

META FINANCIAL GROUP INC

FORM 10-K (Annual Report)

Filed 12/21/2006 For Period Ending 9/30/2006

Address	121 EAST FIFTH STREET P O BOX 1307 STORM LAKE, Iowa 50588
Telephone	712-732-4117
CIK	0000907471
Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	09/30

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2006

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.

META FINANCIAL GROUP, INC.

(Name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

121 East Fifth Street, Storm Lake, Iowa

(Address of principal executive offices)

42-1406262

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

50588

(Zip Code)

Registrant's telephone number: (712) 732-4117

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant Section 13 and Section 15(d) of the Act. YES ☐

NO ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b2 of the Exchange Act. (Check one): Large accelerated filer ☐
Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ YES ☒

NO

As of November 27, 2006, there were outstanding 2,534,367 shares of the Registrant's Common Stock.

As of March 31, 2006, the aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked prices of such stock on the Nasdaq System as of such date, was \$40.4 million.

DOCUMENTS INCORPORATED BY REFERENCE

PARTS II and IV of Form 10-K — Portions of the Annual Report to Shareholders for the fiscal year ended September 30, 2006.
PART III of Form 10-K — Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held January 22, 2007.

Forward-Looking Statements

Meta Financial Group, Inc. [®], (“Meta Financial” or “the Company”) and its wholly-owned subsidiaries, MetaBank, MetaBank West Central (“MetaBank WC”) and Meta Trust, may from time to time make written or oral “forward-looking statements,” including statements contained in its filings with the Securities and Exchange Commission, in its reports to shareholders, and in other communications, which are made in good faith pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company’s beliefs, expectations, estimates and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company’s control. Such statements address the following subjects: future operating results; customer growth and retention; loan and other product demand; earnings growth and expectations; new products and services, such as those offered by the MetaBank’s Meta Payment Systems [®] Division of MetaBank; credit quality and adequacy of the allowance for loan losses; technology; and our employees. The following factors, among others, could cause the Company’s financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services offered by the Company as well as risks (including litigation) attendant thereto and the perceived overall value of these products and services by users; the impact of changes in financial services laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default and managing the risks (including litigation) involved in the foregoing.

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

Available Information

The Company’s website address is www.metacash.com. The Company makes available, through a link with the SEC’s EDGAR database, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”), and beneficial ownership reports on Forms 3, 4, and 5 as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the SEC. The information found on the Company’s website is not incorporated by reference in this or any other report the Company files or furnishes to the SEC.

PART I

Item 1. Description of Business

General

Meta Financial is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of MetaBank and MetaBank WC. Meta Financial, on September 20, 1993, acquired all of the capital stock of MetaBank in connection with its conversion from the mutual to stock form ownership (the “Conversion”). On September 30, 1996, Meta Financial became a bank holding company for regulatory purposes upon its acquisition of MetaBank WC as discussed below. Unless the context otherwise requires, references herein to the Company include Meta Financial, MetaBank WC and MetaBank, and all subsidiaries on a consolidated basis. MetaBank and MetaBank WC may sometimes collectively be referred to as the “Banks.”

Since the Conversion, the Company has acquired several financial institutions. On March 28, 1994, Meta Financial acquired Brookings Federal Bank in Brookings, South Dakota (“Brookings Federal”). On December 29, 1995, Meta Financial acquired Iowa Savings Bank, FSB in Des Moines, Iowa (“Iowa Savings”). Brookings Federal and Iowa Savings were both merged with, and now operate as market areas of, MetaBank. On September 30, 1996, Meta Financial completed the acquisition of Central West Bancorporation (“CWB”), the holding company for MetaBank WC, which upon the merger of CWB into Meta Financial resulted in MetaBank WC becoming a stand-alone banking subsidiary of Meta Financial.

MetaBank and MetaBank WC are the only direct, active full service banking subsidiaries of Meta Financial. The Banks are community-oriented financial institutions offering a variety of financial services to meet the needs of the communities they serve. The Company, through the Banks, provides a full range of financial services. The principal business of MetaBank has consisted of attracting retail deposits from the general public and investing those funds primarily in one- to four-family residential mortgage loans, commercial and multi-family real estate, agricultural operating and real estate, construction, consumer and commercial business loans primarily in MetaBank’s market area. MetaBank’s lending activities have expanded in recent years to include an increased emphasis on originations of commercial and multi-family real estate loans and commercial business loans. MetaBank also purchases loan participations from time to time from other financial institutions. These loans typically are collateralized by commercial real estate and commercial businesses. In 2004, MetaBank created a division known as Meta Payment Systems (“MPS”), which issues reloadable, non-reloadable and benefit cards, sponsors non-bank owned ATMs into various debit networks, provides ACH services for corporate clients, and provides related electronic banking services. MPS also generates low- and no-cost deposits for MetaBank through its activities. The principal business of MetaBank WC has been and continues to be attracting retail deposits from the general public and investing those funds in commercial and multi-family real estate and commercial operating loans and, to a lesser extent, one- to four-family residential, consumer and agriculture loans. The Banks also purchase mortgage-backed securities and other investments permissible under applicable regulations. Meta Financial also owns Meta Trust Company (the “Trust Company”), a South Dakota trust corporation. At September 30, 2006, the Company had total assets of \$741.1 million, deposits of \$565.7 million, and shareholders’ equity of \$45.3 million.

The Company’s revenues are derived primarily from interest on commercial and residential mortgage loans, mortgage-backed securities, commercial business loans, other investments, consumer loans, agricultural operating loans, commercial business loans, income from service charges, loan

origination fees, fees generated through the activities of Meta Payment Systems, and loan servicing fee income.

The Trust Company, established in April 2002 as a South Dakota corporation and a wholly-owned subsidiary of Meta Financial, provides a full range of trust services. First Midwest Financial Capital Trust, also a wholly-owned subsidiary of Meta Financial, was established in July 2001 for the purpose of issuing trust preferred securities.

Meta Financial, the Banks and the Trust Company are subject to comprehensive regulation. See “Regulation” herein.

The home office of the Company is located at 121 East Fifth Street, Storm Lake, Iowa 50588. Its telephone number at that address is (712) 732-4117.

Market Area

MetaBank has four market areas and the Meta Payments Systems Division: Northwest Iowa (“NWI”), Brookings, Central Iowa (“CI”), and Sioux Empire (“SE”). MetaBank’s headquarters is located at 121 East Fifth Street in Storm Lake, Iowa. NWI operates a total of six offices in Storm Lake (2), Lake View, Laurens, Odebolt and Sac City, Iowa Brookings operates one office in Brookings, South Dakota. CI operates five offices in Des Moines (2), West Des Moines (2), and Urbandale, Iowa. SE operates four offices in Sioux Falls and one administrative office. The Meta Payment Systems Division of MetaBank, which provides stored value card services, ATM sponsorship services and ACH services, operates out of Sioux Falls, South Dakota. See “Meta Payment Systems Division.”

MetaBank WC operates its business through three full-service offices in Casey, Menlo and Stuart, Iowa.

The Company’s primary market area includes the Iowa counties of Adair, Buena Vista, Dallas, Guthrie, Pocahontas, Polk and Sac, and the South Dakota counties of Brookings, Lincoln and Minnehaha.

Iowa ranks sixth lowest nationally in business costs (Economy.com Inc. 2003), among the top ten states for “technology sophistication” in K-12 schools (Market Data Retrieval), third most favorable business liability climate in the nation (Harris Interactive Survey, U.S. Chamber of Commerce, 2003), second “most livable” state in the nation (Morgan Qullno State Rankings, 2003), and has low corporate income and franchise taxes.

South Dakota ranks first in “entrepreneurial friendliness” (Small Business Survival Foundation, 2002), first in students per computer (Technology Courts 2002), is the second “safest” state (FBI, 2001), and has no corporate income tax, personal income tax, personal property tax, business inventory tax, or inheritance tax.

Storm Lake is located in Iowa’s Buena Vista County approximately 150 miles northwest of Des Moines and 200 miles southwest of Minneapolis. Like much of the state of Iowa, Storm Lake and the surrounding market area are highly dependent upon farming and agricultural markets. Major employers in the area include Buena Vista Regional Medical Center, Tyson Foods, Sara Lee Foods, and Buena Vista University, which currently enrolls 1,118 full-time students at its Storm Lake campus and employs 83 full-time faculty members. The Northwest Iowa market operates two offices in Storm Lake with additional offices in Laurens, Sac City, Lake View and Odebolt.

Brookings is located in east central Brookings County, South Dakota, approximately 50 miles north of Sioux Falls and 200 miles west of Minneapolis. The Bank's market area encompasses approximately a 30-mile radius of Brookings. The area is generally rural, and agriculture is a significant industry in the community. South Dakota State University is the largest employer in Brookings. The University had 11,377 students enrolled for the 2006 fall term and employs 1,020 full-time faculty members. The community also has several manufacturing companies, including 3M, Larson Manufacturing, Daktronics, Falcon Plastics, Twin City Fan, and Rainbow Play Systems, Inc. The Brookings market operates from an office located in downtown Brookings.

Des Moines, Iowa's capital, is located in central Iowa. The Des Moines market area encompasses Polk County and surrounding counties. MetaBank's Central Iowa main office is located in a high growth area just off I-80 at the intersection of two major streets in Urbandale. The West Des Moines office operates near a high-traffic intersection, across from a major shopping mall. The Ingersoll office is located near the heart of Des Moines, on a major thoroughfare, in a densely populated area. The Highland Park facility is located in a historical district approximately five minutes north of downtown Des Moines. The Jordan Creek office is located in near Jordan Creek Town Center in West Des Moines, one of the fastest growing communities in the State of Iowa and the Greater Des Moines area. The Des Moines metro area is one of the top three insurance centers in the world, with sixty-seven insurance company headquarters and over one hundred regional insurance offices. Major employers include Principal Life Insurance Company, Des Moines Community Schools, Central Iowa Hospital Corporation, Mercy Hospital Medical Center, Hy-Vee Food Stores, Inc., Wells Fargo Home Mortgage Inc., Pioneer Hi Bred International Inc., Bridgestone/Firestone, Communications Data Services Inc., and Meredith Corporation. Universities and colleges in the area include Des Moines Area Community College, Drake University, Simpson College, Des Moines University – Osteopathic Medical Center, Grand View College, AIB College of Business, and Upper Iowa University. The unemployment rate in the Des Moines metro area was 3.4% as of September 2006.

Sioux Falls is located at the crossroads of Interstates 29 and 90 in southeast South Dakota, 270 miles southwest of Minneapolis. The Sioux Falls market area encompasses Minnehaha and Lincoln counties. Sioux Falls ranks third in a national list of top cities to start a company according to a report by Cognetics, Inc. (Kiplinger Report, April 2001). Sioux Falls received an "A+" on Zero Population Growth's 2001 Kid-Friendly Cities Report Card, excelling in health, public safety, education, economics, environment, and community life; ranking third out of 140 cities. The city was called a "Diamond in the Rough" as a great smaller market for businesses to make a move. The magazine cited the community's growth rates as a huge opportunity and recognized the state's friendly tax laws. (Sales & Marketing Management April 2002.) The main branch is located at the high growth area of 57th and Western. Other branches are located at 33rd and Minnesota, the intersection of 12th and Elmwood, and on North Minnesota Avenue just north of Russell Road. Major employers in the area include Sioux Valley Hospital, Avera McKennan Hospital, John Morrell & Company, Citibank (South Dakota) NA, and Hy-Vee Food Stores. Sioux Falls is home to Augustana College with 2006 fall enrollment of 1,768 and The University of Sioux Falls with 2005 fall enrollment of 1,674. The unemployment rate in Sioux Falls was 2.4% as of September 2006.

MetaBank WC's main office operates in Stuart, which is located in west-central Iowa on the border of Adair and Guthrie counties, approximately 40 miles west of Des Moines. MetaBank WC's market area is highly dependent on farming and agriculture. Local businesses include Agri-Drain Corporation, Cardinal Glass, Rose Acre Farms, Wausau Supply and Schafer Systems, Inc. In addition, a large number of area residents commute to the Des Moines metro area for work. In recent years, efforts of the Midwest Partnership Corporation have resulted in significant development of new service-related businesses in the area, associated with the westward expansion of Des Moines and direct interstate

highway access. Seven industrial parks exist in these two counties with rail access recently added to the Stuart area. This development provides economic diversity to MetaBank WC's market area.

Several of the Company's market areas are dependant on agriculture-related businesses, which are exposed to exogenous risk factors such as weather conditions and commodity prices. Presently, economic conditions in the agricultural sector of the Company's market area are relatively strong. Recent rises in agricultural commodity prices will serve to offset more modest yields this year. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problems. Although there has been minimal effect observed to date, an extended period of low commodity prices or poor weather conditions could result in a reduced demand for goods and services provided by agriculture-related businesses, which could also affect other businesses in the Company's market area.

Lending Activities

General. Historically, the Company originated fixed-rate, one- to four-family mortgage loans. In the early 1980s, the Company began to focus on the origination of adjustable-rate mortgage ("ARM") loans and short-term loans for retention in its portfolio in order to increase the percentage of loans in its portfolio with more frequent repricing or shorter maturities, and in some cases higher yields, than fixed-rate residential mortgage loans. The Company, however, has continued to originate fixed-rate residential mortgage loans in response to consumer demand, although most such loans are generally sold in the secondary market. See "Management's Discussion and Analysis -- Asset/Liability Management" in the Annual Report.

More recently, the Company has focused its lending activities on the origination of commercial and multi-family real estate loans, commercial business loans, and, to a lesser extent, commercial construction loans. The Company has increased its emphasis, both in absolute dollars and as a percentage of its gross loan portfolio, on all types of commercial lending. The Company also continues to originate one-to-four family mortgage loans, consumer loans and agriculturally related loans. The Company originates most of its loans in its primary market area. At September 30, 2006, the Company's net loan portfolio totaled \$388.8 million, or 52.5% of the Company's total assets.

Loan applications are initially considered and approved at various levels of authority, depending on the type and amount of the loan. The Company has a loan committee consisting of senior lenders and Market Presidents, and is led by the Chief Lending Officer. Loans in excess of certain amounts require approval by at least two members of the loan committee, or by the Bank's Board of Directors, which has responsibility for the overall supervision of the loan portfolio. The Company reserves the right to discontinue, adjust or create new lending programs to respond to its needs and to competitive factors.

At September 30, 2006, the Company's largest lending relationship to a single borrower or group of related borrowers totaled \$9.1 million, none of which has been sold to other participants. The Company had 24 other lending relationships in excess of \$3.0 million as of September 30, 2006 with the average outstanding balance of such loans equal to \$4.4 million. At September 30, 2006, one of these loans, with a balance of \$3.6 million, was classified as "Substandard," and another, with a balance of \$4.0 million, was classified as "Special Mention."

Loan Portfolio Composition. The following table provides information about the composition of the Company's loan portfolio in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowances for losses) as of the dates indicated.

September 30,										
2006		2005		2004		2003		2002		
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
(Dollars in Thousands)										
Real Estate Loans										
One- to four-family	\$ 59,330	15.0%	\$ 70,165	15.3%	\$ 75,364	18.1%	\$ 71,628	19.7%	\$ 98,423	27.8%
Commercial and multi-family	167,590	42.2	214,049	46.9	196,774	47.2	171,791	47.2	151,806	42.9
Agricultural	16,147	4.1	15,246	3.3	12,880	3.0	11,639	3.2	12,067	3.4
Total real estate loans	243,067	61.3	299,460	65.5	285,018	68.3	255,058	70.1	262,296	74.1
Other Loans :										
Consumer Loans:										
Home equity	25,247	6.4	24,685	5.4	21,993	5.3	18,126	5.0	14,669	4.2
Automobile	1,930	0.5	2,497	0.5	2,975	0.7	3,271	0.9	3,287	0.9
Other(1)	3,988	1.0	4,481	1.0	5,387	1.3	5,237	1.4	5,637	1.6
Total consumer loans	31,165	7.9	31,663	6.9	30,355	7.3	26,634	7.3	23,593	6.7
Agricultural operating	30,064	7.6	24,529	5.4	21,148	5.1	22,599	6.2	25,308	7.1
Commercial business	92,385	23.2	101,772	22.2	80,515	19.3	59,468	16.4	42,844	12.1
Total other loans	153,614	38.7	157,964	34.5	132,018	31.7	108,701	29.9	91,745	25.9
Total loans	396,681	100.0%	457,424	100.0%	417,036	100.0%	363,759	100.0%	354,041	100.0%
Less :										
Loans in process	1,773		9,733		7,342		8,895		7,155	
Deferred fees and discounts	178		279		272		210		256	
Allowance for losses	5,968		7,222		5,371		4,962		4,693	
Total loans receivable, net	\$388,762		\$440,190		\$404,051		\$349,692		\$341,937	

(1) Consist generally of various types of secured and unsecured consumer loans.

The following table shows the composition of the Company's loan portfolio by fixed and adjustable rate at the dates indicated.

September 30,										
2006		2005		2004		2003		2002		
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
(Dollars in Thousands)										
Fixed Rate Loans										
Real estate:										
One- to four-family	\$ 46,620	11.8%	\$ 40,703	8.9%	\$ 49,138	11.7%	\$ 48,183	13.2%	\$ 48,175	13.6%
Commercial and multi-family	115,573	29.1	131,273	28.7	105,001	25.2	95,976	26.4	72,658	20.5
Agricultural	9,566	2.4	7,708	1.7	5,306	1.3	5,311	1.5	5,498	1.6
Total fixed-rate real estate loans	171,759	43.3	179,684	39.3	159,445	38.2	149,470	41.1	126,331	35.7
Consumer	22,063	5.6	18,058	3.9	15,583	3.7	17,889	4.9	20,282	5.7
Agricultural operating	16,232	4.1	8,032	1.8	5,987	1.4	5,238	1.4	9,339	2.6
Commercial business	38,115	9.6	36,188	8.0	23,946	5.8	27,967	7.7	14,455	4.1
Total fixed-rate loans	248,169	62.6	241,962	52.9	204,961	49.1	200,564	55.1	170,407	48.1
Adjustable Rate Loans :										
Real estate:										
One- to four-family	12,710	3.2	29,462	6.5	26,226	6.3	23,445	6.5	50,248	14.2
Commercial and multi-family	52,018	13.1	82,776	18.1	91,773	22.0	75,815	20.8	79,148	22.4
Agricultural	6,580	1.7	7,538	1.6	7,574	1.8	6,328	1.7	6,569	1.9
Total adjustable-rate real estate loans	71,308	18.0	119,776	26.2	125,573	30.1	105,588	29.0	135,965	38.5
Consumer	9,102	2.3	13,605	3.0	14,772	3.5	8,745	2.4	3,311	0.9
Agricultural operating	13,832	3.5	16,497	3.6	15,161	3.6	17,361	4.8	15,969	4.5
Commercial business	54,270	13.6	65,584	14.4	56,569	13.7	31,501	8.7	28,389	8.0
Total adjustable rate loans	148,512	37.4	215,462	47.1	212,075	50.9	163,195	44.9	183,634	51.9
Total loans	396,681	100.0	457,424	100.0%	417,036	100.0%	363,759	100.0%	354,041	100.0%
Less :										
Loans in process	1,773		9,733		7,342		8,895		7,155	
Deferred fees and discounts	178		279		272		210		256	
Allowance for losses	5,968		7,222		5,371		4,962		4,693	
Total loans receivable, net	\$388,762		\$440,190		\$404,051		\$349,602		\$341,937	

The following table illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 2006. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract reprices. The table reflects management's estimate of the effects of loan prepayments or curtailments based on data from the Company's historical experiences and other third party sources.

Real Estate ⁽¹⁾		Consumer		Commercial Business		Agricultural Operating		Total	
Weighted		Weighted		Weighted		Weighted		Weighted	
Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate

(Dollars in Thousands)

Due During Years
Ending September 30

2007 ⁽²⁾	\$133,021	7.14%	\$16,528	7.60%	\$72,198	8.78%	\$24,302	8.04%	\$246,049	7.74%
2008-2009	59,506	6.31	11,566	7.26	15,121	6.73	4,349	6.85	90,542	6.53
2010 and following	50,541	6.36	3,071	7.09	5,065	6.54	1,412	6.79	60,089	6.43

⁽¹⁾ Includes one- to four-family, multi-family, commercial and agricultural real estate loans.

⁽²⁾ Includes demand loans, loans having no stated maturity and overdraft loans.

One- to Four-Family Residential Mortgage Lending. One- to four-family residential mortgage loan originations are generated by the Company's marketing efforts, its present customers, walk-in customers and referrals from real estate agents and builders. At September 30, 2006, the Company's one- to four-family residential mortgage loan portfolio totaled \$59.3 million, or 15% of the Company's total gross loan portfolio. See "Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." At September 30, 2006, the average outstanding principal balance of a one- to four-family residential mortgage loan was approximately \$65,000.

The Company offers fixed-rate and ARM loans for both permanent structures and those under construction. During the year ended September 30, 2006, the Company originated \$1.55 million of adjustable-rate loans and \$20.0 million of fixed-rate loans secured by one- to four-family residential real estate, of which approximately \$6.2 million was held in portfolio. The Company's one- to four-family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas.

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

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

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

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

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and has purchased whole loan and participation interests in loans from other financial institutions. At September 30, 2006, the Company's commercial and multi-family real estate loan portfolio totaled \$167.6 million, or 42% of the Company's total gross loan portfolio. The purchased loans and loan participation interests are generally secured by properties located in the Midwest and West. See "Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." The Company, in order to supplement its loan

portfolio and consistent with management's objectives to expand the Company's commercial and multi-family loan portfolio, purchased \$14.8 million, \$13.0 million, and \$25.7 million, of such loans during fiscal 2006, 2005 and 2004, respectively. At September 30, 2006, none of the Company's commercial and multi-family real estate loans were non-performing. See "Non-Performing Assets, Other Loans of Concern and Classified Assets."

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

At September 30, 2006, the Company's largest commercial and multi-family real estate loan was a \$4.7 million loan secured by residential housing developments. At September 30, 2006, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately \$341,000.

Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family and commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired. MetaBank believes that it may eventually exceed its 400 percent total capital limitation for nonresidential real estate loans and accordingly, has submitted a waiver request requesting OTS to grant an increase in its regulatory limit. At September 30, 2006, MetaBank's nonresidential real estate loans totaled 268 percent of total capital.

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and for other farm related products. At September 30, 2006, the Company had agricultural real estate loans secured by farmland of \$16.1 million or 4% of the Company's gross loan portfolio. At the same date, \$30.1 million, or 8% of the Company's gross loan portfolio, consisted of secured loans related to agricultural operations.

Agricultural operating loans are originated at either an adjustable or fixed rate of interest for up to a one year term or, in the case of livestock, upon sale. Most agricultural operating loans have terms of one year or less. Such loans provide for payments of principal and interest at least annually, or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years. At September 30, 2006, the average outstanding principal balance of an agricultural operating loan held by the Company was \$72,000. At September 30, 2006, \$182,000, or 0.6%, of the Company's agricultural operating loans were non-performing.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first one to five years, which then balloon or adjust annually thereafter. In addition, such loans generally amortize over a period of ten to 20 years. Adjustable-rate agricultural real estate loans provide for a margin over the yields on the corresponding U.S. Treasury security or prime rate. Fixed-rate agricultural real estate loans generally have terms up to five years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan. At September 30, 2006, none of the Company's agricultural real estate portfolio was non-performing.

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

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

Consumer Lending . The Company offers a variety of secured consumer loans, including home equity, home improvement, automobile, boat and loans secured by savings deposits. In addition, the Company offers other secured and unsecured consumer loans. The Company currently originates substantially all of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. At September 30, 2006, the Company's consumer loan portfolio totaled \$31.2 million, or 8% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 2006, \$22.1 million were short- and intermediate-term, fixed-rate loans, while \$9.1 million were adjustable-rate loans .

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

The Company primarily originates automobile loans on a direct basis, but also originates indirect automobile loans on a very limited basis. Direct loans are loans made when the Company extends credit directly to the borrower, as opposed to indirect loans, which are made when the Company purchases loan contracts, often at a discount, from automobile dealers which have extended credit to their customers. The Company's automobile loans typically are originated at fixed interest rates with terms up to 60

months for new and used vehicles. Loans secured by automobiles are generally originated for up to 80% of the N.A.D.A. book value of the automobile securing the loan.

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

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At September 30, 2006, none of the Company's consumer loan portfolio was non-performing.

Commercial Business Lending. The Company also originates commercial business loans. Most of the Company's commercial business loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. At September 30, 2006, \$92.4 million, or 23% of the Company's total gross loan portfolio was comprised of commercial business loans.

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

The largest commercial business loan outstanding at September 30, 2006 was a \$9.1 million secured by accounts receivables. The next largest commercial business loan outstanding at September 30, 2006 was a \$9.0 million loan secured by all of the assets of the borrower. These loans are currently performing in accordance with their terms. At September 30, 2006, the average outstanding principal balance of a commercial business loan held by the Company was approximately \$229,000.

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

over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At September 30, 2006, \$3.6 million, or 3.9%, of the Company's commercial business loan portfolio was non-performing.

Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities

Loans are generally originated by the Company's staff of salaried loan officers. Loan applications are taken and processed in the branches and the main office of the Company. While the Company originates both adjustable-rate and fixed-rate loans, its ability to originate loans is dependent upon the relative customer demand for loans in its market. Demand is affected by the interest rate and economic environment.

The Company, from time to time, sells whole loans and loan participations generally without recourse. At September 30, 2006, there were no loans outstanding sold with recourse. When loans are sold the Company sometimes retains the responsibility for collecting and remitting loan payments, making certain that real estate tax payments are made on behalf of borrowers, and otherwise servicing the loans. The servicing fee is recognized as income over the life of the loans. The Company services loans that it originated and sold totaling \$47.5 million at September 30, 2006, of which \$22.9 million were sold to Fannie Mae and \$24.6 million were sold to others.

In periods of economic uncertainty, the Company's ability to originate large dollar volumes of loans may be substantially reduced or restricted, with a resultant decrease in related loan origination fees, other fee income and operating earnings. In addition, the Company's ability to sell loans may substantially decrease as potential buyers (principally government agencies) reduce their purchasing activities.

The following table shows the loan origination (including undisbursed portions of loans in process), purchases and advances on purchased loans, and repayment activities of the Company for the periods indicated.

	September 30,		
	2006	2005	2004
	(Dollars in Thousands)		
Originations by type :			
Adjustable rate:			
Real estate — one- to four-family	\$ 9,268	\$ 13,584	\$ 4,084
- commercial and multi-family	33,300	39,710	35,289
- agricultural real estate	565	4,500	5,418
Non-real estate — consumer	1,584	10,186	14,669
- commercial business	121,137	150,519	103,864
- agricultural operating	33,328	36,252	29,847
Total adjustable-rate	199,182	254,751	193,171
Fixed rate:			
Real estate — one- to four-family	29,869	18,028	22,969
- commercial and multi-family	37,025	48,174	43,875
- agricultural real estate	7,625	—	40
Non-real estate — consumer	2,978	12,704	8,288
- commercial business	63,006	41,521	21,324
- agricultural operating	17,475	7,343	5,839
Total fixed-rate	157,978	127,770	102,335
Total loans originated	357,160	382,521	295,506

Purchases :			
Real estate — one-to-four-family	599	—	—
- commercial and multi-family	14,814	12,987	25,732
Non-real estate — commercial business	52,881	26,710	13,810
	<u>68,294</u>	<u>39,697</u>	<u>39,542</u>
Total loans	68,294	39,697	39,542
Total mortgage-backed securities	—	15,173	46,004
	<u>68,294</u>	<u>54,870</u>	<u>85,546</u>
Sales and Repayments :			
Sales:			
Real estate — one- to four family	1,737	16,272	18,043
Non-real estate — commercial business	—	—	—
	<u>1,737</u>	<u>16,272</u>	<u>18,043</u>
Total loans	1,737	16,272	18,043
Mortgaged-backed securities	—	25,863	—
	<u>1,737</u>	<u>42,135</u>	<u>18,043</u>
Repayments:			
Loan principal repayments	474,976	366,867	265,934
Mortgage-backed securities repayments	40,533	75,101	88,588
	<u>515,509</u>	<u>441,968</u>	<u>354,792</u>
Total principal repayments	515,509	441,968	354,792
Total reductions	517,246	484,103	372,835
	<u>(3,856)</u>	<u>(4,071)</u>	<u>(1,133)</u>
(Decrease) in other items, net	(3,856)	(4,071)	(1,133)
	<u>\$ (95,648)</u>	<u>\$ (50,783)</u>	<u>\$ 7,084</u>
Net increase (decrease)	\$ (95,648)	\$ (50,783)	\$ 7,084

At September 30, 2006, approximately \$50.8 million, or 12.8%, of the Company's gross loan portfolio consisted of purchased loans. The Company believes that purchasing loans outside of its market area assists the Company in diversifying its portfolio and may lessen the adverse affects on the Company's business or operations which could result in the event of a downturn or weakening of the local economy in which the Company conducts its operations. However, additional risks are associated with purchasing loans outside of the Company's market area, including the lack of knowledge of the local market and difficulty in monitoring and inspecting the property securing the loans.

The following table provides information regarding the Company's balance of wholly purchased real estate and business loans and participations for each state in which the balance of such loans exceeded \$1.0 million at September 30, 2006.

