Capital Resources" for further information.

Noninterest-bearing Checking Deposits. The Company may hold negative balances associated with cardholder programs in the BaaS business line that are included within noninterest-bearing deposits on the Company's Condensed Consolidated Statements of Financial Condition. Negative balances can relate to any of the following payments functions:

- Prefundings: The Company deploys funds to cards prior to receiving cash (typically 2-3 days) where the prefunding balance is netted at a pooled partner level utilizing ASC 210-20.
- Discount fundings: The Company funds cards in alignment to expected breakage values on the card. Consumers may spend more than is estimated. These discounts are netted at a pooled partner level using ASC 210-20. The majority of these discount fundings relate to a small number of partners, and analyzed on an ongoing basis.
- Demand Deposit Account ("DDA") overdrafts: Certain programs offered allow cardholders traditional DDA overdraft protection services whereby cardholders can spend a limited amount in excess of their available card balance. When overdrawn, these accounts are re-classified as loans on the balance sheet within the Consumer Finance category.

The Company meets the Right of Set off criteria in ASC 210-20, Balance Sheet - Offsetting, for all payments negative deposit balances with the exception of DDA overdrafts. The following table summarizes the Company's negative deposit balances within the BaaS business line:

| (Dollars in thousands) | December 31, 2022 | September 30, 2022 |
|-----------------------------------|---------------------|---------------------|
| Noninterest-bearing deposits | \$ 5,903,642 | \$ 5,916,142 |
| Prefunding | (292,943) | (244,462) |
| Discount funding | (22,652) | (15,991) |
| DDA overdrafts | (8,921) | (8,587) |
| Noninterest-bearing checking, net | <u>\$ 5,579,126</u> | <u>\$ 5,647,102</u> |

Custodial Off-Balance Sheet Deposits. The Bank utilizes a custodial deposit transference structure for certain prepaid and deposit programs whereby the Bank, acting as custodian of cardholder funds, places a portion of such cardholder funds that are not needed to support near term settlement at one or more third-party banks insured by the FDIC (each, a "Program Bank"). Accounts opened at Program Banks are established in the Bank's name as custodian, for the benefit of the Bank's cardholders. The Bank remains the issuer of all cards and holder of all accounts under the applicable cardholder agreements and has sole custodial control and transaction authority over the accounts opened at Program Banks.

The Bank maintains the records of each cardholder's deposits maintained at Program Banks. Program Banks undergo robust due diligence prior to becoming a Program Bank and are also subject to continuous monitoring.

In return for record keeping services at Program Banks, the Bank receives a servicing fee ("Servicing Fee"). For the three months ended December 31, 2022, the Company recognized \$12.9 million in servicing fee income as compared to an insignificant amount for the three months ended December 31, 2021. The Servicing Fee has been typically reflective of the EFFR upon a renegotiation of the contracts with Program Banks.

As of December 31, 2022, the Company managed \$2.23 billion of customer deposits at other banks in its capacity as custodian. The balance of these deposits increased \$915.9 million as of December 31, 2022 as compared to \$1.31 billion at September 30, 2022 primarily due to seasonal activity. These deposits provide the Company with excess deposits that can earn record keeping service fee income, typically reflective of the EFFR.

Approximately 43% of the deposit portfolio as of December 31, 2022 are subject to variable card processing expenses that are derived from the terms of contractual agreements with certain BaaS partners. These agreements are tied to a rate index, typically the EFFR.

RESULTS OF OPERATIONS

General

The Company recorded net income of \$27.8 million, or \$0.98 per diluted share, for the three months ended December 31, 2022, compared to net income of \$61.3 million, or \$2.00 per diluted share, for the three months ended December 31, 2021. Total revenue for the fiscal 2023 first quarter was \$149.8 million, a decrease of \$8.4 million, or 5%, compared to the same quarter in fiscal 2022, primarily driven by the \$50.0 million gain on sale of trademarks recognized during the prior year period, partially offset by an increase in interest income and the \$10.0 million gain on sale of trademarks recognized during the three months ended December 31, 2022.

Net Interest Income

Net interest income for the fiscal 2023 first quarter was \$84.1 million, an increase of 17%, from the same quarter in fiscal 2022. The increase was mainly attributable to increased yields and an improved earning asset mix.

