

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 March 31, 2024

or

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

42-1406262

(State or other jurisdiction of incorporation or organization)

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

5501 South Broadband Lane, Sioux Falls, South Dakota 57108

(Address of principal executive offices and Zip Code)

(877) 497-7497

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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, a 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 May 1, 2024:

Common Stock, \$.01 par value

25,270,584 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)	March 31, 2024	September 30, 2023
ASSETS	(Unaudited)	(Audited)
Cash and cash equivalents	\$ 347,888	\$ 375,580
Securities available for sale, at fair value	1,779,458	1,804,228
Securities held to maturity, at amortized cost (fair value \$ 31,113 and \$ 31,425 , respectively)	34,682	36,591
Federal Reserve Bank and Federal Home Loan Bank Stock, at cost	25,844	28,210
Loans held for sale	25,946	77,779
Loans and leases	4,409,385	4,366,116
Allowance for credit losses	(80,777)	(49,705)
Accrued interest receivable	30,294	23,282
Premises, furniture, and equipment, net	37,266	39,160
Rental equipment, net	215,885	211,750
Goodwill and intangible assets	328,001	330,225
Other assets	283,245	292,327
Total assets	\$ 7,437,117	\$ 7,535,543
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	\$ 6,368,344	\$ 6,589,182
Short-term borrowings	31,000	13,000
Long-term borrowings	33,373	33,873
Accrued expenses and other liabilities	264,938	248,863
Total liabilities	6,697,655	6,884,918
STOCKHOLDERS' EQUITY		
Preferred stock, 3,000,000 shares authorized, no shares issued, none outstanding at March 31, 2024 and September 30, 2023, respectively	—	—
Common stock, \$ 0.01 par value; 90,000,000 shares authorized, 25,507,915 and 26,225,563 shares issued, 25,377,986 and 26,183,583 shares outstanding at March 31, 2024 and September 30, 2023, respectively	254	262
Common stock, Nonvoting, \$ 0.01 par value; 3,000,000 shares authorized, no shares issued, none outstanding at March 31, 2024 and September 30, 2023, respectively	—	—
Additional paid-in capital	634,415	628,500
Retained earnings	317,964	278,655
Accumulated other comprehensive loss	(206,570)	(255,443)
Treasury stock, at cost, 129,929 and 41,980 common shares at March 31, 2024 and September 30, 2023, respectively	(6,181)	(344)
Total equity attributable to parent	739,882	651,630
Noncontrolling interest	(420)	(1,005)
Total stockholders' equity	739,462	650,625
Total liabilities and stockholders' equity	\$ 7,437,117	\$ 7,535,543

See Notes to Condensed Consolidated Financial Statements.

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

(Dollars in thousands, except per share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Interest and dividend income:				
Loans and leases, including fees	\$ 102,750	\$ 83,879	\$ 197,713	\$ 152,275
Mortgage-backed securities	9,998	10,326	20,047	20,738
Other investments	14,013	10,482	24,899	16,734
	126,761	104,687	242,659	189,747
Interest expense:				
Deposits	6,685	2,096	10,211	2,238
FHLB advances and other borrowings	1,775	1,186	4,111	2,047
	8,460	3,282	14,322	4,285
Net interest income	118,301	101,405	228,337	185,462
Provision for credit loss	26,052	36,763	35,942	46,539
Net interest income after provision for credit loss	92,249	64,642	192,395	138,923
Noninterest income:				
Refund transfer product fees	28,942	30,205	29,364	30,882
Refund advance fee income	43,200	37,995	43,311	38,612
Card and deposit fees	35,344	42,087	66,094	79,805
Rental income	13,720	12,940	27,179	25,648
Gain on sale of trademarks	—	—	—	10,000
Gain (loss) on sale of other	1,695	(666)	4,535	(164)
Other income	6,044	4,477	11,223	8,032
Total noninterest income	128,945	127,038	181,706	192,815
Noninterest expense:				
Compensation and benefits	54,073	47,547	100,725	90,564
Refund transfer product expense	7,366	7,863	7,558	7,968
Refund advance expense	1,846	1,603	1,876	1,630
Card processing	35,163	26,924	69,747	49,607
Occupancy and equipment expense	9,293	8,510	18,141	16,822
Operating lease equipment depreciation	10,424	14,719	20,847	24,347
Legal and consulting	6,141	4,921	11,033	14,380
Intangible amortization	1,240	1,435	2,224	2,693
Impairment expense	2,013	500	2,013	524
Other expense	12,872	13,114	25,541	23,660
Total noninterest expense	140,431	127,136	259,705	232,195
Income before income tax expense	80,763	64,544	114,396	99,543
Income tax expense	15,246	9,176	20,965	15,753
Net income before noncontrolling interest	65,517	55,368	93,431	83,790
Net income attributable to noncontrolling interest	249	597	506	1,177
Net income attributable to parent	\$ 65,268	\$ 54,771	\$ 92,925	\$ 82,613
Earnings per common share:				
Basic	\$ 2.56	\$ 1.99	\$ 3.61	\$ 2.95
Diluted	\$ 2.56	\$ 1.99	\$ 3.61	\$ 2.95

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 March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Net income before noncontrolling interest	\$ 65,517	\$ 55,368	\$ 93,431	\$ 83,790
Other comprehensive income (loss):				
Change in net unrealized gain (loss) on debt securities	(23,414)	18,448	65,121	33,156
Unrealized gain (loss) on currency translation	(579)	60	39	447
Deferred income tax effect	(5,856)	4,647	16,287	8,352
Total other comprehensive income (loss)	(18,137)	13,861	48,873	25,251
Total comprehensive income	47,380	69,229	142,304	109,041
Total comprehensive income attributable to noncontrolling interest	249	597	506	1,177
Comprehensive income attributable to parent	\$ 47,131	\$ 68,632	\$ 141,798	\$ 107,864

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)	Common Stock		Additional Paid-in Capital		Accumulated Retained Earnings		Other Comprehensive Income (Loss)		Treasury Stock	Total Pathward Financial, Inc. Stockholders' Equity	Noncontrolling interest	Total Stockholders' Equity
	Common Stock	Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Total Pathward Financial, Inc. Stockholders' Equity	Noncontrolling interest	Total Stockholders' Equity				
Three Months Ended March 31, 2024												
Balance, December 31, 2023	\$ 260	\$ 629,737	\$ 293,463	\$ (188,433)	\$ (5,235)	\$ 729,792	\$ (510)	\$ 729,282				
Cash dividends declared on common stock (\$0.05 per share)	—	—	(1,267)	—	—	(1,267)	—	(1,267)				
Issuance of common stock due to restricted stock	2	—	—	—	—	2	—	2				
Repurchases of common stock	(8)	8	(39,500)	—	(946)	(40,446)	—	(40,446)				
Stock compensation	—	4,670	—	—	—	4,670	—	4,670				
Total other comprehensive loss	—	—	—	(18,137)	—	(18,137)	—	(18,137)				
Net income	—	—	65,268	—	—	65,268	249	65,517				
Net distribution to noncontrolling interest	—	—	—	—	—	—	(159)	(159)				
Balance, March 31, 2024	\$ 254	\$ 634,415	\$ 317,964	\$ (206,570)	\$ (6,181)	\$ 739,882	\$ (420)	\$ 739,462				
Three Months Ended March 31, 2023												
Balance, December 31, 2022	\$ 282	\$ 620,681	\$ 246,891	\$ (201,690)	\$ (6,824)	\$ 659,340	\$ (207)	\$ 659,133				
Cash dividends declared on common stock (\$0.05 per share)	—	—	(1,386)	—	—	(1,386)	—	(1,386)				
Repurchases of common stock	(11)	11	(55,230)	—	(119)	(55,349)	—	(55,349)				
Stock compensation	—	2,558	—	—	—	2,558	—	2,558				
Total other comprehensive income	—	—	—	13,861	—	13,861	—	13,861				
Net income	—	—	54,771	—	—	54,771	597	55,368				
Net distribution to noncontrolling interest	—	—	—	—	—	—	(941)	(941)				
Balance, March 31, 2023	\$ 271	\$ 623,250	\$ 245,046	\$ (187,829)	\$ (6,943)	\$ 673,795	\$ (551)	\$ 673,244				

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-in Capital			Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	Accumulated		Stockholders' Equity	Total Pathward Financial, Inc.	Total Stockholders' Equity
Six Months Ended March 31, 2024												
Balance, September 30, 2023	\$ 262	\$ 628,500	\$ 278,655	\$ (255,443)	\$ (344)	\$ 651,630	\$ (1,005)	\$ 650,625				
Cash dividends declared on common stock (\$ 0.10 per share)	—	—	(2,566)	—	—	(2,566)	—	(2,566)				
Issuance of common stock due to restricted stock	3	—	—	—	—	—	3	—	—			3
Repurchases of common stock	(11)	11	(50,527)	—	(5,837)	(56,364)	—	—	(56,364)			
Stock compensation	—	5,904	—	—	—	5,904	—	—	5,904			
Total other comprehensive income	—	—	—	48,873	—	48,873	—	—	48,873			
Joint venture membership interest divestiture	—	—	(523)	—	—	(523)	—	—	(523)			
Net income	—	—	92,925	—	—	92,925	506	93,431	—			
Net investment by noncontrolling interest	—	—	—	—	—	—	—	—	79	79		
Balance, March 31, 2024	\$ 254	\$ 634,415	\$ 317,964	\$ (206,570)	\$ (6,181)	\$ 739,882	\$ (420)	\$ 739,462				
Six Months Ended March 31, 2023												
Balance, September 30, 2022	\$ 288	\$ 617,403	\$ 245,394	\$ (213,080)	\$ (4,835)	\$ 645,170	\$ (30)	\$ 645,140				
Cash dividends declared on common stock (\$ 0.10 per share)	—	—	(2,788)	—	—	(2,788)	—	(2,788)				
Issuance of common stock due to restricted stock	1	—	—	—	—	—	1	—	—			1
Repurchases of common stock	(18)	18	(80,173)	—	(2,108)	(82,281)	—	—	(82,281)			
Stock compensation	—	5,829	—	—	—	5,829	—	—	5,829			
Total other comprehensive income	—	—	—	25,251	—	25,251	—	—	25,251			
Net income	—	—	82,613	—	—	82,613	1,177	83,790	—			
Net distribution to noncontrolling interest	—	—	—	—	—	—	—	(1,698)	(1,698)			
Balance, March 31, 2023	\$ 271	\$ 623,250	\$ 245,046	\$ (187,829)	\$ (6,943)	\$ 673,795	\$ (551)	\$ 673,244				

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended March 31,	
(Dollars in thousands)	2024	2023
Cash flows from operating activities:		
Net income before noncontrolling interest	\$ 93,431	\$ 83,790
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	29,457	34,390
Provision for credit loss	35,942	46,539
Provision for deferred taxes	4,059	2,545
Originations of loans held for sale	(933,786)	(608,628)
Proceeds from sales of loans held for sale	968,998	604,363
Net change in loans held for sale	17,924	652
Net realized (gain) on loans held for sale	(1,370)	(110)
Net realized (gain) on trademarks	—	(10,000)
Net realized (gain) loss on other	(3,165)	272
Impairment on rental equipment	2,013	24
Net change in accrued interest receivable	(7,012)	(4,455)
Net change in other assets	(13,724)	14,050
Net change in accrued expenses and other liabilities	16,729	14,568
Stock compensation	5,904	5,829
Net cash provided by operating activities	215,400	183,829
Cash flows from investing activities:		
Proceeds from maturities of and principal collected on securities available for sale	89,476	89,162
Proceeds from maturities of and principal collected on securities held to maturity	1,811	2,822
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	(183,010)	(120,160)
Redemption of Federal Reserve Bank and Federal Home Loan Bank stock	185,377	119,586
Purchases of loans and leases	(163,091)	(187,834)
Net change in loans and leases	255,909	191,195
Purchases of premises, furniture, and equipment	(3,592)	(3,428)
Purchases of rental equipment	(173,005)	(238,999)
Proceeds from sales of rental equipment	4,951	6,736
Net change in rental equipment	188	(153)
Proceeds from sales of foreclosed real estate and repossessed assets	—	1
Proceeds from sale of trademarks	—	10,000
Proceeds from sale of other assets	4,091	—
Net cash provided by (used in) investing activities	19,105	(131,072)
Cash flows from financing activities:		
Net change in deposits	(220,838)	36,659
Net change in short-term borrowings	18,000	43,000
Principal payments on other liabilities	(550)	—
Proceeds from other liabilities	—	(1,026)
Payment of debt issuance costs	—	(511)
Dividends paid on common stock	(2,566)	(2,788)
Issuance of common stock due to restricted stock	3	1
Repurchases of common stock	(56,364)	(82,281)
Investment by (distributions to) noncontrolling interest	79	(1,698)
Net cash (used in) financing activities	(262,236)	(8,644)
Effect of exchange rate changes on cash	39	447
Net change in cash and cash equivalents	(27,692)	44,560
Cash and cash equivalents at beginning of fiscal year	375,580	388,038
Cash and cash equivalents at end of fiscal period	\$ 347,888	\$ 432,598

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(Dollars in thousands)	Six Months Ended March 31,	
	2024	2023
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 12,608	\$ 4,273
Income taxes	9,694	7,842
Franchise and other taxes	398	472
Supplemental schedule of non-cash investing activities:		
Transfers		
Loans and leases to rental equipment	2,538	1,449
Rental equipment to loan and leases	143,752	202,330
Recognition of operating lease ROU assets, net of measurements	654	—
Joint venture membership interest divestiture	523	—

See Notes to Condensed Consolidated Financial Statements.