Location	One- to four- Family Loans		Commercial and Multi-Family		Total Purcl Loans
	Balance	Number of Loans	Balance	Number of Loans	Balance
				(Dollars in Thousands)	
Arizona	\$ —	—	\$ 7,650	3	\$ 7,650
California	—	—	3,545	2	3,545
Florida	—	—	4,526	3	4,526
Iowa	14	2	16,388	25	16,402
Minnesota	—	—	5,377	5	5,377
North Carolina	1,006	5	—	—	1,006
South Dakota	9	2	4,285	4	4,294
Washington	275	1	2,501	4	2,776
Other states	632	30	4,544	6	5,176
Total	\$ 1,936	40	48,816	52	50,752
Percent of loan portfolio	0.05%		12.3%		12.8%

Non-Performing Assets, Other Loans of Concern, and Classified Assets

When a borrower fails to make a required payment on real estate secured loans and consumer loans within 16 days after the payment is due, the Company generally initiates collection procedures by mailing a delinquency notice. The customer is contacted again, by written notice or telephone, before the payment is 30 days past due and again before 60 days past due. In most cases, delinquencies are cured promptly; however, if a loan has been delinquent for more than 90 days, satisfactory payment arrangements must be adhered to or the Company will initiate foreclosure or repossession.

Generally, when a loan becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result, previously accrued interest income on the loan is taken out of current income. The loan will remain on a non-accrual status until the loan becomes current.

The following table sets forth the Company's loan delinquencies by type, before allowance for loan losses, by amount and by percentage of type at September 30, 2006.

	Loans Delinquent For:								
	30-59 Days			60-89 Days			90 Days and Over		
	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
(Dollars in Thousands)									
Real Estate:									
One- to four-family	2	\$ 186	21%	—	\$ —	—%	1	\$ 31	1%
Commercial and multi-family	—	—	—	—	—	—	—	—	—
Agricultural real estate	—	—	—	—	—	—	—	—	—
Consumer	3	15	2	2	9	2	—	—	—
Agricultural operating	2	19	2	—	—	—	1	182	4
Commercial business	7	673	75	1	500	98	5	3,887	95
Total	14	\$ 893	100%	3	\$ 509	100%	7	\$ 4,100	100%

Delinquencies 90 days and over constituted 1.09% of total gross loans and 0.58% of total assets.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Loans, with some exceptions, are typically placed on non-accrual status when the loan becomes 90 days or more delinquent or when the collection of principal and/or interest become doubtful. For all years presented, the Company's troubled debt restructurings (which involved forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates) are included in the table and were performing as agreed.

	September 30,				
	2006	2005	2004	2003	2002
	(Dollars in Thousands)				
Non-accruing loans:					
One- to four-family	\$ 31	\$ 54	\$ —	\$ 156	\$ 51
Commercial and multi-family	—	—	399	417	417
Agricultural real estate	—	—	—	—	41
Consumer	—	1	59	17	—
Agricultural operating	182	218	254	291	394
Commercial business	3,887	404	—	126	408
Total non-accruing loans	4,100	677	712	1,007	1,311
Accruing loans delinquent					
90 days or more	—	—	—	—	819
Total non-performing loans	4,100	677	712	1,007	2,130
Restructured Loans:					
Consumer	—	—	—	—	—
Agricultural operating	—	7	9	28	9
Commercial business	—	—	8	31	71
Total restructured loans	—	7	17	59	80
Foreclosed assets:					
One- to four-family	15	—	—	—	—
Commercial real estate	35	1,841	—	912	1,310
Consumer	—	—	—	4	18
Commercial business	—	2,865	—	193	—
Total	50	4,706	—	1,109	1,328
Total non-performing assets	\$ 4,150	\$ 5,390	\$ 729	\$ 2,175	\$ 3,538
Total as a percentage of total assets	0.56%	0.69%	0.09%	0.28%	0.58%

For the year ended September 30, 2006, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately \$635,000, of which none was included in interest income.

Non-accruing Loans . At September 30, 2006, the Company had \$4,100 in non-accruing loans, which constituted 1.03% of the Company's gross loan portfolio. Included in this total was a single commercial business loan, with an outstanding balance of \$3.6 million, which is secured by assets of a road paving company.

Accruing Loans Delinquent 90 Days or More. At September 30, 2006, the Company has no accruing loans delinquent 90 days or more.

Other Loans of Concern. At September 30, 2006, there were loans totaling \$1.3 million not included in the table above where known information about the possible credit problems of borrowers

caused management to have concern as to the ability of the borrower to comply with the present loan repayment terms. This amount consisted of two one- to four-family residential mortgage loans totaling \$39,000, two commercial real estate loans totaling \$333,000, five commercial business loans totaling \$842,000, and three consumer loans totaling \$44,000 .

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the Office of Thrift Supervision (the “OTS”) to be of lesser quality as “substandard,” “doubtful” or “loss.” An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the savings association will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such minimal value that their continuance as assets without the establishment of a specific loss reserve is not warranted. The loans held by MetaBank WC are subject to similar classification by its regulatory authorities.

When assets are classified as either substandard or doubtful, the Banks may establish general allowances for loan losses in an amount deemed prudent by management. 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 Banks’ determinations as to the classification of their assets and the amount of their valuation allowances are subject to review by their regulatory authorities, who may order the establishment of additional general or specific loss allowances.

On the basis of management’s review of its assets, at September 30, 2006, the Company had classified a total of \$4.96 million of its assets as substandard, \$447,000 as doubtful and none as loss. Included in the assets classified as substandard is \$50,000 of real estate owned and other foreclosed assets.

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

Current economic conditions in the Company’s market area are generally stable. Unemployment rates remain at levels lower than the national average, and corporate profits have been firm. Over the last year, residential and commercial real estate prices have remained steady, but national trends in these areas, particularly on the East and West coasts, could eventually dampen real estate price appreciation or lead to price declines in the Company’s market area. Many economists have forecasted a slowdown in economic growth during calendar 2007. Generally, economic growth in the Company’s market area is not prone to fluctuations as great as those experienced on the national level; however a prolonged economic slowdown may affect the financial conditions and repayment capacities of the Company’s commercial and consumer borrowers. The agricultural sector in the Company’s market area is also generally stable. The agricultural economy is accustomed to commodity price fluctuations and is

generally able to handle such fluctuations without significant problem. A prolonged decline in commodity prices, or a prolonged period of unfavorable weather conditions, however, could affect the financial conditions and repayment capacities of the Company's agricultural borrowers. Weakness in any of the Company's loan portfolios could create a need for the Company to increase its allowance for loan losses through increased charges to provision for loan losses.

Real estate properties acquired through foreclosure are recorded at the lower of cost or fair value. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged-off to the allowance for loan losses at the time of transfer. Valuations are periodically updated by management and if the value declines, a specific provision for losses on such property is established by a charge to operations.

Although management believes that it uses the best information available to determine the allowances, unforeseen market conditions could result in adjustments and net earnings could be significantly affected if circumstances differ substantially from the assumptions used in making the final determination. Future additions to the Company's allowances will be the result of periodic loan, property and collateral reviews and thus cannot be predicted in advance.

The following table sets forth an analysis of the Company's allowance for loan losses.

	September 30				
	2006	2005	2004	2003	2002
	(Dollars in Thousands)				
Balance at beginning of period	\$ 7,222	\$ 5,371	\$ 4,962	\$ 4,693	\$ 3,869
Charge-offs:					
One-to four family	(8)	—	(7)	(4)	(11)
Agricultural operating	—	—	—	—	(84)
Commercial and multi-family	—	(141)	—	(31)	—
Consumer	(6)	(13)	(19)	(49)	(139)
Commercial business	(1,115)	(3,623)	(83)	(29)	(86)
Total charge-offs	(1,129)	(3,777)	(109)	(113)	(320)
Recoveries:					
One-to-four family	—	—	2	2	2
Consumer	5	32	25	13	39
Commercial business	324	—	2	10	4
Commercial and multi-family	—	114	—	—	—
Agricultural operating	—	—	—	7	9
Total recoveries	329	146	29	32	54
Net charge-offs	(800)	(3,631)	(80)	(81)	(266)
Additions charged (credited) to operations	(454)	5,482	489	350	1,090
Balance at end of period	\$ 5,968	\$ 7,222	\$ 5,371	\$ 4,962	\$ 4,693
Ratio of net charge-offs during the period to average loans outstanding during the period	0.19%	0.83%	0.02%	.02%	.08%
Ratio of net charge-offs during the period to average non-performing assets	13.56%	118.0%	2.26%	2.50%	4.54%

For more information on the provision for loan losses, see "Management's Discussion and Analysis - Results of Operations" in the Annual Report.

The distribution of the Company's allowance for losses on loans at the dates indicated is summarized as follows:

September 30,										
2006		2005		2004		2003		2002		
Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	
(Dollars in Thousands)										
One- to four-family	\$ 130	14.96%	\$ 110	10.40%	\$ 97	10.94%	\$ 135	14.35%	\$ 170	20.53%
Commercial and multi-family										
real estate	1,482	42.25	2,370	51.74	2,834	50.27	2,512	52.57	2,665	50.15
Agricultural real estate	115	4.07	152	3.33	178	7.13	116	3.20	131	3.41
Consumer	120	7.86	422	6.92	376	7.28	344	7.32	317	6.66
Agricultural operating	219	7.58	476	5.36	478	5.07	628	6.21	639	7.15
Commercial business	3,544	23.28	3,439	22.25	1,338	19.31	1,027	16.35	663	12.10
Unallocated	358	—	253	—	70	—	200	—	108	—
Total	\$5,968	100.00%	\$7,222	100.00%	\$5,371	100.00%	\$4,962	100.00%	\$4,693	100.00%

Investment Activities

General. The investment policy of the Company generally is to invest funds among various categories of investments and maturities based upon the Company's need for liquidity, to achieve the proper balance between its desire to minimize risk and maximize yield, to provide collateral for borrowings, and to fulfill the Company's asset/liability management policies. The Company's investment and mortgage-backed securities portfolios are managed in accordance with a written investment policy adopted by the Board of Directors, which is implemented by members of the Bank's Investment Committee. The Company is aware that, due to higher levels of concentration risk, the low- and no-cost checking deposits generated through MPS may carry a greater degree of liquidity risk than traditional consumer checking deposits. As a result, the Company closely monitors balances in these accounts, and maintains a portfolio of highly liquid assets to fund potential deposit outflows. To date, the Company has not experienced any inordinate or unusual outflows related to MPS, though no assurance can be given that this will continue to be the case.

As of September 30, 2006, the Company's entire investment and mortgage-backed securities portfolios were classified as available for sale. For additional information regarding the Company's investment and mortgage-backed securities portfolios, see Notes 1 and 4 of the Notes to Consolidated Financial Statements in the Annual Report.

As of September 30, 2006, investment and mortgage-backed securities with fair values of approximately \$75.1 million were pledged as collateral for FHLB advances and reverse repurchase agreements. For additional information regarding the Company's collateralization of borrowings, see Notes 9 and 10 of the Notes to Consolidated Financial Statement in the Annual Report.

Securities Purchased Under Agreements to Resell. In September 2005, Meta Payment Systems entered into a contract to assume the processing of a gift card portfolio. As part of the contract, the funds supporting the outstanding balances of the portfolio were invested in securities purchased under an agreement to resell through Bank of America. The agreement matures every seven days and the securities purchased under the agreement are comprised of U. S. Government agency securities.

Investment Securities. It is the Company's general policy to purchase investment securities which are U.S. Government securities and federal agency obligations, state and local government obligations, commercial paper, corporate debt securities and overnight federal funds.

The following table sets forth the carrying value of the Company's investment security portfolio, excluding mortgage-backed securities, at the dates indicated.

	September 30,		
	2006	2005	2004
	(Dollars in Thousands)		
Investment Securities:			
Trust preferred and corporate securities(1)	26,279	\$ 25,637	\$ 25,992
Municipal bonds	145	441	482
Equity investments	568	567	514
Freddie Mac common stock	262	226	264
Fannie Mae common stock	112	90	127
Other	109	1,013	1,053
Subtotal	27,475	27,971	28,432
FHLB and FRB stock	5,768	8,287	11,179
Total investment securities and FHLB and FRB stock	33,243	\$ 36,258	\$ 39,611
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds sold (2)	101,948	\$ 8,979	\$ 7,345

(1) Within the trust preferred securities presented above, there are securities from individual issuers that exceed 10% of the Company's total equity. The name and the aggregate market value of securities of each individual issuer are as follows, as of September 30, 2006: Key Corp Capital I, \$4.94 million; Bank Boston Capital Trust IV, \$4.86 million; BankAmerica Capital III, \$4.66 million; PNC Capital Trust, \$4.86 million; Huntington Capital Trust II, \$4.83 million.

(2) The Company at times maintains balances in excess of insured limits at various financial institutions including the Federal Home Loan Bank of Des Moines, the Federal Reserve Bank, and other private institutions. At September 30, 2006 the Company had \$79.8 million of interest bearing deposits held at the Federal Home Loan Bank of Des Moines. The Company does not believe these deposits carry a significant risk of loss, but cannot provide assurances that no losses could occur if these institutions were to become insolvent.

The composition and maturities of the Company's investment securities portfolio, excluding equity securities, FHLB stock and mortgage-backed securities, are indicated in the following table.

	September 30, 2006					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Market Value
(Dollars in Thousands)						
Trust preferred and corporate securities	\$ —	\$ 1,003	\$ —	\$ 25,276	\$ 26,773	\$ 26,279
Municipal bonds	145	—	—	—	146	145
Other	109	—	—	—	110	109
Total investment securities	\$ 254	\$ 1,003	\$ —	\$ 25,276	\$ 27,029	\$ 26,533
Weighted average yield (1)	4.37%	5.70%	—%	6.31%	6.25%	6.27%

⁽¹⁾ Yields on tax-exempt obligations have not been computed on a tax-equivalent basis.

Mortgage-Backed Securities. The Company's mortgage-backed and related securities portfolio consists primarily of securities issued under government-sponsored agency programs, including those of Ginnie Mae, Fannie Mae and Freddie Mac. The Company historically has held Collateralized Mortgage Obligations ("CMOs"), as well as a limited amount of privately issued mortgage pass-through certificates. The Ginnie Mae, Fannie Mae and Freddie Mac certificates are modified pass-through mortgage-backed securities that represent undivided interests in underlying pools of fixed-rate, or certain types of adjustable-rate, predominantly single-family and, to a lesser extent, multi-family residential mortgages issued by these government-sponsored entities. Fannie Mae and Freddie Mac generally provide the certificate holder a guarantee of timely payments of interest, whether or not collected. Ginnie Mae's guarantee to the holder is timely payments of principal and interest, backed by the full faith and credit of the U.S. Government. Privately issued mortgage pass-through certificates generally provide no guarantee as to timely payment of interest or principal, and reliance is placed on the creditworthiness of the issuer, which the Company monitors on a regular basis.

At September 30, 2006, the Company had mortgage-backed securities with a carrying value of \$147.9 million, representing 93% of the total portfolio, which had fixed rates of interest and \$10.8 million, representing 7% of the total portfolio, which had adjustable rates of interest.

Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. At September 30, 2006, \$85 million or 51% of the Company's mortgage-backed securities were pledged to secure various obligations of the Company.

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities. The prepayment risk associated with mortgage-backed securities is monitored periodically, and prepayment rate assumptions adjusted as appropriate to update the Company's mortgage-backed securities accounting and asset/liability reports.

The following table sets forth the carrying value of the Company's mortgage-backed securities at the dates indicated.

	September 30,		
	2006	2005	2004
	(Dollars in Thousands)		
Ginnie Mae	\$ —	\$ 3	\$ 6,727
CMO	6	7	1,606
Freddie Mac	98,328	125,770	164,003
Fannie Mae	60,295	77,056	121,627
Privately Issued Mortgage Pass-Through Certificates	73	85	129
Total	\$ 158,702	\$ 202,921	\$ 294,092

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 2006. Not considered in the preparation of the table below is the effect of prepayments, periodic principal repayments and the adjustable-rate nature of these instruments.

	September 30, 2006					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Mortgage-Backed Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Market Value
(Dollars in Thousands)						
CMO	\$ —	\$ —	\$ —	\$ 6	\$ 6	\$ 6
Freddie Mac	—	87,714	—	10,615	102,145	98,328
Fannie Mae	—	59,421	—	873	63,581	60,295
Privately Issued Mortgage Pass-Through Certificates(1)	—	—	—	73	66	73
Total investment securities	—	147,135	—	11,567	165,798	158,702
Weighted average yield	—%	4.14%	—%	4.55%	4.16%	4.16%

(1) This security is rated Aaa by a nationally recognized rating agency .

At September 30, 2006, the contractual maturity of 7.3% of all of the Company's mortgage-backed securities was in excess of ten years. The actual maturity of a mortgage-backed security is typically less than its stated maturity due to scheduled principal payments and prepayments of the underlying mortgages. Prepayments that are different than anticipated will affect the yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with generally accepted accounting principles, premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because, to the extent that

the Company's mortgage-backed securities amortize or prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate.

Sources of Funds

General. The Company's sources of funds are deposits, borrowings, amortization and repayment of loan principal, interest earned on or maturation of investment securities and short-term investments, and funds provided from operations.

Borrowings, including Federal Home Loan Bank ("FHLB") of Des Moines advances, and repurchase agreements, may be used at times to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels, may be used on a longer-term basis to support expanded lending activities, and may also be used to match the funding of a corresponding asset.

Deposits. The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of passbook savings accounts, money market savings accounts, NOW and regular checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 months. The Company only solicits deposits from its primary market area and does not currently use brokers to obtain deposits. The Company relies primarily on competitive pricing policies, advertising and high-quality customer service to attract and retain these deposits. The Company has no brokered deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, and competition.

The variety of deposit accounts offered by the Company has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company endeavors to manage the pricing of its deposits in keeping with its asset/liability management and profitability objectives. Based on its experience, the Company believes that its passbook savings, money market savings accounts, NOW and regular checking accounts are relatively stable sources of deposits. However, the ability of the Company to attract and maintain certificates of deposit and the rates paid on these deposits has been and will continue to be significantly affected by market conditions.

\$163.1 million of the Company's deposit portfolio is attributable to MPS. The majority of these deposits represent un-spent funds on prepaid debit cards and other stored value products and are included with non-interest-bearing demand deposits on the Company's Consolidated Statement of Financial Condition. Generally, these deposits do not earn interest. Meta Payment Systems originates debit card programs through outside sales agents and other financial institutions. As such, these deposits carry a somewhat higher degree of liquidity risk than traditional consumer products. If a major client or card program were to leave the Bank, deposit outflows would be more significant than if the bank were to lose a more traditional customer. The Company takes this additional risk into account when planning its investment and liquidity strategies. The increase in deposits arising from MPS has also allowed the bank to reduce its reliance on higher costing certificates of deposits and public funds.

The following table sets forth the savings flows at the Company during the periods indicated.

	September 30,		
	2006	2005	2004
	(Dollars in Thousands)		
Opening balance	\$ 541,042	\$ 461,797	\$ 435,821
Deposits	11,887,997	3,255,395	2,065,429
Withdrawals	(11,871,317)	(3,185,592)	(2,031,501)
Sale of deposit	—	—	(16,103)
Interest credited	7,988	9,442	8,151
Ending balance	\$ 565,710	\$ 541,042	\$ 461,797
Net increase	\$ 24,668	\$ 79,245	\$ 25,976
Percent increase	4.56%	17.16%	5.96%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by the Company for the periods indicated.

	September 30,					
	2006		2005		2004	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in Thousands)						
Transactions and Savings Deposits :						
Non-interest bearing Demand Accounts	\$ 189,506	33.50%	\$ 102,436	18.92%	\$ 19,753	4.28%
Interest bearing Demand Accounts	26,828	4.74	33,481	6.19	27,657	5.99
Passbook Savings Accounts	29,869	5.28	62,371	11.52	45,666	9.89
Money Market Accounts	103,290	18.26	74,632	13.79	103,966	22.51
Total Non-Certificate	349,493	61.78	272,920	50.42	197,042	42.67
Certificates :						
Variable	2,908	0.51	2,216	0.41	2,053	0.44
0.00 - 1.99%	1,379	0.24	18,791	3.47	89,602	19.40
2.00 - 3.99%	69,494	12.28	190,189	35.17	129,447	28.04
4.00 - 5.99%	142,426	25.19	52,347	9.68	32,225	6.98
6.00 - 7.99%	10	0.00	4,579	0.85	11,428	2.47
Total Certificates	216,217	38.22	268,122	49.58	264,755	57.33
Total Deposits	\$ 565,710	100.00%	\$ 541,042	100.00%	\$ 461,797	100.00%

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 2006.

	Variable	0.00 - 1.99%	2.00- 3.99%	4.00- 5.99%	6.00- 7.99%	Total	Percent of Total
(Dollars in Thousands)							
Certificate accounts maturing in quarter ending :							
December 31, 2006	\$ 907	\$ 1,193	\$ 11,431	\$ 19,357	\$ —	\$ 32,888	15.2%
March 31, 2007	400	46	22,592	33,449	—	56,487	26.1
June 30, 2007	353	122	8,588	30,813	—	39,876	18.4
September 30, 2007	565	—	4,554	17,626	—	22,745	10.5
December 31, 2007	470	18	3,198	6,377	—	10,063	4.7
March 31, 2008	213	—	2,336	1,236	—	3,785	1.9
June 30, 2008	—	—	3,824	6,648	—	10,472	4.8
September 30, 2008	—	—	6,990	4,094	—	11,084	5.2
December 31, 2008	—	—	2,191	2,676	—	4,867	2.2
March 31, 2009	—	—	1,592	2,592	—	4,184	1.9
June 30, 2009	—	—	684	2,968	—	3,652	1.7
September 30, 2009	—	—	336	1,474	—	1,810	0.8
Thereafter	—	—	1,178	13,116	10	14,304	6.6
Total	\$ 2,908	\$ 1,379	\$ 69,494	\$ 142,426	\$ 10	\$ 216,217	100.0%
Percent of total	1.3%	0.6%	32.1%	66.0%	0.0%	100.0%	

The following table indicates the amount of the Company's certificates of deposit and other deposits by time remaining until maturity as of September 30, 2006.

	Maturity				
	3 Months or Less	After 3 to 6 Months	After 6 to 12 Months	After 12 Months	Total
	(In Thousands)				
Certificates of deposit less than \$100,000	\$ 24,561	\$ 45,258	\$ 49,711	\$ 52,420	\$ 171,950
Certificates of deposit of \$100,000 or more	8,327	11,229	12,910	11,801	44,267
Total certificates of deposit(1)	\$ 32,888	\$ 56,487	\$ 62,621	\$ 64,221	\$ 216,217

(1) Includes deposits from governmental and other public entities totaling \$3.9 million.

Borrowings. Although deposits are the Company's primary source of funds, the Company's policy has been to utilize borrowings when they are a less costly source of funds, can be invested at a positive interest rate spread, or when the Company desires additional capacity to fund loan demand.

The Company's borrowings historically have consisted primarily of advances from the FHLB of Des Moines upon the security of a blanket collateral agreement of a percentage of unencumbered loans and the pledge of 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. At September 30, 2006, the Company had \$99.6 million of advances from the FHLB of Des Moines and the ability to borrow up to an approximate additional \$82.2 million. At September 30, 2006, advances totaling \$25.3 million had terms to maturity of one year or less. The remaining \$74.3 million had maturities ranging up to 13 years.

On July 16, 2001, the Company issued all of the 10,000 authorized shares of Company Obligated Mandatorily Redeemable Preferred Securities of First Midwest Financial Capital Trust I (preferred securities of subsidiary trust) holding solely subordinated debt securities. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a variable rate of LIBOR (as defined) plus 3.75%, not to exceed 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on July 25, 2031; however, the Company has a semi-annual option to shorten the maturity date to a date not earlier than July 25, 2006. The redemption price is \$1,000 per capital security plus any accrued and unpaid distributions to the date of redemption plus, if redeemed prior to July 25, 2011, a redemption premium as defined in the Indenture Agreement. Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's common stock. The trust preferred securities have been includable in the Company's capital calculations on a limited basis since they were issued.

From time to time, the Company has offered retail repurchase agreements to its customers. These agreements typically range from 14 days to five years in term, and typically have been offered in minimum amounts of \$100,000. The proceeds of these transactions are used to meet cash flow needs of the Company. At September 30, 2006, the Company had \$179,000 of retail repurchase agreements outstanding.

Historically, the Company has entered into wholesale repurchase agreements through nationally recognized broker-dealer firms. These agreements are accounted for as borrowings by the Company and are secured by certain of the Company's investment and mortgage-backed securities. The broker-dealer takes possession of the securities during the period that the reverse repurchase agreement is outstanding. The terms of the agreements have usually ranged from 7 days to six months, but on occasion longer term agreements have been entered into. At September 30, 2006, the Company had \$15.0 million of wholesale repurchase agreements outstanding.

The following table sets forth the maximum month-end balance and average balance of FHLB advances, retail and reverse repurchase agreements and Subordinated Debentures for the periods indicated.

	September 30,		
	2006	2005	2004
	(Dollars in Thousands)		
<u>Maximum Balance :</u>			
FHLB advances	\$ 159,705	\$ 229,300	\$ 226,250
Repurchase agreements	20,369	33,077	58,500
Subordinated debentures	9,831	9,800	9,769
<u>Average Balance :</u>			
FHLB advances	\$ 126,573	\$ 209,618	\$ 203,135
Retail and reverse repurchase agreements	16,616	28,067	38,977
Subordinated debentures	9,816	9,784	9,754

The following table sets forth certain information as to the Company's FHLB advances and other borrowings at the dates indicated.

	September 30,		
	2006	2005	2004
	(Dollars in Thousands)		
FHLB advances	\$ 99,565	\$ 159,705	\$ 226,250
Repurchase agreements	15,179	20,507	32,549
Subordinated debentures	9,831	9,800	9,769
Total borrowings	\$ 124,575	\$ 190,012	\$ 268,568
Weighted average interest rate of FHLB advances	4.97%	4.56%	3.62%
Weighted average interest rate of repurchase agreements	3.13%	2.89%	2.49%
Weighted average interest rate of subordinated debentures	9.30%	7.67%	5.74%

Subsidiary Activities

The subsidiaries of the Company are MetaBank, MetaBank WC, Meta Trust Company and First Midwest Financial Capital Trust I. MetaBank has one service corporation subsidiary, First Services Financial Limited ("First Services"). At September 30, 2006, the net book value of MetaBank's investment in First Services was approximately \$90,000. MetaBank WC does not have any subsidiaries. MetaBank organized First Services, its sole service corporation, in 1983. First Services currently has no active operations.

Meta Payment Systems Division

Meta Financial, through its subsidiary MetaBank, operating under the divisional name of Meta Payment Systems, offers stored value and debit card programs. The programs target banks, card processors and third party marketers to distribute the cards. Stored value products are segregated into three categories: reloadable cards for applications such as payroll and personal use; non-reloadable cards for one-time uses such as gifts or promotions; and benefit cards for applications such as transportation and flexible-spending accounts. Stored value card programs are subject to certain fraud risks, including but not limited to, collusion between bank and merchant employees, and merchant employees and cardholders, counterfeiting, improper authorization, and system failure. Taking on prepaid funds from customers also subjects the Company to somewhat increased liquidity and interest rate risk.

While the Company believes that it has adopted policies and procedures to manage and monitor the risks attendant to this line of business, and while the executives who manage the Company's program have years of experience, no guarantee can be made that the Company will not experience losses in this division.

Regulation

Recent Legislation - The Financial Services Modernization Act. On November 12, 1999, the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA") was signed into law. The purpose of this legislation was to modernize the financial services industry by establishing a

comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. Generally, the Act:

- (a) repealed the historical restrictions and eliminates many federal and state law barriers to affiliations among banks, securities firms, insurance companies and other financial service providers;
- (b) provided a uniform framework for the functional regulation of the activities of banks, savings institutions and their holding companies;
- (c) broadened the activities that may be conducted by national banks, banking subsidiaries of bank holding companies and their financial subsidiaries;
- (d) provided an enhanced framework for protecting the privacy of consumer information; and
- (e) addressed a variety of other legal and regulatory issues affecting day-to-day operations and long-term activities of financial institutions.

The GLBA also imposes certain obligations on financial institutions to develop privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect and secure customer data. These privacy provisions were implemented by regulations that were effective on November 12, 2000. Compliance with the privacy provisions was required by July 1, 2001.

USA Patriot Act of 2001 . In October 2001, the USA Patriot Act of 2001 was enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. which occurred on September 11, 2001. The Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Among other requirements, Title III of the USA Patriot Act imposes the following requirements:

- All financial institutions must establish anti-money laundering programs that include (i) internal policies, procedures and controls, (ii) specific designation of an anti-money laundering compliance officer, (iii) ongoing employee training programs and (iv) an independent audit function to test the anti-money laundering program.
- Financial institutions that establish, maintain, administer, or manage private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives must establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.
- Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks that do not have a physical presence in any country, and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

- Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The Company's policies and procedures have been updated to reflect the requirements of the USA Patriot Act.

Sarbanes-Oxley Act of 2002 . On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, or the SOA. The SOA is the most far-reaching U.S. securities legislation enacted in many years, and includes many substantive and disclosure-based requirements. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission under the Exchange Act.

Federal Deposit Insurance Reform Act of 2005. The Federal Deposit Insurance Reform Act of 2005 (the "FDIRA"), signed into law on February 8, 2006, amended current laws regarding the federal deposit insurance system. Pursuant to the FDIRA, the FDIC merged the Bank Insurance Fund ("BIF") and the Savings Association Insurance Fund ("SAIF") into one deposit insurance fund, the Deposit Insurance Fund ("DIF"), on March 31, 2006. The new legislation also abolishes the prior minimum 1.25% reserve ratio and the mandatory assessments when the ratio falls below 1.25%. Under the FDIRA, the FDIC, at the beginning of each year, has the flexibility to adjust the DIF's reserve ratio between 1.15% and 1.50% depending upon a variety of factors, including projected losses, economic considerations and assessment rates.