The first quarter average outstanding balance of loans and leases decreased \$182.1 million compared to the same quarter of the prior year, primarily due to a reduction in warehouse finance loans and the sales of the remaining community bank and student loan portfolios, partially offset by an increase in the commercial finance loans. The Company's average interest-earning assets for the first fiscal quarter decreased by \$249.2 million to \$5.93 billion compared with the same quarter in fiscal 2022, primarily due to a reduction in cash balances as a result of high cash levels during the prior year period related to the Company's participation in government stimulus programs. The decrease in interest-earnings assets was partially offset by growth in total investments and commercial finance loans and leases.

Fiscal 2023 first quarter NIM increased to 5.62% from 4.59% in the first fiscal quarter of last year. The overall reported tax equivalent yield ("TEY") on average earning assets increased by 101 basis points to 5.70% compared to the prior year quarter, primarily driven by an increase in loan and lease and investment securities yields, along with a decrease in lower-yielding cash balances. The yield on the loan and lease portfolio was 7.70% compared to 6.96% for the comparable period last year and the TEY on the securities portfolio was 2.76% compared to 1.58% for that same period.

The Company's cost of funds for all deposits and borrowings averaged 0.07% during the fiscal 2023 first quarter, as compared to 0.08% during the prior year quarter. The Company's overall cost of deposits was 0.01% in the fiscal 2023 first quarter, the same as the prior year quarter.

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. The balances presented in the table below are calculated on a daily average balance. Tax-equivalent adjustments have been made in yield on interest-bearing assets and net interest margin. Nonaccruing loans and leases have been included in the table as loans carrying a zero yield.

| | Three Months Ended December 31, | | | | | |
|---|---------------------------------|------------------------|-----------------------------|-----------------------------|------------------------|-----------------------------|
| | 2022 | | | 2021 | | |
| | Average Outstanding Balance | Interest Earned / Paid | Yield / Rate ⁽¹⁾ | Average Outstanding Balance | Interest Earned / Paid | Yield / Rate ⁽¹⁾ |
| (Dollars in thousands) | | | | | | |
| Interest-earning assets: | | | | | | |
| Cash and fed funds sold | \$ 226,004 | \$ 1,716 | 3.01 % | \$ 594,614 | \$ 560 | 0.37 % |
| Mortgage-backed securities | 1,571,022 | 10,412 | 2.63 % | 1,007,030 | 3,864 | 1.52 % |
| Tax exempt investment securities | 154,754 | 980 | 3.18 % | 207,621 | 820 | 1.98 % |
| Asset-backed securities | 155,988 | 1,149 | 2.92 % | 387,567 | 1,152 | 1.18 % |
| Other investment securities | 301,739 | 2,407 | 3.17 % | 279,839 | 1,460 | 2.07 % |
| Total investments | 2,183,503 | 14,948 | 2.76 % | 1,882,057 | 7,296 | 1.58 % |
| Commercial finance | 3,010,868 | 58,100 | 7.66 % | 2,775,394 | 49,021 | 7.01 % |
| Consumer finance | 198,372 | 4,313 | 8.63 % | 316,573 | 6,114 | 7.66 % |
| Tax services | 25,230 | 57 | 0.90 % | 33,604 | 1,474 | 17.40 % |
| Warehouse finance | 290,454 | 5,926 | 8.09 % | 443,506 | 6,901 | 6.17 % |
| Community banking | — | — | — % | 137,898 | 1,525 | 4.39 % |
| Total loans and leases⁽³⁾ | 3,524,924 | 68,396 | 7.70 % | 3,706,975 | 65,035 | 6.96 % |
| Total interest-earning assets | 5,934,431 | \$ 85,060 | 5.70 % | 6,183,646 | \$ 72,891 | 4.69 % |
| Noninterest-earning assets | 589,580 | | | 839,854 | | |
| Total assets | \$ 6,524,011 | | | \$ 7,023,500 | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing checking | \$ 447 | \$ — | 0.33 % | \$ 389 | \$ — | 0.32 % |
| Savings | 62,607 | 6 | 0.04 % | 80,765 | 5 | 0.03 % |
| Money markets | 138,872 | 78 | 0.22 % | 75,664 | 52 | 0.27 % |
| Time deposits | 7,199 | 2 | 0.11 % | 8,619 | 15 | 0.67 % |
| Wholesale deposits | 5,712 | 56 | 3.89 % | 67,384 | 69 | 0.41 % |
| Total interest-bearing deposits | 214,837 | 142 | 0.26 % | 232,821 | 141 | 0.24 % |
| Overnight fed funds purchased | 24,783 | 244 | 3.91 % | 327 | — | 0.31 % |
| Subordinated debentures | 19,593 | 357 | 7.22 % | 73,995 | 986 | 5.28 % |
| Other borrowings | 15,817 | 260 | 6.53 % | 18,636 | 151 | 3.22 % |
| Total borrowings | 60,193 | 861 | 5.67 % | 92,958 | 1,137 | 4.85 % |
| Total interest-bearing liabilities | 275,030 | 1,003 | 1.45 % | 325,779 | 1,278 | 1.56 % |
| Noninterest-bearing deposits | 5,421,821 | — | — % | 5,688,563 | — | — % |
| Total deposits and interest-bearing liabilities | 5,696,851 | \$ 1,003 | 0.07 % | 6,014,342 | \$ 1,278 | 0.08 % |
| Other noninterest-bearing liabilities | 178,789 | | | 182,916 | | |
| Total liabilities | 5,875,640 | | | 6,197,258 | | |
| Shareholders' equity | 648,371 | | | 826,242 | | |
| Total liabilities and shareholders' equity | \$ 6,524,011 | | | \$ 7,023,500 | | |
| Net interest income and net interest rate spread including noninterest-bearing deposits | | \$ 84,057 | 5.63 % | | \$ 71,613 | 4.61 % |
| Net interest margin | | | 5.62 % | | | 4.59 % |
| Tax-equivalent effect | | | 0.02 % | | | 0.02 % |
| Net interest margin, tax-equivalent⁽²⁾ | | | 5.64 % | | | 4.61 % |