NOTE 1. BASIS OF PRESENTATION

The interim unaudited Condensed 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, 2023 included in Pathward Financial, Inc.'s ("Pathward Financial" or the "Company") Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on November 21, 2023. Accordingly, footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements have been omitted.

The financial information of the Company included herein has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and has been prepared pursuant to the rules and regulations for reporting on Form 10-Q and Rule 10-01 of Regulation S-X. Such information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of the three and six months ended March 31, 2024 are not necessarily indicative of the results expected for the fiscal year ending September 30, 2024.

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

Additionally, certain prior fiscal year amounts within Note 4. Loans and Leases, Net have been revised. Prior fiscal year tables that were revised include the amortized cost basis of loans and leases by asset classification and year of origination, nonaccrual loans and leases by year of origination, and loans and leases that are 90 days or more delinquent and accruing by year of origination. The revisions were related to the year of origination and did not impact total loan balances, total asset classification balances, total nonaccrual balances, or total past due loan balances.

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, 2023 remain substantially unchanged.

The following ASU became effective for the Company on October 1, 2023, and did not have a material impact on the Company's significant accounting policies or Condensed Consolidated Financial Statements:

ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this ASU eliminate accounting guidance for troubled-debt restructurings ("TDRs") by creditors in Subtopic ASC 310-40, Receivables – Troubled Debt Restructurings by Creditors, and enhance disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The ASU also requires current-period gross charge-offs by year of origination to be disclosed for loans and leases within scope of Topic 326.

NOTE 3. 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 March 31, 2024				
Corporate securities	\$ 25,000	\$ —	\$ (6,875)	\$ 18,125
SBA securities	91,979	—	(7,182)	84,797
Obligations of states and political subdivisions	540	—	(33)	507
Non-bank qualified obligations of states and political subdivisions	258,421	14	(35,766)	222,669
Asset-backed securities	228,852	420	(5,858)	223,414
Mortgage-backed securities	1,448,649	12	(218,715)	1,229,946
Total debt securities AFS	\$ 2,053,441	\$ 446	\$ (274,429)	\$ 1,779,458
At September 30, 2023				
Corporate securities	\$ 25,000	\$ —	\$ (6,750)	\$ 18,250
SBA securities	95,549	—	(10,307)	85,242
Obligations of states and political subdivisions	2,368	—	(79)	2,289
Non-bank qualified obligations of states and political subdivisions	269,396	—	(42,673)	226,723
Asset-backed securities	255,384	234	(9,419)	246,199
Mortgage-backed securities	1,495,636	—	(270,111)	1,225,525
Total debt securities AFS	\$ 2,143,333	\$ 234	\$ (339,339)	\$ 1,804,228
Debt Securities HTM				
At March 31, 2024				
Non-bank qualified obligations of states and political subdivisions	\$ 32,602	\$ —	\$ (3,321)	\$ 29,281
Mortgage-backed securities	2,080	—	(248)	1,832
Total debt securities HTM	\$ 34,682	\$ —	\$ (3,569)	\$ 31,113
At September 30, 2023				
Non-bank qualified obligations of states and political subdivisions	\$ 34,415	\$ —	\$ (4,844)	\$ 29,571
Mortgage-backed securities	2,176	—	(322)	1,854
Total debt securities HTM	\$ 36,591	\$ —	\$ (5,166)	\$ 31,425

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:

(Dollars in thousands)	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Debt Securities AFS						
At March 31, 2024						
Corporate securities	\$ —	\$ —	\$ 18,125	\$ (6,875)	\$ 18,125	\$ (6,875)
SBA securities	22,894	(978)	61,903	(6,204)	84,797	(7,182)
Obligations of state and political subdivisions	—	—	506	(33)	506	(33)
Non-bank qualified obligations of states and political subdivisions	940	(20)	219,665	(35,746)	220,605	(35,766)
Asset-backed securities	—	—	103,409	(5,858)	103,409	(5,858)
Mortgage-backed securities	17,317	(371)	1,211,570	(218,344)	1,228,887	(218,715)
Total debt securities AFS	\$ 41,151	\$ (1,369)	\$ 1,615,178	\$ (273,060)	\$ 1,656,329	\$ (274,429)
At September 30, 2023						
Corporate securities	\$ —	\$ —	\$ 18,250	\$ (6,750)	\$ 18,250	\$ (6,750)
SBA securities	22,327	(1,919)	62,915	(8,388)	85,242	(10,307)
Obligations of state and political subdivisions	—	—	2,289	(79)	2,289	(79)
Non-bank qualified obligations of states and political subdivisions	5,010	(83)	221,714	(42,590)	226,723	(42,673)
Asset-backed securities	46,528	(224)	115,608	(9,195)	162,136	(9,419)
Mortgage-backed securities	18,311	(944)	1,207,214	(269,167)	1,225,525	(270,111)
Total debt securities AFS	\$ 92,176	\$ (3,170)	\$ 1,627,990	\$ (336,169)	\$ 1,720,165	\$ (339,339)
Debt Securities HTM						
At March 31, 2024						
Non-bank qualified obligations of states and political subdivisions	\$ —	\$ —	\$ 29,281	\$ (3,321)	\$ 29,281	\$ (3,321)
Mortgage-backed securities	—	—	1,832	(248)	1,832	(248)
Total debt securities HTM	\$ —	\$ —	\$ 31,113	\$ (3,569)	\$ 31,113	\$ (3,569)
At September 30, 2023						
Non-bank qualified obligations of states and political subdivisions	\$ —	\$ —	\$ 29,571	\$ (4,844)	\$ 29,571	\$ (4,844)
Mortgage-backed securities	—	—	1,854	(322)	1,854	(322)
Total debt securities HTM	\$ —	\$ —	\$ 31,425	\$ (5,166)	\$ 31,425	\$ (5,166)

The decrease in the fair value of investment securities balances when comparing March 31, 2024 to September 30, 2023 was primarily driven by principal pay downs during the six months. At March 31, 2024, there were 194 securities AFS in an unrealized loss position. All of the mortgage-backed securities ("MBS") in an unrealized loss position at March 31, 2024 were government guaranteed or issued by a private label where the Company held a senior tranche. Management assessed each investment security with unrealized losses for credit loss and determined all unrealized losses on these securities were due to adverse market conditions and/or change in 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 March 31, 2024, there was no allowance for credit losses ("ACL") for debt securities AFS or debt securities HTM.

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 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 March 31, 2024		At September 30, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt Securities AFS				
Due in one year or less	\$ 1,188	\$ 1,175	\$ 5,023	\$ 4,971
Due after one year through five years	19,591	18,249	11,175	10,292
Due after five years through ten years	73,455	63,343	79,139	66,428
Due after ten years	510,558	466,745	552,360	497,012
	604,792	549,512	647,697	578,703
Mortgage-backed securities	1,448,649	1,229,946	1,495,636	1,225,525
Total debt securities AFS	\$ 2,053,441	\$ 1,779,458	\$ 2,143,333	\$ 1,804,228
Debt Securities HTM				
Due after ten years	\$ 32,602	\$ 29,281	\$ 34,415	\$ 29,571
	32,602	29,281	34,415	29,571
Mortgage-backed securities	2,080	1,832	2,176	1,854
Total debt securities HTM	\$ 34,682	\$ 31,113	\$ 36,591	\$ 31,425

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 March 31, 2024 and September 30, 2023. 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 \$ 6.2 million and \$ 8.5 million at March 31, 2024 and at September 30, 2023, respectively.

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 cost approximates fair value.

Equity Securities. The Company held \$ 4.3 million and \$ 3.4 million in marketable equity securities within other assets on the Condensed Consolidated Statements of Financial Condition at March 31, 2024 and September 30, 2023, respectively. The Company recognized no unrealized gains on marketable equity securities during the six months ended March 31, 2024 and 2023. No such securities were sold during the six months ended March 31, 2024.

Non-marketable equity securities with a readily determinable fair value totaled \$ 10.0 million and \$ 8.4 million at March 31, 2024 and September 30, 2023, respectively. These securities are held within other assets on the Condensed Consolidated Statements of Financial Condition. The Company recognized \$ 0.4 million in unrealized gains and \$ 0.1 million in unrealized losses during the six months ended March 31, 2024 and 2023, respectively. No such securities were sold during the six months ended March 31, 2024.

Non-marketable equity securities without readily determinable fair value totaled \$ 14.8 million and \$ 16.2 million at March 31, 2024 and September 30, 2023, respectively. There was one such security sold during the six months ended March 31, 2024 for a \$ 2.5 million gain which is included in gain on sale of other on the Condensed Consolidated Statements of Operations.

Equity Securities 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 and \$ 0.5 million impairment for such investments for the six months ended March 31, 2024 and 2023, respectively.

NOTE 4. LOANS AND LEASES, NET

Loans and leases consist of the following:

(Dollars in thousands)	March 31, 2024	September 30, 2023
Term lending	\$ 1,489,054	\$ 1,308,133
Asset-based lending	429,556	382,371
Factoring	336,442	358,344
Lease financing	168,616	183,392
Insurance premium finance	522,904	800,077
SBA/USDA	560,433	524,750
Other commercial finance	149,056	166,091
Commercial finance	3,656,061	3,723,158
Consumer finance	267,031	254,416
Tax services	84,502	5,192
Warehouse finance	394,814	376,915
Total loans and leases	4,402,408	4,359,681
Net deferred loan origination costs	6,977	6,435
Total gross loans and leases	4,409,385	4,366,116
Allowance for credit losses	(80,777)	(49,705)
Total loans and leases, net	\$ 4,328,608	\$ 4,316,411

During the six months ended March 31, 2024 and 2023, the Company originated \$ 933.8 million and \$ 608.6 million of commercial finance and consumer finance as held for sale, respectively.

The Company sold held for sale loans resulting in proceeds of \$ 969.0 million and a \$ 1.4 million gain on sale during the six months ended March 31, 2024. The Company sold held for sale loans resulting in proceeds of \$ 604.4 million and gain on sale of \$ 0.1 million during the six months ended March 31, 2023.

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

(Dollars in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Loans Purchased				
Loans held for investment:				
Warehouse finance	\$ 73,701	\$ 120,185	\$ 163,091	\$ 187,834
Total purchases	<u>\$ 73,701</u>	<u>\$ 120,185</u>	<u>\$ 163,091</u>	<u>\$ 187,834</u>
Loans Sold				
Loans held for sale:				
Commercial finance	\$ 21,173	\$ 294	\$ 25,045	\$ 1,149
Consumer finance	321,489	201,199	943,953	603,214
Total sales	<u>\$ 342,662</u>	<u>\$ 201,493</u>	<u>\$ 968,998</u>	<u>\$ 604,363</u>

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

(Dollars in thousands)	March 31, 2024		September 30, 2023	
	2024	2023	2024	2023
Minimum lease payments receivable	\$ 177,498	\$ 191,807		
Unguaranteed residual assets	12,171	12,709		
Unamortized initial direct costs	82	141		
Unearned income	(21,053)	(21,124)		
Total net investment in direct financing and sales-type leases	\$ 168,698	\$ 183,533		

The components of total lease income were as follows:

(Dollars in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Interest income - loans and leases				
Interest income on net investments in direct financing and sales-type leases				
	\$ 2,853	\$ 2,819	\$ 5,961	\$ 5,962
Leasing and equipment finance noninterest income				
Lease income from operating lease payments	13,605	12,843	26,860	25,397
Other ⁽¹⁾	869	(356)	1,593	346
Total leasing and equipment finance noninterest income	14,474	12,487	28,453	25,743
Total lease income	\$ 17,327	\$ 15,306	\$ 34,414	\$ 31,705

⁽¹⁾ Other leasing and equipment finance noninterest income consists of gains (losses) on sales of leased equipment, fees and service charges on leases and gains (losses) on sales of leases.