Deposit insurance coverage limits are raised under the FDIRA from \$100,000 to \$250,000 for certain types of Individual Retirement Accounts, 401(k) plans and other retirement savings accounts (including Keough accounts and "457" plan accounts, among others). The current \$100,000 limit continues to apply to individual accounts and municipal deposits; however, Congress included in the FDIRA the authority for the FDIC to review all levels of insurance coverage after March 31, 2010, and index such insurance coverage to inflation. Additionally, the FDIRA states that undercapitalized financial institutions cannot accept employee benefit plan deposits.

On October 10, 2006, the FDIC announced its final rule with respect to implementing the \$4.7 billion dividend requirements of the FDIRA. The rule will take effect on January 1, 2007 and sunset on December 31, 2008, after which the FDIC intends to have in place a more comprehensive rulemaking on dividends. The dividend will take the form of a credit, to be calculated by the FDIC, that may be applied against future deposit insurance premiums due. Generally, to be eligible for the credit, an institution must have been in existence prior to December 31, 1996 and paid insurance premiums before such date or meet the agency's definition of a "successor" to such institution.

Financial Services Regulatory Relief Act of 2006. On October 13, 2006, President Bush signed into law the Financial Services Regulatory Relief Act of 2006. The legislation includes language important to all financial institutions, and the specific provisions applicable to federal savings associations include the following:

- providing savings and loan trust departments with the same exemption from the investment adviser and broker-dealer regulatory requirements to the same extent previously enjoyed by bank trust departments with respect to the Investment Advisers Act of 1940 and the Securities Exchange Act of 1934;

- requiring the Securities and Exchange Commission and the Federal Reserve Board, in consultation with the other federal banking regulators, including the Office of Thrift Supervision, to formally resolve regulatory issues with respect to the regulation of securities activities by banks and federal savings associations (final rules are required to be proposed by early April 2007);
- providing that a federal savings association is only a citizen of the state in which its home office is located for purposes of determining diversity jurisdiction (a provision that previously had been applicable to national banks only);
- increasing to \$500 million the applicable asset size for an 18-month examination cycle;
- requiring the federal banking agencies to develop a succinct model privacy notice with respect to Gramm-Leach-Bliley privacy provisions and mandating that a regulatory safe harbor be provided to financial institutions that use such model privacy policy;
- extending the powers of federal banking agencies to take enforcement actions against persons for conduct that occurred during their affiliation with the financial institution regardless of whether the person remains employed by the institution;
- repealing certain requirements governing purchased mortgage servicing rights found in the Home Owners' Loan Act.

General. Bank holding companies, such as Meta Financial, are subject to comprehensive regulation by the Board of Governors of the Federal Reserve System ("FRB") under the Bank Holding Company Act of 1956, as amended ("BHCA") and the regulations of the FRB. As a bank holding company, Meta Financial is required to file reports with the FRB and such additional information as the FRB may require, and is subject to regular inspections by the FRB. The FRB also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under FRB policy, a bank holding company must serve as a source of strength for its subsidiary banks. Under this policy the FRB may require a holding company to contribute additional capital to an undercapitalized subsidiary bank.

Under the Bank Holding Company Act of 1956, as amended (the "BHCA"), a bank holding company must obtain FRB approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company.

The BHCA prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by FRB regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities permitted by the FRB includes, among other things, operating a savings

institution (such as MetaBank), mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; real estate and personal property appraising; and, subject to certain limitations, providing securities brokerage services for customers. The scope of permissible activities may be expanded from time to time by the FRB. Such activities may also be affected by federal legislation.

Meta Financial currently has four wholly-owned subsidiaries, MetaBank, a federally-chartered thrift institution, MetaBank WC, an Iowa-chartered commercial bank, First Midwest Financial Capital Trust I, a statutory business trust organized under the Delaware Business Trust Act and Meta Trust Company, a South Dakota corporation that provides trust services. MetaBank is subject to extensive regulation, supervision and examination by the OTS, as its chartering authority and primary federal regulator, and by the FDIC, which insures its deposits up to applicable limits. MetaBank is a member of the FHLB System and is subject to certain limited regulation by the FRB. Such regulation and supervision governs the activities in which an institution can engage and the manner in which such activities are conducted, and is intended primarily for the protection of the insurance fund and depositors. MetaBank WC is subject to extensive regulation, supervision and examination by the Iowa Superintendent of Banking (the "Superintendent") and the FRB, which are its state and primary federal regulators, respectively. It is also subject to regulation by the FDIC, which insures its deposits up to applicable limits. As with MetaBank, such regulation and supervision governs the activities in which MetaBank WC can engage and the manner in which such activities are conducted and is intended primarily for the protection of the insurance fund and depositors.

Meta Financial is regulated as a bank holding company by the FRB. Bank holding companies are subject to comprehensive regulation and supervision by the FRB under the BHCA and the regulations of the FRB. As a bank holding company, Meta Financial must file reports with the FRB and such additional information as the FRB may require, and is subject to regular inspections by the FRB. Meta Financial is subject to the activity limitations imposed under the BHCA and in general may engage in only those activities that the FRB has determined to be closely related to banking.

Regulatory authorities have been granted extensive discretion in connection with their supervisory and enforcement activities which are intended to strengthen the financial condition of the banking industry, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in the nature of such regulation and oversight, whether by the OTS, the FDIC, the FRB or legislatively by Congress, could have a material impact on Meta Financial, MetaBank or MetaBank WC and their respective operations.

Certain of these regulatory requirements and restrictions are discussed below or elsewhere in this document.

Federal Regulation of Financial Institutions. The OTS has extensive supervisory and regulatory authority over the operations of savings associations. As part of this authority, MetaBank is required to file periodic reports with the OTS and is subject to periodic examination by the OTS and the FDIC. The last regular OTS examination of Meta Financial was as of August 8, 2005. MetaBank WC is subject to similar regulation and oversight by the Superintendent and the FRB and was last examined as of September 20, 2005.

Each federal and state banking regulator also has extensive enforcement authority over its regulated institutions. This enforcement authority includes, among other things, the power to compel

higher reserves, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports. Except under certain circumstances, public disclosure of final enforcement actions by the regulator is required. The federal banking agencies have adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan.

In addition, the investment, lending and branching authority of MetaBank is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by such laws. MetaBank WC is subject to such restrictions under state law as administered by the Iowa Superintendent. Federal savings associations are generally authorized to branch nationwide, whereas Iowa chartered banks, such as MetaBank WC, are generally limited to establishing branches within the State of Iowa.

Both MetaBank's and MetaBank WC's general permissible lending limit to one borrower is equal to the greater of \$500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). MetaBank WC is subject to similar restrictions. At September 30, 2006, MetaBank's and MetaBank WC's lending limit under these restrictions was \$8.16 million and \$935,000, respectively. MetaBank and MetaBank WC are in compliance with their lending limits.

Insurance of Accounts and Regulation by the FDIC. MetaBank and MetaBank WC are members of the Deposit Insurance Fund (the "DIF"), each of which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. The FDIC also has the authority to initiate enforcement actions against any FDIC insured institution after giving its primary federal regulator the opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. The current assessment rates range from zero to .27% per \$100 of assessable deposits. Risk classification of all insured institutions will be made by the FDIC for each semi-annual assessment period. Institutions that are well-capitalized and have a high supervisory rating are subject to the lowest assessment rate. At September 30, 2006, both MetaBank and MetaBank WC met the capital requirements of a "well capitalized" institution and were not subject to any assessment. See Note 15 of Notes to Consolidated Financial Statements in the Annual Report.

DIF-insured institutions pay a Financing Corporation (FICO) assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the quarter ended September 30, 2006, the FICO assessment was equal to 1.26 basis points for each \$100 in domestic deposits. These assessments will continue until the bonds mature in years 2017 through 2019.

Under the Federal Deposit Insurance Act ("FDIA"), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition

imposed by the FDIC or the OTS. Management of the Banks does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Regulatory Capital Requirements. Federally insured financial institutions, such as MetaBank and MetaBank WC, are required to maintain a minimum level of regulatory capital. These capital requirements mandate that an institution maintain at least the following ratios: (1) a core (or Tier 1) capital to adjusted total assets ratio of 4% (which can be reduced to 3% for highly rated institutions); (2) a Tier 1 capital to risk-weighted assets ratio of 4%, and (3) a risk-based capital to risk-weighted assets ratio of 8%. Capital requirements in excess of these standards may be imposed on individual institutions on a case-by-case basis. As of September 30, 2006, both Banks were in compliance with all capital standards applicable to them and were designated a “well-capitalized” under federal guidelines. See Note 15 of Notes to Consolidated Financial Statements in the Annual Report.

Prompt Corrective Action. Federal banking regulators are authorized and, under certain circumstances required, to take certain actions against banks that fail to meet their capital requirements. Effective December 19, 1992, the federal banking agencies were given additional enforcement authority with respect to undercapitalized depository institutions. They are generally required to take action to restrict the activities of an “undercapitalized” bank (generally defined to be one with less than either a four percent core capital ratio, a four percent Tier 1 risk-based capital ratio or an eight percent risk-based capital ratio). Any such bank must submit a capital restoration plan and until such plan is approved may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The banking regulators are authorized to impose the additional restrictions, discussed below, that are applicable to significantly undercapitalized institutions.

Any institution that fails to comply with its capital plan or is “significantly undercapitalized” (*i.e.* , Tier 1 risk-based or core capital ratios of less than three percent or a risk-based capital ratio of less than six percent) must be made subject to one or more of additional specified actions and operating restrictions mandated by FDICIA. These actions and restrictions include requiring the issuance of additional voting securities; limitations on asset growth; mandated asset reduction; changes in senior management; divestiture, merger or acquisition of the association; restrictions on executive compensation; and any other action the OTS deems appropriate. An institution that becomes “critically undercapitalized” (*i.e.* , a tangible capital ratio of two percent or less) is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized associations. In addition, the appropriate banking regulator must appoint a receiver (or conservator with the concurrence of the FDIC) for an institution, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized institution is also subject to other possible enforcement actions, including the appointment of a receiver or conservator. The appropriate regulator is also generally authorized to reclassify an institution into a lower capital category and impose restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Though not expected, the imposition of any of these measures on the Banks may have a substantial adverse effect on them and on the Company’s operations and profitability. Meta Financial shareholders do not have preemptive rights, and therefore, if Meta Financial is directed by the OTS, the FRB or the FDIC to issue additional shares of Common Stock, such issuance may result in the dilution in shareholders percentage of ownership of Meta Financial.

Limitations on Dividends and Other Capital Distributions. The OTS imposes various restrictions on savings associations with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. The OTS also prohibits a savings association from declaring or paying any dividends or from repurchasing any of its stock if, as a result of such action, the regulatory capital of the association

would be reduced below the amount required to be maintained for the liquidation account established in connection with the association's mutual to stock conversion.

Savings institutions such as MetaBank may make a capital distribution without the approval of the OTS, provided they notify the OTS 30-days before they declare the capital distribution and they meet the following requirements: (i) have a regulatory rating in one of the two top examination categories, (ii) are not of supervisory concern, and will remain adequately- or well-capitalized, as defined in the OTS prompt corrective action regulations, following the proposed distribution, and (iii) the distribution does not exceed their net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid). If a savings institution does not meet the above stated requirements, it must obtain the prior approval of the OTS before declaring any proposed distributions.

MetaBank WC may pay dividends, in cash or property, only out of its undivided profits. In addition, FRB regulations prohibit the payment of dividends by a state member bank if losses have at any time been sustained by such bank that equal or exceed its undivided profits then on hand, unless (i) the prior approval of the FRB has been obtained, and (ii) at least two-thirds of the shares of each class of stock outstanding have approved the dividend payment. FRB regulations also prohibit the payment of any dividend by a state member bank without the prior approval of the FRB if the total of all dividends declared by the bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the previous two calendar years (minus any required transfers to a surplus or to a fund for the retirement of any preferred stock).

Qualified Thrift Lender Test. All savings associations, including MetaBank, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio assets (as defined by regulation) in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis or meet the requirements for a domestic building and loan association under the Internal Revenue Code. Under either test, the required assets primarily consist of residential housing related loans and investments. At September 30, 2006, MetaBank met the test and has always met the test since its effectiveness.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it requalifies as a QTL within one year and thereafter remains a QTL, or limits its new investments and activities to those permissible for both a savings association and a national bank. In addition, the association is subject to national bank limits for payment of dividends and branching authority. If such association has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank.

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), every FDIC insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the OTS and the FRB, in connection with the examination of MetaBank and MetaBank WC, respectively, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the institution. An unsatisfactory rating may be used as the basis for the denial of such an application. MetaBank and MetaBank WC were examined for CRA compliance in August 2004.

Interstate Banking and Branching. The FRB may approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of the assets of, a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. In general, the FRB may not approve the acquisition of a bank that has not been in existence for the minimum time period (not exceeding five years) specified by the statutory law of the host state or if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Iowa has adopted a five year minimum existence requirement.

The federal banking agencies are also generally authorized to approve interstate merger transactions without regard to whether such transaction is prohibited by the law of any state. Interstate acquisitions of branches or the establishment of a new branch is permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions are also subject to the nationwide and statewide insured deposit concentration amounts described above. Iowa permits interstate branching only by merger.

Holding Company Dividends. The FRB has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the FRB's view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the FRB, the FRB may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

Bank holding companies are required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of their consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, FRB order, or any condition imposed by, or written agreement with, the FRB. This notification requirement does not apply to any company that meets the well-capitalized standard for commercial banks, has a safety and soundness examination rating of at least a "2" and is not subject to any unresolved supervisory issues.

Holding Company Capital Requirements. The FRB has established capital requirements for bank holding companies that generally parallel the capital requirements for federal thrift institutions and commercial banks such as MetaBank and MetaBank WC. Meta Financial is in compliance with these requirements.

Transactions with Affiliates. The Banks must comply with Sections 23A and 23B of the Federal Reserve Act relative to transactions with affiliates. Generally, transactions between an institution or its subsidiaries and its affiliates are required to be on terms as favorable to the bank as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the institutions' capital. Affiliates of the Banks include the Corporation and any company that is under common control with the Banks. In addition, a savings institution may not lend to any affiliate engaged in activities not permissible for a savings and loan holding company or acquire the securities of most affiliates. The OTS has the discretion to treat subsidiaries of savings institutions as affiliates on a case-by-case basis.

On April 1, 2003, the Federal Reserve's Regulation W, which comprehensively amends sections 23A and 23B of the Federal Reserve Act, became effective. The Federal Reserve Act and Regulation W are applicable to the Banks. The Regulation unifies and updates staff interpretations issued over the years, incorporates several new interpretative proposals (such as to clarify when transactions with an unrelated third party will be attributed to an affiliate) and addresses new issues arising as a result of the expanded scope of non-banking activities engaged in by banks and bank holding companies in recent years and authorized for financial holding companies under the Financial Services Modernization Act of 1999.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must be made on terms substantially the same as for loans to unaffiliated individuals.

Federal Home Loan Bank System. MetaBank and MetaBank WC are both members of the FHLB of Des Moines, which is one of 12 regional FHLBs that administers the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It makes loans to members (*i.e.* , advances) in accordance with policies and procedures established by the board of directors of the FHLB. These policies and procedures are subject to the regulation and oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances must be used for residential home financing.

As members of the FHLB System, MetaBank and MetaBank WC are required to purchase and maintain stock in the FHLB of Des Moines. At September 30, 2006, the Banks had in the aggregate \$5.64 million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 2006, dividends paid by the FHLB of Des Moines to MetaBank and MetaBank WC totaled \$240,712.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to low- and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Banks' FHLB stock may result in a corresponding reduction in the Banks' capital. Recent legislative changes have required the FHLB to change the characteristics and amount of FHLB stock held by its members. It is also anticipated that these changes will restrict the ability of FHLB members to redeem their shares of FHLB stock. In addition, the federal agency that regulates the FHLBs has required each FHLB to register its stock with the SEC, which will increase the costs of each FHLB and may have other effects that are not possible to predict at this time.

Federal Securities Law. The common stock of Meta Financial is registered with the SEC under the Exchange Act, as amended. Meta Financial is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Meta Financial's stock held by persons who are affiliates (generally officers, directors and principal stockholders) of the Company may not be resold without registration unless sold in accordance with certain resale restrictions. If Meta Financial meets specified current public information requirements, each affiliate of the Company, subject to certain requirements, will be able to sell, in the public market, without registration, a limited number of shares in any three-month period.

Federal and State Taxation

Federal Taxation. Meta Financial and its subsidiaries file consolidated federal income tax returns on a fiscal year basis using the accrual method of accounting. In addition to the regular income tax, corporations, including savings banks such as MetaBank, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income.

To the extent earnings appropriated to a savings bank's bad debt reserves and deducted for federal income tax purposes exceed the allowable amount of such reserves computed under the experience method and to the extent of the bank's supplemental reserves for losses on loans ("Excess"), such Excess may not, without adverse tax consequences, be utilized for the payment of cash dividends or other distributions to a shareholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 2006, MetaBank's Excess for tax purposes totaled approximately \$6.7 million.

Meta Financial and its consolidated subsidiaries have not been audited by the IRS within the past ten years. In the opinion of management, any examination of still open returns (including returns of subsidiaries and predecessors of, or entities merged into, Meta Financial) would not result in a deficiency which could have a material adverse effect on the financial condition of Meta Financial and its subsidiaries.

Iowa Taxation. MetaBank and MetaBank WC file Iowa franchise tax returns. Meta Financial and MetaBank's Iowa subsidiary file a consolidated Iowa corporation tax return on a fiscal year-end basis.

Iowa imposes a franchise tax on the taxable income of mutual and stock savings banks and commercial banks. The tax rate is 5%, which may effectively be increased, in individual cases, by application of a minimum tax provision. Taxable income under the franchise tax is generally similar to taxable income under the federal corporate income tax, except that, under the Iowa franchise tax, no deduction is allowed for Iowa franchise tax payments and taxable income includes interest on state and municipal obligations. Interest on U.S. obligations is taxable under the Iowa franchise tax and under the federal corporate income tax. The taxable income for Iowa franchise tax purposes is apportioned to Iowa through the use of a one-factor formula consisting of gross receipts only.

Taxable income under the Iowa corporate income tax is generally similar to taxable income under the federal corporate income tax, except that, under the Iowa tax, no deduction is allowed for Iowa income tax payments; interest from state and municipal obligations is included in income; interest from U.S. obligations is excluded from income; and 50% of federal corporate income tax payments are deductible from income. The Iowa corporate income tax rates range from 6% to 12% and may be effectively increased, in individual cases, by application of a minimum tax provision.

South Dakota Taxation. MetaBank and Meta Trust Company file a consolidated South Dakota franchise tax return due to their operations in Sioux Falls and Brookings. The South Dakota franchise tax is imposed on depository institutions and trust companies. Meta Financial, MetaBank WC and MetaBank's subsidiaries are therefore not subject to the South Dakota franchise tax.

South Dakota imposes a franchise tax on the taxable income of depository institutions and trust companies at the rate of 6%. Taxable income under the franchise tax is generally similar to taxable income under the federal corporate income tax, except that, under the South Dakota franchise tax, no deduction is allowed for state income and franchise taxes, income from municipal obligations exempt from federal taxes are included in the franchise taxable income, and there is a deduction allowed for federal income taxes accrued for the fiscal year. The taxable income for South Dakota franchise tax purposes is apportioned to South Dakota through the use of a three-factor formula consisting of tangible real and personal property, payroll and gross receipts.

Delaware Taxation. As a Delaware holding company, Meta Financial is exempted from Delaware corporate income tax but is required to file an annual report with and pay an annual fee to the State of Delaware. Meta Financial is also subject to an annual franchise tax imposed by the State of Delaware.

Competition

The Company faces strong competition, both in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from commercial banks, savings banks, credit unions, captive finance companies, insurance companies, and mortgage bankers making loans secured by real estate located in the Company's market area. Commercial banks and credit unions provide vigorous competition in consumer lending. The Company competes for real estate and other loans principally on the basis of the quality of services it provides to borrowers, interest rates and loan fees it charges, and the types of loans it originates.

The Company attracts all of its deposits through its retail banking offices, primarily from the communities in which those retail banking offices are located; therefore, competition for those deposits is principally from other commercial banks, savings banks, credit unions and brokerage offices located in the same communities. The Company competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours, and convenient branch locations with interbranch deposit and withdrawal privileges at each.

The Company serves Adair, Buena Vista, Dallas, Guthrie, Pocahontas, Polk and Sac counties in Iowa and Brookings, Lincoln and Minnehaha counties in South Dakota. There are twenty-three commercial banks, one savings bank other than MetaBank, and two credit unions which compete for deposits and loans in MetaBank's primary market area in northwest Iowa and ten commercial banks, one savings bank other than MetaBank, and two credit unions which compete for deposits and loans in MetaBank's market area in Brookings, South Dakota. In addition, there are twelve commercial banks in MetaBank WC's primary market area in west central Iowa. The Banks compete for deposits and loans with numerous financial institutions located throughout the metropolitan market areas of Des Moines, Iowa and Sioux Falls, South Dakota.

Employees

At September 30, 2006, the Company and its subsidiaries had a total of 257 employees, including 28 part-time employees.

Executive Officers of the Company Who Are Not Directors

The following information as to the business experience during the past five years is supplied with respect to the executive officers of the Company who do not serve on the Company's Board of

Directors. There are no arrangements or understandings between such persons named and any persons pursuant to which such officers were selected.

On June 27, 2005, Mr. Troy Moore III was named Executive Vice President and Chief Operating Officer of the Company and MetaBank. Additionally, Mr. Moore became a member of the Executive Committees of both the Company and MetaBank. Previously, Mr. Moore, age 38, had been the president of the Central Iowa Market of MetaBank, a position he had held since 1998. He joined MetaBank in 1997 as a Vice President in the Central Iowa Market. Mr. Moore received a Bachelor of Business Administration degree from Iowa State University, Ames, Iowa. Mr. Moore is the son-in-law of James S. Haahr, the Company's Chairman of the Board, and the brother-in-law of J. Tyler Haahr, the Company's President and Chief Executive Officer.

Mr. Jonathan M. Gaiser, age 39, joined Meta Financial as Senior Vice President, Secretary, Treasurer, and Chief Financial Officer in January 2006. Mr. Gaiser was previously First Vice President and Assistant Treasurer at Commercial Federal Bank in Omaha, Nebraska. Mr. Gaiser received a Bachelor of Arts degree from St. Olaf College in Northfield, Minnesota, and a Master of Business Administration degree from George Washington University in Washington, D.C. Mr Gaiser also holds a Chartered Financial Analyst professional designation.

Item 1A. Risk Factors

The Company's business could be harmed by any of the risks noted below. The trading price of the Company's common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks you should also refer to the other information contained in this annual report on Form 10-K, including the Company's financial statements and related notes.

Risks Related to the Banking Industry

Changes in economic and political conditions could adversely affect the Company's earnings, as the Company's borrowers' ability to repay loans and the value of the collateral securing the Company's loans decline.

The Company's success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond the Company's control may adversely affect the Company's asset quality, deposit levels and loan demand and, therefore, the Company's earnings. Because the Company has a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of the Company's borrowers to make timely repayments of their loans, which would have an adverse impact on the Company's earnings. In addition, substantially all of the Company's loans are to individuals and businesses in the Company's market area. Consequently, any economic decline in the Company's market area could have an adverse impact on the Company's earnings.

Changes in interest rates could adversely affect the Company's results of operations and financial condition.

The Company's earnings depend substantially on the Company's interest rate spread, which is the difference between (i) the rates we earn on loans, securities and other earning assets, and (ii) the interest rates we pay on deposits and other borrowings. These rates are highly sensitive to many factors beyond the Company's control, including general economic conditions and the policies of various governmental and regulatory authorities. As market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits, which may result in a decrease of the Company's net interest income. Conversely, if interest rates fall, yields on loans and investments may fall. Because a significant portion of the Company's deposit portfolio is in non-interest bearing accounts, such a change in rates would likely result in a decrease in the Company's net interest income. For additional information, see Item 7A, herein.

The Company operates in a highly regulated environment, and changes in laws and regulations to which we are subject may adversely affect the Company's results of operations.

MetaBank and MetaBank WC (collectively, the "Banks") and the Company operate in a highly regulated environment and are subject to extensive regulation, supervision and examination by the Office of Thrift Supervision ("OTS"), the State of Iowa, the Federal Deposit Insurance Corporation ("FDIC"), and the Board of Governors of the Federal Reserve System (the "Federal Reserve"). See "Business – Regulation" herein. Applicable laws and regulations may change, and there is no assurance that such changes will not adversely affect the Company's business. Such regulation and supervision govern the activities in which an institution may engage, including the activities of MetaBank's Meta Payment Systems Division, and are intended primarily for the protection of the Banks and their depositors. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing savings banks, could have a material impact on the bank and the Company's operations.

Changes in technology could be costly.

The banking industry is undergoing technological innovation at a fast pace. To keep up with its competition, the Company needs to stay abreast of innovations and evaluate those technologies that will enable it to compete on a cost-effective basis. This is especially true with respect to MetaBank's Meta Payment Systems Division. The cost of such technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the fast pace of change and innovation, that the Company's technology, either purchased or developed internally, will meet or continue to meet the needs of the Company.

Risks Related to the Company's Business

The Company operates in an extremely competitive market, and the Company's business will suffer if it is unable to compete effectively.

In the Company's market area, the Banks encounter significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and

other financial intermediaries. Many of the Banks' competitors have substantially greater resources and lending limits and may offer services that the Bank does not or cannot provide. The Company's profitability depends upon the Company's continued ability to compete successfully in the Company's market area. The Meta Payment Systems Division operates on a national scale against competitors with substantially greater resources and limited barriers to entry. The Division's success depends upon its ability to compete in such an environment.

The loss of key members of the Company's senior management team could adversely affect the Company's business.

We believe that the Company's success depends largely on the efforts and abilities of the Company's senior management. Their experience and industry contacts significantly benefit us. The competition for qualified personnel in the financial services industry is intense, and the loss of any of the Company's key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect the Company's business.

The Company's loan portfolio includes loans with a higher risk of loss.

The Banks originate commercial mortgage loans, commercial loans, consumer loans, agricultural mortgage loans, agricultural loans and residential mortgage loans primarily within the Company's market areas . Commercial mortgage, commercial, and consumer loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. These loans also have greater credit risk than residential real estate for the following reasons:

- *Commercial Mortgage Loans.* Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.
- *Commercial Loans.* Repayment is dependent upon the successful operation of the borrower's business
- *Consumer Loans.* Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.
- *Agricultural Loans.* Repayment is dependent upon the successful operation of the business, which are greatly dependent on many things outside the control of either the Banks or the borrowers. These factor include weather, commodity prices, and interest rates among others.

If the Company's actual loan losses exceed the Company's allowance for loan losses, the Company's net income will decrease.

The Company makes various assumptions and judgments about the collectibility of the Company's loan portfolio, including the creditworthiness of the Company's borrowers and the value of the real estate and other assets serving as collateral for the repayment of the Company's loans. Despite the Company's underwriting and monitoring practices, the Company's loan customers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. The Company may experience significant loan losses, which could have a material adverse effect on its operating results. Because the Company must use assumptions regarding individual loans and the economy, the current allowance for loan losses may not be sufficient to cover actual loan losses, and increases in the allowance may be necessary. The Company may need to significantly increase the Company's provision for losses on loans if one or more of the Company's larger loans or credit relationships becomes delinquent or if we continue to expand the Company's commercial real estate and commercial lending. In addition, federal and state regulators periodically review the Company's allowance for loan losses and may require the Company to increase the Company's provision for loan losses or recognize loan charge-offs. Material additions to the Company's allowance would materially decrease the Company's net income. The Company cannot assure you that its monitoring procedures and policies will reduce certain lending risks or that the Company's allowance for loan losses will be adequate to cover actual losses.

If the Company forecloses on and takes ownership of real estate collateral property, it may be subject to the increased costs associated with the ownership of real property, resulting in reduced revenues.

The Company may have to foreclose on collateral property to protect its investment and may thereafter own and operate such property. In such case the Company will be exposed to the risks inherent in the ownership of real estate. The amount that the Company, as a mortgagee, may realize after a default is dependent upon factors outside of the Company's control, including, but not limited to: (i) general or local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the mortgaged properties; (vi) supply of and demand for rental units or properties; (vii) ability to obtain and maintain adequate occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations and fiscal policies; and (x) acts of God. Certain expenditures associated with the ownership of real estate, principally real estate taxes and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating a real property may exceed the rental income earned from such property, and the Company may have to advance funds in order to protect the Company's investment, or may be required to dispose of the real property at a loss. The foregoing expenditures and costs could adversely affect the Company's ability to generate revenues, resulting in reduced levels of profitability.

Environmental liability associated with commercial lending could have a material adverse effect on the Company's business, financial condition and results of operations.

In the course of the Company's business, it may acquire, through foreclosure, commercial properties securing loans that are in default. There is a risk that hazardous substances could be discovered on those properties. In this event, the Company could be required to remove the substances from and remediate the properties at its own cost and expense. The cost of removal and environmental remediation could be substantial. The Company may not have adequate remedies against the owners of the properties or other responsible parties and could find it difficult or impossible to sell the affected properties. These

events could have a material adverse effect on the Company's business, financial condition and operating results.

If the Company fails to maintain an effective system of internal control over financial reporting, it may not be able to accurately report the Company's financial results or prevent fraud, and, as a result, investors and depositors could lose confidence in the Company's financial reporting, which could adversely affect the Company's business, the trading price of the Company's stock and the Company's ability to attract additional deposits.