⁽¹⁾ Tax rate used to arrive at the TEY for the three months ended December 31, 2022 and 2021 was 21%.

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

⁽³⁾ Included in the yield computation are net loan fees of \$6.5 million and \$8.2 million for the three months ended December 31, 2022 and 2021, respectively.

Provision for Credit Losses

The Company recognized a provision for credit losses of \$9.8 million for the quarter ended December 31, 2022, compared to \$0.2 million of provision for credit losses expense for the comparable period in the prior fiscal year. The increase in provision for credit losses during the current quarter compared to the prior year period was primarily driven by the release of provision for credit losses related to the community bank portfolio during the prior year period. Net charge-offs were \$3.2 million for the quarter ended December 31, 2022, compared to \$1.1 million for the quarter ended December 31, 2021. Net charge-offs attributable to the commercial finance, tax services, and consumer finance portfolios for the current quarter were \$2.0 million, \$1.0 million, and \$0.2 million, respectively.

Noninterest Income

Fiscal 2023 first quarter noninterest income decreased to \$65.8 million from \$86.6 million for the same period of the prior year. The decrease was primarily attributable to the gain on sale of trademarks as the Company recognized a \$10.0 million gain during the current quarter as compared to a \$50.0 million gain during the same period of the prior year. The period over period decrease was partially offset by increases in card and deposit fee income, gain on sale of other, other income, and rental income.

The increase in card and deposit fee income was primarily from servicing fee income on off-balance sheet deposits, which totaled \$12.9 million during the fiscal 2023 first quarter, as compared to an insignificant amount for the fiscal quarter ended December 31, 2021.

Noninterest Expense

Noninterest expense increased 27% to \$105.1 million for the fiscal 2023 first quarter, from \$82.4 million for the same quarter last year. The increase was primarily attributable to increases in card processing expense, compensation expense, legal and consulting expense, and operating lease equipment depreciation.

The card processing expense increase was due to structured agreements with BaaS partners. The amount of expense paid under those agreements is based on an agreed upon rate index that varies depending on the deposit levels, floor rates, market conditions, and other performance conditions. Generally, this rate index averages between 50% to 85% of the EFFR and reprices immediately upon a change in the EFFR. Approximately 43% of the deposit portfolio was subject to these higher card processing expenses. For the fiscal quarter ended December 31, 2022, card processing expenses related to these structured agreements were \$14.0 million, as compared to \$0.1 million for the fiscal quarter ended December 31, 2021.

Income Tax Expense

The Company recorded an income tax expense of \$6.6 million, representing an effective tax rate of 18.8%, for the fiscal 2023 first quarter, compared to income tax expense of \$14.3 million, representing an effective tax rate of 18.9%, for the first quarter last year. The current quarter decrease in income tax expense was primarily due to decreased earnings.

The Company originated \$11.4 million in solar leases during the fiscal 2023 first quarter, resulting in \$3.1 million in total net investment tax credits. During the first quarter of fiscal 2022, the Company originated \$21.2 million in solar leases resulting in \$5.7 million in total net investment tax credits. Investment tax credits related to solar leases are recognized ratably based on income throughout each fiscal year. The timing and impact of future solar tax credits are expected to vary from period to period, and the Company intends to undertake only those tax credit opportunities that meet the Company's underwriting and return criteria.