Undiscounted future minimum lease payments receivable for direct financing and sales-type leases, and a reconciliation to the carrying amount recorded at March 31, 2024 were as follows:

(Dollars in thousands)

Remaining in 2024	\$	36,927
2025		53,952
2026		34,868
2027		21,176
2028		16,575
Thereafter		14,000
Total undiscounted future minimum lease payments receivable for direct financing and sales-type leases		177,498
Third-party residual value guarantees		—
Total carrying amount of direct financing and sales-type leases	\$	177,498

The Company did not record any contingent rental income from direct financing and sales-type leases in the six months ended March 31, 2024.

A number of factors affected the economic environment in 2023 including geopolitical conflict, supply chain disruptions, inflation, rising interest rates, and bank failures brought on by, among other things, rising interest rates, deposit outflows and liquidity crises. While the ultimate impact of these factors, some of which continue to impact the economic environment in 2024, 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 these 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 March 31, 2024				
	Beginning Balance	Provision (Reversal)	Charge-offs	Recoveries	Ending Balance
Allowance for credit losses:					
Term lending	\$ 27,013	\$ 6,303	\$ (5,176)	\$ 487	\$ 28,627
Asset-based lending	1,370	(254)	—	99	1,215
Factoring	7,433	(623)	(12)	16	6,814
Lease financing	4,008	(2,547)	28	62	1,551
Insurance premium finance	2,123	(532)	(295)	113	1,409
SBA/USDA	3,289	(347)	—	—	2,942
Other commercial finance	3,312	(1,592)	—	—	1,720
Commercial finance	48,548	408	(5,455)	777	44,278
Consumer finance	4,380	231	(37)	2	4,576
Tax services	507	25,221	—	5,800	31,528
Warehouse finance	350	45	—	—	395
Total loans and leases	53,785	25,905	(5,492)	6,579	80,777
Unfunded commitments ⁽¹⁾	596	147	—	—	743
Total	\$ 54,381	\$ 26,052	\$ (5,492)	\$ 6,579	\$ 81,520

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

(Dollars in thousands)	Three Months Ended March 31, 2023				
	Beginning Balance	Provision (Reversal)	Charge-offs	Recoveries	Ending Balance
Allowance for credit losses:					
Term lending	\$ 26,752	\$ 3,974	\$ (2,705)	\$ 394	\$ 28,415
Asset-based lending	3,903	51	(2,873)	—	1,081
Factoring	5,674	(40)	(62)	16	5,588
Lease financing	5,238	(183)	(607)	101	4,549
Insurance premium finance	1,261	155	(224)	71	1,263
SBA/USDA	2,632	2	—	6	2,640
Other commercial finance	3,356	976	—	—	4,332
Commercial finance	48,816	4,935	(6,471)	588	47,868
Consumer finance	2,887	232	(154)	—	2,965
Tax services	609	31,422	—	1,063	33,094
Warehouse finance	280	97	—	—	377
Total loans and leases	52,592	36,686	(6,625)	1,651	84,304
Unfunded commitments ⁽¹⁾	279	77	—	—	356
Total	\$ 52,871	\$ 36,763	\$ (6,625)	\$ 1,651	\$ 84,660

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

Six Months Ended March 31, 2024

(Dollars in thousands)	Beginning Balance	Provision (Reversal)	Charge-offs	Recoveries	Ending Balance
Allowance for credit losses:					
Term lending	\$ 25,686	\$ 12,125	\$ (10,297)	\$ 1,113	\$ 28,627
Asset-based lending	2,738	(1,764)	—	241	1,215
Factoring	6,566	128	(35)	155	6,814
Lease financing	3,302	(1,781)	(125)	155	1,551
Insurance premium finance	2,637	(771)	(660)	203	1,409
SBA/USDA	2,962	(20)	—	—	2,942
Other commercial finance	3,089	(1,369)	—	—	1,720
Commercial finance	46,980	6,548	(11,117)	1,867	44,278
Consumer finance	2,346	2,328	(100)	2	4,576
Tax services	2	26,577	(1,145)	6,094	31,528
Warehouse finance	377	18	—	—	395
Total loans and leases	49,705	35,471	(12,362)	7,963	80,777
Unfunded commitments ⁽¹⁾	272	471	—	—	743
Total	\$ 49,977	\$ 35,942	\$ (12,362)	\$ 7,963	\$ 81,520

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

Six Months Ended March 31, 2023

(Dollars in thousands)	Beginning Balance	Provision (Reversal)	Charge-offs	Recoveries	Ending Balance
Allowance for credit losses:					
Term lending	\$ 24,621	\$ 7,645	\$ (4,522)	\$ 671	\$ 28,415
Asset-based lending	1,050	2,904	(2,873)	—	1,081
Factoring	6,556	(804)	(183)	19	5,588
Lease financing	5,902	(621)	(1,013)	281	4,549
Insurance premium finance	1,450	108	(409)	114	1,263
SBA/USDA	3,263	(649)	—	26	2,640
Other commercial finance	1,310	3,022	—	—	4,332
Commercial finance	44,152	11,605	(9,000)	1,111	47,868
Consumer finance	1,463	1,835	(333)	—	2,965
Tax services	5	33,059	(1,731)	1,761	33,094
Warehouse finance	327	50	—	—	377
Total loans and leases	45,947	46,549	(11,064)	2,872	84,304
Unfunded commitments ⁽¹⁾	366	(10)	—	—	356
Total	\$ 46,313	\$ 46,539	\$ (11,064)	\$ 2,872	\$ 84,660

⁽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 March 31, 2024	At September 30, 2023
Term lending	\$ 7,100	\$ 3,516
Asset-based lending	1,213	19,226
Factoring	5,103	1,133
Lease financing	647	630
SBA/USDA	1,748	750
Commercial finance ⁽¹⁾	15,811	25,255
Total	\$ 15,811	\$ 25,255

⁽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 \$ 119.1 million and \$ 117.0 million at March 31, 2024 and at September 30, 2023, 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 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 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. 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 modifications or loans and leases on nonaccrual status.

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 its evaluation of the appropriateness of the ACL 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 \$ 267.0 million and \$ 84.5 million at March 31, 2024, respectively, and \$ 254.4 million and \$ 5.2 million at September 30, 2023, respectively. The amortized cost basis of loans and leases by asset classification and year of origination was as follows:

(Dollars in thousands)	Amortized Cost Basis							
	Term Loans and Leases by Origination Year					Revolving Loans and Leases		
	2024	2023	2022	2021	2020	Prior	and Leases	Total
At March 31, 2024								
Term lending								
Pass	\$ 308,787	\$ 492,087	\$ 125,586	\$ 97,696	\$ 54,397	\$ 48,457	\$ —	\$ 1,127,010
Watch	66,389	42,282	46,196	24,715	3,456	1,549	—	184,587
Special mention	920	14,887	7,222	19,254	10,145	114	—	52,542
Substandard	9,546	35,689	23,732	21,362	22,623	4,730	—	117,682
Doubtful	—	601	3,135	1,657	534	1,306	—	7,233
Total	385,642	585,546	205,871	164,684	91,155	56,156	—	1,489,054
Current period charge-offs	—	1,336	5,063	2,314	1,351	233	—	10,297
Asset-based lending								
Pass	—	—	—	—	—	—	229,053	229,053
Watch	—	—	—	—	—	—	176,233	176,233
Special mention	—	—	—	—	—	—	21,530	21,530
Substandard	—	—	—	—	—	—	2,740	2,740
Total	—	—	—	—	—	—	429,556	429,556
Current period charge-offs	—	—	—	—	—	—	—	—
Factoring								
Pass	—	—	—	—	—	—	272,222	272,222
Watch	—	—	—	—	—	—	38,237	38,237
Special mention	—	—	—	—	—	—	7,459	7,459
Substandard	—	—	—	—	—	—	16,970	16,970
Doubtful	—	—	—	—	—	—	1,554	1,554
Total	—	—	—	—	—	—	336,442	336,442
Current period charge-offs	—	—	—	—	—	—	35	35
Lease financing								
Pass	29,214	57,899	11,949	10,795	17,486	2,851	—	130,194
Watch	1,210	164	9,047	9,295	2,019	398	—	22,133
Special mention	—	278	—	—	1,026	45	—	1,349
Substandard	52	6,013	1,165	3,506	2,291	1,612	—	14,639
Doubtful	—	—	—	58	—	243	—	301
Total	30,476	64,354	22,161	23,654	22,822	5,149	—	168,616
Current period charge-offs	—	—	—	58	67	—	—	125

Insurance premium finance								
Pass	380,580	141,340	56	—	—	—	—	521,976
Watch	90	254	—	—	—	—	—	344
Special mention	30	270	—	—	—	—	—	300
Substandard	5	152	—	—	—	—	—	157
Doubtful	—	127	—	—	—	—	—	127
Total	380,705	142,143	56	—	—	—	—	522,904
Current period charge-offs	—	487	173	—	—	—	—	660
SBA/USDA								
Pass	34,482	184,511	182,889	25,243	25,614	40,539	—	493,278
Watch	—	12,241	55	1,111	6,592	3,077	—	23,076
Special mention	—	—	1,325	—	2,783	369	—	4,477
Substandard	—	10,144	11,173	1,295	5,217	11,694	—	39,523
Doubtful	—	—	79	—	—	—	—	79
Total	34,482	206,896	195,521	27,649	40,206	55,679	—	560,433
Current period charge-offs	—	—	—	—	—	—	—	—
Other commercial finance								
Pass	—	2,270	10,532	32,600	1,079	73,678	—	120,159
Watch	—	2,500	—	—	—	—	—	2,500
Substandard	—	2,681	44	23,672	—	—	—	26,397
Total	—	7,451	10,576	56,272	1,079	73,678	—	149,056
Current period charge-offs	—	—	—	—	—	—	—	—
Warehouse finance								
Pass	—	—	—	—	—	—	394,814	394,814
Total	—	—	—	—	—	—	394,814	394,814
Current period charge-offs	—	—	—	—	—	—	—	—
Total loans and leases								
Pass	753,063	878,107	331,012	166,334	98,576	165,525	896,089	3,288,706
Watch	67,689	57,441	55,298	35,121	12,067	5,024	214,470	447,110
Special mention	950	15,435	8,547	19,254	13,954	528	28,989	87,657
Substandard	9,603	54,679	36,114	49,835	30,131	18,036	19,710	218,108
Doubtful	—	728	3,214	1,715	534	1,549	1,554	9,294
Total	\$ 831,305	\$ 1,006,390	\$ 434,185	\$ 272,259	\$ 155,262	\$ 190,662	\$ 1,160,812	\$ 4,050,875
Current period charge-offs	\$ —	\$ 1,823	\$ 5,236	\$ 2,372	\$ 1,418	\$ 233	\$ 35	\$ 11,117

Amortized Cost Basis

(Dollars in thousands)	Term Loans and Leases by Origination Year						Revolving Loans and Leases		Total
	2023	2022	2021	2020	2019	Prior	and Leases		
At September 30, 2023									
Term lending									
Pass	\$ 539,448	\$ 149,190	\$ 99,677	\$ 73,132	\$ 14,368	\$ 85,812	\$ —	\$ 961,627	
Watch	53,481	51,036	58,041	12,230	4,483	727	—	179,998	
Special mention	26,539	13,853	20,463	723	2,932	75	—	64,585	
Substandard	20,437	30,451	14,729	24,613	3,872	764	—	94,866	
Doubtful	200	2,655	1,691	1,121	165	1,225	—	7,057	
Total	640,105	247,185	194,601	111,819	25,820	88,603	—	1,308,133	
Asset-based lending									
Pass	—	—	—	—	—	—	161,744	161,744	
Watch	—	—	—	—	—	—	174,243	174,243	
Special mention	—	—	—	—	—	—	26,382	26,382	
Substandard	—	—	—	—	—	—	19,501	19,501	
Doubtful	—	—	—	—	—	—	501	501	
Total	—	—	—	—	—	—	382,371	382,371	
Factoring									
Pass	—	—	—	—	—	—	270,754	270,754	
Watch	—	—	—	—	—	—	70,833	70,833	