Unless it further delays or curtails its proposed rule, beginning with the Company's annual report for the fiscal year ending September 30, 2007, the Company will have to include in its annual reports filed with the Securities and Exchange Commission (the "Commission") a report of the Company's management regarding internal control over financial reporting. As a result, and although it is unclear whether, or to what extent, smaller companies will be exempted from its requirements, we recently have begun to document and evaluate the Company's internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and Commission rules and regulations, which require an annual management report on the Company's internal control over financial reporting, including, among other matters, management's assessment of the effectiveness of internal control over financial reporting and an attestation report by the Company's independent auditors addressing these assessments. Accordingly, management has retained outside consultants to assist the Company in (i) assessing and documenting the adequacy of the Company's internal control over financial reporting, (ii) improving control processes, where appropriate, and (iii) verifying through testing that controls are functioning as documented. If the Company fails to identify and correct any significant deficiencies in the design or operating effectiveness of the Company's internal control over financial reporting or fails to prevent fraud, current and potential stockholders and depositors could lose confidence in the Company's financial reporting, which could adversely affect the Company's business, financial condition and results of operations, the trading price of the Company's stock, and the Company's ability to attract additional deposits.

A breach of information security or compliance breach by one of the Company's agents or vendors could negatively affect the Company's reputation and business.

The Banks, including the Meta Payment Systems Division of MetaBank, depend on data processing, communication and information exchange on a variety of computing platforms and networks and over the internet. The Company cannot be certain all of its systems are entirely free from vulnerability to attack, despite safeguards it has installed. Additionally, the Company relies on and does business with a variety of third-party service providers, agents and vendors with respect to the Company's business, data and communications needs. If information security is breached, or one of the Company's agents or vendors breaches compliance procedures, information could be lost or misappropriated, resulting in financial loss or costs to the Company or damages to others. These costs or losses could materially exceed the Company's amount of insurance coverage, if any, which would adversely affect the Company's business.

Risks Related to the Company's Stock

The Company's common stock is thinly traded, and thus your ability to sell shares or purchase additional shares of the Company's common stock will be limited, and the market price at any time may not reflect true value.

Your ability to sell shares of the Company's common stock or purchase additional shares largely depends upon the existence of an active market for the common stock. The Company's common stock is quoted on NASDAQ Stock Market, but the volume of trades on any given day is light, and you may be unable to find a buyer for shares you wish to sell or a seller of additional shares you wish to purchase. In addition, a fair valuation of the purchase or sales price of a share of common stock also depends upon active trading, and thus the price you receive for a thinly traded stock, such as the Company's common stock, may not reflect its true value.

Future sales or additional issuances of the Company's capital stock may depress prices of shares of the Company's common stock or otherwise dilute the book value of shares then outstanding.

Sales of a substantial amount of the Company's capital stock in the public market or the issuance of a significant number of shares could adversely affect the market price for shares of the Company's common stock. As of September 30, 2006, the Company was authorized to issue up to 5,200,000 shares of common stock, of which 2,534,367 shares were outstanding, and 423,632 shares were held as treasury stock. The Company was also authorized to issue up to 800,000 shares of preferred stock, none of which is outstanding or reserved for issuance. Accordingly, and although it has no plans to do so, without further stockholder approval, the Company may issue up to 2,242,001 additional shares of common stock and up to 800,000 shares of preferred stock, which obviously may affect the market price for shares of the Company's common stock.

The price of the Company's common stock may be volatile, which may result in losses for investors.

The market price for shares of the Company's common stock has been volatile in the past, and several factors could cause the price to fluctuate substantially in the future. These factors include:

- announcements of developments related to the Company's business,
- fluctuations in the Company's results of operations,
- sales of substantial amounts of the Company's securities into the marketplace,
- general conditions in the Company's banking niche or the worldwide economy,
- a shortfall in revenues or earnings compared to securities analysts' expectations,
- lack of an active trading market for the common stock,
- changes in analysts' recommendations or projections, and
- the Company's announcement of new acquisitions or other projects.

The market price of the Company's common stock may fluctuate significantly in the future, and these fluctuations may be unrelated to the Company's performance. General market price declines or market volatility in the future could adversely affect the price of the Company's common stock, and the current market price may not be indicative of future market prices.

Federal regulations may inhibit a takeover, prevent a transaction you may favor or limit the Company's growth opportunities, which could cause the market price of the Company's common stock to decline.

Certain provisions of the Company's charter documents and federal regulations could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the company. In addition, the Company must obtain approval from regulatory authorities before it can acquire control of any other company.

The Company may not be able to pay dividends in the future in accordance with past practice.

The Company pays a quarterly dividend to stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on the Bank's earnings, capital requirements, financial condition and other factors considered relevant by the Company's Board of Directors.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

The Company conducts its business at its main office and branch office in Storm Lake, Iowa, and four other locations in its primary market area in Northwest Iowa. The Company also operates one office in Brookings, South Dakota; five offices in Des Moines, Iowa; four offices in Sioux Falls, South Dakota; and three offices in West Central Iowa through the Company's MetaBank WC State Bank subsidiary. In addition, the Company leases space at another facility in Sioux Falls, which houses general corporate functions.

The Company owns all of its offices, except for the branch offices located in Storm Lake Plaza, Storm Lake, Iowa, on Westown Parkway, West Des Moines, Iowa, on North Minnesota Avenue, Sioux Falls, South Dakota, on South Western Avenue, Sioux Falls, South Dakota, on West 12th Street, Sioux Falls, South Dakota, and the administrative offices located on 69th and Minnesota in Sioux Falls. In regard to the South Western and West 12th Street locations in Sioux Falls, South Dakota, the land on which the buildings were constructed is leased. The total net book value of the Company's premises and equipment (including land, building and leasehold improvements and furniture, fixtures and equipment) at September 30, 2006 was \$17.6 million. See Note 7 of Notes to Consolidated Financial Statements in the Annual Report.

The Company is experiencing rapid growth, particularly as a result of growth of the Meta Payment Systems Division. While current facilities are adequate to meet its present needs, the Company will likely continue to add additional branches in the future, and may be required to expand capacity for administrative support functions.

The Bank maintains an on-line data base with a service bureau, whose primary business is providing such services to financial institutions. The net book value of the data processing and computer equipment utilized by the Company at September 30, 2006 was approximately \$1.3 million.

Item 3. Legal Proceedings

On June 11, 2004, the Sioux Falls School District filed suit in the Second Judicial Circuit Court alleging that MetaBank, a wholly-owned subsidiary of the Company, improperly allowed funds, which belonged to the school district, to be deposited into, and subsequently withdrawn from, a corporate account established by an employee of the school district. The school district is seeking in excess of \$600,000. MetaBank has submitted the claim to its insurance carrier, and is working with counsel to vigorously contest the suit.

On or about March 10, 2006, plaintiffs filed five class-action suits on behalf of themselves and all other purchasers of vehicles from Prairie Auto Group, Inc., Dan Nelson Automotive Group, Inc.'s Rapid City, South Dakota location, and other not-yet-identified auto sales entities owned or operated by defendants. The complaints are styled as follows: Ronald Archulleta, et al. v. Prairie Auto Group, Inc., et al. - In the Tribal Court for the Oglala Sioux Tribe, Pine Ridge Indian Reservation; Cedar Around Him, et al. v. Prairie Auto Group, Inc., et al. - In the Tribal Court for the Rosebud Sioux Tribe, Rosebud Indian Reservation; Chris Dengler, et al. v. Prairie Auto Group, Inc. - Circuit Court of the Second Judicial Circuit, Minnehaha County, South Dakota; Lucinda Janis, et al. v. Prairie Auto Group, Inc., et al. - File No. C-157-04; In the Tribal Court for the Cheyenne River Sioux Indian Reservation, Eagle Butte, South Dakota; and Kali Treetop, et al. v. Prairie Auto Group, Inc., et al. - File No. 01-970; Circuit Court for the Seventh Judicial Circuit, Pennington County, South Dakota. Except for the named plaintiffs, each of the complaints is essentially identical to the others. The nature of the allegations are the same, and the same fourteen legal claims are sought to be pled in each.

Each complaint states that it is a "companion" to the other four and names the same defendants (approximately twenty-five) including the Registrant and affiliates thereof (the "MetaBank Defendants"). None of these complaints has yet been served on any of the MetaBank Defendants. The thrust of the complaints is that plaintiffs allegedly suffered damages as a result of a scheme by defendants to use fraudulent statements, misrepresentations and omissions to sell vehicles and extended warranties to plaintiffs. Plaintiffs claim that they and other similarly situated purchasers paid too much for their vehicles and were induced to buy warranties that were not honored and otherwise proved worthless. Plaintiffs allege that defendants reaped considerable profits through fraudulent sales methods; by refusing to make warranted repairs; and by engaging in usurious repossession and resale practices. Plaintiffs allege that these practices were part of a business plan that originated with the franchisor-defendants and was purchased and employed by the franchisee-defendants. It appears that the principal basis for naming the MetaBank Defendants is that they loaned money to finance some of the defendants' business operations, purportedly with some degree of knowledge about the defendants' allegedly abusive consumer practices.

The complaints allege that the described transactions are typical of defendants' business and were part of a deliberate scheme directed primarily at Native American customers. The complaints allege that the franchisee-defendants engaged in coercive, fraudulent and other illegal activities in connection with the automobile sales, and each seeks to state claims for: (1) breach of express warranty; (2) breach of implied warranty of merchantability; (3) deceit/fraud; (4) violation of applicable deceptive trade laws; (5) breach of the implied covenant of good faith and fair dealing; (6) conversion; (7) civil conspiracy under tribal and state common law; (8) negligent hiring, training and supervision of employees; (9) violation of the Federal Equal Credit Opportunity Act; (10) invasion of privacy; (11) violation of the Racketeer Influenced and Corrupt Organizations Act (RICO); (12) violation of the Magnuson-Moss Act; (13) violation of the Federal Truth and Lending Act's (TILA) Three Day Rescission Period; and (14) violation of TILA's Disclosure of Finance Cost Requirement.

In addition to seeking certification as a class, plaintiffs seek cancellation of the automobile purchase contracts; monetary damages including the initial purchase price warranty charges, finance costs and related repossession and other charges; costs of allegedly warranted repairs that were not

made by defendants; consequential damages relating to the alleged wrongful repossession of vehicles and deficiency judgments associated therewith; damages for emotional and mental suffering; punitive and treble damages; and attorneys' fees. The amount of the alleged damages is not specified in the complaints.

Each participation agreement with the ten participant banks provides that the participant bank shall own a specified percentage of the outstanding loan balance at any give time. Each agreement also recites the maximum amount that can be loaned by MetaBank on that particular loan. MetaBank allocated to some participants an ownership in the outstanding loan balance in excess of the percentage specified in the participation agreement. MetaBank believes that in each instance this was done with the full knowledge and consent of the participant. Several participants have demanded that their participations be adjusted to match the percentage specified in the participant agreement. Based on the total loan recoveries projected as of March 31, 2006, MetaBank calculated that it would cost approximately \$953,000 to adjust these participations as the participants would have them adjusted. A few participants have more recently asserted that MetaBank owes them additional monies based on additional legal theories. MetaBank denies any obligation to make the requested adjustments on these or related claims. Other than as disclosed below, MetaBank cannot predict at this time whether any of these claims will be the subject of litigation.

During the third and fourth quarters of fiscal 2006, four lawsuits were filed against the Company's MetaBank subsidiary. Three of the complaints are related to the Company's alleged actions in connection with its activities as lead lender to three companies involved in auto sales, service, and financing and their owner. The fourth complaint alleges patent infringement. All four actions are in their infancy and materiality cannot be determined at this time. The Company intends, however, to vigorously defend its actions.

First Midwest Bank-Deerfield Branches and Mid-Country Bank v. MetaBank (Civ. No. 06-2241). On June 28, 2006, First Midwest Bank-Deerfield Branches and Mid-Country Bank filed suit against MetaBank in South Dakota's Second Judicial Circuit Court, Minnehaha County, in the above titled action. The complaint alleges that plaintiff banks, who were participating lenders with MetaBank on a series of loans made to Dan Nelson Automotive Group ("DNAG") and South Dakota Acceptance Corporation ("SDAC"), suffered damages exceeding \$1 million as a result of MetaBank's placement and administration of the loans that were the subject of the loan participation agreements. The complaint sounds in breach of contract, negligence, gross negligence, negligent misrepresentation, fraud in the inducement, unjust enrichment and breach of fiduciary duty. On July 17, 2006, MetaBank removed the case from state court to the United States District Court for the District of South Dakota, where the action has been assigned case no. Civ. 06-4114.

First Premier Bank v. MetaBank (Civ. No. 06-2277). On July 5, 2006, First Premier Bank filed suit against MetaBank in South Dakota's Second Judicial Circuit Court, Minnehaha County in the above titled action. The complaint alleges that First Premier, a participating lender with MetaBank on a series of loans made to SDAC, has suffered damages in an as yet undetermined amount as a result of MetaBank's actions in selling to First Premier a participation in a loan made to SDAC and MetaBank's actions in administering that loan. The complaint sounds in breach of contract, breach of covenant of good faith and fair dealing, fraudulent inducement, fraud, deceit, negligent misrepresentation, fraudulent misrepresentation, conversion, negligence, gross negligence, breach of fiduciary duty and unjust enrichment. On July 17, 2006, MetaBank removed the case from state court to the United States District Court for the District of South Dakota, where the action has been assigned case no. Civ. 06-4115.

Home Federal Bank v. J. Tyler Haahr, Daniel A. Nelson and MetaBank (Civ. No. 06-2230). On June 26, 2006, Home Federal Bank filed suit against MetaBank and two individuals, J. Tyler Haahr and

Daniel A. Nelson, in South Dakota's Second Judicial Circuit Court, Minnehaha County in the above titled action. The complaint alleges that Home Federal, a participating lender with MetaBank on a series of loans made to DNAG and SDAC, suffered damages exceeding \$3.8 million as a result of failure to make disclosures regarding an investigation of Nelson, DNAG and SDAC by the Iowa Attorney General at the time Home Federal agreed to an extension of the loan participation agreements. The complaint sounds in fraud, negligent misrepresentation, breach of fiduciary duty, conspiracy and breach of duty of good faith and fair dealing. Subject to a reservation of rights, our insurance carrier has agreed to cover the three claims described above.

Meridian Enterprises Corporation v. Bank of America Corporation et al. (Case No. 4:06-cv-01117CDP). On July 21, 2006, Meridian Enterprises Corporation ("Meridian") filed suit against Meta Financial Group, Inc. (Meta Payment Systems division) ("Meta") and other banks and financial institutions in the U.S. District Court for the Eastern District of Missouri in the above-titled action. Meridian is the owner of U.S. Patent No. 5,025,372 (the " '372 Patent"). The complaint alleges that Meta and the co-defendants each sell, administer, process and/or sponsor an incentive program where cards are provided to participants in the incentive program that can be presented to retailers to make a purchase. The complaint further alleges, inter alia, that Meta and the co-defendants each use a computer to determine whether or not a participant's performance under the incentive program entitles the participant to an award, in which the computer also determines the amount of the award, and the amount of the award is based upon the level of the participant's performance in the incentive program. Accordingly, the complaint sounds in infringement, inducement of infringement, and contributory infringement of one or more claims of the '372 Patent.

There are no other material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended September 30, 2006.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Securities

Page 36 of the attached 2006 Annual Report to Shareholders is herein incorporated by reference.

There have been no purchases by the Company during the quarter ended September 30, 2006 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Item 6. Selected Financial Data

Page 2 of the attached 2006 Annual Report to Shareholders is herein incorporated by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Pages 3 through 10 of the attached 2006 Annual Report to Shareholders are herein incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Pages 7 through 8 of the attached 2006 Annual Report to Shareholders are herein incorporated by reference.

Item 8. Consolidated Financial Statements and Supplementary Data

Pages 11 through 34 of the attached 2006 Annual Report to Shareholders are herein incorporated by reference.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

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

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

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2006 our disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by us in this Report was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and

(ii) information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) occurred during the fourth fiscal quarter of fiscal 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and annually report on their systems of internal control over financial reporting. We are in the process of evaluating, documenting and testing our system of internal control over financial reporting to provide the basis for our report that will, for the first time, be a required part of our annual report on Form 10-K for the fiscal year ending September 30, 2007. Due to the ongoing evaluation and testing of our internal controls, there can be no assurance that if any control deficiencies are identified they will be corrected before the end of the 2007 fiscal year, or that there may not be significant deficiencies or material weaknesses that would be required to be reported. In addition, we expect the evaluation process and any required remediation, if applicable, to increase our accounting, legal and other costs and divert management resources from core business operations.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors

Information concerning directors of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2007 filed on December 19 , 2006.

Executive Officers

Information concerning the executive officers of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2007, filed on December 19 , 2006 and from the information set forth under the caption "Executive Officers of the Company Who Are Not Directors" contained in Part I of this Form 10-K.

Compliance with Section 16(a)

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended September 30, 2006, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

Audit Committee Financial Expert

Information regarding the audit committee of the Company's Board of Directors, including information regarding Jeanne Partlow, the audit committee financial expert serving on the audit committee for fiscal 2005 and the first quarter of fiscal 2007, is presented under the headings "Meetings and Committees", "Audit Committee matters" and under "Election of Directors" which contains Ms. Partlow's biography, in the Company's definitive Proxy Statement for the 2006 Annual Meeting of Stockholders to be held on January 22, 2007, which was filed with the SEC on December 19, 2006, and is incorporated herein by reference.

Code of Ethics

We have adopted a written code of ethics within the meaning of Item 406 of SEC Regulation S-K that applies to our principal executive officer and senior financial officers, a copy of which is available free of charge by contacting Lisa Binder, our Investor Relations Officer, at 800.792.6815 or from our internet website (www.metacash.com).

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2007, filed on December 19, 2006.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Security Ownership of Certain Beneficial Owners

The information required by this item under the sections captioned "Voting Rights; Vote Required", "Voting of Proxies; Revocability of Proxies; Proxy Solicitation Costs" and Stock Ownership" on pages 2 through 5 of the Proxy Statement filed with the SEC on December 19, 2006 is incorporated herein by reference.

(b) Security Ownership of Management

The information required by this item under the section captioned "Stock Ownership" on pages 4 through 5 of the Proxy Statement filed with the SEC on December 19, 2006 is incorporated herein by reference.

(c) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any persons of securities of the Company, the operation of which may, at a subsequent date, result in a change in control of the Registrant.

(d) Equity Compensation Plan Information

The Company maintains the 2002 Omnibus Incentive Plan for purposes of issuing stock based compensation to employees and directors. An amendment to this plan, authorizing an additional 200,000 shares to be issued under this plan, was approved by the Board of Directors on August 28, 2006, and will be submitted for shareholder approval at the annual meeting of shareholders on January 22, 2007. The Company also has unexercised options outstanding under a previous stock option plan. The following table provides information about the Company's common stock that may be issued under the Company's omnibus incentive plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in (a))
Equity compensation plans approved by shareholders	357,724	\$19.42	0
Equity Compensation plans not approved by shareholders	28,701	\$24.43	171,299

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and transactions is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2007, filed on December 19, 2006.

Item 14. Principal Accountant Fees and Services

Audit Fees

Fees paid to McGladrey & Pullen, LLP and its associated entity, RSM McGladrey, Inc., for each of the last two fiscal years are set forth below.

Fiscal Year	Audit Fees	Audit-Related Fees	Tax Fees	All Other Fees
2006	\$114,000	\$32,000	\$21,000	\$4,000
2005	\$121,000	\$20,000	\$17,000	\$ —

Audit fees consist of fees for audit of the Company's annual financial statements, review of financial statements included in the Company's quarterly reports on Form 10-Q and services normally provided by the independent auditor in connection with statutory and regulatory filings or engagements.

Audit related fees primarily consist of fees for audits of financial statements of the employee benefit plan maintained by the Company and assistance with accounting research matters.

All other fees consist of fees for an independence consultation regarding the hiring of an employee.

Tax fees consist of fees for tax consultation and tax compliance services for the Company and the employee benefit plan maintained by the Company.

The Company's Audit Committee has considered and concluded that the provision of all non-auditing services (and the aggregate fees billed for such services) in the fiscal year ended September 30, 2007 by McGladrey & Pullen, LLP, the principal independent public accountants, and RSM McGladrey, Inc. is compatible with maintaining the principal auditors' independence.

Pre-Approval Policy . The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. The non-audit services include audit-related services and tax services. The Audit Committee's policy is to pre-approve all services and fees for up to one year, which approval includes the appropriate detail with regard to each particular service and its related fees. In addition, the Audit Committee can be convened on a case-by-case basis to approve any services not anticipated or services whose costs exceed the pre-approved amounts.

During the fiscal year ended September 30, 2006, 100% of all audit and permissible non-audit services were pre-approved by the Audit Committee.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

The following is a list of documents filed as part of this report:

(a) **Financial Statements:**

The following financial statements are incorporated by reference under Part II, Item 8 of this Form 10-K:

1. Report of Independent Registered Public Accounting Firm.
2. Consolidated Statements of Financial Condition as of September 30, 2006 and 2005.
3. Consolidated Statements of Operations for the Years Ended September 30, 2006, 2005, and 2004.
4. Consolidated Statements of Comprehensive Income (Loss) for the Years ended September 30, 2006, 2005, and 2004.
5. Consolidated Statements of Changes in Shareholders' Equity for the Years Ended September 30, 2006, 2005, and 2004.
6. Consolidated Statements of Cash Flows for the Years Ended September 30, 2006, 2005, and 2004.
7. Notes to Consolidated Financial Statements.

(b) **Exhibits :**

See Index of Exhibits .

(c) **Financial Statement Schedules:**

All financial statement schedules have been omitted as the information is not required under the related instructions or is inapplicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

META FINANCIAL GROUP, INC.

Date: December 20, 2006

By: /s/ J. Tyler Haahr
J. Tyler Haahr
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: <u>/s/ J. Tyler Haahr</u> J. Tyler Haahr, President and Chief Executive Officer (Principal Executive Officer)	Date: December 20, 2006
By: <u>/s/ James S. Haahr</u> James S. Haahr, Chairman of the Board	Date: December 20, 2006
By: <u>/s/ E. Wayne Cooley</u> E. Wayne Cooley, Director	Date: December 20, 2006
By: <u>/s/ E. Thurman Gaskill</u> E. Thurman Gaskill, Director	Date: December 20, 2006
By: <u>/s/ Brad Hanson</u> Bradley C. Hanson, Director	Date: December 20, 2006
By: <u>/s/ Frederick V. Moore</u> Frederick V. Moore, Director	Date: December 20, 2006
By: <u>/s/ Rodney G. Muilenburg</u> Rodney G. Muilenburg, Director	Date: December 20, 2006
By: <u>/s/ Jeanne Partlow</u> Jeanne Partlow, Director	Date: December 20, 2006
By: <u>/s/ Jonathan M. Gaiser</u> Jonathan M. Gaiser, Senior Vice President, Secretary, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	Date: December 20, 2006

INDEX TO EXHIBITS

Exhibit Number	Description
3(i)	Registrant's Articles of Incorporation as currently in effect, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), are incorporated herein by reference.
3(ii)	Registrant's Bylaws, as amended and restated, filed as Exhibit 3(ii) to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1998 (Commission File No. 0-22140), is incorporated herein by reference.
4	Registrant's Specimen Stock Certificate, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.1	Registrant's 1995 Stock Option and Incentive Plan, filed as Exhibit 10.1 to Registrant's Report on Form 10-KSB for the fiscal year ended September 30, 1996 (Commission File No. 0-22140), is incorporated herein by reference.
10.2	Registrant's 1993 Stock Option and Incentive Plan, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.3	Registrant's Recognition and Retention Plan, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.4	Employment agreement between MetaBank and J. Tyler Haahr, filed as an exhibit to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1997 (Commission File No. 0-22140), is incorporated herein by reference.
10.5	Registrant's Supplemental Employees' Investment Plan, filed as an exhibit to Registrant's Report on Form 10-KSB for the fiscal year ended September 30, 1994 (Commission File No. 0-22140), is incorporated herein by reference.
10.6	Employment agreements between MetaBank and James S. Haahr, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.7	Registrant's Executive Officer Compensation Program, filed as Exhibit 10.6 to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1998 (Commission File No. 0-22140), is incorporated herein by reference.
10.8	Registrant's Executive Officer Incentive Stock Option Plan for Mergers and Acquisitions, filed as Exhibit 10.7 to Registrant's Report on Form 10-K for the fiscal year

ended September 30, 1998 (Commission File No. 0-22140), is incorporated herein by reference.

- 10.9 Registrant's 2002 Omnibus Incentive Plan, filed as Exhibit 10.9 to Registrant's Report on Form 10-K for the fiscal year ended September 30, 2003 (Commission File No. 0-22140), is incorporated herein by reference.
- 10.10 The First Amendment to Registrant's 2002 Omnibus Incentive Plan, adopted by the Registrant on August 28, 2006, and filed on December 19, 2006 as Exhibit A to Registrant's Schedule 14A (DEF 14A) Proxy Statement (Commission File No. 0-22140), is incorporated herein by reference.
- 10.11 Settlement Agreement by and between First Indiana Bank, N.A. and MetaBank dated March 13, 2006, filed as Exhibit 10.12 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (Commission File No. 0-22140), is incorporated herein by reference.
- 11 Statement re: computation of per share earnings (included under Note 2 of Notes to Consolidated Financial Statements in the Annual Report to Shareholders' attached hereto as Exhibit 13).
- 13 [Annual Report to Shareholders.](#)
- 21 [Subsidiaries of the Registrant.](#)
- 23 [Consent of McGladrey & Pullen, LLP.](#)
- 31.1 [Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of the CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)



for every life change



Life is a journey, not a destination.

It's pretty simple. Life changes. And when “real life” changes, it's just smart to make sure your financial life changes with it. That's why the Meta team developed a unique program with one goal in mind: Make money management easier for customers through every life change. Our unique Life Change Program SM coaches customers through the personal and financial challenges of life's most common changes... so they can spend more time enjoying the journey.

COMPANY STRUCTURE



COMPANY PROFILE

Meta Financial Group, Inc. (MFG) is a \$741 million bank holding company for MetaBank, MetaBank West Central, and Meta Trust Company. Headquartered in Storm Lake, Iowa, the Company converted from mutual ownership to stock ownership in 1993. Its primary business is marketing deposits, loans and other financial services and products to meet the needs of its commercial, agricultural, and retail customers. MFG shares are traded on the NASDAQ Global Market. SM

MFG operates under a super-community banking philosophy that allows the Company to grow while maintaining its community bank roots, with local decision making and customer service. Administrative functions, transparent to the customer, are centralized to enhance the banks' operational efficiencies and to improve customer service capabilities.

MetaBank is a federally-chartered savings bank with four market areas: Northwest Iowa, Brookings, Central Iowa, Sioux Empire; and the nationally recognized Meta Payment Systems division. Meta Payment Systems manages four primary business lines that contribute to revenue and deposits: prepaid cards, credit cards, Automated Teller Machine (ATM) sponsorship and Automated Clearing House (ACH) origination. MetaBank West Central is a state-chartered commercial bank located in West Central Iowa. Nineteen bank offices and one additional administrative office support customers throughout central and northwest Iowa and in Brookings and Sioux Falls, South Dakota. Meta Trust provides professional trust services.

Banks are Members FDIC and Equal Housing Lenders. The Company and its subsidiaries exceed regulatory capital requirements.

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To Our Shareholders



L TO R: J. TYLER HAAHR, JAMES S. HAAHR

Meta Financial Group (MFG) reported net income of \$3.92 million or \$1.55 per diluted share for the fiscal year ended September 30, 2006. This compares to a net loss of \$924,000 or \$0.38 per diluted share for fiscal year 2005. Net income for the quarter ended September 30, 2006 was \$661,000 or \$0.26 per diluted share compared to \$546,000 or \$0.22 per diluted share during the same period in 2005, representing an 18 percent growth in earnings per share on a matched quarter basis.



*Things do
not change;
we change.*

—Henry David Thoreau



2006 earnings were higher because of increased card fee income, non-recurring fee income, and a lower provision for loan loss, offset in part by higher expenses such as compensation, card processing fees, legal and consulting fees. Negative earnings for 2005 were impacted by a significant loan loss related to loans given to three affiliated companies involved in automobile sales, service and financing, and to the owners thereof.

Net income at Meta Payment Systems (MPS), a separate reportable business unit of the Company, was \$4.5 million or \$1.78 per diluted share for fiscal year 2006. This compares to a loss of \$808,000 or \$0.33 per diluted share for same period in 2005, when MPS was in its start-up phase. Net income for the traditional banking unit was \$1.35 million or \$0.54 per diluted share for fiscal year 2006 and \$958,000 or \$0.39 per diluted share for the same period in 2005. The remaining business units netted losses of \$1.94 million or \$0.77 per diluted share for fiscal year 2006 and \$1.08 million or \$0.44 per diluted share for the same period in 2005.

While earnings greatly improved from 2005 to 2006, more significant is the continued progress toward initiatives that we believe will enhance long-term performance and earnings:

1. Growth of Meta Payment Systems, a division of MetaBank;
2. Growth of low-cost deposits;
3. Analysis of operations for improved efficiencies;
4. Branch expansion; and
5. Human resource development and expansion.

Focused efforts by the Meta team contributed, in part, to the Company's improved credit quality ratios. The improvements resulted in fewer non-performing loans which contributed to a negative provision for loan losses in fiscal 2006.