Asset Quality

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

Loans and leases, or portions thereof, are charged-off when collection of principal becomes doubtful. Generally, this is associated with a delay or shortfall in payments of greater than 210 days for insurance premium finance, 180 days for tax and other specialty lending loans, 120 days for consumer credit products and 90 days for other loans.

Action is taken to charge off ERO loans if such loans have not been collected by the end of June and refund advance loans if such loans have not been collected by the end of the calendar year. Nonaccrual loans and troubled debt restructurings are generally considered impaired.

The Company believes that the level of allowance for credit losses at December 31, 2022 was appropriate and reflected probable losses related to these loans and leases; however, there can be no assurance that all loans and leases will be fully collectible or that the present level of the allowance will be adequate in the future. See the section below titled “Allowance for Credit Losses” for further information.

The table below sets forth the amounts and categories of the Company's nonperforming assets.

| (Dollars in thousands) | December 31, 2022 | September 30, 2022 |
|--|-------------------|--------------------|
| Nonperforming Loans and Leases | | |
| <u>Nonaccruing loans and leases:</u> | | |
| Commercial finance | \$ 25,077 | \$ 13,375 |
| Total nonaccruing loans and leases | 25,077 | 13,375 |
| <u>Accruing loans and leases delinquent 90 days or more:</u> | | |
| Commercial finance | 13,281 | 4,142 |
| Consumer finance | 2,493 | 2,793 |
| Tax services ⁽¹⁾ | — | 8,873 |
| Total accruing loans and leases delinquent 90 days or more | 15,774 | 15,808 |
| Total nonperforming loans and leases | 40,851 | 29,183 |
| Other Assets | | |
| Nonperforming operating leases | 4,188 | 1,736 |
| <u>Foreclosed and repossessed assets:</u> | | |
| Commercial finance | — | 1 |
| Total foreclosed and repossessed assets | — | 1 |
| Total other assets | 4,188 | 1,737 |
| Total nonperforming assets | \$ 45,039 | \$ 30,920 |
| Total as a percentage of total assets | 0.68 % | 0.46 % |

⁽¹⁾ Certain tax services loans do not bear interest.

The Company's nonperforming loans and leases at December 31, 2022 were \$40.9 million, representing 1.16% of total gross loans and leases, compared to \$29.2 million, or 0.82% of total gross loans and leases at September 30, 2022. The increase in the nonperforming assets as a percentage of total assets at December 31, 2022 compared to September 30, 2022, was driven by an increase in nonperforming loans in the commercial finance portfolio, primarily due to one lending relationship that moved to nonperforming during the period. The increase was partially offset by a decrease in nonperforming tax services loans due to seasonal timing.

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

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

On the basis of management’s review of its loans, leases, and other assets, at December 31, 2022, the Company had classified loans and leases of \$199.4 million as substandard, \$3.9 million as doubtful and none as loss. At September 30, 2022, the Company classified loans and leases of \$203.7 million as substandard, \$4.0 million as doubtful and none as loss.

Allowance for Credit Losses. The ACL represents management’s estimate of current credit losses expected to be incurred by the loan and lease portfolio over the life of each financial asset as of the balance sheet date. The Company individually evaluates loans and leases that do not share similar risk characteristics with other financial assets, which generally means loans and leases identified as troubled debt restructurings or loans and leases on nonaccrual status. All other loans and leases are evaluated collectively for credit loss. A reserve for unfunded credit commitments such as letters of credit and binding unfunded loan commitments is recorded in other liabilities on the Condensed Consolidated Statements of Financial Condition.

Individually evaluated loans and leases are a key component of the ACL. Generally, the Company measures credit loss on individually evaluated loans based on the fair value of the collateral less estimated selling costs, as the Company considers these financial assets to be collateral dependent. If an individually evaluated loan or lease is not collateral dependent, credit loss is measured at the present value of expected future cash flows discounted at the loan or lease initial effective interest rate.

The Company’s ACL totaled \$52.6 million at December 31, 2022, an increase compared to \$45.9 million at September 30, 2022. The increase in the ACL at December 31, 2022, when compared to September 30, 2022, was primarily due to a \$4.7 million increase in the commercial finance portfolio, a \$1.4 million increase in the consumer finance portfolio and a \$0.6 million increase in the seasonal tax services loan portfolio.