Special mention	—	—	—	—	—	—	8,892	8,892
Substandard	—	—	—	—	—	—	7,865	7,865
Total	—	—	—	—	—	—	358,344	358,344
Lease financing								
Pass	57,123	15,941	15,167	27,489	4,036	1,281	—	121,037
Watch	793	10,436	12,566	4,494	1,579	55	—	29,923
Special mention	—	—	847	415	195	—	—	1,457
Substandard	14,890	1,983	7,082	3,660	3,062	33	—	30,710
Doubtful	—	—	71	61	—	133	—	265
Total	72,806	28,360	35,733	36,119	8,872	1,502	—	183,392
Insurance premium finance								
Pass	797,267	1,210	—	—	—	—	—	798,477
Watch	858	34	—	—	—	—	—	892
Special mention	250	15	—	—	—	—	—	265
Substandard	91	20	—	—	—	—	—	111
Doubtful	180	152	—	—	—	—	—	332
Total	798,646	1,431	—	—	—	—	—	800,077
SBA/USDA								
Pass	158,675	148,525	26,244	36,274	8,798	18,252	—	396,768
Watch	49,010	48,833	658	51	357	2,572	—	101,481
Special mention	—	—	530	—	—	—	—	530
Substandard	252	2,356	1,718	5,418	8,509	7,718	—	25,971
Total	207,937	199,714	29,150	41,743	17,664	28,542	—	524,750
Other commercial finance								
Pass	2,330	18,927	32,737	1,137	10,122	69,927	—	135,180
Watch	1,742	—	—	—	—	—	—	1,742
Substandard	2,753	450	25,708	—	—	258	—	29,169
Total	6,825	19,377	58,445	1,137	10,122	70,185	—	166,091
Warehouse finance								
Pass	—	—	—	—	—	—	376,915	376,915
Total	—	—	—	—	—	—	376,915	376,915
Total loans and leases								
Pass	1,554,843	333,793	173,825	138,032	37,324	175,272	809,413	3,222,502
Watch	105,884	110,339	71,265	16,775	6,419	3,354	245,076	559,112
Special mention	26,789	13,868	21,840	1,138	3,127	75	35,274	102,111
Substandard	38,423	35,260	49,237	33,691	15,443	8,773	27,366	208,193
Doubtful	380	2,807	1,762	1,182	165	1,358	501	8,155
Total	\$ 1,726,319	\$ 496,067	\$ 317,929	\$ 190,818	\$ 62,478	\$ 188,832	\$ 1,117,630	\$ 4,100,073

Past due loans and leases were as follows:

(Dollars in thousands)	At March 31, 2024									
	Accruing and Nonaccruing Loans and Leases						Nonperforming Loans and Leases			
	30-59 Days			Total Past Due			Total Loans and Leases	> 89 Days		
	Past Due	Past Due	Past Due	Due	Current	Receivable	Past Due and Accruing	Nonaccrual Balance	Total	
Loans held for sale	\$ 323	\$ 546	\$ 843	\$ 1,712	\$ 24,234	\$ 25,946	\$ 843	\$ —	\$ 843	
Term lending	31,580	20,883	10,397	62,860	1,426,194	1,489,054	890	18,960	19,850	
Asset-based lending	—	—	—	—	429,556	429,556	—	—	—	
Factoring	—	—	—	—	336,442	336,442	—	4,580	4,580	
Lease financing	2,655	171	1,526	4,352	164,264	168,616	752	1,605	2,357	
Insurance premium finance	2,211	592	1,037	3,840	519,064	522,904	1,037	—	1,037	
SBA/USDA	36	2,340	2,636	5,012	555,421	560,433	—	2,636	2,636	
Other commercial finance	—	—	—	—	149,056	149,056	—	—	—	
Commercial finance	36,482	23,986	15,596	76,064	3,579,997	3,656,061	2,679	27,781	30,460	
Consumer finance	4,293	3,001	3,093	10,387	256,644	267,031	3,093	—	3,093	
Tax services	1,123	—	—	1,123	83,379	84,502	—	—	—	
Warehouse finance	—	—	—	—	394,814	394,814	—	—	—	
Total loans and leases held for investment	41,898	26,987	18,689	87,574	4,314,834	4,402,408	5,772	27,781	33,553	
Total loans and leases	\$ 42,221	\$ 27,533	\$ 19,532	\$ 89,286	\$ 4,339,068	\$ 4,428,354	\$ 6,615	\$ 27,781	\$ 34,396	
At September 30, 2023										
(Dollars in thousands)	Accruing and Nonaccruing Loans and Leases						Nonperforming Loans and Leases			
	30-59 Days			Total Past Due			Total Loans and Leases	> 89 Days		
	Past Due	Past Due	Past Due	Due	Current	Receivable	Past Due and Accruing	Nonaccrual Balance	Total	
	\$ 626	\$ 549	\$ 306	\$ 1,481	\$ 76,298	\$ 77,779	\$ 306	\$ —	\$ 306	
Loans held for sale	\$ 626	\$ 549	\$ 306	\$ 1,481	\$ 76,298	\$ 77,779	\$ 306	\$ —	\$ 306	
Term lending	13,898	7,723	11,136	32,757	1,275,376	1,308,133	3,737	15,324	19,061	
Asset-based lending	—	—	123	123	382,248	382,371	—	18,082	18,082	
Factoring	—	—	—	—	358,344	358,344	—	1,298	1,298	
Lease financing	6,865	158	4,828	11,851	171,541	183,392	4,242	1,666	5,908	
Insurance premium finance	2,159	1,262	2,339	5,760	794,317	800,077	2,339	—	2,339	
SBA/USDA	512	—	1,835	2,347	522,403	524,750	833	1,002	1,835	
Other commercial finance	—	—	91	91	166,000	166,091	91	—	91	
Commercial finance	23,434	9,143	20,352	52,929	3,670,229	3,723,158	11,242	37,372	48,614	
Consumer finance	2,992	2,425	2,210	7,627	246,789	254,416	2,210	—	2,210	
Tax services	—	—	5,082	5,082	110	5,192	5,082	—	5,082	
Warehouse finance	—	—	—	—	376,915	376,915	—	—	—	
Total loans and leases held for investment	26,426	11,568	27,644	65,638	4,294,043	4,359,681	18,534	37,372	55,906	
Total loans and leases	\$ 27,052	\$ 12,117	\$ 27,950	\$ 67,119	\$ 4,370,341	\$ 4,437,460	\$ 18,840	\$ 37,372	\$ 56,212	

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

(Dollars in thousands)	Amortized Cost Basis								Nonaccrual with No ACL
	Term Loans and Leases by Origination Year					Revolving Loans and Leases		Total	
At March 31, 2024	2024	2023	2022	2021	2020	Prior	and Leases	Total	No ACL
Term lending	\$ 1,121	\$ 2,683	\$ 7,414	\$ 2,222	\$ 1,446	\$ 4,074	\$ —	\$ 18,960	\$ —
Factoring	—	—	—	—	—	—	—	4,580	4,580
Lease financing	—	—	95	540	695	275	—	1,605	539
SBA/USDA	—	1,307	79	—	1,005	245	—	2,636	750
Commercial finance	1,121	3,990	7,588	2,762	3,146	4,594	4,580	27,781	1,289
Total nonaccrual loans and leases	\$ 1,121	\$ 3,990	\$ 7,588	\$ 2,762	\$ 3,146	\$ 4,594	\$ 4,580	\$ 27,781	\$ 1,289

(Dollars in thousands)	Amortized Cost Basis								Nonaccrual with No ACL
	Term Loans and Leases by Origination Year					Revolving Loans and Leases		Total	
At September 30, 2023	2023	2022	2021	2020	2019	Prior	and Leases	Total	No ACL
Term lending	\$ 865	\$ 4,942	\$ 2,933	\$ 2,165	\$ 3,134	\$ 1,285	\$ —	\$ 15,324	\$ —
Asset-based lending	—	—	—	—	—	—	—	18,082	18,082
Factoring	—	—	—	—	—	—	—	1,298	1,298
Lease financing	—	—	446	660	—	560	—	1,666	1
SBA/USDA	—	750	—	—	—	252	—	1,002	—
Commercial finance	865	5,692	3,379	2,825	3,134	2,097	19,380	37,372	1
Total nonaccrual loans and leases	\$ 865	\$ 5,692	\$ 3,379	\$ 2,825	\$ 3,134	\$ 2,097	\$ 19,380	\$ 37,372	1

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								Total
	Term Loans and Leases by Origination Year					Revolving Loans		Total	
At March 31, 2024	2024	2023	2022	2021	2020	Prior	and Leases	Total	Total
Loans held for sale	\$ —	\$ 843	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 843
Term lending	—	185	58	393	254	—	—	—	890
Lease financing	354	121	—	—	2	275	—	—	752
Insurance premium finance	198	839	—	—	—	—	—	—	1,037
Commercial finance	552	1,145	58	393	256	275	—	—	2,679
Consumer finance	309	1,969	658	157	—	—	—	—	3,093
Total loans and leases held for investment	861	3,114	716	550	256	275	—	—	5,772
Total 90 days or more delinquent and accruing	\$ 861	\$ 3,957	\$ 716	\$ 550	\$ 256	\$ 275	\$ —	\$ —	\$ 6,615

(Dollars in thousands)	Amortized Cost Basis							
	Term Loans and Leases by Origination Year					Revolving Loans and Leases		
	2023	2022	2021	2020	2019	Prior	and Leases	Total
At September 30, 2023								
Loans held for sale	\$ 306	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 306
Term lending	1,604	1,371	500	233	29	—	—	3,737
Lease financing	151	490	979	784	1,794	44	—	4,242
Insurance premium finance	—	414	114	—	334	1,477	—	2,339
SBA/USDA	—	—	—	833	—	—	—	833
Other commercial finance	—	—	—	—	—	91	—	91
Commercial finance	1,755	2,275	1,593	1,850	2,157	1,612	—	11,242
Consumer finance	891	1,045	246	—	—	—	28	2,210
Tax services	5,082	—	—	—	—	—	—	5,082
Total loans and leases held for investment	7,728	3,320	1,839	1,850	2,157	1,612	28	18,534
Total 90 days or more delinquent and accruing	\$ 8,034	\$ 3,320	\$ 1,839	\$ 1,850	\$ 2,157	\$ 1,612	\$ 28	\$ 18,840

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 March 31,		Six Months Ended March 31,	
	2024		2023	
	2024	2023	2024	2023
Term lending	\$ 18,999	\$ 9,758	\$ 18,209	\$ 9,277
Asset-based lending	82	5,292	4,896	4,782
Factoring	5,745	523	3,463	615
Lease financing	1,639	3,627	1,631	3,625
SBA/USDA	2,329	1,379	1,908	1,400
Commercial finance	28,794	20,579	30,107	19,699
Total loans and leases	\$ 28,794	\$ 20,579	\$ 30,107	\$ 19,699

The recognized interest income on the Company's nonaccrual loans and leases for the three and six months ended March 31, 2024 and 2023 was not significant.

Effective October 1, 2023, the Company adopted ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* on a prospective basis. Financial information at and for the three and six months ended March 31, 2024 is reflected as such. The historical information disclosed is in accordance with Subtopic ASC 310-40, *Receivables – Troubled Debt Restructurings by Creditors*.

Modifications made to borrowers experiencing financial difficulty during the three and six months ended March 31, 2024 were \$ 1.6 million in the commercial finance loan portfolio.

No loans were modified in a TDR during the three and six months ended March 31, 2023. The Company had an immaterial amount and \$ 0.1 million of commercial finance loans that were modified within the previous 12 months experience a payment default during the three and six months ended March 31, 2023, respectively. TDR net charge-offs and the impact of TDRs on the Company's allowance for credit losses were insignificant during the six months ended March 31, 2023.

NOTE 5. 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 two-class method or the treasury stock 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 upon vesting of restricted stock grants and after 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.

(Dollars in thousands, except per share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Basic income per common share:				
Net income attributable to Pathward Financial, Inc.	\$ 65,268	\$ 54,771	\$ 92,925	\$ 82,613
Dividends and undistributed earnings allocated to participating securities	(524)	(841)	(744)	(1,231)
Basic net earnings available to common stockholders	64,744	53,930	92,181	81,382
Undistributed earnings allocated to nonvested restricted stockholders	514	820	724	1,190
Reallocation of undistributed earnings to nonvested restricted stockholders	(514)	(818)	(724)	(1,187)
Diluted net earnings available to common stockholders	<u>\$ 64,744</u>	<u>\$ 53,932</u>	<u>\$ 92,181</u>	<u>\$ 81,385</u>
Total weighted-average basic common shares outstanding	25,281,743	27,078,048	25,529,186	27,555,197
Effect of dilutive securities⁽¹⁾				
Performance share units	29,401	91,521	26,470	77,540
Total effect of dilutive securities	29,401	91,521	26,470	77,540
Total weighted-average diluted common shares outstanding	<u>25,311,144</u>	<u>27,169,569</u>	<u>25,555,656</u>	<u>27,632,737</u>
Net earnings per common share:				
Basic earnings per common share	\$ 2.56	\$ 1.99	\$ 3.61	\$ 2.95
Diluted earnings per common share ⁽²⁾	\$ 2.56	\$ 1.99	\$ 3.61	\$ 2.95

⁽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 March 31, 2024 and 2023, respectively, were 204,877 and 422,461 weighted average shares of nonvested restricted stock because their inclusion would be anti-dilutive. Excluded from the computation of diluted earnings per share for the six months ended March 31, 2024 and 2023, respectively, were 206,060 and 417,012 weighted average shares of nonvested restricted stock because their inclusion would be anti-dilutive.