On the deposit side, the Company continues to improve its funding mix by replacing higher-costing certificates of deposit, public funds deposits, and wholesale borrowings with low-cost deposits such as checking and money market accounts. Total checking deposits rose 59.2 percent during fiscal year 2006, from \$135.9 million at September 30, 2005 to \$216.3 million at September 30, 2006. A significant portion of this growth came from deposits generated by MPS. Total money market accounts increased 38.5 percent from \$74.6 million to \$103.3 million while savings and certificates of deposit declined 25.5 percent from \$330.5 million to \$246.1 million during the same time period. The Company used deposit increases to pay down wholesale borrowing sources. Total wholesale borrowings at September 30, 2006 were \$124.6 million, down 34.4 percent from \$190.0 million at September 30, 2005.

The Company's steadfast efforts to improve its funding mix has shifted the percentage of low-cost funds from 24.5 percent of total deposits to 56.5 percent during the past five years. The shift

directly improves the Company’s net interest income and loan-to-deposit interest rate spreads.

Meta Financial Group’s net interest income for fiscal year 2006 was \$19.64 million compared to \$19.24 million for 2005. The 2 percent increase was driven by a higher net interest margin, offset in part by a smaller earning asset base. Net interest margin for fiscal year 2006 was 2.84 percent, compared to 2.56 percent in 2005.

The Company’s non-interest income rose from \$3.73 million in fiscal year 2005 to \$13.41 million in 2006, up \$9.68 million or 259 percent. The majority of this growth is related to higher fee income earned on prepaid debit cards and other card-related products and services offered by MPS. The increase also includes \$2.57 million of non-recurring fee income related to a purchased portfolio of prepaid debit cards.

**LOW-COST
DEPOSIT BALANCES**
In millions



**LOW-COST
DEPOSIT BALANCES**
As a percentage of
total deposit balances



It's not a coincidence that
Meta means change.

As a principal member of MasterCard, ® Visa, ® Discover ® and the regional debit networks, MPS expands the Company’s opportunity and reach in the growing payments industry. It serves banks, card processors, and third-party marketing companies nationwide. The MPS group launched and now manages four primary business lines that contribute to the Company’s revenue and deposits: prepaid cards, credit cards, Automated Teller Machine (ATM) sponsorship, and Automated Clearing House (ACH) origination.

As of fiscal year end, MPS supported clients by implementing more than 500 prepaid programs and issuing more than 20 million cards. MPS also recently completed two patent applications for software developed to support client programs. Its ATM Services unit now sponsors more than 25 percent of the white-label ATMs placed nationwide. MPS joined as a founding member of the National Branded Prepaid Card Association (NBPCA) in an effort to assist in the ongoing formation of the branded prepaid card industry. MPS President, Brad Hanson, was invited to serve on the NBPCA Board of Directors.

In addition to MPS’ expansion, the Company opened two new offices in Sioux Falls, South Dakota and one in West Des Moines, Iowa. The Company continues to consider branching structure and additional opportunities to maximize branch profitability and contributions.

In January 2006, the Company was pleased to appoint Jonathan M. Gaiser, CFA, as Senior Vice President, Secretary, Treasurer, and Chief Financial Officer for MFG and MetaBank, and Secretary for MetaBank West Central. He and other senior officers such as Brian Bond, Ron Butterfield, Ray Frohnepfel, John Hagy, Barb Koopman and Kathy Thorson, who joined the Company or assumed new responsibilities during the fiscal year, have joined other talented Meta associates to fulfill the Company’s mission: Make money management easy for

customers through every life change.

Also in January 2006, MFG welcomed Mr. Frederick V. Moore, President of Buena Vista University, as an independent director of the Company, MetaBank and MetaBank West Central. He is very well-qualified and has been quick to make contributions for the betterment of the Company.

At September 30, 2006, the Company had assets totaling \$741.1 million, compared to \$775.8 million at September 30, 2005. The reduction in assets primarily reflects the Company's planned strategy to reduce the level of lower yielding investment securities and reduce higher costing deposits and wholesale borrowings.

Meta Financial Group shares closed at \$18.66 on September 30, 2005 and increased to \$24.60 on September 30, 2006. On behalf of all Meta Financial Group associates, we remain dedicated to increasing shareholder value and enhancing your return.

It is not a coincidence that Meta means change. Thank you for your interest in our company. Invest in us. Bank with us. Enjoy the journey.



JAMES S. HAAHR
Chairman of the Board



J. TYLER HAAHR
President & CEO

FINANCIAL HIGHLIGHTS

(Dollars in Thousands except Per Share Data)

	2006	2005	2004	2003	2002
AT SEPTEMBER 30					
Total assets	\$ 741,132	\$ 775,839	\$ 780,799	\$ 772,285	\$ 607,648
Total loans, net	388,762	440,190	404,051	349,692	341,937
Total deposits	565,710	541,042	461,581	435,553	355,780
Shareholders' equity	45,332	42,959	47,274	43,031	44,588
Book value per common share	\$ 17.89	\$ 17.16	\$ 18.98	\$ 17.25	\$ 18.06
Total equity to assets	6.12%	5.54%	6.05%	5.57%	7.34%
FOR THE FISCAL YEAR					
Net interest income	\$ 19,636	\$ 19,239	\$ 17,769	\$ 15,728	\$ 13,700
Net income (loss)	3,921	(924)	3,987	3,397	2,157
Diluted earnings (loss) per share	\$ 1.55	\$ (0.38)	\$ 1.57	\$ 1.36	\$ 0.87
Return on average assets	.52%	-0.12%	.51%	.47%	.38%
Return on average equity	9.09%	-2.05%	8.69%	7.57%	4.95%
Net yield on interest-earning assets	2.84%	2.56%	2.40%	2.31%	2.56%

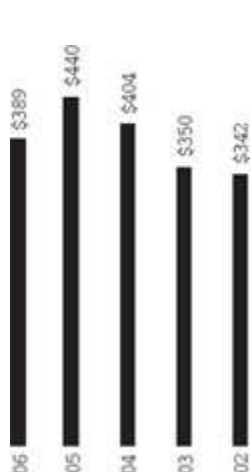
TOTAL ASSETS

In millions



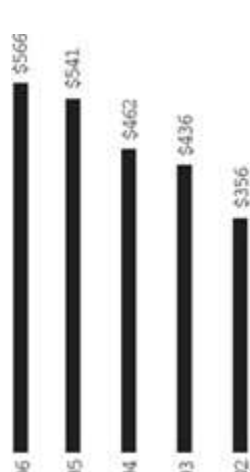
TOTAL LOANS, NET

In millions



TOTAL DEPOSITS

In millions



TOTAL NET INCOME

In thousands



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Meta Financial Group, Inc. and Subsidiaries

S ELECTED CONSOLIDATED FINANCIAL INFORMATION

SEPTEMBER 30,	2006	2005	2004	2003	2002
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SELECTED FINANCIAL CONDITION DATA

(In Thousands)

Total assets	\$ 741,132	\$ 775,839	\$ 780,799	\$ 772,285	\$ 607,648
Loans receivable, net	388,762	440,190	404,051	349,692	341,937
Securities available for sale	186,176	230,893	322,524	366,075	218,247
Goodwill	3,403	3,403	3,403	3,403	3,403
Deposits	565,710	541,042	461,581	435,553	355,780
Total borrowings	124,576	190,012	269,109	291,486	205,266
Shareholders' equity	45,332	42,959	47,274	43,031	44,588

YEAR ENDED SEPTEMBER 30,

SELECTED OPERATIONS DATA

(In Thousands, Except Per Share Data)

Total interest income	\$ 40,578	\$ 41,093	\$ 36,180	\$ 35,179	\$ 35,434
Total interest expense	20,942	21,854	18,411	19,451	21,734
Net interest income	19,636	19,239	17,769	15,728	13,700
Provision for loan losses	(454)	5,482	489	350	1,090
Net interest income after provision for loan losses	20,090	13,757	17,280	15,378	12,610
Total non-interest income	13,406	3,731	3,596	3,555	2,781
Total non-interest expense	27,625	19,097	14,830	13,858	12,268
Income (loss) before income taxes	5,871	(1,609)	6,046	5,075	3,123
Income tax expense (benefit)	1,950	(685)	2,059	1,678	966
Net income (loss)	3,921	(924)	3,987	3,397	2,157

Earnings (loss) per common share

Basic	\$ 1.58	\$ (0.38)	\$ 1.61	\$ 1.37	\$ 0.88
Diluted	\$ 1.55	\$ (0.38)	\$ 1.57	\$ 1.36	\$ 0.87

YEAR ENDED SEPTEMBER 30,

**SELECTED FINANCIAL RATIOS
AND OTHER DATA**

PERFORMANCE RATIOS

Return on average assets	0.52%	-0.12%	0.51%	0.47%	0.38%
Return on average equity	9.09%	-2.05%	8.69%	7.57%	4.95%
Net interest margin	2.84%	2.56%	2.40%	2.31%	2.56%
Operating expense to average assets	3.69%	2.43%	1.91%	1.93%	2.16%

QUALITY RATIOS

Non-performing assets to total assets at end of year	0.56%	0.69%	0.09%	0.28%	0.58%
Allowance for loan losses to non-performing loans	146%	1057%	754%	493%	220%

CAPITAL RATIOS

Shareholders' equity to total assets at end of period	6.12%	5.54%	6.05%	5.57%	7.34%
Average shareholders' equity to average assets	5.76%	5.77%	5.91%	6.25%	7.68%

OTHER DATA

Book value per common share outstanding.	\$ 17.89	\$ 17.16	\$ 18.98	\$ 17.25	\$ 18.06
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Dividends declared per share	\$	0.52	\$	0.52	\$	0.52	\$	0.52	\$	0.52
Number of full-service offices		19		17		16		16		15

Meta Financial Group, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

Meta Financial Group, Inc.® (the "Company") is a bank holding company whose primary subsidiaries are MetaBank and MetaBank West Central ("MetaBank WC"). The Company was incorporated in 1993 as a unitary non-diversified savings and loan holding company that, on September 20 of that year, acquired all of the capital stock of MetaBank, a federal savings bank, in connection with MetaBank's conversion from mutual to stock form of ownership. On September 30, 1996, the Company became a bank holding company in conjunction with the acquisition of MetaBank WC, a state-chartered commercial bank.

The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial service needs of the communities in its market area. The Company's primary market area includes the following counties: Adair, Buena Vista, Dallas, Guthrie, Pocahontas, Polk, and Sac located in central and northwestern Iowa, and Brookings, Lincoln, and Minnehaha located in east central South Dakota. The Company attracts retail deposits from the general public and uses those deposits, together with other borrowed funds, to originate and purchase residential and commercial mortgage loans, to originate consumer, agricultural and other commercial loans. Meta Payment Systems,® a division of MetaBank, ("MPS") is an industry leader in the issuance of prepaid debit cards and the provider of a wide range of debit card and money transfer related products and services.

OVERVIEW OF CORPORATE DEVELOPMENTS

In November 2005 the Company opened a new full-service branch in the Sioux Falls market. The branch includes administrative office space which houses much of the Information Systems department and MPS division. In September 2006, the Company opened a new full-service branch in the Des Moines market. The Company now operates 19 branches in Brookings (1) and Sioux Falls (4), South Dakota, and Des Moines (5), Northwest (6), and West-Central (3), Iowa. In August 2006, the Company also leased office space at another location in Sioux Falls to house various administrative support functions and MPS offices. As a result of these branch and office openings, the Company has incurred, and will continue to incur, increases in both compensation and occupancy and equipment expense. Management believes these increases will be offset by additional net interest income and fee income as the new branches mature, and as MPS grows.

During the first half of fiscal year 2006, the company completed its foreclosure, repossession, and liquidation of the majority of remaining assets of three companies involved in automobile sales, service, and financing. Two of these companies had filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in June 2005. MetaBank had been the lead lender and servicer of approximately \$32.0 million in loans to these three companies and their principal owners. As of September 30, 2006, the Company had charged off all remaining loan balances related to this relationship, and had only one related property left in its possession, with a carrying value of \$35,000. At this time, the Company continues to expect that total cash expenditures on legal and collection efforts related to these loans will range between \$750,000 and \$1,100,000, of which approximately \$700,000 has already been incurred.

The participation of the aforementioned auto-dealership related loans remains the subject of dispute between several of the participants and MetaBank. In March 2006, the Company reached a settlement agreement with one of the participant banks. In June 2006, MetaBank was named in lawsuits filed by three of the participant banks related to these loans. The Company is vigorously defending these claims. See "Legal Proceedings" under Note 16 in the Notes to Consolidated Financial Statements.

MPS exhibited rapid growth during fiscal year 2006. The division was created in May 2004 to take advantage of opportunities in the growing area of prepaid debit cards, ATM sponsorship, and other money transfer systems and services. After approximately one year of start-up and development, the division had reached profitability by the end of fiscal year 2005. By June 2006 the division had recouped all of the Company's initial investment in the division, and is now a significant contributor to the Company's financial performance. The division's efforts have also resulted in the filing of two patent applications to protect the Company's investment in its intellectual property. See Note 18 in the Notes to Consolidated Financial Statements. In June 2006, the Company recorded \$2,570,000 in non-recurring pre-tax fee income at MPS related to fees received on a purchased portfolio of prepaid debit cards.

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

FINANCIAL CONDITION

The following discussion of the Company's consolidated financial condition should be read in conjunction with the Selected Consolidated Financial Information and Consolidated Financial Statements and the related notes included elsewhere herein.

The Company's total assets at September 30, 2006 were \$741.1 million, a decrease of \$34.7 million, or 4.5 percent, from \$775.8 million at September 30, 2005. The decrease in assets was due primarily to a planned decrease in securities available for sale and a decrease in the

Company's purchased loan participation portfolio, offset in part primarily by an increase in total cash and cash equivalents.

Total cash and cash equivalents increased by \$95.0 million from \$14.4 million at September 30, 2005 to \$109.4 million at September 30, 2006. The Company's portfolio of securities purchased under agreements to resell and available for sale decreased \$76.3 million, or 28.4 percent, to \$192.1 million at September 30, 2006 from \$268.4 million at September 30, 2005. The Company's portfolio of securities available for sale consists primarily of mortgage-backed securities, most with balloon maturities, which have relatively short expected average lives and limited maturity extension risk. During fiscal year 2006, the company purchased only one security for its available for sale portfolio totaling \$108,000, and did not sell any securities. Principal cash flows from the available for sale portfolio decreased to \$41.7 million in 2006 from \$78.0 million in 2005. See Note 4 in the Notes to Consolidated Financial Statements.

The Company's portfolio of net loans receivable decreased by \$51.4 million, or 11.7%, to \$388.8 million at September 30, 2006 from \$440.2 million at September 30, 2005. The decrease was mainly the result of pay offs and pay downs in the Company's purchased loan participation portfolio, which is concentrated in commercial real estate and commercial operating credits. The Company experienced slight growth in its agricultural real estate and agricultural operating portfolios. See Note 5 in the Notes to Consolidated Financial Statements.

The Company owns stock in the Federal Home Loan Bank ("FHLB") of Des Moines as well as in the Federal Reserve Bank due to its membership and participation in these banking systems. The Company's investment in such stock decreased \$2.5 million, or 30.1%, to \$5.8 million at September 30, 2006 from \$8.3 million at September 30, 2005. The decrease was due to a decrease in the level of borrowings from the FHLB, which require a calculated level of stock investment based on a formula determined by the FHLB.

Deposit balances increased by \$24.7 million, or 4.6%, to \$565.7 million at September 30, 2006 from \$541.0 million at September 30, 2005. The increase in deposits is primarily due to growth in low- and no-cost demand deposits and money market accounts, offset by decreases in higher costing certificates and public funds deposits. Most of the growth in demand deposits originated from MPS. Total checking deposits increased by \$80.4 million, or 59.2%, to \$216.3 million at September 30, 2006 from \$135.9 million at September 30, 2005. Total savings and certificates of deposit declined \$84.4 million, or 25.5%, to \$246.1 million at September 30, 2006 from \$330.5 million at September 30, 2005. The decrease in savings and certificates resulted primarily from the runoff of higher costing public funds deposits. Money market

MANAGEMENT'S DISCUSSION AND ANALYSIS

accounts also exhibited growth during fiscal year 2006, increasing \$28.7 million, or 38.5%, to \$103.3 million at September 30, 2006 from \$74.6 million at September 30, 2005. Money market deposits grew from increased market penetration by the Company's retail banking operations and as customers' opportunity cost of holding balances in savings and checking accounts rose with the level of short term interest rates during the year. See Note 8 in the Notes to Consolidated Financial Statements.

The Company's wholesale borrowings portfolio decreased \$65.4 million, or 34.4%, to \$124.6 million at September 30, 2006 from \$190.0 million at September 30, 2005. The decrease was primarily the result of decreased borrowings from the FHLB of Des Moines in conjunction with management's planned strategy of reducing the size of the balance sheet, and the Company's reliance on these higher costing funding sources. See Notes 9, 10, and 11 in the Notes to Consolidated Financial Statements.

Shareholders' equity increased \$2.3 million, or 5.5%, to \$45.3 million at September 30, 2006 from \$43.0 million at September 30, 2005. The increase in shareholders' equity was primarily due to net income, partially offset by cash dividends and an increase in other accumulated comprehensive loss associated with the Company's securities available for sale portfolio. See Note 15 in the Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

The following discussion of the Company's results of operations should be read in conjunction with the Selected Consolidated Financial Information and Consolidated Financial Statements and the related notes included elsewhere herein.

The Company's results of operations are dependent on net interest income, non-interest income, non-interest expense, and income tax expense. Net interest income is the difference, or spread, between the average yield on interest earning assets and the average rate paid on interest bearing liabilities. The interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand, and deposit flows. The Company, like other financial institutions, is subject to interest rate risk to the extent that its interest earning assets mature or reprice at different times, or on a different basis, than its interest bearing liabilities.

The Company's non-interest income is derived primarily from card fees attributable to the activities of MPS and fees charged on loans and transaction accounts. This income is offset, in part, by expenses, such as card processing expenses, attributable to MPS, as well as additional compensation and occupancy expenses associated with additional personnel and office locations. To a lesser extent, non-interest income is derived from gains or losses on the sale of loans and securities available for sale as well as the Company's holdings of bank owned life insurance. Additionally, non-interest income has been derived from the activities of Meta Trust Company, a wholly-owned subsidiary of Meta Financial Group, which provides a variety of professional trust services.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005

GENERAL

The Company recorded net income of \$3,921,000 for the year ended September 30, 2006, compared to a net loss of \$924,000 for the year ended September 30, 2005. Earnings in fiscal year 2006 were primarily impacted by card fees, non-recurring fee income, and a negative provision for loan loss, partially offset by higher compensation, occupancy, legal and consulting, and card processing expenses. Earnings in fiscal year 2005 were impacted by a large provision for loan loss.

NET INTEREST INCOME

Net interest income for the year ended September 30, 2006 increased by \$397,000, or 2.1 percent, to \$19,636,000 from \$19,240,000 for the year ended September 30, 2005. The increase in net interest income reflects a higher net interest margin, offset in part by a smaller average earning asset base. Net interest margin increased 28 basis points to 2.84 percent in fiscal year 2006 from 2.56 percent in fiscal year 2005. The improvement resulted primarily from the shift in the Company's funding mix attributable to growth in non-interest-bearing and money market deposits and decreases in higher costing certificates, public funds deposits, and wholesale borrowings.

The Company's average earning assets decreased \$58.6 million, or 7.8 percent, to \$692.0 million during fiscal year 2006 from \$750.6 million during fiscal year 2005. The decrease is primarily the result of a smaller portfolio of securities available for sale and a smaller average loan portfolio. The Company's yield on earning assets rose 38 basis points to 5.86 percent during fiscal year 2006 from 5.48 percent during fiscal year 2005. The increase is the result primarily of increasing yields on the Company's adjustable rate loan portfolio due to an increasing interest rate environment during 2006.

The Company's average total deposits and interest-bearing liabilities decreased \$38.2 million, or 5.2 percent, to \$699.8 million during fiscal year 2006 from \$738.0 million during fiscal year 2005. The decrease resulted mainly from a decrease in the Company's portfolio of

advances from the FHLB and other wholesale borrowings. Decreases in public funds deposits were more than offset by growth in non-interest bearing checking accounts. The Company's cost of total deposits and interest-bearing liabilities rose 3 basis points during fiscal year 2006 to 2.99 percent during fiscal year 2006 from 2.96 percent during fiscal year 2005. Despite an increasing interest rate environment in 2006, which drove the costs of certificates and money market deposits higher, the Company was able to limit the increase in its overall cost of funds by shifting its portfolio mix away from higher costing certificates, public funds deposits, and wholesale borrowings, into lower costing demand deposits.

PROVISION FOR LOAN LOSSES

In fiscal year 2006, the Company recorded a negative provision for loan losses of \$454,500, compared to a positive provision for loan losses of \$5,482,000 for fiscal year 2005. The negative provision in 2006 relates in part to the Company's settlement agreement with one of several participants in the aforementioned auto-dealership related lending relationship. Additionally, shrinkage in the Company's loan portfolio during the year reduced the level of required loan loss allowances on the portfolio. The large provision for loan losses in fiscal year 2005 stemmed primarily from provisions related to losses in the aforementioned auto-dealership related loans. The relatively large provision in fiscal year 2005 and the negative provision in fiscal year 2006 is the primary reason that net interest income after provision for loan losses increased by \$6.3 million, from \$13.8 million in fiscal 2005 to \$20.1 million in fiscal year 2006.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. Although current economic conditions are relatively strong, management is aware that many economists have forecasted a slowdown in economic growth during calendar year 2007. Additionally, management has monitored the disinflationary trend in residential and commercial real estate prices in recent quarters. Economic conditions in the agricultural sector of the Company's market area are relatively strong. Recent rises in agricultural commodity prices will serve to offset more modest yields this year. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problems. The recent decrease in energy prices should also help to improve cash flows of consumers and businesses alike if the decrease persists during 2007.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance

Meta Financial Group, Inc. and Subsidiaries

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AVERAGE BALANCES, INTEREST RATES AND YIELDS

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments have been made. Non-accruing loans have been included in the table as loans carrying a zero yield.

YEAR ENDED SEPTEMBER 30,	2006			2005			2004		
(Dollars in Thousands)									
	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate
INTEREST-EARNING ASSETS									
Interest-earning assets:									
Loans receivable ⁽¹⁾	\$ 415,248	\$ 29,743	7.16%	\$ 436,146	\$ 29,831	6.84%	\$ 374,450	\$ 24,260	6.48%
Mortgage-backed securities	179,500	6,776	3.77%	265,996	9,644	3.63%	317,489	10,871	3.42%
Other investments	97,223	4,059	4.17%	48,449	1,618	3.34%	49,248	1,049	2.13%
Total interest-earning assets	691,971	\$ 40,578	5.86%	750,591	\$ 41,093	5.48%	741,187	\$ 36,180	4.88%
Non-interest-earning assets	57,439			35,607			34,477		
Total assets	\$ 749,410			\$ 786,198			\$ 775,664		
Non-interest bearing deposits	\$ 150,509	\$ —	0.00%	\$ 34,794	\$ —	0.00%	\$ 19,419	\$ —	0.00%
INTEREST-BEARING LIABILITIES									
Interest-bearing liabilities:									
Interest-bearing checking and money markets	\$ 114,201	\$ 3,293	2.88%	\$ 112,495	\$ 1,856	1.65%	\$ 112,817	\$ 1,289	1.14%
Savings	48,839	1,402	2.87%	57,566	1,321	2.29%	36,236	475	1.31%
Time deposits	232,822	8,810	3.78%	285,115	8,903	3.12%	304,322	7,875	2.59%
FHLB advances	126,573	6,066	4.79%	209,618	8,295	3.96%	203,135	7,549	3.72%
Other borrowings	26,846	1,371	5.11%	38,377	1,478	3.85%	49,287	1,223	2.48%
Total interest-bearing liabilities	549,281	20,942	3.81%	703,171	21,853	3.11%	705,797	18,411	2.61%
Total deposits and interest-bearing liabilities	699,790	\$ 20,942	2.99%	737,965	\$ 21,853	2.96%	725,216	\$ 18,411	2.54%
Other non-interest bearing liabilities	6,484			2,882			4,582		
Total liabilities	706,274			740,847			729,798		
Shareholders' equity	43,136			45,351			45,866		
Total Liabilities and shareholders' equity	\$ 749,410			\$ 786,198			\$ 775,664		
Net interest income and net interest rate spread including non-interest bearing deposits	\$ 19,636		2.87%	\$ 19,240		2.52%	\$ 17,769		2.34%
Net interest margin			2.84%			2.56%			2.40%

⁽¹⁾ Calculated net of deferred loan fees, loan discounts, loans in process and allowance for loan losses.

for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by its regulatory agencies, which can require the establishment of additional general or specific allowances.

NON-INTEREST INCOME

Non-interest income increased by \$9,675,000, or 259.3 percent, to \$13,406,000 for the fiscal year 2006 from \$3,731,000 from fiscal year 2005. The majority of this growth is related to higher fee income earned on prepaid debit cards and other products and services offered by MPS. The increase also includes \$2,570,000 of non-recurring fee income related to a purchased portfolio of prepaid debit cards.

NON-INTEREST EXPENSE

Non-interest expense increased by \$8,528,000, or 44.6%, to \$27,625,000 for fiscal year 2006 from \$19,097,000 for fiscal year 2005. Several factors contributed to this increase. Compensation expense rose \$1,822,000 during the year, from \$11,399,000 in fiscal year 2005 to \$13,221,000 in fiscal year 2006. The increase stems primarily from staff acquisition costs related to growth at MPS and the staffing of two de novo branch facilities in the Sioux Falls market. The new branch in Des Moines did not significantly impact non-interest expense for the year, due to its opening late in the fiscal year.

Costs associated with the processing of card-related products at MPS also increased during fiscal year 2006. Card processing expense rose \$2,648,000 from \$338,000 in fiscal year 2005 to \$2,986,000 in fiscal year 2006 as a result of the significant growth in the division's product lines. These expenses stem primarily from fees charged by third party card and network transaction processors as well as costs associated with issuing MetaBank branded prepaid debit cards. Management expects that these costs will continue to rise as MPS issues more cards; however it is anticipated that overall costs will rise less than revenues associated with these cards.

Legal and consulting expense increased \$2,230,000 in fiscal year 2006, from \$796,000 in fiscal year 2005 to \$3,026,000 in fiscal year 2006. Several factors contributed to this increase. The Company incurred expenses related to the aforementioned auto dealership-related loans during the course of foreclosing on and liquidating the remaining assets of the borrowers. Additionally, as previously mentioned, the Company has been named in several lawsuits by banks that participated with MetaBank in these

MANAGEMENT'S DISCUSSION AND ANALYSIS

RATE/VOLUME ANALYSIS

The following schedule presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase related to higher outstanding balances and that due to the levels and volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e. changes in volume multiplied by old rate) and (ii) changes in rate (i.e. changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

YEAR ENDED SEPTEMBER 30,	2006 VS. 2005			2005 VS. 2004		
(in Thousands)						
	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)
INTEREST-EARNING ASSETS						
Loans Receivable	\$ (1,463)	\$ 1,375	\$ (88)	\$ 4,220	\$ 1,351	\$ 5,571
Mortgage-backed securities	(3,251)	383	(2,868)	(1,867)	640	(1,227)
Other investments	1,955	486	2,441	(27)	596	569
Total interest-earning assets	\$ (2,759)	\$ 2,244	\$ (515)	\$ 2,326	\$ 2,587	\$ 4,913
INTEREST-BEARING LIABILITIES						
Interest-bearing checking and money markets	\$ 29	\$ 1,408	\$ 1,437	\$ (5)	\$ 572	\$ 567
Savings	(219)	300	81	489	357	846
Time deposits	(1,793)	1,700	(93)	(600)	1,628	1,028
FHLB advances	(3,739)	1,510	(2,229)	257	489	746
Other borrowings	(514)	407	(107)	(420)	675	255
Total interest-bearing liabilities	\$ (6,236)	\$ 5,325	\$ (911)	\$ (279)	\$ 3,721	\$ 3,442
Net effect on net interest income	\$ 3,477	\$ (3,081)	\$ 396	\$ 2,605	\$ (1,134)	\$ 1,471

lending relationships. The Company has also incurred expenses related to its retention of an outside consulting firm to complete implementation work related to section 404 of the Sarbanes-Oxley Act. At this time, the Company does not anticipate that expenses associated with this implementation work will continue at present levels over the long term. Finally, the Company has also chosen to outsource a significant portion of its internal audit work to an outside consulting firm.

INCOME TAX EXPENSE

Income tax expense for fiscal year 2006 was \$1,950,000. In fiscal year 2005, the Company recorded an income tax benefit of \$685,000 due to the net loss recorded that year. The increase in income taxes is primarily the result of the positive change in operating results between the comparable periods.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND SEPTEMBER 30, 2004

GENERAL

The Company recorded a net loss of \$924,000 for the year ended September 30, 2005, compared to net income of \$3,987,000 for the year ended September 30, 2004. The decrease in net income primarily reflects a substantial increase in the provision for loan losses. In addition, there was an increase in non-interest expense. These items were partially offset by an increase in net interest income and a small increase in non-interest income.

NET INTEREST INCOME

Net interest income for the year ended September 30, 2005 increased by \$1,471,000, or 8.3 percent, to \$19,240,000 compared to \$17,769,000

for the period ended September 30, 2004. The increase in net interest income reflects a \$9,404,000 increase in the average balance of interest-earning assets, and an increase in net interest margin. Net interest margin increased to 2.56 percent for the period ended September 30, 2005 from 2.40 percent for the same period in 2004. The increase in net interest margin was due primarily to a change in the composition of the balance sheet during the year which resulted in significant growth in loans receivable and a significant reduction in securities available for sale.

Average yields on earning assets rose 60 basis points to 5.48 percent in fiscal year 2005 from 4.88 percent in fiscal year 2004. The increase in yields is primarily the result of increasing yields on the Company's adjustable rate loan portfolio and the origination of new loans in a higher interest rate environment than the previous year.