The following table presents the Company’s ACL as a percentage of its total loans and leases.

| | As of the Period Ended | | | | |
|--|------------------------|--------------------|---------------|----------------|-------------------|
| | December 31, 2022 | September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 |
| Commercial finance | 1.62 % | 1.46 % | 1.56 % | 1.66 % | 2.04 % |
| Consumer finance | 1.54 % | 0.86 % | 2.44 % | 3.18 % | 2.70 % |
| Tax services | 2.01 % | 0.05 % | 54.29 % | 35.76 % | 1.60 % |
| Warehouse finance | 0.10 % | 0.10 % | 0.10 % | 0.10 % | 0.10 % |
| Total loans and leases | 1.50 % | 1.30 % | 2.04 % | 2.38 % | 1.84 % |
| Total loans and leases excluding tax services | 1.50 % | 1.30 % | 1.44 % | 1.59 % | 1.84 % |

The Company’s ACL as a percentage of total loans and leases increased to 1.50% at December 31, 2022 from 1.30% at September 30, 2022. The increase in the total loans and leases coverage ratio was primarily driven by the commercial and consumer finance portfolios. The increase in the commercial finance coverage ratio was primarily due to a specific reserve on an individually evaluated loan relationship while the increase in consumer finance was related to seasonal activity. The Company expects to continue to diligently monitor the ACL and adjust as necessary in future periods to maintain an appropriate and supportable level.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's financial statements are prepared in accordance with GAAP. The financial information contained within these financial statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. Management has identified its critical accounting policies, which are those policies that, in management's view, are most important in the portrayal of our financial condition and results of operations. These policies involve complex and subjective decisions and assessments. Some of these estimates may be uncertain at the time they are made, could change from period to period, and could have a material impact on the financial statements. A discussion of the Company's critical accounting policies and estimates can be found in the Company's Annual Report on Form 10-K for the year ended September 30, 2022. There were no significant changes to these critical accounting policies and estimates during the first three months of fiscal 2023.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, derived principally through its BaaS business line, borrowings, principal and interest payments on loans and leases and mortgage-backed securities, and maturing investment securities. In addition, the Company utilizes wholesale deposit sources to provide temporary funding when necessary or when favorable terms are available. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments are influenced by the level of interest rates, general economic conditions and competition. The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposit and loan commitments, to maintain liquidity, and to meet operating expenses.

At December 31, 2022, the Company had unfunded loan and lease commitments of \$1.24 billion. Management believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

As U.S. banking organizations, the Company and the Bank are required to comply with the regulatory capital rules adopted by the Federal Reserve and the OCC (the "Capital Rules") that became effective on January 1, 2015, subject to phase-in periods for certain requirements and other provisions of the Capital Rules. Under the Capital Rules and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

The Capital Rules require the Company and the Bank to maintain minimum ratios (set forth in the table below) of total risk-based capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier 1 capital (as defined) to average assets (as defined). At December 31, 2022, both the Company and the Bank exceeded federal regulatory minimum capital requirements to be classified as well-capitalized under the prompt corrective action requirements. The Company and the Bank took the AOCI opt-out election; under the rule, non-advanced approach banking organizations were given a one-time option to exclude certain AOCI components.

The tables below include certain non-GAAP financial measures that are used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews these measures along with other measures of capital as part of its financial analyses and has included this non-GAAP financial information, and corresponding reconciliation to total equity. The decrease in Tier 1 leverage capital ratio for the period is the result of higher quarterly average assets related to its seasonal tax business. Regulatory Capital is not affected by the unrealized loss on AOCI. The securities portfolio is made up of nearly all amortizing securities that should provide consistent cash flow and is not expected to require sales to realize the losses to fund future loan growth.

| At December 31, 2022 | Company | Bank | Minimum to be Adequately Capitalized Under Prompt Corrective Action Provisions | Minimum to be Well Capitalized Under Prompt Corrective Action Provisions |
|------------------------------------|---------|--------|--|--|
| Tier 1 leverage capital ratio | 8.37 % | 8.68 % | 4.00 % | 5.00 % |
| Common equity Tier 1 capital ratio | 12.31 | 13.09 | 4.50 | 6.50 |
| Tier 1 capital ratio | 12.63 | 13.09 | 6.00 | 8.00 |
| Total capital ratio | 14.29 | 14.29 | 8.00 | 10.00 |