NOTE 6. RENTAL EQUIPMENT, NET

Rental equipment consists of the following:

(Dollars in thousands)	March 31, 2024	September 30, 2023
Computers and IT networking equipment	\$ 24,435	\$ 25,094
Motor vehicles and other	135,158	122,845
Other furniture and equipment	37,086	37,637
Solar panels and equipment	134,917	142,355
Total	331,596	327,931
Accumulated depreciation	(116,864)	(117,418)
Unamortized initial direct costs	1,153	1,237
Net book value	\$ 215,885	\$ 211,750

Future minimum lease payments expected to be received for operating leases at March 31, 2024 were as follows:

(Dollars in thousands)	
Remaining in 2024	\$ 22,318
2025	39,532
2026	29,630
2027	21,494
2028	12,248
Thereafter	11,693
Total	\$ 136,915

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

The Company held a total of \$ 309.5 million of goodwill at March 31, 2024. 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 six months ended March 31, 2024.

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
At September 30, 2023	\$ 7,477	\$ —	\$ 9,110	\$ 4,133	\$ 20,720
Amortization during the period	(527)	—	(1,431)	(266)	(2,224)
At March 31, 2024	\$ 6,950	\$ —	\$ 7,679	\$ 3,867	\$ 18,496
 Gross carrying amount	\$ 13,774	\$ 301	\$ 77,578	\$ 7,798	\$ 99,451
Accumulated amortization	(6,824)	(301)	(58,981)	(3,712)	(69,818)
Accumulated impairment	—	—	(10,918)	(219)	(11,137)
At March 31, 2024	\$ 6,950	\$ —	\$ 7,679	\$ 3,867	\$ 18,496
 At September 30, 2022	\$ 8,605	\$ —	\$ 12,395	\$ 4,691	\$ 25,691
Amortization during the period	(609)	—	(1,819)	(265)	(2,693)
At March 31, 2023	\$ 7,996	\$ —	\$ 10,576	\$ 4,426	\$ 22,998
 Gross carrying amount	\$ 14,624	\$ 2,481	\$ 82,088	\$ 9,940	\$ 109,133
Accumulated amortization	(6,628)	(2,481)	(60,594)	(5,296)	(74,999)
Accumulated impairment	—	—	(10,918)	(218)	(11,136)
At March 31, 2023	\$ 7,996	\$ —	\$ 10,576	\$ 4,426	\$ 22,998

⁽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 six months of fiscal 2024 and subsequent fiscal years at March 31, 2024 was as follows:

(Dollars in thousands)		
Remaining in 2024		\$ 1,904
2025		3,563
2026		3,217
2027		2,571
2028		2,261
Thereafter		4,980
 Total anticipated intangible amortization		\$ 18,496

There were no impairments to intangible assets during the six months ended March 31, 2024 and 2023. Intangible impairment expense is recorded within the impairment expense line of the Condensed Consolidated Statements of Operations.

NOTE 8. OPERATING LEASE RIGHT-OF-USE ASSETS AND LIABILITIES

Operating lease right-of-use ("ROU") assets, included in other assets, were \$ 26.0 million and \$ 26.9 million at March 31, 2024 and September 30, 2023, respectively.

Operating lease liabilities, included in accrued expenses and other liabilities, were \$ 27.8 million and \$ 28.8 million at March 31, 2024 and September 30, 2023, respectively.

Undiscounted future minimum operating lease payments and a reconciliation to the amount recorded as operating lease liabilities at March 31, 2024 were as follows:

(Dollars in thousands)

Remaining in 2024		\$ 2,132
2025		3,985
2026		3,435
2027		3,152
2028		3,095
Thereafter		15,545
Total undiscounted future minimum lease payments		31,344
Discount		(3,526)
Total operating lease liabilities	\$	27,818

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

	March 31, 2024	September 30, 2023
Weighted-average discount rate	2.44 %	2.38 %
Weighted-average remaining lease term (years)	9.11	9.66

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

(Dollars in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2024	2023	2024	2023
Lease expense	\$ 992	\$ 982	\$ 2,017	\$ 1,996
Short-term and variable lease cost	30	42	23	84
Sublease income	(269)	(339)	(639)	(672)
Total lease cost for operating leases	\$ 753	\$ 685	\$ 1,401	\$ 1,408

NOTE 9. 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. On August 25, 2023, the Company's Board of Directors announced a share repurchase program to repurchase up to an additional 7,000,000 shares of the Company's outstanding common stock on or before September 30, 2028. During the six months ended March 31, 2024 and 2023, the Company repurchased 996,773 and 1,826,694 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 March 31, 2024, 7,669,663 shares of common stock remained available for repurchase.

For the six months ended March 31, 2024 and 2023, the Company also repurchased 122,452 and 59,626 shares, or \$ 5.8 million and \$ 2.1 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 no shares of common stock held in treasury during the six months ended March 31, 2024 and 2023.

NOTE 10. STOCK COMPENSATION

On February 27, 2024, the shareholders of the Company voted to approve the Pathward Financial, Inc. 2023 Omnibus Incentive Plan (the "Plan"). The Plan permits the granting of various types of awards including but not limited to nonvested (restricted) shares and performance share units ("PSUs") to certain officers and directors of the Company. Awards may be granted by the Compensation Committee of the Board of Directors based on the performance of the award recipients or other relevant factors.

Shares have previously been granted each year to executives and senior leadership members under the applicable Company incentive plan. These shares vest at various times ranging from immediately to three years based on circumstances at time of grant. The fair value is determined based on the fair market value of the Company's stock on the grant date. Director shares are issued to the Company's directors, and these shares have historically vested from immediate to up to one year from the grant date.

The Company also grants selected executives PSU awards. The vesting of these awards is contingent on meeting company-wide performance goals, including earnings per share. PSUs are generally granted at the market value of the underlying share on the date of grant, adjusted for dividends, as performance share units do not participate in dividends. The awards contingently vest over a period of three years and have payout levels ranging from a threshold of 50 % to a maximum of 200 %. Upon vesting, each performance share unit earned is converted into one share of common stock.

The fair value of the PSUs is determined by the dividend-adjusted fair value on the grant date for those awards subject to a performance condition. For those PSUs subject to a market condition, a simulation valuation is performed.

In addition, during the first and second quarters of fiscal year 2017, shares were granted to certain executive officers of the Company in connection with their signing of employment agreements with the Company. These stock awards vest in equal installments over eight years .

The following tables show the activity of share awards (including shares of restricted stock subject to vesting, fully-vested restricted stock, and PSUs) granted, exercised or forfeited under all of the Company's incentive plans during the six months ended March 31, 2024.

	Number of Shares	Weighted Average Fair Value at Grant
Nonvested shares outstanding, September 30, 2023	370,151	\$ 35.87
Granted	177,317	49.53
Vested	(277,447)	39.33
Forfeited or expired	(6,428)	41.84
Nonvested shares outstanding, March 31, 2024	263,593	\$ 41.27
	Number of Units ⁽¹⁾	Weighted Average Fair Value at Grant
Performance share units outstanding, September 30, 2023	155,804	\$ 41.20
Granted	52,125	50.15
Vested	(60,984)	55.47
Forfeited or expired	—	—
Performance share units outstanding, March 31, 2024	146,945	\$ 47.35

⁽¹⁾ The activity in this table includes 60,984 shares related to the fiscal year 2021 performance share units, which are included in this table under the assumption of a target performance achievement. The final performance was assessed after September 30, 2023, resulted in an achievement greater than target, and an additional 47,252 shares were allocated to the participants in the plan.

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 or fair value of nonvested (restricted) shares and PSUs granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date, adjusted for dividends where applicable. The Company has elected to record forfeitures as they occur.

At March 31, 2024, stock-based compensation expense not yet recognized in income totaled \$ 10.5 million, which is expected to be recognized over a weighted average remaining period of 1.61 years.

NOTE 11. INCOME TAXES

The Company recorded an income tax expense of \$ 21.0 million for the six months ended March 31, 2024, resulting in an effective tax rate of 18.33 %, compared to an income tax expense of \$ 15.8 million, or an effective tax rate of 15.83 %, for the six months ended March 31, 2023. The Company's effective tax rate was lower than the U.S. statutory rate of 21% primarily because of the effect of investment tax credits during fiscal year 2024. The Company's effective tax rate in the future will depend in part on actual investment tax credits generated from qualified renewable energy property.

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

(Dollars in thousands)	Six Months Ended March 31,	
	2024	2023
Provision at statutory rate	\$ 23,917	\$ 20,657
Tax-exempt income	(341)	(398)
State income taxes	4,550	4,285
Interim period effective rate adjustment	4,581	(483)
Tax credit investments, net - federal	(11,363)	(7,916)
Research tax credit	—	(805)
IRC 162(m) nondeductible compensation	340	576
Other, net	(719)	(163)
Income tax expense	\$ 20,965	\$ 15,753
Effective tax rate	18.33 %	15.83 %

NOTE 12. REVENUE FROM CONTRACTS WITH CUSTOMERS

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 13. Segment Reporting to the Condensed Consolidated Financial Statements.

(Dollars in thousands)	Consumer		Commercial		Corporate Services/Other		Consolidated Company	
	2024	2023	2024	2023	2024	2023	2024	2023
Three Months Ended March 31,								
Net interest income ⁽¹⁾	\$ 56,527	\$ 41,418	\$ 44,913	\$ 46,758	\$ 16,861	\$ 13,229	\$ 118,301	\$ 101,405
Noninterest income:								
Refund transfer product fees	28,942	30,205	—	—	—	—	28,942	30,205
Refund advance fee income ⁽¹⁾	43,200	37,995	—	—	—	—	43,200	37,995
Card and deposit fees	35,097	41,828	241	252	6	7	35,344	42,087
Rental income ⁽⁴⁾	—	—	13,594	12,737	126	203	13,720	12,940
Gain (loss) on sale of other ⁽¹⁾	16	—	1,607	(748)	72	82	1,695	(666)
Other income ⁽¹⁾	2,432	1,748	2,307	1,935	1,305	794	6,044	4,477
Total noninterest income	109,687	111,776	17,749	14,176	1,509	1,086	128,945	127,038
Revenue	\$ 166,214	\$ 153,194	\$ 62,662	\$ 60,934	\$ 18,370	\$ 14,315	\$ 247,246	\$ 228,443
Six Months Ended March 31,								
Net interest income ⁽¹⁾	\$ 115,883	\$ 75,690	\$ 90,794	\$ 89,082	\$ 21,660	\$ 20,690	\$ 228,337	\$ 185,462
Noninterest income:								
Refund transfer product fees	29,364	30,882	—	—	—	—	29,364	30,882
Refund advance fee income ⁽¹⁾	43,311	38,612	—	—	—	—	43,311	38,612
Card and deposit fees	65,604	79,280	477	513	13	12	66,094	79,805
Rental income ⁽⁴⁾	—	—	26,829	25,252	350	396	27,179	25,648
Gain on sale of trademarks	—	—	—	—	—	10,000	—	10,000
Gain (loss) on sale of other ⁽¹⁾	(15)	—	1,969	(246)	2,581	82	4,535	(164)
Other income ⁽¹⁾	4,210	2,541	4,473	3,019	2,540	2,472	11,223	8,032
Total noninterest income	142,474	151,315	33,748	28,538	5,484	12,962	181,706	192,815
Revenue	\$ 258,357	\$ 227,005	\$ 124,542	\$ 117,620	\$ 27,144	\$ 33,652	\$ 410,043	\$ 378,277

⁽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 for the six months ended March 31, 2024.

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 are 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 at the 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 Federal Deposit Insurance Corporation ("FDIC"). The servicing fee is typically reflective of the effective federal funds rate ("EFFR").