The Company's cost on total deposits and interest-bearing liabilities rose 42 basis points to 2.96 percent during fiscal year 2005 from 2.54 percent during fiscal year 2004. The increase in cost reflects primarily the general increase in market rates on deposits.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the year ended September 30, 2005 was \$5,482,000 compared to \$489,000 for the same period in 2004. The primary reason for the significant increase in the provision for loan losses was the losses on the aforementioned auto-dealership related loans. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by its regulatory agencies, which can require the establishment of additional general or specific allowances.

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NON-INTEREST INCOME

Non-interest income increased by \$135,000, or 3.8%, to \$3,731,000 for the year ended September 30, 2005 from \$3,596,000 for the same period in 2004. The increase was primarily due to an increase in card fee income of \$1,240,000 generated by MPS, offset by a non-recurring gain of \$1,113,000 on the sale of a branch office during 2004.

NON-INTEREST EXPENSE

Non-interest expense increased by \$4,266,000, or 28.8%, to \$19,097,000 for the year ended September 30, 2005 from \$14,831,000 for the same period in 2004. The increase in non-interest expense primarily reflects the costs associated with the start-up of operations for MPS, costs related to the process of changing corporate names, costs associated with the liquidation of repossessed assets and foreclosed real estate, a full year of operations of the second Sioux Falls office (which opened late in fiscal 2004), the opening of a third office and preparation for opening a fourth office in Sioux Falls, South Dakota, and additional staffing in the lending departments.

INCOME TAX EXPENSE

Due to the net loss for the year ended September 30, 2005, the Company recorded a benefit of \$685,000, compared to an expense of \$2,059,000 for the year ended September 30, 2004. The change in income taxes is reflective of the change in operating result between the comparable periods.

CRITICAL ACCOUNTING POLICY

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policies to be those related to the allowance for loan losses and asset impairment judgments including the recoverability of goodwill.

The Company's estimated allowance for loan losses incorporates a variety of risk considerations, both quantitative and qualitative, which are reviewed as of each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies, and pace of portfolio growth are other qualitative factors that are considered in the estimate. Management may report a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors changes. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "Asset Quality." Although management believes the levels of the allowance as of both September 30, 2006 and September 30, 2005 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions or other factors, could result in increasing losses. See Notes 1 and 5 in the Notes to Consolidated Financial Statements.

Goodwill represents the excess of acquisition costs over the fair value of the net assets acquired in a purchase acquisition. Goodwill is tested annually for impairment.

ASSET/LIABILITY MANAGEMENT AND MARKET RISK

QUALITATIVE ASPECTS OF MARKET RISK

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

QUANTITATIVE ASPECTS OF MARKET RISK

The Company monitors and measures its exposure to changes in interest rates in order to comply with applicable government regulations and risk policies established by the Board of Directors, and in order to preserve shareholder value. In monitoring interest rate risk, the Company

analyzes assets and liabilities based on characteristics including size, coupon rate, repricing frequency, maturity date, and likelihood of prepayment.

If the Company's assets mature or reprice more rapidly or to a greater extent than its liabilities, then net portfolio value and net interest income would tend to increase during periods of rising rates and decrease during periods of falling interest rates. Conversely, if the Company's assets mature or reprice more slowly or to a lesser extent than its liabilities, then net portfolio value and net interest income would tend to decrease during periods of rising interest rates and increase during periods of falling interest rates.

The Company currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate and fixed-rate loan products with short to intermediate terms to maturity, generally 5 years or less. This theoretically allows the Company to maintain a portfolio of loans that will have relatively little sensitivity to changes in the level of interest rates, while providing a reasonable spread to the cost of liabilities used to fund the loans.

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 to fulfill the Company's asset/liability management goals.

The Company's cost of funds responds to changes in interest rates due to the relatively short-term nature of its deposit portfolio, and due to the relatively short-term nature of its borrowed funds. The Company's growing portfolio of low- or no-cost deposits provides a stable and profitable funding vehicle, but also subjects the Company to greater risk in a falling interest rate environment than it would otherwise have without this portfolio. This risk is due to the fact that, while asset yields may decrease in a falling interest rate environment, the Company cannot significantly reduce interest costs associated with these deposits; thereby compressing the Company's net interest margin. As a result of the Company's new interest rate risk exposure in this regard, the Company has elected not to enter in to any new longer term wholesale borrowings, and generally has not emphasized longer term time deposit products.

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.

NET PORTFOLIO VALUE

The Company uses a net portfolio value ("NPV") approach to the quantification of interest rate risk. This approach calculates the difference between the present value of expected

MANAGEMENT'S DISCUSSION AND ANALYSIS

cash flows from assets and the present value of expected cash flows from liabilities, as well as cash flows from any off balance-sheet contracts. Management of the Company's assets and liabilities is performed within the context of the marketplace, but also within limits established by the Board of Directors on the amount of change in NPV that is acceptable given certain interest rate changes.

Presented below, as of September 30, 2006 and 2005, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. As illustrated in the table below, the Company's NPV at September 30, 2006 was relatively balanced. Growth in the Company's portfolio of non-interest bearing deposits during fiscal year 2006 has contributed to a balance sheet that is more asset sensitive, i.e. exhibits more favorable changes in a rising rate environment, as of September 30, 2006, than was the case at September 30, 2005.

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

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

ASSET QUALITY

It is management's belief, based on information available at fiscal year end, that the Company's current asset quality is satisfactory. At September 30, 2006, non performing assets, consisting of non-accruing loans, accruing loans delinquent 90 days or more, restructured loans, foreclosed real estate, and repossessed consumer property, totaled \$4.15 million, or 0.56% of total assets, compared to \$5.39 million, or 0.69% of total assets, at September 30, 2005.

Non-accruing loans at September 30, 2006 include, among others, a commercial loan in the amount of \$3.64 million secured by commercial paving equipment and related property. Foreclosed real estate and repossessed assets at September 30, 2006 totaled \$49,500 related to commercial and residential real estate.

The Company maintains an allowance for loan losses because of the potential that some loans may not be repaid in full. See Note 1 in the Notes to Consolidated Financial Statements. At September 30, 2006, the Company had an allowance for loan losses in the amount of \$5.97 million as compared to \$7.22 million at September 30, 2005. Management's periodic review of the adequacy of the allowance for loan losses is based on various subjective and objective factors including the Company's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management may allocate portions of the allowance for specifically identified problem loan situations, the majority of the allowance is based on judgmental factors related to the overall loan portfolio and is available for any loan charge-offs that may occur. In addition, the Company's banks are subject to intensive review by banking regulatory bodies, which have the authority to require management to make changes to the allowance for loan losses.

In determining the allowance for loan losses, the Company specifically identifies loans that it considers to have potential collectibility problems. Based on criteria established by Statement of Financial Accounting Standards (SFAS) No. 114, some of these loans are considered to be "impaired" while others are not considered to be impaired, but possess weaknesses that the Company believes merit additional analysis in establishing the allowance for loan losses. All other loans are evaluated by applying estimated loss ratios to various pools of loans. The Company then analyzes other factors (such as economic conditions) in determining the aggregate amount of the allowance needed.

At September 30, 2006, \$839,000 of the allowance for loan losses was allocated to impaired loans, representing 20.5 percent of the related loan balances. See Note 5 in the Notes to Consolidated Financial Statements. \$2.03 million of the allowance was allocated to other identified problem loan situations, representing 8.2 percent of the related loan balances, and \$3.10 million, representing 0.85 percent of the related loan balances, was allocated to the remaining overall loan portfolio based on historical loss experience and general economic conditions. At September 30, 2005, \$251,000 of the allowance for loan losses was allocated to impaired loans, representing 37.1 percent of the related loan balances. \$2.45 million was allocated to other identified problem loan situations, and \$4.52 million was allocated against losses from the overall loan portfolio based on historical loss experience and general economic conditions.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company relies on advertising, quality customer service, convenient locations, and competitive pricing to attract and retain its deposits and only solicits these deposits from its primary market area. Based on its experience, the Company believes that its consumer checking, savings, and money market accounts are relatively stable sources of

Change in Interest Rate (Basis Points)	Board Limit % Change	\$ Change	At September 30, 2006 % Change	\$ Change	At September 30, 2005 % Change
<i>Dollars In Thousands</i>					
+200 bp	(40)%	\$ 548	1%	\$ (1,904)	(3)%
+100 bp	(25)	562	1	(411)	(1)
0	—	—	—	—	—
- 100 bp	(25)	(907)	(1)	(2,773)	(5)
- 200 bp	(40)	(4,139)	(6)	(9,183)	(16)

Meta Financial Group, Inc. and Subsidiaries

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deposits. The Company's ability to attract and retain time deposits has been, and will continue to be, affected by market conditions. However, the Company does not foresee any significant funding issues resulting from the sensitivity of time deposits to such market factors.

The Company is aware that, due to higher levels of concentration risk, the low- and no-cost checking deposits generated through MPS may carry a greater degree of liquidity risk than traditional consumer checking deposits. As a result, the Company closely monitors balances in these accounts, and maintains a portfolio of highly liquid assets to fund potential deposit outflows. To date, the Company has not experienced any inordinate or unusual outflows related to MPS, though no assurance can be given that this will continue to be the case.

MetaBank and MetaBank WC are required by regulation to maintain sufficient liquidity to assure their safe and sound operation. In the opinion of management, both MetaBank and MetaBank WC are in compliance with this requirement.

Liquidity management is both a daily and long term function of the Company's management strategy. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) the projected availability of purchased loan products, (iii) expected deposit flows, (iv) yields available on interest bearing deposits, and (v) the objectives of its asset/liability management program. Excess liquidity is generally invested in interest earning overnight deposits and other short term government agency obligations. If the Company requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB and other wholesale funding sources. The Company is not aware of any significant trends in the Company's liquidity or its ability to borrow additional funds if needed.

The primary investing activities of the Company are the origination and purchase of loans and the purchase of securities. During the years ended September 30, 2006, 2005 and 2004, the Company originated loans totaling \$357.2 million, \$382.5 million, and \$295.5 million, respectively. Purchases of loans totaled \$68.3 million, 39.7 million, and \$39.5 million during the years ended September 30, 2006, 2005 and 2004, respectively. During the years ended September 30, 2006, 2005 and 2004, the Company purchased mortgage-backed securities and other securities available for sale in the amount of \$108,000, \$17.6 million, and \$46.2 million, respectively. (See Note 4 of Notes to Consolidated Financial Statements.)

At September 30, 2006, the Company had unfunded loan commitments of \$52.9 million. See Note 16 in the Notes to Consolidated Financial Statements. Certificates of deposit scheduled to mature in one year or less from September 30, 2006 totaled \$152.0 million. Based on its historical experience, management believes that a significant portion of such deposits will remain with the Company, however, there can be no assurance that the Company can retain all such deposits. Management believes that loan repayment and other sources of funds will be adequate to meet the Company's foreseeable short and long-term liquidity needs.

The following table summarizes the Company's significant contractual obligations at September 30, 2006 (in thousands):

Contractual Obligations	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Time deposits	\$ 216,217	\$ 151,996	\$ 49,917	\$ 14,285	\$ 19
Long-term debt	114,744	40,444	37,000	30,000	7,300
Operating leases	2,188	301	604	486	797
Subordinated debentures Issued to capital trust	9,831	—	—	—	9,831
Data processing services	1,008	354	654	—	—
Total	\$ 343,988	\$ 193,095	\$ 88,175	\$ 44,771	\$ 17,947

During July 2001, the Company's unconsolidated trust subsidiary, First Midwest Financial Capital Trust I, sold \$10 million in floating rate cumulative preferred securities. Proceeds from the sale were used to purchase subordinated debentures of Meta Financial Group, which mature in the year 2031, and are redeemable at any time after five years. The Company used the proceeds for general corporate purposes. See Note 11 in the Notes to Consolidated Financial Statements.

The Company and its banking subsidiaries, MetaBank and MetaBank WC, meet regulatory requirements for classification as well capitalized institutions. See Note 15 in the Notes to Consolidated Financial Statements. The Company does not anticipate any significant changes to its capital structure.

On August 23, 2004, the Company announced that the Board of Directors had authorized the Company's ESOP to purchase up to 40,000 shares of the Company's stock through open market and privately negotiated transactions. The ESOP stock purchase was completed on April 18, 2005 at a total cost of \$897,000. At September 30, 2006, the ESOP held 22,312 unallocated shares, which will be used to fund future contributions to qualified employees.

On April 26, 2005, the Company announced that the Board of Directors had authorized the repurchase, at management's discretion, of up to 100,000 shares of the Company's stock through open market and privately negotiated transactions. This repurchase authorization expired on April 30, 2006, with no shares having been repurchased under this authorization. Given the impact on shareholders' equity of the aforementioned provision for loan loss incurred during fiscal year 2005, management determined that it was not in the best interests of shareholders to proceed with share repurchases during the authorized period.

The payment of dividends and repurchase of shares has the effect of reducing stockholders' equity. Prior to authorizing such transactions, the Board of Directors considers the effect the dividend or repurchase of shares would have on liquidity and regulatory capital ratios.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and Notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, virtually all the assets and liabilities of the Company are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction, or to the same extent, as the prices of goods and services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

IMPACT OF NEW ACCOUNTING STANDARDS

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement also subjects beneficial interests in securitized financial assets to the requirements of SFAS No. 133. For the Company, this statement is effective for all financial instruments acquired, issued, or subject to remeasurement after the beginning of its fiscal year that begins after September 15, 2006, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." The statement amends SFAS No. 140 by (1) requiring the separate accounting for servicing assets and servicing liabilities, which arise from the sale of financial assets; (2) requiring all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; and (3) permitting an entity to choose between an amortization method or a fair value method for subsequent measurement for each class of separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 clarifies the application of SFAS No. 109 by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements and provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006, with earlier adoption permitted. The Company is currently evaluating the impact that the adoption of this interpretation will have on its financial position, results of operation and cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. 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. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

In September 2006, the FASB issued Statement No. 158, ("SFAS No. 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires a company that sponsors a postretirement benefit plan to fully recognize, as an asset or liability, the over- or under-funded status of its benefit plan in its balance sheet. The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation (projected benefit obligation for pension plans and accumulated postretirement benefit obligation for other postretirement benefit plans). Currently, the funded status of such plans are reported in the notes to the financial statements. This provision is effective for public companies for fiscal years ending after December 15, 2006. In addition, SFAS No. 158 also requires a company to measure its plan assets and benefit obligations as of its year end balance sheet date. Currently, a company is permitted to choose a measurement date up to three months prior to its year end to measure the plan assets and obligations. This provision is effective for all companies for fiscal years ending after December 15, 2008. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

FORWARD LOOKING STATEMENTS

The Company, and its wholly-owned subsidiaries, MetaBank, MetaBank WC, and Meta Trust, may from time to time make written or oral "forward-looking statements," including statements contained in its filings with the Securities and Exchange Commission, in its reports to shareholders, and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates, and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements address the following subjects: future operating results; customer growth and retention; loan and other product demand; net interest income; earnings growth and expectations; new products and services, such as those offered by MPS or MetaBank; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company's financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and

changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services offered by the Company as well as risks (including litigation) attendant thereto and the perceived overall value of these products and services by users; the impact of changes in financial services' laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default and managing the risks (including litigation) involved in the foregoing.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**TO THE BOARD OF DIRECTORS
META FINANCIAL GROUP, INC. AND SUBSIDIARIES
STORM LAKE, IOWA**

We have audited the accompanying consolidated statements of financial condition of Meta Financial Group, Inc. and Subsidiaries as of September 30, 2006 and 2005, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended September 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meta Financial Group, Inc. and Subsidiaries as of September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2006, in conformity with U.S. generally accepted accounting principles.

McGladrey & Pullen, LLP

Des Moines, Iowa
November 22, 2006

Meta Financial Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

SEPTEMBER 30, 2006 AND 2005

	2006	2005
ASSETS		
Cash and due from banks	\$ 7,404,812	\$ 5,390,455
Interest-bearing deposits in other financial institutions	101,947,810	8,979,299
Total cash and cash equivalents	109,352,622	14,369,754
Securities purchased under agreements to resell	5,891,025	37,513,348
Securities available for sale	186,176,130	230,892,565
Loans receivable—net of allowance for loan losses of \$5,967,774 at September 30, 2006 and \$7,222,404 at September 30, 2005	388,761,911	440,190,245
Loans held for sale	507,600	306,000
Federal Home Loan and Federal Reserve Bank stock, at cost	5,768,300	8,286,800
Accrued interest receivable	4,378,814	4,240,694
Premises and equipment, net	17,623,060	15,126,069
Foreclosed real estate and repossessed assets	49,500	4,706,414
Bank owned life insurance	12,952,837	12,332,337
Goodwill	3,403,019	3,403,019
Other assets	6,267,215	4,472,017
Total assets	\$ 741,132,033	\$ 775,839,262
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-interest-bearing checking	\$ 189,506,062	\$ 102,435,429
Interest-bearing checking	26,828,157	33,481,270
Savings deposits	29,868,960	62,370,483
Money market deposits	103,290,548	74,632,300
Time certificates of deposit	216,216,848	268,122,096
Total deposits	565,710,575	541,041,578
Advances from Federal Home Loan Bank	99,565,000	159,705,000
Securities sold under agreements to repurchase	15,179,334	20,507,051
Subordinated debentures	9,831,256	9,800,320
Accrued interest payable	971,917	941,935
Accrued expenses and other liabilities	4,542,283	884,688
Total liabilities	695,800,365	732,880,572
COMMITMENTS AND CONTINGENCIES (NOTE 15)		
SHAREHOLDERS' EQUITY		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$.01 par value; 5,200,000 shares authorized, 2,957,999 shares issued, 2,534,367 and 2,503,655 shares outstanding at September 30, 2006 and September 30, 2005, respectively	29,580	29,580
Additional paid-in capital	20,968,492	20,646,513
Retained earnings—substantially restricted	37,186,249	34,557,258
Accumulated other comprehensive (loss)	(4,547,719)	(3,180,607)
Unearned Employee Stock Ownership Plan shares	(509,201)	(825,057)
Treasury stock, 423,632 and 454,344 common shares, at cost, at September 30, 2006 and September 30, 2005, respectively	(7,795,733)	(8,268,997)
Total shareholders' equity	45,331,668	42,958,690
Total liabilities and shareholders' equity	\$ 741,132,033	\$ 775,839,262

Meta Financial Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004

	2006	2005	2004
Interest and dividend income:			
Loans receivable, including fees	\$ 29,742,992	\$ 29,831,923	\$ 24,259,727
Mortgage backed securities	6,776,539	9,644,201	11,698,933
Other investments	4,058,444	1,617,184	221,596
	40,577,975	41,093,308	36,180,256
Interest expense:			
Deposits	13,505,392	12,080,046	9,639,441
FHLB advances and other borrowings	7,436,543	9,773,747	8,771,744
	20,941,935	21,853,793	18,411,185
Net interest income	19,636,040	19,239,515	17,769,071
Provision for loan losses	(454,500)	5,482,000	488,500
Net interest income after provision for loan losses	20,090,540	13,757,515	17,280,571
Non-interest income:			
Deposit Fees	1,004,200	1,330,750	1,275,452
Loan Fees	457,141	291,882	272,969
Gain on sales of loans, net	62,908	47,719	56,404
(Loss) on sales of foreclosed real estate, net	(1,936)	—	(8,752)
(Loss) on sales of securities available for sale, net	—	(19,334)	—
Gain on sale of branch office	—	—	1,113,230
Card fees	10,499,490	1,240,202	650
Bank owned life insurance income	620,500	484,916	546,030
Other income	763,554	354,472	339,786
Total non-interest income	13,405,857	3,730,607	3,595,769
Non-interest expense:			
Compensation and benefits	13,221,122	11,398,887	9,473,684
Occupancy and equipment expense	3,133,459	2,555,574	1,123,687
Marketing	735,464	828,802	437,461
Data processing expense	714,684	660,070	400,542
Card processing expense	2,986,034	337,549	24,407
Legal and consulting expense	3,026,054	795,586	128,116
Other expense	3,808,808	2,520,590	3,242,695
Total non-interest expense	27,625,625	19,097,058	14,830,592
Net income (loss) before income tax expense (benefit)	5,870,772	(1,608,936)	6,045,748
Income tax expense (benefit)	1,949,810	(684,685)	2,058,698
Net income (loss)	3,920,962	(924,251)	3,987,050
Earnings (loss) per common share:			
Basic	\$ 1.58	\$ (0.38)	\$ 1.61
Diluted	1.55	(0.38)	1.57

Dividends declared per common share:	\$	0.52	\$	0.52	\$	0.52
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See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004

	2006	2005	2004
Net income (loss)	\$ 3,920,962	\$ (924,251)	\$ 3,987,050
Other comprehensive (loss):			
Net change in net unrealized (loss) on securities available for sale	(2,186,114)	(3,090,094)	2,848,264
Deferred income tax benefit	(819,002)	(1,149,825)	1,059,840
Total other comprehensive (loss)	(1,367,112)	(1,940,269)	1,788,424
Total comprehensive income (loss)	\$ 2,553,850	\$ (2,864,520)	\$ 5,775,474

See Notes to Consolidated Financial Statements.

Meta Financial Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 2003	\$ 29,580	\$ 20,538,879	\$ 34,057,741	\$ (3,028,762)	\$ (401,676)	\$ (8,164,963)	\$ 43,030,799
Cash dividends declared on common stock (\$.52 per share)	—	—	(1,286,533)	—	—	—	(1,286,533)
Purchase of 39,470 common shares of treasury stock	—	—	—	—	—	(906,650)	(906,650)
Issuance of 36,546 common shares from treasury stock due to exercise of stock options	—	68,057	—	—	—	514,500	582,557
Purchase of 10,000 common shares for ESOP	—	—	—	—	(212,400)	—	(212,400)
13,000 common shares committed to be released under the ESOP	—	71,708	—	—	219,310	—	291,018
Net change in net unrealized losses on securities available for sale, net of income taxes	—	—	—	1,788,424	—	—	1,788,424
Net income for year ended September 30, 2004	—	—	3,987,050	—	—	—	3,987,050
Balance, September 30, 2004	\$ 29,580	\$ 20,678,644	\$ 36,758,258	\$ (1,240,338)	\$ (394,766)	\$ (8,557,113)	\$ 47,274,265
Balance, September 30, 2004	\$ 29,580	\$ 20,678,644	\$ 36,758,258	\$ (1,240,338)	\$ (394,766)	\$ (8,557,113)	\$ 47,274,265
Cash dividends declared on common stock (\$.52 per share)	—	—	(1,276,749)	—	—	—	(1,276,749)
Purchase of 1,000 common shares of treasury stock	—	—	—	—	—	(25,655)	(25,655)
Issuance of 13,630 common shares from treasury stock due to exercise of stock options	—	(83,357)	—	—	—	313,771	230,414
Purchase of 30,000 common shares for ESOP	—	—	—	—	(684,133)	—	(684,133)
14,000 common shares committed to be released under the ESOP	—	51,226	—	—	253,842	—	305,068
Net change in net unrealized losses on securities available for sale, net of income taxes	—	—	—	(1,940,269)	—	—	(1,940,269)
Net (loss) for year ended September 30, 2005	—	—	(924,251)	—	—	—	(924,251)
Balance, September 30, 2005	\$ 29,580	\$ 20,646,513	\$ 34,557,258	\$ (3,180,607)	\$ (825,057)	\$ (8,268,997)	\$ 42,958,690
Balance, September 30, 2005	\$ 29,580	\$ 20,646,513	\$ 34,557,258	\$ (3,180,607)	\$ (825,057)	\$ (8,268,997)	\$ 42,958,690
Cash dividends declared on common stock (\$.52 per share)	—	—	(1,291,971)	—	—	—	(1,291,971)
Issuance of 18,712 common shares from treasury stock due to exercise of stock options	—	(155,865)	—	—	—	429,150	273,285
Issuance of 3,667 common shares from treasury stock due to issuance of nonvested shares	—	(44,114)	—	—	—	44,114	—
Stock compensation	—	481,117	—	—	—	—	481,117
14,500 common shares committed to be released under the ESOP	—	40,841	—	—	315,856	—	356,697
Net change in net unrealized losses on securities available for sale, net of income taxes	—	—	—	(1,367,112)	—	—	(1,367,112)
Net income for year ended September 30, 2006	—	—	3,920,962	—	—	—	3,920,962
Balance, September 30, 2006	\$ 29,580	\$ 20,968,492	\$ 37,186,249	\$ (4,547,719)	\$ (509,201)	\$ (7,795,733)	\$ 45,331,668

See Notes to Consolidated Financial Statements.

Meta Financial Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 3,920,962	\$ (924,251)	\$ 3,987,050
Adjustments to reconcile net income to net cash from operating activities:			
Effect of contribution to employee stock ownership plan	356,697	305,068	291,018
Depreciation, amortization and accretion, net	3,204,005	3,276,520	4,365,294
Provision for loan losses	(454,500)	5,482,000	488,500
Loss on the sale of securities available for sale, net	—	19,334	—
Stock compensation	481,117	—	—
Net change in loans held for sale	264,508	11,719	912,714
(Gain) on sale of branch office	—	—	(1,113,230)
(Gain) loss on sales of foreclosed real estate, net	1,936	—	8,752
(Gain) on sales of loans, net	(62,908)	(47,719)	(56,404)
Net change in accrued interest receivable	(138,120)	(391,479)	77,343
Net change in other assets	(2,241,216)	(1,268,382)	(864,592)
Net change in accrued interest payable	29,982	468,509	(33,435)
Net change in accrued expenses and other liabilities	3,657,595	(1,259,560)	710,759
Net cash provided by operating activities	9,020,058	5,671,759	8,773,769
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available for sale	(108,522)	(17,628,374)	(46,204,355)
Proceeds from sales of securities available for sale	—	25,842,710	—
Net change in securities purchased under agreement to resell	31,622,323	(37,513,348)	—
Proceeds from maturities and principal repayments of securities available for sale	41,723,244	78,086,047	89,167,761
Loans purchased	68,294,224	(39,697,273)	(39,542,108)
Net change in loans receivable	(17,067,490)	(6,708,447)	(16,106,777)
Proceeds from sales of foreclosed real estate	4,656,914	22,028	1,158,935
Cash transferred to buyer on sale of branch	—	—	(14,154,359)
Net change in FHLB / FRB stock	2,518,500	2,891,700	(122,400)
Purchase of premises and equipment	(3,772,850)	(4,434,538)	(1,364,922)
Net cash provided by (used in) investing activities	127,866,343	860,505	(27,168,225)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in checking, savings, and money market deposits	76,574,245	75,877,809	66,137,257
Net change in time deposits	(51,905,248)	3,366,561	(24,052,970)
Net repayments of advances from Federal Home Loan Bank	(60,140,000)	(66,545,000)	2,465,606
Net change in securities sold under agreements to repurchase	(5,327,717)	(12,042,326)	(25,152,657)
Cash dividends paid	(1,291,971)	(1,276,749)	(1,286,533)
Purchase of shares by ESOP	—	(684,133)	(212,400)
Proceeds from exercise of stock options	187,158	230,414	582,557
Purchase of treasury stock	—	(25,655)	(906,650)
Net cash provided by (used in) financing activities	(41,903,533)	(1,099,079)	17,574,210
Net change in cash and equivalents	94,982,868	5,433,185	(820,246)
Cash and cash equivalents at beginning of period	14,369,754	8,936,569	9,756,815
Cash and cash equivalents at end of period	\$ 109,352,622	\$ 14,369,754	\$ 8,936,569

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the period for:

Interest	\$	20,911,953	\$	21,385,284	\$	18,444,620
Income taxes		1,689,334		605,911		2,213,428
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:						
Loans transferred to foreclosed real estate	\$	49,500	\$	4,728,442	\$	58,349
Sale of Branch						
Assets disposed:						
Loans		—		—		(730,704)
Accrued interest receivable		—		—		(5,518)
Premises and equipment		—		—		(110,818)
Liabilities assumed by buyer:						
Noninterest-bearing demand, savings, NOW and money market demand deposits		—		—		6,349,270
Time deposits		—		—		9,753,484
Advances from borrowers for taxes and insurance		—		—		5,749
Other Liabilities		—		—		6,126
(Gain) on sale of office property, net		—		—		(1,113,230)
Cash paid		—		—		14,154,359

See Notes to Consolidated Financial Statements.

Meta Financial Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Meta Financial Group, Inc. (the “Company”) a bank holding company located in Storm Lake, Iowa, and its wholly owned subsidiaries which include MetaBank (the “Bank”), a federally chartered savings bank whose primary regulator is the Office of Thrift Supervision, MetaBank West Central (MBWC), a state chartered commercial bank whose primary regulator is the Federal Reserve, (together the “Banks”), First Services Financial Limited and Brookings Service Corporation, which offer noninsured investment products, Meta Trust Company, which offers various trust services. The Company also owns 100% of First Midwest Financial Capital Trust I (the Trust), which was formed in July 2001 for the purpose of issuing trust preferred securities. The Company presents the activity in the Trust under FASB Interpretation 46 (Revised), Consolidation of Variable Interest Entities, which requires the Company to use the equity method of accounting for this investment. All significant inter-company balances and transactions have been eliminated.

NATURE OF BUSINESS AND INDUSTRY SEGMENT INFORMATION

The primary source of income for the Company is interest from the purchase or origination of consumer, commercial, agricultural, commercial real estate, and residential real estate loans. The Company accepts deposits from customers in the normal course of business primarily in northwest and central Iowa and eastern South Dakota. The Company operates primarily in the banking industry, which accounts for the majority of its revenues, operating income and assets, with the remaining operations consisting of payment processing services. The Company uses the “management approach” for reporting information about segments in annual and interim financial statements. The management approach is based on the way the chief operating decision-maker organizes segments within a company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure and any other manner in which management disaggregates a company. Based on the management approach model, the Company has determined that its business is comprised of two reporting segments.