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

| (Dollars in thousands) | Standardized Approach ⁽¹⁾ December 31, 2022 |
|---|---|
| Total stockholders' equity | \$ 659,133 |
| Adjustments: | |
| LESS: Goodwill, net of associated deferred tax liabilities | 298,788 |
| LESS: Certain other intangible assets | 25,053 |
| LESS: Net deferred tax assets from operating loss and tax credit carry-forwards | 16,641 |
| LESS: Net unrealized gains (losses) on available for sale securities | (200,597) |
| LESS: Noncontrolling interest | (207) |
| ADD: Adoption of Accounting Standards Update 2016-13 | 2,017 |
| Common Equity Tier 1 ⁽¹⁾ | 521,472 |
| Long-term borrowings and other instruments qualifying as Tier 1 | 13,661 |
| Tier 1 minority interest not included in common equity Tier 1 capital | (138) |
| Total Tier 1 capital | 534,995 |
| Allowance for credit losses | 50,853 |
| Subordinated debentures, net of issuance costs | 19,521 |
| Total capital | \$ 650,369 |

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

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

| (Dollars in thousands) | At December 31, 2022 |
|---------------------------------------|----------------------|
| Total stockholders' equity | \$ 659,133 |
| LESS: Goodwill | 309,505 |
| LESS: Intangible assets | 24,433 |
| Tangible common equity | 325,195 |
| LESS: AOCI | (201,690) |
| Tangible common equity excluding AOCI | \$ 526,885 |

Since January 1, 2016, the Company and the Bank have been required to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively composed of Common Equity Tier 1 capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. The required Common Equity Tier 1 risk-based, Tier 1 risk-based and total risk-based capital ratios with the buffer are currently 7.0%, 8.5% and 10.5%, respectively.

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

CONTRACTUAL OBLIGATIONS

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations" in the Company's Annual Report on Form 10-K for its fiscal year ended September 30, 2022 for a summary of our contractual obligations as of September 30, 2022. There were no material changes outside the ordinary course of our business in contractual obligations from September 30, 2022 through December 31, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

MARKET RISK

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

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

The Company's primary objective for its investment portfolio is to provide a source of liquidity for the Company. In addition, the investment portfolio may be used in the management of the Company's interest rate risk profile. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between minimizing risk while maximizing yield, the need to provide collateral for borrowings, and the need to fulfill the Company's asset/liability management goals.

The Company believes that its growing portfolio of longer duration, low-cost deposits generated from its BaaS business line provides a stable and profitable funding vehicle, but also subjects the Company to greater risk in a falling interest rate environment than it would otherwise have without this portfolio. This risk is due to the fact that, while asset yields may decrease in a falling interest rate environment, the Company cannot significantly reduce interest costs associated with these deposits, which thereby compress the Company's net interest margin.

A portion of the Company's deposit balances are subject to variable card processing expenses, derived from contractual agreements with certain BaaS partners tied to a rate index, typically the EFFR. These costs reprice immediately upon a change in the application rate index.

The Bank, acting as custodian of cardholder funds, places a portion of such cardholder funds at one or more third-party banks insured by the FDIC (each, a "Program Bank"). These custodial deposits earn recordkeeping service fee income, typically reflective of the EFFR.

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

Interest Rate Risk ("IRR")

Overview. The Company actively manages interest rate risk, as changes in market interest rates can have a significant impact on reported earnings. The Company's interest rate risk analysis is designed to compare income and economic valuation simulations in market scenarios designed to alter the direction, magnitude and speed of interest rate changes, as well as the slope of the yield curve. This analysis may not represent all impacts driven by changes in the interest rate environment. The Company does not currently engage in trading activities to control interest rate risk although it may do so in the future, if deemed necessary, to help manage interest rate risk.

Earnings at risk and economic value analysis. As a continuing part of its financial strategy, the Bank considers methods of managing an asset/liability mismatch consistent with maintaining acceptable levels of net interest income. In order to monitor interest rate risk, the Company has created an Asset/Liability Committee whose principal responsibilities are to assess the Bank's asset/liability mix and implement strategies that will enhance income while managing the Bank's vulnerability to changes in interest rates.