NOTE 13. 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 table presents segment data for the Company:

(Dollars in thousands)	Consumer		Commercial		Corporate Services/Other		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
Three Months Ended March 31,								
Net interest income	\$ 56,527	\$ 41,418	\$ 44,913	\$ 46,758	\$ 16,861	\$ 13,229	\$ 118,301	\$ 101,405
Provision for credit loss	25,452	31,654	555	5,012	45	97	26,052	36,763
Noninterest income	109,687	111,776	17,749	14,176	1,509	1,086	128,945	127,038
Noninterest expense	59,452	49,910	38,130	38,846	42,849	38,380	140,431	127,136
Income (loss) before income tax expense	81,310	71,630	23,977	17,076	(24,524)	(24,162)	80,763	64,544
Total assets	493,718	361,528	4,124,909	3,581,677	2,818,490	2,925,051	7,437,117	6,868,256
Total goodwill	87,145	87,145	222,360	222,360	—	—	309,505	309,505
Total deposits	6,063,339	5,744,278	7,143	9,313	297,862	149,105	6,368,344	5,902,696
Six Months Ended March 31,								
Net interest income	\$ 115,883	\$ 75,690	\$ 90,794	\$ 89,082	\$ 21,660	\$ 20,690	\$ 228,337	\$ 185,462
Provision for credit loss	28,906	34,894	7,018	11,595	18	50	35,942	46,539
Noninterest income	142,474	151,315	33,748	28,538	5,484	12,962	181,706	192,815
Noninterest expense	109,465	84,404	72,986	71,595	77,254	76,196	259,705	232,195
Income (loss) before income tax expense	119,986	107,707	44,538	34,430	(50,128)	(42,594)	114,396	99,543
Total assets	493,718	361,528	4,124,909	3,581,677	2,818,490	2,925,051	7,437,117	6,868,256
Total goodwill	87,145	87,145	222,360	222,360	—	—	309,505	309,505
Total deposits	6,063,339	5,744,278	7,143	9,313	297,862	149,105	6,368,344	5,902,696

NOTE 14. 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 March 31, 2024			
	Total	Level 1	Level 2	Level 3
Debt securities AFS				
Corporate securities	\$ 18,125	\$ —	\$ 18,125	\$ —
SBA securities	84,797	—	84,797	—
Obligations of states and political subdivisions	507	—	507	—
Non-bank qualified obligations of states and political subdivisions	222,669	—	222,669	—
Asset-backed securities	223,414	—	223,414	—
Mortgage-backed securities	1,229,946	—	1,229,946	—
Total debt securities AFS	\$ 1,779,458	\$ —	\$ 1,779,458	\$ —
Common equities and mutual funds ⁽¹⁾	\$ 4,334	\$ 4,334	\$ —	\$ —
Non-marketable equity securities ⁽²⁾	\$ 10,000	\$ —	\$ —	\$ —

⁽¹⁾ Equity securities at fair value are included within other assets on the Condensed Consolidated Statements of Financial Condition at March 31, 2024.

⁽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, 2023			
	Total	Level 1	Level 2	Level 3
Debt securities AFS				
Corporate securities	\$ 18,250	\$ —	\$ 18,250	\$ —
SBA securities	85,242	—	85,242	—
Obligations of states and political subdivisions	2,289	—	2,289	—
Non-bank qualified obligations of states and political subdivisions	226,723	—	226,723	—
Asset-backed securities	246,199	—	246,199	—
Mortgage-backed securities	1,225,525	—	1,225,525	—
Total debt securities AFS	\$ 1,804,228	\$ —	\$ 1,804,228	\$ —
Common equities and mutual funds ⁽¹⁾	\$ 3,378	\$ 3,378	\$ —	\$ —
Non-marketable equity securities ⁽²⁾	\$ 8,389	\$ —	\$ —	\$ —

⁽¹⁾ Equity securities at fair value are included within other assets on the Consolidated Statements of Financial Condition at September 30, 2023.

⁽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 3 % to 44 %.

The following tables summarize the assets of the Company that are measured at fair value in the Condensed Consolidated Statements of Financial Condition on a nonrecurring basis:

(Dollars in thousands)	At March 31, 2024				
	Total	Level 1	Level 2	Level 3	
Loans and leases, net individually evaluated for credit loss					
Commercial finance	\$ 9,234	\$ —	\$ —	\$ 9,234	
Total loans and leases, net individually evaluated for credit loss	9,234	—	—	9,234	
Total	\$ 9,234	\$ —	\$ —	\$ 9,234	
 At September 30, 2023					
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	
Loans and leases, net individually evaluated for credit loss					
Commercial finance	\$ 21,829	\$ —	\$ —	\$ 21,829	
Total loans and leases, net individually evaluated for credit loss	21,829	—	—	21,829	
Total	\$ 21,829	\$ —	\$ —	\$ 21,829	
 Quantitative Information About Level 3 Fair Value Measurements					
(Dollars in thousands)	Fair Value at March 31, 2024	Fair Value at September 30, 2023	Valuation Technique	Unobservable Input	Range of Inputs
Loans and leases, net individually evaluated for credit loss	\$ 9,234	\$ 21,829	Market approach	Appraised values⁽¹⁾	3 % - 44 %

⁽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 3 % to 44 %.

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 March 31, 2024 and September 30, 2023 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:

(Dollars in thousands)	At March 31, 2024				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 347,888	\$ 347,888	\$ 347,888	\$ —	\$ —
Debt securities available for sale	1,779,458	1,779,458	—	1,779,458	—
Debt securities held to maturity	34,682	31,113	—	31,113	—
Common equities and mutual funds ⁽¹⁾	4,334	4,334	4,334	—	—
Non-marketable equity securities ⁽¹⁾⁽²⁾	20,522	20,522	—	10,522	—
Loans held for sale	25,946	25,946	—	25,946	—
Loans and leases	4,402,408	4,339,150	—	—	4,339,150
Federal Reserve Bank and Federal Home Loan Bank stocks	25,844	25,844	—	25,844	—
Accrued interest receivable	30,294	30,294	30,294	—	—
Financial liabilities					
Deposits	6,368,344	6,368,058	6,267,603	100,455	—
Overnight federal funds purchased	31,000	31,000	31,000	—	—
Other short- and long-term borrowings	33,373	31,297	—	31,297	—
Accrued interest payable	1,961	1,961	1,961	—	—

⁽¹⁾ Equity securities at fair value are included within other assets on the Condensed Consolidated Statements of Financial Condition at March 31, 2024.

⁽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.

(Dollars in thousands)	At September 30, 2023				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 375,580	\$ 375,580	\$ 375,580	\$ —	\$ —
Debt securities available for sale	1,804,228	1,804,228	—	1,804,228	—
Debt securities held to maturity	36,591	31,425	—	31,425	—
Common equities and mutual funds ⁽¹⁾	3,378	3,378	3,378	—	—
Non-marketable equity securities ⁽¹⁾⁽²⁾	20,453	20,453	—	12,064	—
Loans held for sale	77,779	77,779	—	77,779	—
Loans and leases	4,359,681	4,223,010	—	—	4,223,010
Federal Reserve Bank and Federal Home Loan Bank stocks	28,210	28,210	—	28,210	—
Accrued interest receivable	23,282	23,282	23,282	—	—
Financial liabilities					
Deposits	6,589,182	6,589,065	6,583,648	5,417	—
Overnight federal funds purchased	13,000	13,000	13,000	—	—
Other short- and long-term borrowings	33,873	31,187	—	31,187	—
Accrued interest payable	247	247	247	—	—

⁽¹⁾ Equity securities at fair value are included within other assets on the Consolidated Statements of Financial Condition at September 30, 2023.

⁽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 15. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after March 31, 2024. 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 March 31, 2024.

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

FORWARD-LOOKING STATEMENTS

PATHWARD FINANCIAL, INC. ("Pathward Financial" or the "Company" or "us") and its wholly-owned subsidiary, Pathward®, 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, N.A. 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," "target," 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; impacts of our improved data analytics, underwriting, and monitoring processes; expected nonperforming loan resolutions and net charge-off rates; the performance of our securities portfolio; future effective tax rate; the impact of card balances related to government stimulus programs; progress on key initiatives; expected results of our partnerships; customer retention; loan and other product demand; new products and services; credit quality; the level of net charge-offs and the adequacy of the allowance for credit losses; and technology. 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 unusual and infrequently occurring events, including the impact on financial markets from geopolitical conflicts such as the military conflicts in Ukraine and the Middle East, weather-related disasters, or public health events, such as pandemics, and any governmental or societal responses thereto; 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, and their related impacts on macroeconomic conditions, customer behavior, funding costs and loan and securities portfolios; changes in tax laws; the strength of the United States' economy, and the local economies in which the Company operates; adverse developments in the financial services industry generally such as bank failures, responsive measures to mitigate and manage such developments, related supervisory and regulatory actions and costs, and related impacts on customer behavior; inflation, market, and monetary fluctuations; our liquidity and capital positions, including the sufficiency of our liquidity; 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 and acceptance 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 borrowing, 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. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in its entirety by the cautionary statements contained or referred to in this section. Additional discussions of factors affecting the Company's business and prospects are reflected under the caption "Risk Factors" and in other sections of the Company's Annual Report on Form 10-K for the Company's fiscal year ended September 30, 2023, and in the Company's other filings made with the SEC. The Company expressly disclaims any intent or obligation to update, revise, or clarify 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 that has elected to be a financial holding company, is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of the Bank, a chartered national bank, the accounts of which are insured up to applicable limits by the FDIC as administrator of the Deposit Insurance Fund. 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 March 31, 2024, compared to September 30, 2023, and the consolidated results of operations for the three and six months ended March 31, 2024 and 2023. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the fiscal year ended September 30, 2023 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, 2023.

EXECUTIVE SUMMARY

Company Highlights

- On February 27, 2024, the Board of Directors (the "Board") of Pathward Financial appointed Neeraj Mehta as a member of the Board.
- On April 3, 2024, Pathward®, N.A. announced it became Certified™ by Great Place to Work® for the second year in a row. Great Place to Work describes itself as the global authority on workplace culture, employee experience, and the leadership behaviors proven to deliver market-leading revenue, employee retention and increased innovation.

Financial Highlights for the 2024 Fiscal Second Quarter

- Total revenue for the second quarter was \$247.2 million, an increase of \$18.8 million, or 8%, compared to the same quarter in fiscal 2023, driven by an increase in both net interest income and noninterest income.
- Net interest margin ("NIM") increased 11 basis points to 6.23% for the second quarter from 6.12% during the same period of last year, primarily driven by increased yields and an improved earnings asset mix from the continued optimization of the portfolio.
- Total gross loans and leases at March 31, 2024 increased \$683.8 million to \$4.41 billion compared to March 31, 2023 and decreased \$16.9 million when compared to December 31, 2023. The increase compared to the prior year quarter was primarily due to growth across all loan portfolios. The primary driver for the sequential decrease was a reduction in the commercial and consumer finance portfolios, partially offset by growth in the warehouse finance and seasonal tax services loan portfolios.
- During the 2024 fiscal second quarter, the Company repurchased 764,185 shares of common stock at an average share price of \$51.20.

Tax Season

For the six months ended March 31, 2024, total tax services product revenue was \$72.9 million, an increase of 1% compared to the same period of the prior year. Total tax services product fee income increased marginally compared to the prior year, while total tax services product expense and net interest income on tax services loans decreased.

Provision for credit losses for the tax services portfolio decreased \$6.5 million for the six months ended March 31, 2024 when compared to the same period of the prior year, due to improvements in data analytics, underwriting and monitoring which helped lead to net recoveries of \$4.9 million recognized in the tax services portfolio during the first six months of 2024.

Total tax services product income, net of losses and direct product expenses, increased 24% to \$36.9 million from \$29.7 million, when comparing the first six months of fiscal 2024 to the same period of the prior fiscal year.

For the 2024 tax season through March 31, 2024, Pathward originated \$1.56 billion in refund advance loans compared to \$1.46 billion during the 2023 tax season.

FINANCIAL CONDITION

At March 31, 2024, the Company's total assets decreased to \$7.44 billion compared to September 30, 2023, primarily due to reductions of \$51.8 million in loans held for sale, \$27.7 million in cash and cash equivalents, and \$24.8 million in securities AFS.

Total cash and cash equivalents were \$347.9 million at March 31, 2024, decreasing from \$375.6 million at September 30, 2023. The Company maintains its cash investments primarily in interest-bearing overnight deposits with the FHLB of Des Moines and the FRB. At March 31, 2024, the Company did not have any federal funds sold.

The total investment portfolio decreased \$26.7 million, or 1%, to \$1.81 billion at March 31, 2024, compared to \$1.84 billion at September 30, 2023. 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 six months ended March 31, 2024, the Company made no purchases of investment securities.

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 FRB. The FHLB requires a level of stock investment based on a pre-determined formula. The Company's investment in these stocks was \$25.8 million at March 31, 2024 and \$28.2 million at September 30, 2023, as redemptions were partially offset by purchases of FHLB membership stock during the six months ended March 31, 2024.

Loans held for sale at March 31, 2024 totaled \$25.9 million, decreasing from \$77.8 million at September 30, 2023. This decrease was primarily driven by a reduction in consumer credit products held for sale at March 31, 2024 compared to September 30, 2023.