Assets held in trust or fiduciary capacity are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain significant estimates include the allowance for loan losses and the fair values of securities and other financial instruments. These estimates are reviewed by management regularly; however, they are particularly susceptible to significant changes in the future.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents is defined to include the Company’s cash on hand and due from financial institutions and short-term interest-bearing deposits in other financial institutions. The Company reports net cash flows for customer loan transactions, securities purchased under agreement to resell, deposit transactions, securities sold under agreements to repurchase and FHLB advances with terms less than 90 days. The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances was approximately \$5.95 million and \$3.56 million at September 30, 2006 and 2005, respectively. The Company at times maintains balances in excess of insured limits at various financial institutions including the Federal Home Loan Bank of Des Moines, the Federal Reserve Bank, and other private institutions. At September 30, 2006 the Company had \$79.8 million of interest bearing deposits held at the Federal Home Loan Bank of Des Moines. The Company does not believe these deposits carry a significant risk of loss, but cannot provide assurances that no losses could occur if these institutions were to become insolvent.

SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Securities purchased under agreement to resell generally mature or reprice within one week and are carried at cost.

SECURITIES

The Company classifies all securities as available for sale. Available for sale securities are those the Company may decide to sell if needed for liquidity, asset-liability management or other reasons. Available for sale securities are reported at fair value, with net unrealized gains and losses reported as other comprehensive income or loss as a separate component of shareholders’ equity, net of tax.

Gains and losses on the sale of securities are determined using the specific identification method based on amortized cost and are reflected in results of operations at the time of sale. Interest and dividend income, adjusted by amortization of purchase premium or discount over the estimated life of the security using the level yield method, is included in income as earned.

Declines in the fair value of individual securities below their amortized cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

LOANS HELD FOR SALE

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income. As assets specifically acquired for resale, the origination of, disposition of and gain/loss on these loans are classified as operating activities in the statement of cash flows.

LOANS RECEIVABLE

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances reduced by the allowance for loan losses and any deferred fees or costs on originated loans.

Premiums or discounts on purchased loans are amortized to income using the level yield method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Interest income on loans is accrued over the term of the loans based upon the amount of principal outstanding except when serious doubt exists as to the collectibility of a loan, in which case the accrual of interest is discontinued. Interest income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower has the ability to make contractual interest and principal payments, in which case the loan is returned to accrual status.

LOAN ORIGATION FEES, COMMITMENT FEES AND RELATED COSTS

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ALLOWANCE FOR LOAN LOSSES

Because some loans may not be repaid in full, an allowance for loan losses is recorded. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management may periodically allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.

Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified either as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

FORECLOSED REAL ESTATE AND REPOSSESSED ASSETS

Real estate properties and repossessed assets acquired through, or in lieu of, loan foreclosure are initially recorded at the lower of cost or fair value less selling costs at the date of foreclosure, establishing a new cost basis. Any reduction to fair value from the carrying value of the related loan at the time of acquisition is accounted for as a loan loss and charged against the allowance for loan losses. Valuations are periodically performed by management and valuation allowances are adjusted through a charge to income for changes in fair value or estimated selling costs.

INCOME TAXES

The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

PREMISES AND EQUIPMENT

Land is carried at cost. Buildings, furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization computed principally by using the straight-line method over the estimated useful lives of the assets, which range from 15 to 39 years for buildings and 3 to 7 years for furniture, fixtures and equipment. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

TRANSFERS OF FINANCIAL ASSETS

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred costs and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

BANK-OWNED LIFE INSURANCE

Bank-owned life insurance represents the cash surrender value of investments in life insurance contracts. Earnings on the contracts are based on the earnings on the cash surrender value, less mortality costs.

EMPLOYEE STOCK OWNERSHIP PLAN

The Company accounts for its employee stock ownership plan (ESOP) in accordance with AICPA Statement of Position (SOP) 93-6. Under SOP 93-6, the cost of shares issued to the ESOP, but not yet allocated to participants, are presented in the consolidated balance sheets as a reduction of shareholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. Dividends on unallocated shares are used to reduce the accrued interest and principal amount of the ESOP's loan payable to the Company.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company, in the normal course of business, makes commitments to make loans which are not reflected in the consolidated financial statements.

GOODWILL

Goodwill is not amortized but is subject to an impairment test at least annually or more often if conditions indicate a possible impairment.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company enters into sales of securities under agreements to repurchase with primary dealers only, which provide for the repurchase of the same security. Securities sold under agreements to repurchase identical securities are collateralized by assets which are held in safekeeping in the name of the Bank or security by the dealers who arranged the transaction. Securities sold under agreements to repurchase are treated as financings, and the obligations to repurchase such securities are reflected as a liability. The securities underlying the agreements remain in the asset accounts of the Company.

EARNINGS PER COMMON SHARE

Basic earnings per common share is based on the net income divided by the weighted average number of common shares outstanding during the period. Allocated ESOP shares are considered outstanding for earnings per common share calculations, as they are committed to be released; unallocated ESOP shares are not considered outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Diluted earnings per common share shows the dilutive effect of additional potential common shares issuable under stock option plans.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes the net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects, and is recognized as a separate component of shareholders' equity.

STOCK COMPENSATION

Effective October 1, 2005, the Company adopted SFAS No. 123(R), Share-Based Payment, using a modified prospective application. Prior to that date, the Company accounted for stock option awards under APB Opinion No. 25, Accounting for Stock Issued to Employees. In accordance with SFAS No. 123(R), compensation expense for share based awards is recorded over the vesting period at the fair value of the award at the time of grant. The recording of such compensation expense began on October 1, 2005 for shares not yet vested as of that date and for all new grants subsequent to that date. Prior years' results have not been restated. The exercise price of options or fair value of nonvested shares granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock based compensation, since actual historical forfeiture rates on its stock based incentive awards has been negligible.

RECLASSIFICATIONS

Certain 2005 and 2004 amounts have been reclassified to conform to the 2006 presentation. There were no changes to previously reported shareholders' equity.

NEW ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement also subjects beneficial interests in securitized financial assets to the requirements of SFAS No. 133. For the Company, this statement is effective for all financial instruments acquired, issued, or subject to remeasurement after the beginning of its fiscal year that begins after September 15, 2006, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140." The statement amends SFAS No. 140 by (1) requiring the separate accounting for servicing assets and servicing liabilities, which arise from the sale of financial assets; (2) requiring all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; and (3) permitting an entity to choose between an amortization method or a fair value method for subsequent measurement for each class of separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 clarifies the application of SFAS No. 109 by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements and provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006, with earlier adoption permitted. The Company is currently evaluating the impact that the adoption of this interpretation will have on its financial position, results of operation and cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. 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. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

In September 2006, the FASB issued Statement No. 158, (“SFAS No. 158”), “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R).” SFAS No. 158 requires a company that sponsors a postretirement benefit plan to fully recognize, as an asset or liability, the over- or under-funded status of its benefit plan in its balance sheet. The funded status is measured as the difference between the fair value of the plan’s assets and its benefit obligation (projected benefit obligation for pension plans and accumulated postretirement benefit obligation for other postretirement benefit plans). Currently, the funded status of such plans are reported in the notes to the financial statements. This provision is effective for public companies for fiscal years ending after December 15, 2006. In addition, SFAS No. 158 also requires a company to measure its plan assets and benefit obligations as of its year end balance sheet date. Currently, a company is permitted to choose a measurement date up to three months prior to its year end to measure the plan assets and obligations. This provision is effective for all companies for fiscal years ending after December 15, 2008. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. EARNINGS PER COMMON SHARE

A reconciliation of the numerators and denominators used in the computation of basic and diluted earnings per common share is presented below:

	2006	2005	2004
Basic earnings (loss) per common share:			
Numerator, net income (loss)	\$ 3,920,962	\$ (924,251)	\$ 3,987,050
Denominator, weighted average common shares outstanding	2,511,754	2,497,954	2,498,403
Less weighted average unallocated ESOP and nonvested shares	(27,949)	(37,063)	(16,724)
Weighted average common shares outstanding	2,483,805	2,460,891	2,481,679
Basic earnings (loss) per common share	\$ 1.58	\$ (0.38)	\$ 1.61
Diluted earnings (loss) per common share:			
Numerator, net income (loss)	\$ 3,920,962	\$ (924,251)	\$ 3,987,050
Denominator, weighted average common shares outstanding for basic earnings per common share	2,483,805	2,460,891	2,481,679
Add dilutive effect of assumed exercises of stock options, net of tax benefits	38,052	—	52,744
Weighted average common and dilutive potential common shares outstanding	2,521,857	2,460,891	2,534,423
Basic earnings (loss) per common share	\$ 1.55	\$ (0.38)	\$ 1.57

The calculation of the diluted loss per share for the year ended September 30, 2005 does not reflect the assumed exercise of 46,624 stock options because the effect would have been anti-dilutive due to the net loss for the period. Stock options totaling 99,355, 60,315, and 91,315 were not considered in computing diluted earnings per common share for the years ended September 30, 2006, 2005, and 2004, respectively, because they were not dilutive.

NOTE 3. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

In September 2005, the Company entered into a contract to assume the processing of a gift card portfolio. As part of the contract, the funds supporting the outstanding balances of the portfolio were invested in securities purchased under an agreement to resell through Bank of America. The contract provides for a fixed rate of return of 4.50% during its term. The investment in securities purchased under an agreement to resell matures weekly. Prior to reinvestment, the balance is reduced by an estimate of the amount that will be needed to cover gift card settlements the following week. The estimated amount, along with the previous week's interest, is wired to the Company. The securities purchased under this agreement are comprised of U.S. Government agency securities.

Meta Financial Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. SECURITIES

Year end securities available for sale were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
2006				
Debt securities				
Trust preferred and corporate securities	\$ 26,772,809	\$ 113,881	\$ (608,228)	\$ 26,278,462
Obligations of states and political subdivisions	146,218	—	(1,342)	144,876
Mortgage-backed securities	165,798,153	14,728	(7,110,988)	158,701,893
Other	109,697	—	(247)	109,450
Total debt securities	192,826,877	128,609	(7,720,805)	185,234,681
Marketable equity securities	602,331	339,118	—	941,449
Total securities	\$ 193,429,208	\$ 467,727	\$ (7,720,805)	\$ 186,176,130

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
2005				
Debt securities				
Trust preferred and corporate securities	\$ 27,261,733	\$ 123,965	\$ (735,248)	\$ 26,650,450
Obligations of states and political subdivisions	443,129	349	(2,609)	440,869
Mortgage-backed securities	207,652,399	31,615	(4,762,913)	202,921,101
Total debt securities	235,357,261	155,929	(5,500,770)	230,012,420
Marketable equity securities	602,331	277,814	—	880,145
Total securities	\$ 235,959,592	\$ 433,743	\$ (5,500,770)	\$ 230,892,565

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at September 30, 2006 and 2005 are as follows:

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2006						
Debt securities						
Trust preferred and corporate securities	\$ —	\$ —	\$ 24,165,062	\$ (608,228)	\$ 24,165,062	\$ (608,228)
Obligations of states and political subdivisions	—	—	94,876	(1,342)	94,876	(1,342)
Mortgage-backed securities	777,037	(15,222)	157,720,348	(7,095,766)	158,497,385	(7,110,988)
Other	109,450	(247)	—	—	109,450	(247)
Total debt securities	\$ 886,487	\$ (15,469)	\$ 181,980,286	\$ (7,705,336)	\$ 182,866,773	\$ (7,720,805)

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2005						

Debt securities							
Trust preferred and corporate securities	\$	—	\$	—	\$	24,027,396	\$ (735,248) \$ 24,027,396 \$ (735,248)
Obligations of states and political subdivisions		290,520		(2,609)		—	— 290,520 (2,609)
Mortgage-backed securities		43,671,997		(699,413)		157,847,666	(4,063,500) 201,519,663 (4,762,913)
Total debt securities	\$	43,962,517	\$	(702,022)	\$	181,875,062	\$ (4,798,748) \$ 225,837,579 \$ (5,500,770)

As of September 30, 2006, the investment portfolio included 43 securities with current unrealized losses which have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Because the declines in fair value were due to changes in market interest rates, not in estimated cash flows, no other-than-temporary impairment was recorded at September 30, 2006. In addition, the Company has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

The amortized cost and fair value of debt securities by contractual maturity are shown below. Certain securities have call features which allow the issuer to call the security prior to maturity. Expected maturities may differ from contractual maturities in mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Marketable equity securities are not included in the following maturity summary.

Meta Financial Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

		Amortized Cost	Fair Value
Due in one year or less	\$	255,915	\$ 254,326
Due after one year through five years		999,519	1,002,800
Due after ten years		25,773,290	25,275,662
		27,028,724	26,532,788
Mortgage-backed securities		165,798,153	158,701,893
	\$	192,826,877	\$ 185,234,681

Activities related to the sale of securities available for sale are summarized below.

	2006	2005	2004
Proceeds from sales	\$ —	\$ 25,842,710	\$ —
Gross gains on sales	—	221,868	—
Gross (losses) on sales	—	(241,202)	—

NOTE 5. LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

	2006	2005
One to four family residential mortgage loans	\$ 59,330,439	\$ 70,165,219
Commercial and multi-family real estate loans	167,590,032	214,048,999
Agricultural real estate loans	16,146,672	15,245,600
Consumer loans	31,164,854	31,663,259
Commercial business loans	92,384,484	101,772,452
Agricultural business loans	30,064,102	24,528,747
	396,680,583	457,424,276
Less:		
Allowance for loan losses	(5,967,774)	(7,222,404)
Undisbursed portion of loans in process	(1,772,894)	(9,732,776)
Net deferred loan origination fees	(178,004)	(278,851)
	\$ 388,761,911	440,190,245

Annual activity in the allowance for loan losses was as follows:

	2006	2005	2004
Beginning balance	\$ 7,222,404	\$ 5,370,994	\$ 4,961,777
Provision for loan losses	(454,500)	5,482,000	488,500
Recoveries	329,180	146,820	29,210
Charge offs	(1,129,310)	(3,777,410)	(108,493)
Ending balance	\$ 5,967,774	\$ 7,222,404	\$ 5,370,994

Virtually all of the Company's originated loans are to Iowa- and South Dakota-based individuals and organizations. The Company's purchased loans totaled approximately \$50,752,562 at September 30, 2006, and were secured by properties located, as a percentage of total loans, as follows: 4% in Iowa, 2% in Arizona, 1% each in Minnesota, South Dakota, Illinois, Florida, California, and Washington, and the remaining 1% in eight other states. The Company's purchased loans totaled approximately \$60,968,000 at September 30, 2005, and were secured by properties located, as a percentage of total loans, as follows: 1% in Washington, 1% in Colorado, 2% in Minnesota, 3% in Iowa, 2% in Arizona, 1% in Missouri and the remaining 3% in 12 other states.

The Company originates and purchases commercial real estate loans. These loans are considered by management to be of somewhat greater risk of uncollectibility due to the dependency on income production. The Company's commercial real estate loans include \$10,424,000 of loans secured by hotel properties and \$29,957,000 million of multi-family properties at September 30, 2006. The Company's commercial real estate loans include \$33,554,000 of loans secured by hotel properties and \$45,566,000 of multi-family properties at September 30, 2005. The remainder of the commercial real estate portfolio is diversified by industry. The Company's policy for requiring collateral and guarantees varies with the creditworthiness of each borrower.

Meta Financial Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impaired loans were as follows:

	2006	2005
Year-end impaired loans with no allowance for loan losses allocated	\$ —	\$ —
Year-end impaired loans with allowance for loan losses allocated	4,100,265	664,056
Amount of the allowance allocated to impaired loans	839,508	250,803
Average of impaired loans during the year	4,402,198	1,701,941

Interest income and cash interest collected on impaired loans was not material during the years ended September 30, 2006, and 2005, and 2004.

NOTE 6. LOAN SERVICING

Loans serviced for others are not reported as assets. The unpaid principal balances of these loans at year end were as follows:

	2006	2005
Mortgage loan portfolios serviced for FNMA	\$ 22,900,000	\$ 25,241,000
Other	25,800,000	26,039,000
	\$ 48,700,000	\$ 51,280,000

NOTE 7. PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

	2006	2005
Land	\$ 2,858,410	\$ 2,858,410
Buildings	13,481,353	12,484,587
Furniture, fixtures, and equipment	8,806,715	6,021,614
	25,146,478	21,364,611
Less accumulated depreciation	(7,523,418)	(6,238,542)
	\$ 17,623,060	\$ 15,126,069

Depreciation of premises and equipment included in occupancy and equipment expense was approximately \$1,276,000, \$999,000, and \$917,000 for the years ended September 30, 2006, 2005, and 2004, respectively.

NOTE 8. DEPOSITS

Certificates of deposit in denominations of \$100,000 or more were approximately \$44.3 million and \$128.2 million at September 30, 2006, and 2005, respectively.

At September 30, 2006, the scheduled maturities of certificates of deposit were as follows for the years ending September 30:

2007	\$ 151,996,116
2008	35,404,213
2009	14,512,695
2010	11,357,984
2011	2,927,265
Thereafter	18,575

NOTE 9. ADVANCES FROM THE FEDERAL HOME LOAN BANK

At September 30, 2006, the Company's advances from the FHLB of Des Moines had fixed rates ranging from 2.56% to 7.19% with a weighted average rate of 4.97%.

The scheduled maturities of FHLB advances were as follows for the years ending September 30:

2007	\$ 25,265,000
2008	25,000,000
2009	12,000,000
2010	20,000,000
2011	10,000,000
Thereafter	7,300,000
	\$ 99,565,000

Advances totaling \$31.7 million, with a weighted average fixed rate of 5.75%, carry quarterly call provisions, whereby the FHLB can elect to accelerate the maturity of these borrowings. These advances are shown in the above table at their stated maturity date, which range from 2008 to 2010.

As of September 30, 2005, the Company's FHLB advance portfolio totaled \$159,705,000 and carried a weighted average rate of 4.56%.

MetaBank and MBWC have executed blanket pledge agreements whereby the Banks assign, transfer, and pledge to the FHLB and grant to the FHLB a security interest in all

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

mortgage collateral and securities collateral. The Banks have the right to use, commingle, and dispose of the collateral they have assigned to the FHLB. Under the agreements, the Banks must maintain “eligible collateral” that has a “lending value” at least equal to the “required collateral amount,” all as defined by the agreements.

At year end 2006, and 2005, the Banks collectively pledged securities with fair values of approximately \$54.6 million and \$103.4 million, respectively, against specific FHLB advances. In addition, qualifying mortgage loans of approximately \$79.1 million, and \$89.8 million were pledged as collateral at September 30, 2006 and 2005, respectively.

NOTE 10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase totaled approximately \$15.2 million and \$20.5 million at September 30, 2006 and 2005, respectively.

An analysis of securities sold under agreements to repurchase follows:

	2006	2005
Highest month-end balance	\$ 20,369,469	\$ 33,077,141
Average balance	16,616,456	28,066,924
Weighted average interest rate during the period	3.01%	2.78%
Weighted average interest rate at end of period	3.13%	2.89%

At September 30, 2006, securities sold under agreements to repurchase had a weighted average maturity of less than five months.

The Company pledged securities with fair values of approximately \$20.5 million and \$22.3 million at September 30, 2006 and 2005, respectively, as collateral for securities sold under agreements to repurchase.

NOTE 11. JUNIOR SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES

Subordinated debentures are due to First Midwest Financial Capital Trust I, a 100%-owned unconsolidated subsidiary of the Company. The debentures were issued in 2001 in conjunction with the Trust’s issuance of 10,000 shares of Trust Preferred Securities. The debentures bear the same interest rate and terms as the trust preferred securities. The debentures are included on the balance sheet as liabilities, net of applicable unamortized issuance costs.

The Company issued all of the 10,000 authorized shares of trust preferred securities of First Midwest Financial Capital Trust I holding solely subordinated debt securities. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a variable rate of LIBOR (as defined) plus 3.75% (9.30% at September 30, 2006 and 7.67% at September 30, 2005), not to exceed 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions are required to be paid. The capital securities are required to be redeemed on July 25, 2031; however, the Company has the option to shorten the maturity date to a date not earlier than July 25, 2006. The redemption price is \$1,000 per capital security plus any accrued and unpaid distributions to the date of redemption plus, if redeemed prior to July 25, 2011, a redemption premium as defined in the Indenture agreement.

Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Company’s indebtedness and senior to the Company’s common stock.

Although the securities issued by the trusts are not included as a component of shareholders’ equity, the securities are treated as capital for regulatory purposes, subject to certain limitations.

NOTE 12. EMPLOYEE STOCK OWNERSHIP AND PROFIT SHARING PLANS

The Company maintains an Employee Stock Ownership Plan (ESOP) for eligible employees who have 1,000 hours of employment with the Bank, have worked one year at the Bank and who have attained age 21. The ESOP has borrowed money from the Company to purchase shares of the Company’s common stock. Shares purchased by the ESOP are held in suspense for allocation among participants as the loan is repaid. ESOP expense of \$356,697, \$305,068 and \$291,018 was recorded for the years ended September 30, 2006, 2005 and 2004, respectively. Contributions of \$315,856, \$253,842 and \$219,310 were made to the ESOP during the years ended September 30, 2006, 2005 and 2004, respectively.

Contributions to the ESOP and shares released from suspense in an amount proportional to the repayment of the ESOP loan are allocated among ESOP participants on the basis of compensation in the year of allocation. Benefits generally become 100% vested after seven years of credited service. Prior to the completion of seven years of credited service, a participant who terminates employment for reasons other than death or disability receives a reduced benefit based on the ESOP's vesting schedule. Forfeitures are reallocated among remaining participating employees in the same proportion as contributions. Benefits are payable in the form of stock upon termination of employment. The Company's contributions to the ESOP are not fixed, so benefits payable under the ESOP cannot be estimated.

For the years ended September 30, 2006, 2005 and 2004, 14,500, 14,000 and 13,000 shares with a fair value of \$24.60, \$21.79 and \$22.37 per share, respectively, were released. Also for the years ended September 30, 2006, 2005 and 2004, allocated shares and total ESOP shares reflect 11,332, 45,042, and 15,056 shares, respectively, withdrawn from the ESOP by participants who are no longer with the Company or by participants diversifying their holdings and 5,358, 5,152, and 5,426 shares, respectively, purchased for dividend reinvestment.

Year-end ESOP shares are as follows:

	2006	2005	2004
Allocated shares	238,454	229,928	255,818
Unearned shares	22,312	36,812	20,812
Total ESOP shares	260,766	266,740	276,630
Fair value of unearned shares	\$ 548,875	\$ 686,912	\$ 462,859

The Company also has a profit sharing plan covering substantially all full-time employees. Contribution expense for the years ended September 30, 2006, 2005, and 2004 was \$322,226, \$233,453, and \$276,923, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. SHARE BASED COMPENSATION PLANS

The Company maintains the 2002 Omnibus Incentive Plan, which, among other things, provides for the awarding of stock options and nonvested (restricted) shares to certain officers and directors of the Company. Awards are granted by the Stock Option Committee of the Board of Directors based on the performance of the award recipients, or other relevant factors.

Effective October 1, 2005, the Company adopted SFAS No. 123(R), Share-Based Payment using a modified prospective application. Prior to adopting this standard the Company accounted for stock options under APB Opinion No. 25, Accounting for Stock Issued to Employees. As a result of the adoption of SFAS No. 123 (R), the Company, during the year ended September 30, 2006, began recording expense associated with the awarding of stock options and restricted stock. Prior years' results have not been restated to reflect the impact of this change. The following tables show the effect to income, net of tax benefits, of share-based expense recorded in the year ended September 30, 2006, as well as the pro forma effect to income and earnings per share had the Company used the accounting methodology under SFAS No. 123(R) for fiscal years 2005 and 2004.

YEAR ENDED SEPTEMBER 30,

	2006	2005	2004
Total employee stock-based compensation expense recognized in income, net of tax effects of \$163,580	\$ 317,537	\$ —	\$ —

YEAR ENDED SEPTEMBER 30,

	2005	2004
Net income (loss) as reported	\$ (924,251)	\$ 3,987,050
Deduct: Total employee stock-based compensation expense determined under fair value based method for all awards, net of tax effects	(154,126)	(229,967)
Pro forma net income (loss)	\$ (1,078,377)	\$ 3,757,083
Earnings (loss) per common share—basic		
As reported	(0.38)	1.61
Pro forma	(0.44)	1.51
Earnings (loss) per common share—diluted		
As reported	(0.38)	1.57
Pro forma	(0.44)	1.48

As of September 30, 2006, stock based compensation expense not yet recognized in income totaled \$620,126. which is expected to be recognized over a weighted average remaining period of 1.45 years.

At grant date, the fair value of options awarded to recipients is estimated using a Black-Scholes valuation model. The exercise price of stock options equals the fair market value of the underlying stock at the date of grant. The following table shows the key valuation assumptions used for options granted during the years ended September 30, 2006, 2005, and 2004, and other information. Options are issued for 10 year periods with 100% vesting generally occurring either at grant date or over a four year period.

YEAR ENDED SEPTEMBER 30,

	2006	2005	2004
Risk-free interest rate	4.40% - 5.09%	4.30%	3.83% - 4.42%
Expected annual standard deviation			
Range	19.46% - 20.60%	20.60%	21.85% - 22.45%
Weighted average	19.93%	20.60%	22.16%
Expected life (years)	7	7	7

Expected dividend yield				
Range	2.13% - 2.55%		2.76%	2.18% - 2.54%
Weighted average	2.32%		2.76%	2.26%
Weighted average fair value of options granted during period	\$	5.51	\$	4.03
Intrinsic value of options exercised during period	\$	217,760	\$	98,446
			\$	262,980

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Although authorized under the Company's 2002 Omnibus Incentive Plan, the Company had not, prior to fiscal year 2006, awarded nonvested (restricted) shares to employees or directors. The Company did award nonvested shares during the year ended September 30, 2006. Nonvested shares vest immediately or over a period of four years. The following table shows the weighted average fair value of nonvested shares awarded and the total fair value of nonvested shares which vested during the year ended September 30, 2006. The fair value is determined based upon the fair market value of the Company's stock on the grant date.

YEAR ENDED SEPTEMBER 30,

	2006	2005	2004
Weighted average fair value of nonvested shares granted during period	\$ 24.43	n/a	n/a
Total fair value of nonvested shares vested during period	\$ 89,585	n/a	n/a

In addition to the Company's active 2002 Omnibus Incentive Plan, the Company also maintains the 1995 Stock Option and Incentive Plan, and the 1993 Stock Option and Incentive Plan. No new options were, or could have been, awarded under the 1995 and 1993 plans during the year ended September 30, 2006; however previously awarded but unexercised shares were outstanding under these plans during the year.

The following tables show the activity of options and nonvested shares granted, exercised, or forfeited under all of the Company's option and incentive plans during the year ended September 30, 2006.

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (YRS)	AGGREGATE INTRINSIC VALUE
Options outstanding, September 30, 2005	311,328	\$ 18.11	5.99	\$ 668,629
Granted	114,903	23.16		
Exercised	(28,250)	14.57		
Forfeited or expired	(11,556)	20.71		

Options outstanding, September 30, 2006	386,425	\$ 19.79	6.65	\$ 1,792,717
Options exercisable end of year	276,925	\$ 18.74	5.75	\$ 1,575,099

	NUMBER OF SHARES	WEIGHTED AVERAGE MKT VAL AT GRANT
Nonvested shares outstanding, September 30, 2005	—	\$ —
Granted	12,000	24.43
Vested	(3,667)	24.43
Forfeited or expired	—	—
Nonvested shares outstanding, September 30, 2006	8,333	\$ 24.43

On August 28, 2006, the Board of Directors approved the First Amendment to the Company's 2002 Omnibus Incentive Plan, which, among other things, increased the number of shares eligible for award under the plan from 200,000 to 400,000. This Amendment is subject to shareholder approval at the Company's annual meeting scheduled for January 2007. The preceding option table includes 28,701 options granted subject to final approval by the Company's shareholders.

Meta Financial Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. INCOME TAXES

The Company and its subsidiaries file a consolidated federal income tax return on a fiscal year basis.

The provision for income taxes consists of:

Years ended September 30,

	2006	2005	2004
Federal:			
Current	\$ 1,331,116	\$ 115,151	\$ 2,120,464
Deferred	290,820	(670,140)	(333,905)
	\$ 1,621,936	\$ (554,989)	\$ 1,786,559
State:			
Current	282,855	(46,076)	288,092
Deferred	45,019	(83,620)	(15,953)
	\$ 327,874	\$ (129,696)	\$ 272,139
Income tax expense (benefit)	\$ 1,949,810	\$ (684,685)	\$ 2,058,698

Total income tax expense (benefit) differs from the statutory federal income tax rate as follows:

Years ended September 30,

	2006	2005	2004
Income tax expense (benefit) at 35% federal tax rate	\$ 2,055,000	\$ (563,000)	\$ 2,116,000
Increase (decrease) resulting from:			
State income taxes net of federal benefit	171,335	(26,000)	191,000
Nontaxable buildup in cash surrender value	(217,175)	(165,000)	(186,000)
Other, net	(59,350)	69,315	(62,302)
Total income tax expense (benefit)	\$ 1,949,810	\$ (684,685)	\$ 2,058,698

Year-end deferred tax assets and liabilities included in other assets consist of:

September 30,

	2006	2005
DEFERRED TAX ASSETS:		
Bad debts	\$ 2,225,650	\$ 2,694,000
Stock based compensation	90,862	—
Net unrealized losses on securities available for sale	2,705,421	1,886,420
Other, net	120,813	75,589
	5,142,746	4,656,009

Deferred tax liabilities:

FHLB stock dividend	(452,000)	(452,000)
Premises and equipment	(476,575)	(463,000)
Deferred loan fees	(140,000)	(150,000)
	(1,068,575)	(1,065,000)
Net deferred tax assets	\$ 4,074,171	\$ 3,591,009

Federal income tax laws provided savings banks with additional bad debt deductions through September 30, 1987 totaling \$6,744,000 for the Bank. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total approximately \$2,300,000 at September 30, 2006, and 2005. If the Bank were to be liquidated or otherwise cease to be a bank, or if tax laws were to change, the \$2,300,000 would be recorded as expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Company has two primary subsidiaries, MetaBank and MBWC. MetaBank and MBWC are subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory or discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, MetaBank and MBWC must meet specific quantitative capital guidelines using their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The requirements are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require MetaBank and MBWC to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier I capital (as defined) to average assets (as defined). As of September 30, 2006, MetaBank and MBWC met all capital adequacy requirements.