The Company uses two approaches to model interest rate risk: Earnings at Risk ("EAR analysis") and Economic Value of Equity ("EVE analysis"). Under EAR analysis, net interest income is calculated for each interest rate scenario and compared to the net interest income forecast in the base case. EAR analysis measures the sensitivity of interest-sensitive earnings over a one-year minimum time horizon. The results are affected by projected rates, prepayments, caps and floors. Management exercises its best judgment in making assumptions regarding events that management can influence, such as non-contractual deposit re-pricing, as well as events outside of management's control, such as customer behavior on loan and deposit activity and the effect that competition has on both lending and deposit pricing. These assumptions are subjective and, as a result, net interest income simulation results will differ from actual results due to the timing, magnitude, and frequency of interest rate changes, changes in market conditions, customer behavior and management strategies, among other factors. The Company performs various sensitivity analyses on assumptions of deposit attrition, loan prepayments, and asset re-pricing, as well as market-implied forward rates and various likely and extreme interest rate scenarios, including rapid and gradual interest rate ramps, rate shocks and yield curve twists.

The EAR analysis used in the following table reflects the required analysis used no less than quarterly by management. It models basis point parallel shifts in market interest rates over the next one-year period. The following table shows the results of the scenarios as of December 31, 2022:

Net Sensitive Earnings at Risk

| (Dollars in Thousands) | Book Value | Change in Interest Income/Expense for a given change in interest rates | | | | | | |
|----------------------------------|------------|---|---------|---------|---------|---------|---------|---------|
| | | Over/(Under) Base Case Parallel Shift | | | | | | |
| | | -200 | -100 | Base | +100 | +200 | +300 | +400 |
| Total interest-sensitive income | 5,777,164 | 321,495 | 344,040 | 367,056 | 389,668 | 412,211 | 434,646 | 457,296 |
| Total interest-sensitive expense | 211,801 | 3,465 | 4,924 | 6,747 | 9,195 | 11,649 | 14,170 | 16,663 |
| Net interest-sensitive income | | 318,030 | 339,116 | 360,309 | 380,473 | 400,562 | 420,476 | 440,633 |
| Percentage change from base | | -11.7 % | -5.9 % | — % | 5.6 % | 11.2 % | 16.7 % | 22.3 % |

The EAR analysis reported at December 31, 2022, shows that total interest-sensitive income will change more rapidly than total interest-sensitive expense over the next year. IRR is a snapshot in time. The Company's business and deposits are predictably cyclical on a weekly, monthly and yearly basis. The Company's static IRR results could vary depending on which day of the week the month ends, primarily related to payroll processing and timing of when certain programs are prefunded and when the funds are received.

Under EVE analysis, the economic value of financial assets, liabilities and off-balance sheet instruments is derived under each rate scenario. The economic value of equity is calculated as the difference between the estimated market value of assets and liabilities, net of the impact of off-balance sheet instruments.

The EVE analysis used in the following table reflects the required analysis used no less than quarterly by management. It models immediate basis point parallel shifts in market interest rates. The following table shows the results of the scenarios as December 31, 2022:

Economic Value Sensitivity

| | Standard (Parallel Shift) | | | | | |
|-----------------------------|------------------------------------|--------|-------|-------|-------|-------|
| | Economic Value of Equity at Risk % | | | | | |
| | -200 | -100 | +100 | +200 | +300 | +400 |
| Percentage change from base | -8.7 % | -3.4 % | 2.4 % | 4.3 % | 5.9 % | 7.9 % |

The EVE at risk reported at December 31, 2022 shows that the economic value of equity position is expected to benefit from rising interest rates due to the large amount of noninterest-bearing funding.

Item 4. Controls and Procedures.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

In connection with the preparation of this Quarterly Report on Form 10-Q, management evaluated the Company's disclosure controls and procedures. The evaluation was performed under the direction of the Company's Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of December 31, 2022, of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, at December 31, 2022, the Company's disclosure controls and procedures were not designed effectively to ensure timely alerting of material information relating to the Company required to be included in the Company's periodic SEC filings.

In the fiscal fourth quarter of 2021 and the fiscal third quarter of 2022, the Company identified control deficiencies related to access permissions in two loan systems which resulted in a lack of segregation of duties over disbursements in which select individuals had the ability to both initiate and approve disbursements indicating that the user access provisioning and user entitlement review monitoring controls did not function to a precise level to ensure segregation of duties was maintained. Management determined that the combination of user access provisioning and user entitlement review deficiencies represent a material weakness in internal controls over financial reporting on the basis that the deficiencies could result in a misstatement potentially impacting the Company's financial statement accounts and disclosures that would not be prevented or detected on a timely basis.

REMEDATION PLAN FOR REPORTED MATERIAL WEAKNESS

Annual entitlement review for the loan system identified in the fourth quarter of 2021 was performed in March 2022 and no inappropriate access was identified.