Total gross loans and leases totaled \$4.41 billion at March 31, 2024, as compared to \$4.37 billion at September 30, 2023. The increase was due to growth in the consumer finance, seasonal tax services, and warehouse finance loan portfolios, partially offset by a reduction in the commercial loan portfolio. See Note 4 to the "Notes to Condensed Consolidated Financial Statements" of this Quarterly Report on Form 10-Q.

Commercial finance loans, which comprised 83% of the Company's gross loan and lease portfolio, totaled \$3.66 billion at March 31, 2024, reflecting a decrease of \$67.1 million from September 30, 2023. The decrease in commercial finance loans was primarily driven by a \$277.2 million decrease in the insurance premium finance portfolio and a \$21.9 million decrease in the factoring portfolio, partially offset by a \$180.9 million increase in the term lending portfolio and a \$47.2 million increase in the asset-based lending portfolio.

Total end-of-period deposits decreased 3% to \$6.37 billion at March 31, 2024, compared to \$6.59 billion at September 30, 2023, primarily driven by a decrease in noninterest-bearing deposits of \$320.9 million, partially offset by an increase in wholesale deposits of \$96.0 million.

As of March 31, 2024, the Company had \$740.8 million in deposits related to government stimulus programs. Of the total amount of government stimulus program deposits, \$323.3 million are on activated cards while \$417.5 million are on inactivated cards. During the remainder of fiscal year 2024, the inactive deposit balances are expected to decline by approximately \$219 million as the Company actively returns unclaimed balances to the U.S. Treasury.

The Company's total borrowings increased \$17.5 million from \$46.9 million at September 30, 2023 to \$64.4 million at March 31, 2024, primarily driven by an increase in short-term borrowings of \$18.0 million.

At March 31, 2024, the Company's stockholders' equity totaled \$739.5 million, an increase of \$88.8 million, from \$650.6 million at September 30, 2023. The increase was primarily attributable to an increase in accumulated other comprehensive income and retained earnings. The Company and Bank remained above the federal regulatory minimum capital requirements at March 31, 2024, 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 are 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-classed 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)	March 31, 2024	September 30, 2023
Noninterest-bearing deposits	\$ 6,414,550	\$ 6,608,137
Prefunding	(329,117)	(230,749)
Discount funding	(62,552)	(34,351)
DDA overdrafts	(10,858)	(10,096)
Noninterest-bearing checking, net	<u>\$ 6,012,023</u>	<u>\$ 6,332,941</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.

As of March 31, 2024, the Company managed \$1.2 billion of customer deposits at other banks in its capacity as custodian. These deposits provide the Company with excess deposits that can earn servicing fee income, typically reflective of the EFFR.

RESULTS OF OPERATIONS

The following table presents, 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 yields on interest-bearing assets and NIM. Nonaccruing loans and leases have been included in the table as loans or leases carrying a zero yield.

(Dollars in thousands)	Three Months Ended March 31,					
	2024			2023		
	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate ⁽¹⁾	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate ⁽¹⁾
Interest-earning assets:						
Cash and fed funds sold	\$ 616,288	\$ 7,422	4.84 %	\$ 564,656	\$ 5,843	4.20 %
Mortgage-backed securities	1,464,530	9,998	2.75 %	1,549,240	10,326	2.70 %
Tax exempt investment securities	132,733	932	3.57 %	149,912	990	3.39 %
Asset-backed securities	237,421	3,368	5.71 %	141,968	1,273	3.64 %
Other investment securities	281,695	2,291	3.27 %	298,030	2,376	3.23 %
Total investments	2,116,379	16,589	3.20 %	2,139,150	14,965	2.89 %
Commercial finance	3,650,845	74,330	8.19 %	3,056,293	60,765	8.06 %
Consumer finance	351,459	9,144	10.46 %	187,826	6,301	13.60 %
Tax services	493,168	9,014	7.35 %	448,659	10,555	9.54 %
Warehouse finance	407,703	10,262	10.12 %	321,334	6,258	7.90 %
Total loans and leases	4,903,175	102,750	8.43 %	4,014,112	83,879	8.47 %
Total interest-earning assets	7,635,842	\$ 126,761	6.69 %	6,717,918	\$ 104,687	6.34 %
Noninterest-earning assets	600,354			612,020		
Total assets	\$ 8,236,196			\$ 7,329,938		
Interest-bearing liabilities:						
Interest-bearing checking	\$ 266	\$ —	0.31 %	\$ 267	\$ —	0.33 %
Savings	59,914	5	0.04 %	70,024	6	0.03 %
Money markets	190,143	598	1.26 %	125,193	71	0.23 %
Time deposits	5,027	4	0.29 %	6,948	2	0.11 %
Wholesale deposits	439,785	6,078	5.56 %	186,421	2,017	4.39 %
Total interest-bearing deposits	695,135	6,685	3.87 %	388,853	2,096	2.19 %
Overnight fed funds purchased	79,484	1,107	5.60 %	46,735	543	4.71 %
Subordinated debentures	19,625	355	7.27 %	19,523	354	7.34 %
Other borrowings	13,901	313	9.07 %	15,283	289	7.68 %
Total borrowings	113,010	1,775	6.32 %	81,541	1,186	5.90 %
Total interest-bearing liabilities	808,145	8,460	4.21 %	470,394	3,282	2.83 %
Noninterest-bearing deposits	6,473,538	—	— %	5,997,739	—	— %
Total deposits and interest-bearing liabilities	7,281,683	\$ 8,460	0.47 %	6,468,133	\$ 3,282	0.21 %
Other noninterest-bearing liabilities	223,560			191,360		
Total liabilities	7,505,243			6,659,493		
Shareholders' equity	730,953			670,445		
Total liabilities and shareholders' equity	\$ 8,236,196			\$ 7,329,938		
Net interest income and net interest rate spread including noninterest-bearing deposits	\$ 118,301	6.22 %		\$ 101,405	6.13 %	
Net interest margin		6.23 %			6.12 %	
Tax-equivalent effect		0.01 %			0.02 %	
Net interest margin, tax-equivalent⁽²⁾		6.24 %			6.14 %	

⁽¹⁾ Tax rate used to arrive at the TEY for the three months ended March 31, 2024 and 2023 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.

(Dollars in thousands)	Six Months Ended March 31,					
	2024			2023		
	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate ⁽¹⁾	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate ⁽¹⁾
Interest-earning assets:						
Cash and fed funds sold	\$ 476,371	\$ 11,525	4.84 %	\$ 393,469	\$ 7,559	3.85 %
Mortgage-backed securities	1,475,753	20,047	2.72 %	1,560,251	20,738	2.67 %
Tax exempt investment securities	134,612	1,862	3.50 %	152,359	1,970	3.28 %
Asset-backed securities	243,831	6,933	5.69 %	149,055	2,422	3.26 %
Other investment securities	283,168	4,579	3.23 %	299,905	4,783	3.20 %
Total investments	2,137,364	33,421	3.17 %	2,161,570	29,913	2.82 %
Commercial finance	3,707,184	149,675	8.07 %	3,033,331	118,865	7.86 %
Consumer finance	357,228	19,729	11.05 %	193,157	10,614	11.02 %
Tax services	259,338	9,003	6.94 %	234,619	10,612	9.07 %
Warehouse finance	394,747	19,306	9.78 %	305,724	12,184	7.99 %
Total loans and leases	4,718,497	197,713	8.38 %	3,766,831	152,275	8.11 %
Total interest-earning assets	7,332,232	\$ 242,659	6.63 %	6,321,870	\$ 189,747	6.04 %
Noninterest-earning assets	571,730			600,676		
Total assets	\$ 7,903,962			\$ 6,922,546		
Interest-bearing liabilities:						
Interest-bearing checking	\$ 346	\$ 1	0.33 %	\$ 358	\$ 1	0.33 %
Savings	57,334	11	0.04 %	66,275	12	0.04 %
Money markets	186,681	1,173	1.26 %	132,108	148	0.23 %
Time deposits	5,273	7	0.27 %	7,075	4	0.11 %
Wholesale deposits	324,909	9,019	5.55 %	95,074	2,073	4.37 %
Total interest-bearing deposits	574,543	10,211	3.55 %	300,890	2,238	1.49 %
Overnight fed funds purchased	98,421	2,763	5.61 %	35,638	787	4.43 %
Subordinated debentures	19,613	711	7.25 %	19,558	711	7.28 %
Other borrowings	14,040	637	9.07 %	15,553	549	7.09 %
Total borrowings	132,074	4,111	6.23 %	70,749	2,047	5.80 %
Total interest-bearing liabilities	706,617	14,322	4.05 %	371,639	4,285	2.31 %
Noninterest-bearing deposits	6,287,220	—	— %	5,706,615	—	— %
Total deposits and interest-bearing liabilities	6,993,837	\$ 14,322	0.41 %	6,078,254	\$ 4,285	0.14 %
Other noninterest-bearing liabilities	216,979			185,005		
Total liabilities	7,210,816			6,263,259		
Shareholders' equity	693,146			659,287		
Total liabilities and shareholders' equity	\$ 7,903,962			\$ 6,922,546		
Net interest income and net interest rate spread including noninterest-bearing deposits	\$ 228,337	6.22 %		\$ 185,462	5.89 %	
Net interest margin			6.23 %			5.88 %
Tax-equivalent effect			0.01 %			0.02 %
Net interest margin, tax-equivalent⁽²⁾			6.24 %			5.90 %

⁽¹⁾ Tax rate used to arrive at the TEY for the six months ended March 31, 2024 and 2023 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.

General

The Company recorded net income of \$65.3 million, or \$2.56 per diluted share, for the three months ended March 31, 2024, compared to net income of \$54.8 million, or \$1.99 per diluted share, for the three months ended March 31, 2023.

The Company recorded net income of \$92.9 million, or \$3.61 per diluted share, for the six months ended March 31, 2024, compared to net income of \$82.6 million, or \$2.95 per diluted share, for the six months ended March 31, 2023.

Net Interest Income

Net interest income for the second quarter of fiscal 2024 was \$118.3 million, an increase of 17% from the same quarter in fiscal 2023. The increase was mainly attributable to increased yields, higher average interest-earning asset balances and an improved earning asset mix. For the six months ended March 31, 2024, net interest income was \$228.3 million, an increase of 23%, from \$185.5 million compared to the same period in the prior fiscal year.

The Company's average interest-earning assets for the second quarter of fiscal 2024 increased by \$917.9 million to \$7.64 billion compared to the same quarter in fiscal 2023, primarily due to growth in loans and leases and an increase in cash balances, partially offset by a decrease in total investment security balances. The second quarter average outstanding balance of loans and leases increased \$889.1 million compared to the same quarter of the prior fiscal year, primarily due to an increase across all loan portfolios.

Fiscal 2024 second quarter NIM increased to 6.23% from 6.12% in the second fiscal quarter of last year. The overall reported tax-equivalent yield ("TEY") on average earning asset yields increased 35 basis points to 6.69% compared to the prior year quarter, driven by an improved earning asset mix. The yield on the loan and lease portfolio was 8.43% compared to 8.47% for the comparable period last year and the TEY on the securities portfolio was 3.20% compared to 2.89% over that same period.

For the six months ended March 31, 2024, NIM was 6.23%, an increase of 35 basis points from 5.88% compared to the same period in the prior fiscal year.

The Company's cost of funds for all deposits and borrowings averaged 0.47% during the fiscal 2024 second quarter, as compared to 0.21% during the prior year quarter. The Company's overall cost of deposits was 0.38% in the fiscal second quarter of 2024, as compared to 0.13% during the prior year quarter.

Provision for Credit Loss

The Company recognized a provision for credit loss of \$26.1 million for the three months ended March 31, 2024, compared to \$36.8 million for the comparable period in the prior fiscal year. The period-over-period decrease in provision for credit loss was due to improvements in the Company's data analytics, underwriting and monitoring within the tax services portfolio along with a decrease in provision for credit losses in the commercial finance portfolio primarily due to a mix shift in the loan portfolio and a benign credit environment. The Company recognized net recoveries of \$1.1 million for the quarter ended March 31, 2024, compared to net charge-offs of \$5.0 million for the quarter ended March 31, 2023. Net charge-offs attributable to the commercial finance portfolio for the current quarter were \$4.7 million, while recoveries of \$5.8 million were recognized in the tax services portfolio. Net charge-offs attributable to the commercial finance and consumer finance portfolios for the same quarter of the prior year were \$5.9 million and \$0.2 million, respectively, while a recovery of \$1.1 million was recognized in the tax services portfolio.