For the loan system identified with inappropriate system access in fiscal third quarter of 2022, management removed access for the individuals that had inappropriate access and performed testing of disbursements during the impacted period and did not identify any instances where the segregation of the disbursement over initiation and approval was not maintained. In May, management also implemented an IT application control to identify instances where the initiator and approver are the same to prevent disbursement from occurring.

The Company is in the midst of undergoing a broader risk assessment and other remediation actions, across all material applications, and is on track with the stated project plan. These remediation steps will strengthen the control environment surrounding user access controls.

INHERENT LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the three months ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Based on this evaluation, management concluded that, as of the end of the period covered by this report, there were changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) that were reported in the prior fiscal year that are still under remediation and continue during the fiscal first quarter to which this report relates that could have materially affected the Company's internal controls over financial reporting, as described above.

PATHWARD FINANCIAL, INC.
PART II - OTHER INFORMATION

FORM 10-Q

Item 1. Legal Proceedings.

There are no material pending legal proceedings to which we are a party or to which any of our properties are subject. There are no material proceedings known to us to be contemplated by any governmental authority. We are involved in a variety of litigation matters in the ordinary course of our business and anticipate that we will become involved in new litigation matters in the future.

Item 1A. Risk Factors.

A description of our risk factors can be found in "Item 1A. Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2022. There were no material changes to those risk factors during the three months ended December 31, 2022.

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

(a) None.

(b) None.

(c) Issuer Purchases of Equity Securities.

The Company's Board of Directors authorized a 6,000,000 share repurchase program on September 3, 2021 that was publicly announced on September 7, 2021 and is scheduled to expire on September 30, 2024. The table below sets forth information regarding repurchases of our common stock during the fiscal 2023 first quarter.

| Period | Total Number of Shares Repurchased ⁽¹⁾ | Average Price Paid per Share ⁽¹⁾⁽²⁾ | Total Number Of Shares Purchased As Part of Publicly Announced Plans or Programs | Maximum Number Of Shares that may yet be Purchased Under the Plans or Programs |
|------------------|---|--|--|--|
| October 1 to 31 | 453,391 | \$ 35.34 | 396,100 | 3,898,877 |
| November 1 to 30 | — | — | — | 3,898,877 |
| December 1 to 31 | 257,894 | 42.61 | 257,894 | 3,640,983 |
| Total | 711,285 | | 653,994 | |

⁽¹⁾ All shares not purchased as part of the Company's publicly announced repurchase program were acquired in satisfaction of the tax withholding obligations of holders of restricted stock unit awards, which vested during the quarter.

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

Item 6. Exhibits.

| Exhibit Number | Description |
|----------------------|--|
| 3.2 | Fourth Amended and Restated Bylaws of the Company, filed on December 12, 2022 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference. |
| 31.1 | Section 302 certification of Chief Executive Officer. |
| 31.2 | Section 302 certification of Chief Financial Officer. |
| 32.1 | Section 906 certification of Chief Executive Officer. |
| 32.2 | Section 906 certification of Chief Financial Officer. |
| 101 | The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2022 formatted in Inline Extensible Business Reporting Language (iXBRL) includes: (i) Cover Page, (ii) Condensed Consolidated Statements of Financial Condition, (iii) Condensed Consolidated Statements of Operations, (iv) Condensed Consolidated Statements of Comprehensive Income, (v) Condensed Consolidated Statements of Changes in Stockholders' Equity, (vi) Condensed Consolidated Statements of Cash Flows, and (vii) Notes to Condensed Consolidated Financial Statements, tagged in summary and in detail. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

PATHWARD FINANCIAL, 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.

PATHWARD FINANCIAL, INC.

Date: February 7, 2023

By: /s/ Brett L. Pharr
Brett L. Pharr,
Chief Executive Officer and Director

Date: February 7, 2023

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

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

I, Brett L. Pharr, certify that:

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

Date: February 7, 2023

/s/ Brett L. Pharr
Chief Executive Officer and Director

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

I, Glen W. Herrick, certify that:

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

Date: February 7, 2023

/s/ Glen W. Herrick

Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Pathward Financial, Inc. (the "Company") for the quarterly period ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brett L. Pharr, the Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Brett L. Pharr

Name: Brett L. Pharr

Chief Executive Officer and Director

February 7, 2023

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

In connection with the Quarterly Report on Form 10-Q of Pathward Financial, Inc. (the "Company") for the quarterly period ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Glen W. Herrick, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Glen W. Herrick

Name: Glen W. Herrick

Executive Vice President and Chief Financial Officer

February 7, 2023