The Company recognized a provision for credit loss of \$35.9 million for the six months ended March 31, 2024, compared to \$46.5 million for the comparable period in the prior fiscal year. The decrease was primarily due to reductions in the tax services and commercial finance portfolios. The Company recognized net charge-offs of \$4.4 million for the six months ended March 31, 2024, compared to net charge-offs of \$8.2 million for the six months ended March 31, 2023. Net charge-offs attributable to the commercial finance portfolio for the current six months were \$9.3 million, while net recoveries of \$4.9 million were recognized in the tax services portfolio. Net charge-offs attributable to the commercial finance portfolio were \$7.9 million for the same six months of the prior year, while net recoveries in the tax services portfolio were insignificant.

Noninterest Income

Fiscal 2024 second quarter noninterest income increased 2% to \$128.9 million, compared to \$127.0 million for the same period of the prior year. The increase was primarily driven by an increase in refund advance fee income. The period-over-period increase was partially offset by a decrease in card and deposits fees.

The period-over-period decrease in card and deposit fee income was primarily related to servicing fee income on off-balance sheet deposits, which totaled \$10.4 million during the 2024 fiscal second quarter, compared to \$18.2 million for the same period of the prior year. The decrease in servicing fee income when compared to the prior year period was due to a reduction in off-balance sheet deposits.

Noninterest income for the six months ended March 31, 2024 decreased to \$181.7 million from \$192.8 million for the same period of the prior year.

Noninterest Expense

Noninterest expense increased 10% to \$140.4 million for the fiscal 2024 second quarter, from \$127.1 million for the same quarter last year. The increase was primarily attributable to increases in card processing expense, compensation and benefits expense, impairment expense, legal and consulting expense, and occupancy and equipment expense. The period-over-period increase was partially offset by decreases in operating lease equipment depreciation, other expense, refund transfer product expense, and intangible amortization expense.

The card processing expense increase was due to rate-related 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 is based on a percentage of the Effective Federal Funds Rate ("EFFR") and reprices immediately upon a change in the EFFR. Approximately 56% of the deposit portfolio was subject to these rate-related processing expenses during the 2024 fiscal second quarter. For the fiscal quarter ended March 31, 2024, contractual, rate-related processing expenses were \$30.1 million, as compared to \$26.8 million for the fiscal quarter ended December 31, 2023 and \$20.4 million for the fiscal quarter ended March 31, 2023.

Noninterest expense for the six months ended March 31, 2024 increased to \$259.7 million from \$232.2 million for the same period of the prior year.

Income Tax Expense

The Company recorded an income tax expense of \$15.2 million, representing an effective tax rate of 18.9%, for the fiscal 2024 second quarter, compared to \$9.2 million, representing an effective tax rate of 14.2%, for the second quarter last fiscal year. The current quarter increase in income tax expense compared to the prior year quarter was primarily due to increased earnings and also a decrease in investment tax credits recognized ratably when compared to the prior year quarter.

The Company originated \$25.9 million in renewable energy leases during the fiscal 2024 second quarter, resulting in \$7.0 million in total net investment tax credits. During the second quarter of fiscal 2023, the Company originated \$18.1 million in renewable energy leases resulting in \$4.9 million in total net investment tax credits. For the six months ended March 31, 2024, the Company originated \$38.1 million in renewable energy leases, compared to \$29.5 million for the comparable prior year period. Investment tax credits related to renewable energy leases are recognized ratably based on income throughout each fiscal year.

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 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 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 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. 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 modifications or loans and leases on nonaccrual status.

The Company believes that the level of allowance for credit losses at March 31, 2024 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)	March 31, 2024	September 30, 2023
Nonperforming Loans and Leases		
<u>Nonaccruing loans and leases:</u>		
Commercial finance	\$ 27,781	\$ 37,372
Total nonaccruing loans and leases	27,781	37,372
<u>Accruing loans and leases delinquent 90 days or more:</u>		
Loans held for sale	843	306
Commercial finance	2,679	11,242
Consumer finance	3,093	2,210
Tax services ⁽¹⁾	—	5,082
Total accruing loans and leases delinquent 90 days or more	6,615	18,840
Total nonperforming loans and leases	34,396	56,212
Other Assets		
Nonperforming operating leases	2,782	1,764
Total other assets	2,782	1,764
Total nonperforming assets	\$ 37,178	\$ 57,976
Total as a percentage of total assets	0.50 %	0.77 %

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

The Company's nonperforming assets at March 31, 2024 were \$37.2 million, representing 0.50% of total assets, compared to \$58.0 million, or 0.77% of total assets at September 30, 2023. The decrease in the nonperforming assets as a percentage of total assets at March 31, 2024 compared to September 30, 2023, was primarily driven by a decrease in nonperforming loans in the commercial finance portfolio.

The Company's nonperforming loans and leases at March 31, 2024 were \$34.4 million, representing 0.78% of total gross loans and leases, compared to \$56.2 million, or 1.26% of total gross loans and leases at September 30, 2023.

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 March 31, 2024, the Company had classified loans and leases of \$218.1 million as substandard, \$9.3 million as doubtful and none as loss. At September 30, 2023, the Company classified loans and leases of \$208.2 million as substandard, \$8.2 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 modifications 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 \$80.8 million at March 31, 2024, an increase compared to \$49.7 million at September 30, 2023. The increase in the ACL at March 31, 2024, when compared to September 30, 2023, was primarily due to a \$31.5 million increase in the allowance related to the seasonal tax services portfolio.

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

	As of the Period Ended				
	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Commercial finance	1.21 %	1.30 %	1.26 %	1.35 %	1.53 %
Consumer finance	1.71 %	1.45 %	0.92 %	0.92 %	1.99 %
Tax services	37.31 %	1.52 %	0.04 %	70.20 %	53.77 %
Warehouse finance	0.10 %	0.10 %	0.10 %	0.10 %	0.10 %
Total loans and leases	1.83 %	1.22 %	1.14 %	2.01 %	2.27 %
Total loans and leases excluding tax services	1.14 %	1.21 %	1.14 %	1.21 %	1.40 %

The Company's ACL as a percentage of total loans and leases increased to 1.83% at March 31, 2024 from 1.14% at September 30, 2023. The increase in the total loans and leases coverage ratio was primarily driven by seasonality in both the tax services portfolio and consumer finance portfolio.

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, 2023. There were no significant changes to these critical accounting policies and estimates during the first six months of fiscal 2024.

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 March 31, 2024, the Company had unfunded loan and lease commitments of \$1.45 billion. Management believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs. The liquidity sources as of March 31, 2024 include \$1.2 billion in off-balance sheet deposits and \$348 million in cash and cash equivalents. When factoring in additional resources, such as the Federal Home Loan Bank, the Federal Reserve Discount Window and other unsecured funding and wholesale options, the Company has over \$3.6 billion in total available liquidity as of March 31, 2024.

The Company and the Bank are required to comply with the regulatory capital rules administered by federal banking agencies (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 March 31, 2024, 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 table below includes certain non-GAAP financial measures that are used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews these measures along with other measures of capital as part of its financial analyses and has included this non-GAAP financial information, and corresponding reconciliation to total equity.

	Company	Bank	Minimum to be Adequately Capitalized Under Prompt Corrective Action Provisions	Minimum to be Well Capitalized Under Prompt Corrective Action Provisions
At March 31, 2024				
Tier 1 leverage capital ratio	7.75 %	7.92 %	4.00 %	5.00 %
Common equity Tier 1 capital ratio	12.30	12.83	4.50	6.50
Tier 1 capital ratio	12.56	12.83	6.00	8.00
Total capital ratio	14.21	14.09	8.00	10.00
At September 30, 2023				
Tier 1 leverage capital ratio	8.11 %	8.32 %	4.00 %	5.00 %
Common equity Tier 1 capital ratio	11.25	11.81	4.50	6.50
Tier 1 capital ratio	11.50	11.81	6.00	8.00
Total capital ratio	12.84	12.76	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⁾	
	March 31, 2024	September 30, 2023
Total stockholders' equity	\$ 739,462	\$ 650,625
Adjustments:		
LESS: Goodwill, net of associated deferred tax liabilities	296,889	297,679
LESS: Certain other intangible assets	19,146	21,228
LESS: Net deferred tax assets from operating loss and tax credit carry-forwards	15,862	19,679
LESS: Net unrealized (losses) on available for sale securities	(205,460)	(254,294)
LESS: Noncontrolling interest	(420)	(1,005)
ADD: Adoption of Accounting Standards Update 2016-13	1,345	2,017
Common Equity Tier 1 ⁽¹⁾	614,790	569,355
Long-term borrowings and other instruments qualifying as Tier 1	13,661	13,661
Tier 1 minority interest not included in common equity Tier 1 capital	(311)	(826)
Total Tier 1 capital	628,140	582,190
Allowance for credit losses	62,715	47,960
Subordinated debentures, net of issuance costs	19,642	19,591
Total capital	\$ 710,497	\$ 649,741

(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 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, 2023 for a summary of our contractual obligations as of September 30, 2023. There were no material changes outside the ordinary course of our business in contractual obligations from September 30, 2023 through March 31, 2024.

Item 3. Quantitative and Qualitative Disclosures About 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 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, likelihood of prepayment, and deposit behaviors.

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 portfolio of longer duration 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 generally does not have an offsetting reduction as it does not pay interest on these deposits. However, 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 applicable rate index and would likely lower card processing expenses.

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 IRR 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, such as certain other card fee income and expense line items tied to card processing expense derived from contractual agreements with certain BaaS partners and servicing fees the Company recognizes from custodial off-balance sheet deposits. 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 IRR, 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 immediate 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 March 31, 2024:

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	6,594,330	389,297	417,919	447,140	474,663	501,852	528,892	556,210
Total interest-sensitive expense	387,392	5,198	7,020	9,401	11,666	13,715	15,770	17,839
Net interest-sensitive income		384,099	410,899	437,739	462,997	488,137	513,122	538,371
Percentage change from base		-12.3 %	-6.1 %	— %	5.8 %	11.5 %	17.2 %	23.0 %

The EAR analysis reported at March 31, 2024, 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 March 31, 2024:

Economic Value Sensitivity

	Standard (Parallel Shift)							
	Economic Value of Equity at Risk %							
	-200	-100	+100	+200	+300	+400		
Percentage change from base			-7.6 %	-3.1 %	2.2 %	3.7 %	4.9 %	6.7 %

The EVE at risk reported at March 31, 2024 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 March 31, 2024, 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, as of March 31, 2024, the Company's disclosure controls and procedures were designed effectively to ensure timely alerting of material information relating to the Company required to be included in the Company's periodic SEC filings.

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 March 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Based on this evaluation, management concluded that, as of the end of the period covered by this report, there were no changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the fiscal second quarter to which this report relates that could have materially affected the Company's internal controls over financial reporting.

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, 2023. There were no material changes to those risk factors during the six months ended March 31, 2024.

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

(a) None.

(b) None.

(c) Issuer Purchases of Equity Securities.

On September 3, 2021, the Company's Board of Directors authorized a 6,000,000 share repurchase program that was publicly announced on September 7, 2021 and is scheduled to expire on September 30, 2024. The Company's Board of Directors authorized an additional 7,000,000 share repurchase program that was publicly announced on August 25, 2023 and is scheduled to expire September 30, 2028. The table below sets forth information regarding repurchases of our common stock during the fiscal 2024 second 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
January 1 to 31	497,455	\$ 51.43	488,600	7,945,248
February 1 to 29	199,412	50.55	197,670	7,747,578
March 1 to 31	86,129	51.19	77,915	7,669,663
Total	<u>782,996</u>		<u>764,185</u>	

⁽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 5. Other Information

Adoption or Termination of Trading Arrangements by Directors and Executive Officers

During the fiscal quarter ended March 31, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the 1934 Act) informed us of the adoption or termination of any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Item 408 of Regulation S-K.

Item 6. Exhibits.

Exhibit Number	Description
10.1*	Pathward Financial, Inc. 2023 Omnibus Incentive Plan, filed on February 28, 2024 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 March 31, 2024 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).

*Management contract or compensatory plan or agreement.

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: May 7, 2024

By: /s/ Brett L. Pharr

Brett L. Pharr,
Chief Executive Officer and Director

Date: May 7, 2024

By: /s/ Gregory A. Sigrist

Gregory A. Sigrist,
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: May 7, 2024

/s/ Brett L. Pharr

Chief Executive Officer and Director

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

I, Gregory A. Sigrist, 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: May 7, 2024

/s/ Gregory A. Sigrist

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 March 31, 2024 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

May 7, 2024

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 March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory A. Sigrist, 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/ Gregory A. Sigrist

Name: Gregory A. Sigrist
Executive Vice President and Chief Financial Officer
May 7, 2024