MetaBank's and MBWC's actual and required capital amounts and ratios are presented in the following table.

	ACTUAL		MINIMUM REQUIREMENT FOR CAPITAL ADEQUACY PURPOSES		MINIMUM REQUIREMENT TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>Dollars in thousands)</i>						
AS OF SEPTEMBER 30, 2006:						
MetaBank						
Tangible capital (to tangible assets)	\$ 48,609	6.97%	\$ 10,462	1.50%	\$ —	—
Tier 1 (core) capital (to adjusted total assets)	48,609	6.97%	27,899	4.00%	34,874	5.00%
Total risk based capital (to risk weighted assets)	54,401	12.21%	35,652	8.00%	44,565	10.00%
MetaBank West Central						
Tier 1 capital (to average assets)	4,071	9.71%	1,677	4.00%	2,097	5.00%
Tier 1 risk based capital (to risk weighted assets)	4,071	14.90%	1,093	4.00%	1,640	6.00%
Total risk based capital (to risk weighted assets)	4,338	15.87%	2,186	8.00%	2,733	10.00%
AS OF SEPTEMBER 30, 2005:						
MetaBank						
Tangible capital (to tangible assets)	\$ 46,412	6.38%	\$ 10,911	1.50%	\$ —	—
Tier 1 (core) capital (to adjusted total assets)	46,412	6.38%	29,065	4.00%	36,332	5.00%
Total risk based capital (to risk weighted assets)	52,857	10.33%	40,944	8.00%	51,180	10.00%
MetaBank West Central						
Tier 1 capital (to average assets)	3,762	7.37%	2,042	4.00%	2,553	5.00%
Tier 1 risk based capital (to risk weighted assets)	3,762	11.73%	1,277	4.00%	1,915	6.00%
Total risk based capital (to risk weighted assets)	4,162	12.98%	2,566	8.00%	3,208	10.00%

Regulations limit the amount of dividends and other capital distributions that may be paid by a financial institution without prior approval of its primary regulator. The regulatory restriction is based on a three-tiered system with the greatest flexibility being afforded to well-capitalized (Tier 1) institutions. MetaBank and MBWC are currently Tier 1 institutions. Accordingly, MetaBank and MBWC can make, without prior regulatory approval, distributions during a calendar year up to 100% of their retained net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid) as long as they remain well-capitalized, as defined in prompt corrective action regulations, following the proposed distribution. Accordingly, at September 30, 2006, approximately \$2.7 million of MetaBank's retained earnings and none of MBWC's retained earnings were potentially available for distribution to the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company's subsidiary banks make various commitments to extend credit which are not reflected in the accompanying consolidated financial statements.

At September 30, 2006 and 2005, unfunded loan commitments approximated \$52.9 million and \$69.6 million respectively, excluding undisbursed portions of loans in process. Unfunded loan commitments at September 30, 2006 and 2005 were principally for variable rate loans. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are canceled upon expiration of the commitment term as outlined in each individual contract.

The exposure to credit loss in the event of nonperformance by other parties to financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The same credit policies and collateral requirements are used in making commitments and conditional obligations as are used for on-balance-sheet instruments.

Since certain commitments to make loans and to fund lines of credit and loans in process expire without being used, the amount does not necessarily represent future cash commitments. In addition, commitments used to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract.

Securities with fair values of approximately \$26,402,000 and \$63,313,000 at September 30, 2006 and 2005, respectively, were pledged as collateral for public funds on deposit. Securities with fair values of approximately \$8,931,000 and \$13,400,000 at September 30, 2006 and 2005, respectively, were pledged as collateral for individual, trust and estate deposits.

Under employment agreements with certain executive officers, certain events leading to separation from the Company could result in cash payments totaling approximately \$2.8 million as of September 30, 2006.

LEGAL PROCEEDINGS

MetaBank has been named in several lawsuits whose eventual outcome could have an adverse effect on the consolidated financial position or results of operations of the Company. Because the likelihood or amount of an adverse resolution to these matters cannot currently be assessed, the Company has not recorded a contingent liability related to these potential claims.

On June 11, 2004, the Sioux Falls School District filed suit in the Second Judicial Circuit Court alleging that MetaBank, a wholly-owned subsidiary of the Company, improperly allowed funds, which belonged to the school district, to be deposited into, and subsequently withdrawn from, a corporate account established by an employee of the school district. The school district is seeking in excess of \$600,000. MetaBank has submitted the claim to its insurance carrier, and is working with counsel to vigorously contest the suit.

On or about March 10, 2006, plaintiffs filed five class-action suits on behalf of themselves and all other purchasers of vehicles from Prairie Auto Group, Inc., Dan Nelson Automotive Group, Inc.'s Rapid City, South Dakota location, and other not-yet-identified auto sales entities owned or operated by defendants. Each complaint states that it is a "companion" to the other four and names the same defendants (approximately twenty-five) including the Company and affiliates thereof (the "MetaBank Defendants"). None of these complaints has yet been served on any of the MetaBank Defendants. The thrust of the complaints is that plaintiffs allegedly suffered damages as a result of a scheme by defendants to use fraudulent statements, misrepresentations and omissions to sell vehicles and extended warranties to plaintiffs. Plaintiffs claim that they and other similarly situated purchasers paid too much for their vehicles and were induced to buy warranties that were not honored and otherwise proved worthless. Plaintiffs allege that defendants reaped considerable profits through fraudulent sales methods; by refusing to make warrantied repairs; and by engaging in usurious repossession and resale practices. Plaintiffs allege that these practices were part of a business plan that originated with the franchisor-defendants and was purchased and employed by the franchisee-defendants. It appears that the principal basis for naming the MetaBank Defendants is that they loaned money to finance some of the defendants' business operations, purportedly with some degree of knowledge about the defendants' allegedly abusive consumer practices.

In addition to seeking certification as a class, plaintiffs seek cancellation of the automobile purchase contracts; monetary damages including the initial purchase price warranty charges, finance costs and related repossession and other charges; costs of allegedly warrantied repairs that were not made by defendants; consequential damages relating to the alleged wrongful repossession of vehicles and deficiency judgments associated therewith; damages for emotional and mental suffering; punitive and treble damages; and attorneys' fees. The amount of the alleged damages is not specified in the complaints.

During the third fiscal quarter of 2005, the company determined that \$9.8 million of its assets were impaired under generally accepted accounting principles. The Company was the lead lender and servicer of approximately \$32.0 million in loans to three auto-dealership related companies and their owners. Approximately \$22.2 million of the total had been sold to ten participating financial institutions. Each

participation agreement with the ten participant banks provides that the participant bank shall own a specified percentage of the outstanding loan balance at any give time. Each agreement also recites the maximum amount that can be loaned by MetaBank on that particular loan. MetaBank allocated to some participants an ownership in the outstanding loan balance in excess of the percentage specified in the participation agreement. MetaBank believes that in each instance this was done with the full knowledge and consent of the participant. Several participants have demanded that their participations be adjusted to match the percentage specified in the participant agreement. Based on the total loan recoveries projected as of September 30, 2006, MetaBank calculated that it would cost approximately \$953,000 to adjust these participations as the participants would have them adjusted. A few participants have more recently asserted that MetaBank owes them additional monies based on additional legal theories. MetaBank denies any obligation to make the requested adjustments on these or related claims. Other than as described below, MetaBank cannot predict at this time whether any of these claims will be the subject of litigation.

Four lawsuits were filed against the Company's MetaBank subsidiary in 2006. Three of the complaints are related to the Company's alleged actions in connection with its activities as lead lender to three companies involved in auto sales, service, and financing and their owner. The fourth complaint alleges patent infringement. All four actions are in their infancy and materiality cannot be determined at this time. The Company intends, however, to vigorously defend its actions.

On June 28, 2006, First Midwest Bank-Deerfield Branches and Mid-Country Bank filed suit against MetaBank in South Dakota's Second Judicial Circuit Court, Minnehaha County. The complaint alleges that plaintiff banks, who were participating lenders with MetaBank on a series of loans made to Dan Nelson Automotive Group ("DNAG") and South Dakota Acceptance Corporation ("SDAC"), suffered damages exceeding \$1 million as a result of MetaBank's placement and administration of the loans that were the subject of the loan participation agreements. On July 17, 2006, MetaBank removed the case from state court to the United States District Court.

On July 5, 2006, First Premier Bank filed suit against MetaBank in South Dakota's Second Judicial Circuit Court, Minnehaha County. The complaint alleges that First Premier, a participating lender with MetaBank on a series of loans made to SDAC, has suffered damages in an as yet undetermined amount as a result of MetaBank's actions in selling to First Premier a participation in a loan made to SDAC and MetaBank's actions in administering that loan. On July 17, 2006, MetaBank removed the case from state court to the United States District Court.

On June 26, 2006, Home Federal Bank filed suit against MetaBank and two individuals, J. Tyler Haahr and Daniel A. Nelson, in South Dakota's Second Judicial Circuit Court, Minnehaha County. The complaint alleges that Home Federal, a participating lender with MetaBank on a series of loans made to DNAG and SDAC, suffered damages exceeding

Meta Financial Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$3.8 million as a result of failure to make disclosures regarding an investigation of Nelson, DNAG and SDAC by the Iowa Attorney General at the time Home Federal agreed to an extension of the loan participation agreements.

Subject to a reservation of rights, the Company's insurance carrier has agreed to cover the three claims described above.

On July 21, 2006, Meridian Enterprises Corporation ("Meridian") filed suit against Meta Financial Group, Inc. (Meta Payment Systems division) ("Meta") and other banks and financial institutions in U.S. District Court. The complaint alleges that Meta infringed on a patent owned by Meridian. Meta is vigorously contesting the suit.

There are no other material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

NOTE 17. LEASE COMMITMENTS

The Company has leased property under various noncancelable operating lease agreements which expire at various times through 2024, and require annual rentals ranging from \$3,000 to \$118,000 plus the payment of the property taxes, normal maintenance, and insurance on the property.

The following table shows the total minimum rental commitment at September 30, 2006, under the leases.

2007	\$ 301,576
2008	304,559
2009	299,531
2010	268,219
2011	217,750
Thereafter	796,803
	<hr/>
	\$ 2,188,438

NOTE 18. 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. The Company has determined that it has two reportable segments: The traditional banking segment consisting of its two banking subsidiaries, MetaBank and MetaBank West Central, and Meta Payment Systems, a division of MetaBank. MetaBank and MetaBank West Central operate as traditional community banks providing deposit, loan, and other related products to individuals and small businesses, primarily in the communities where their offices are located. Meta Payment Systems provides a number of products and services, primarily to third parties, including financial institutions and other businesses. These products and services include issuance of prepaid debit cards, sponsorship of ATMs into the debit networks, ACH origination services, and a gift card program. Other related programs are in the process of development. The remaining grouping under the caption "All Others" consists of the operations of the Meta Financial Group, Inc. and Meta Trust Company.

Transactions between affiliates, the resulting revenues of which are shown in the inter-segment revenue category, are conducted at market prices, meaning prices that would be paid if the companies were not affiliates.

	TRADITIONAL BANKING	PAYMENT SYSTEMS	ALL OTHERS	TOTAL
<hr/>				
YEAR ENDED SEPTEMBER 30, 2006				
Net interest income (loss)	\$ 16,345,621	\$ 4,036,927	\$ (746,508)	\$ 19,636,040
Provision for loan losses	(454,500)	—	—	(454,500)
Non-interest income	2,559,977	10,743,642	102,238	13,405,857
Non-interest expense	17,354,579	8,109,772	2,161,274	27,625,625
	<hr/>			
Net income (loss) before tax	2,005,519	6,670,797	(2,805,544)	5,870,772
Income tax expense (benefit)	651,528	2,168,151	(869,869)	1,949,810
	<hr/>			
Net income (loss)	\$ 1,353,991	\$ 4,502,646	\$ (1,935,675)	\$ 3,920,962

Inter-segment revenue (expense)	\$ (3,162,873)	\$ 3,162,873	\$ —	\$ —
Total assets	571,609,070	166,556,254	2,966,709	741,132,033
Total deposits	402,596,772	163,113,803	—	565,710,575

YEAR ENDED SEPTEMBER 30, 2005

Net interest income (loss)	\$ 19,283,531	\$ 410,538	\$ (454,554)	\$ 19,239,515
Provision for loan losses	5,482,000	—	—	5,482,000
Non-interest income	2,514,617	1,591,031	(375,041)	3,730,607
Non-interest expense	15,071,276	3,247,205	778,577	19,097,058

Net income (loss) before tax	1,244,872	(1,245,636)	(1,608,172)	(1,608,936)
Income tax expense (benefit)	286,694	(438,000)	(533,379)	(684,685)

Net income (loss)	\$ 958,178	\$ (807,636)	\$ (1,074,793)	\$ (924,251)
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Inter-segment revenue (expense)	\$ (365,442)	\$ 365,442	\$ —	\$ —
Total assets	703,917,118	70,905,966	1,016,178	775,839,262
Total deposits	468,504,300	72,537,278	—	541,041,578

YEAR ENDED SEPTEMBER 30, 2004

Net interest income (loss)	\$ 18,085,514	\$ 7	\$ (316,450)	\$ 17,769,071
Provision for loan losses	488,500	—	—	488,500
Non-interest income	3,491,125	3,611	101,033	3,595,769
Non-interest expense	13,085,259	770,609	974,724	14,830,592

Net income (loss) before tax	8,002,880	(766,991)	(1,190,141)	6,045,748
Income tax expense (benefit)	2,740,346	(277,000)	(404,648)	2,058,698

Net income (loss)	\$ 5,262,534	\$ (489,991)	\$ (785,493)	\$ 3,987,050
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Inter-segment revenue (expense)	\$ (3,200)	\$ 3,200	\$ —	\$ —
Total assets	720,453,922	145,353	60,199,249	780,798,524
Total deposits	461,542,864	38,013	—	461,580,877

Meta Financial Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. PARENT COMPANY FINANCIAL STATEMENTS

Presented below are condensed financial statements for the parent company, Meta Financial Group, Inc.

CONDENSED BALANCE SHEETS

SEPTEMBER 30, 2006 AND 2005

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 1,849,225	\$ 51,676
Securities available for sale	1,678,624	2,177,472
Investment in subsidiaries	51,751,058	50,598,010
Loan receivable from ESOP	509,201	825,057
Other assets	140,638	715,002
Total assets	\$ 55,928,746	\$ 54,367,217
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Loan payable to subsidiaries	\$ 710,000	\$ 1,200,000
Subordinated debentures	9,831,256	9,800,320
Other liabilities	55,822	408,207
Total liabilities	\$ 10,597,078	\$ 11,408,527
SHAREHOLDERS' EQUITY		
Common Stock	29,580	29,580
Additional paid-in capital	20,968,492	20,646,513
Retained earnings	37,186,249	34,557,258
Accumulated other comprehensive (loss)	(4,547,719)	(3,180,607)
Unearned Employee Stock Ownership Plan shares	(509,201)	(825,057)
Treasury stock, at cost	(7,795,733)	(8,268,997)
Total shareholders' equity	\$ 45,331,668	\$ 42,958,690
Total liabilities and shareholders' equity	\$ 55,928,746	\$ 54,367,217

CONDENSED STATEMENTS OF OPERATIONS

YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004

	2006	2005	2004
Dividend income from subsidiaries	\$ 3,700,000	\$ 2,510,000	\$ 2,300,000
Other income	190,779	303,755	317,635
Total income	3,890,779	2,813,755	2,617,635
Interest expense	936,149	761,799	634,083
Other expense	1,956,224	1,060,084	752,257

Total expense	2,892,373	1,821,883	1,386,340
Income before income taxes and equity in undistributed net income of subsidiaries	998,406	991,872	1,231,295
Income tax (benefit)	(834,531)	(503,000)	(354,000)
Income before equity in undistributed net income (loss) of subsidiaries	1,832,937	1,494,872	1,585,295
Equity in undistributed net income (loss) of subsidiaries	2,088,025	(2,419,123)	2,401,755
Net income (loss)	\$ 3,920,962	\$ (924,251)	\$ 3,987,050

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2006, 2005 AND 2004

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 3,920,962	\$ (924,251)	\$ 3,987,050
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Equity in undistributed net (income) loss of subsidiaries	(2,088,025)	2,419,123	(2,401,755)
Change in other assets	574,364	(367,893)	365,401
Change in other liabilities	244,205	180,671	(70,949)
Net cash provided by operating activities	2,651,506	1,307,650	1,879,747
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary	(75,000)	(275,000)	—
Maturity of securities	500,000	500,000	—
Loan to ESOP	—	(684,133)	(212,400)
Net change in loan receivable	—	1,261,188	46,071
Repayments on loan receivable from ESOP	315,856	253,842	219,310
Net cash provided by investment activities	740,856	1,055,897	52,981
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in loan payable to subsidiaries	(490,000)	(1,350,000)	(350,000)
Cash dividends paid	(1,291,971)	(1,276,749)	(1,286,533)
Proceeds from exercise of stock options	187,158	230,414	582,557
Purchase of treasury stock	—	(25,655)	(906,650)
Net cash (used in) financing activities	(1,594,813)	(2,421,990)	(1,960,626)
Net change in cash and cash equivalents	\$ 1,797,549	\$ (58,443)	\$ (27,898)
CASH AND CASH EQUIVALENTS			
Beginning of year	\$ 51,676	\$ 110,119	\$ 138,017
End of year	1,849,225	51,676	110,119

The extent to which the Company may pay cash dividends to shareholders will depend on the cash currently available at the Company, as well as the ability of the subsidiary banks to pay dividends to the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	QUARTER ENDED			
	December 31	March 31	June 30	September 30
FISCAL YEAR 2006				
Interest income	\$ 10,176,873	\$ 10,194,707	\$ 10,314,706	\$ 9,891,689
Interest expense	5,456,620	5,205,522	5,190,253	5,089,540
Net interest income	4,720,253	4,989,185	5,124,453	4,802,149
Provision for loan losses	40,500	(350,000)	—	(145,000)
Net income (loss)	515,420	261,381	2,482,863	661,298
Earnings (loss) per common and common equivalent share:				
Basic	\$ 0.21	\$ 0.10	\$ 1.00	\$ 0.27
Diluted	0.21	0.10	0.98	0.26
Dividend declared per share	0.13	0.13	0.13	0.13
FISCAL YEAR 2005				
Interest income	\$ 9,784,691	\$ 10,372,608	\$ 10,812,675	\$ 10,123,334
Interest expense	5,097,674	5,383,453	5,697,041	5,675,625
Net interest income	4,687,017	4,989,155	5,115,634	4,447,709
Provision for loan losses	177,000	257,500	4,956,000	91,500
Net income (loss)	441,942	399,374	(2,311,994)	546,427
Earnings (loss) per common and common equivalent share:				
Basic	\$ 0.18	\$ 0.16	\$ (0.94)	\$ 0.22
Diluted	0.18	0.16	(0.94)	0.22
Dividend declared per share	0.13	0.13	0.13	0.13
FISCAL YEAR 2004				
Interest income	\$ 9,053,707	\$ 8,890,641	\$ 9,043,212	\$ 9,192,696
Interest expense	4,585,909	4,475,826	4,523,366	4,826,084
Net interest income	4,467,798	4,414,815	4,519,846	4,366,612
Provision for loan losses	101,000	56,000	167,500	164,000
Net income (loss)	976,942	1,675,397	836,609	498,102
Earnings (loss) per common and common equivalent share:				
Basic	\$ 0.39	\$ 0.67	\$ 0.34	\$ 0.20
Diluted	0.39	0.67	0.34	0.20
Dividend declared per share	0.13	0.13	0.13	0.13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table discloses the Company's estimated fair value amounts of its financial instruments. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 2006 and 2005, as more fully described below. The operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the subsidiary banks' capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at September 30, 2006 and 2005. The information presented is subject to change over time based on a variety of factors.

Dollars in thousands

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	\$ 109,353	\$ 109,353	\$ 14,370	\$ 14,370
Securities purchased under agreements to resell	5,891	5,891	37,513	37,513
Securities available for sale	186,176	186,176	230,893	230,893
Loans receivable, net	388,762	386,078	440,190	434,521
Loans held for sale	508	514	306	306
FHLB and FRB stock	5,768	5,768	8,287	8,287
Accrued interest receivable	4,379	4,379	4,241	4,241
Financial liabilities				
Noninterest bearing demand deposits	189,506	189,506	102,435	102,435
Interest bearing demand deposits, savings, and money markets	159,988	159,988	170,484	170,484
Certificates of deposit	216,217	214,786	268,122	265,828
Total deposits	565,711	564,280	541,041	538,747
Advances from FHLB	99,565	101,189	159,705	160,675
Securities sold under agreements to repurchase	15,179	15,064	20,507	20,340
Subordinated debentures	9,831	10,035	9,800	10,336
Accrued interest payable	972	972	942	942
Off-balance-sheet instruments, loan commitments	—	—	—	—

Meta Financial Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 2006 and 2005.

CASH AND CASH EQUIVALENTS

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

SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

The carrying amount of securities purchased under agreement to resell is assumed to approximate the fair value.

SECURITIES AVAILABLE FOR SALE

To the extent available, quoted market prices or dealer quotes were used to determine the fair value of securities available for sale. For those securities which are thinly traded, or for which market data was not available, management estimated prices using other available data. The amount of securities for which prices were not available is not material to the portfolio as a whole.

LOANS RECEIVABLE, NET

The fair value of loans was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities. When using the discounting method to determine fair value, loans were gathered by homogeneous groups with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers as of September 30, 2006 and 2005. In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value for consideration of credit quality.

LOANS HELD FOR SALE

Fair values are based on quoted market prices of similar loans sold on the secondary market.

FHLB AND FEDERAL RESERVE STOCK

The fair value of such stock approximates book value since the Company is able to redeem this stock at par value.

ACCRUED INTEREST RECEIVABLE

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

DEPOSITS

The carrying values of non-interest bearing checking deposits, interest bearing checking deposits, savings, and money markets is assumed to approximate fair value, since such deposits are immediately withdrawable without penalty. The fair value of time certificates of deposit was estimated by discounting expected future cash flows by the current rates offered as of September 30, 2006 and 2005 on certificates of deposit with similar remaining maturities.

In accordance with SFAS No. 107, no value has been assigned to the Company's long-term relationships with its deposit customers (core value of deposits intangible) since such intangible is not a financial instrument as defined under SFAS No. 107.

ADVANCES FROM FHLB

The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates as of September 30, 2006 and 2005 for advances with similar terms and remaining maturities.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND SUBORDINATED DEBENTURES

The fair value of these instruments was estimated by discounting the expected future cash flows using derived interest rates approximating market as of September 30, 2006 and 2005 over the contractual maturity of such borrowings.

ACCRUED INTEREST PAYABLE

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

LOAN COMMITMENTS

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

LIMITATIONS

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

BOARD OF DIRECTORS

James S. Haahr

Chairman of the Board for Meta Financial Group, MetaBank, and MetaBank West Central

E. Wayne Cooley

Consultant Emeritus of the Iowa Girls' High School Athletic Union

E. Thurman Gaskill

Iowa State Senator and Grain and Livestock Farming Operation Owner

J. Tyler Haahr

President and Chief Executive Officer for Meta Financial Group and MetaBank, Chief Executive Officer for MetaBank West Central, and President of Meta Trust

SENIOR OFFICERS

James S. Haahr

Chairman of the Board for Meta Financial Group, MetaBank, and MetaBank West Central

J. Tyler Haahr

President and Chief Executive Officer for Meta Financial Group and MetaBank, Chief Executive Officer for MetaBank West Central, and President of Meta Trust

Troy Moore

Executive Vice President and Chief Operating Officer for Meta Financial Group and MetaBank

Brad C. Hanson

Executive Vice President for Meta Financial Group and MetaBank and President of Meta Payment Systems Division

Jonathan M. Gaiser, CFA

Senior Vice President, Secretary, Treasurer and Chief Financial Officer for Meta Financial Group and MetaBank, and Secretary for MetaBank West Central

Ellen E. Moore

Vice President of Marketing and Sales for Meta Financial Group and Senior Vice President of Marketing and Sales for MetaBank and MetaBank West Central

Brian R. Bond

Senior Vice President and Chief Lending Officer

Brad C. Hanson

Executive Vice President for Meta Financial Group and MetaBank and President of Meta Payment Systems Division

Frederick V. Moore

President of Buena Vista University

Rodney G. Muilenburg

Retired Dairy Specialist Manager for Purina Mills, Inc.; Consultant for TransOva Genetics Dairy Division; and Director of Sales and Marketing for TransOva Genetics

Jeanne Partlow

Retired Chairman of the Board and President of Iowa Savings Bank

Ron Butterfield

Senior Vice President of Meta Payment Systems Division

Raymond J. Frohnafel

Senior Vice President and Chief Information Officer

Sandra K. Hegland

Senior Vice President of Human Resources

Ben Guenther

President of MetaBank Northwest Iowa Market

Tim D. Harvey

President of MetaBank Brookings Market

I. Eugene Richardson, Jr.

President of MetaBank Central Iowa Market and MetaBank West Central and Member of the MetaBank West Central Board of Directors

Kathy M. Thorson

President of MetaBank Sioux Empire Market

Lisa J. Binder

Vice President of Marketing and Sales

John Hagy

Vice President, Chief Risk Officer and General Counsel

Barb Koopman

Vice President of Operations

INVESTOR INFORMATION

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will convene at 1:00 pm on Monday, January 22, 2007. The meeting will be held in the Board Room of MetaBank, 121 East Fifth Street, Storm Lake, Iowa. Further information with regard to this meeting can be found in the proxy statement.

General Counsel

Mack, Hansen, Gadd, Armstrong & Brown, P.C.
316 East Sixth Street
P.O. Box 278
Storm Lake, Iowa 50588

Special Counsel

Katten Muchin Rosenman LLP
1025 Thomas Jefferson Street NW
East Lobby, Suite 700
Washington, D.C. 20007-5201

Independent Auditors

McGladrey & Pullen LLP
400 Locust Street, Suite 640
Des Moines, Iowa 50309-2372

Shareholder Services and Investor Relations

Shareholders desiring to change the name, address, or ownership of stock; to report lost certificates; or to consolidate accounts, should contact the corporation's transfer agent:

Registrar & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
Telephone: 800.368.5948
Email: invrelations@rtco.com
Web site: www.rtco.com

Form 10-K

Copies of the Company's Annual Report on Form 10-K for the year ended September 30, 2006 (excluding exhibits thereto) may be obtained without charge by contacting:

Investor Relations
Meta Financial Group
MetaBank Building
121 East Fifth Street
P.O. Box 1307
Storm Lake, Iowa 50588
Telephone: 712.732.4117
Email: invrelations@metacash.com
Web site: www.metacash.com

DIVIDEND AND STOCK MARKET INFORMATION

Meta Financial Group's common stock trades on the NASDAQ Global Market SM under the symbol "CASH." The *Wall Street Journal* publishes daily trading information for the stock under the abbreviation, "MetaFnl," in the National Market Listing. Quarterly dividends for 2005 and 2006 were \$0.13. The price range of the common stock, as reported on the Nasdaq System, was as follows:

FISCAL YEAR 2006		FISCAL YEAR 2005	
LOW	HIGH	LOW	HIGH

FIRST QUARTER	\$ 18.55	\$ 23.00	\$ 22.50	\$ 26.00
SECOND QUARTER	19.04	28.10	22.25	24.49
THIRD QUARTER	21.01	23.18	18.15	24.09
FOURTH QUARTER	22.32	25.73	16.51	19.89

Prices disclose inter-dealer quotations without retail mark-up, mark-down or commissions, and do not necessarily represent actual transactions.

Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations, and regulatory restrictions. Restrictions on dividend payments are described in Note 15 of the Notes to Consolidated Financial Statements included in this Annual Report.

As of September 30, 2006, Meta Financial Group had 2,526,034 shares of common stock outstanding, which were held by 237 shareholders of record, and 386,425 shares subject to outstanding options. The shareholders of record number does not reflect approximately 500 persons or entities who hold their stock in nominee or “street” name.

The following securities firms indicated they were acting as market makers for Meta Financial Group stock as of September 30, 2006: Archipelago Stock Exchange; Automated Trading Desk; B-Trade Services LLC; Boston Stock Exchange; Citadel Derivatives Group LLC; Citigroup Global Markets Inc.; E*Trade Capital Markets LLC; Friedman, Billings, Ramsey & Co., Inc.; FTN Financial Securities Corp; FTN Midwest Research Securities Corp.; Hill, Thompson, Magid and Co.; Howe Barnes Investments; Knight Equity Markets, L.P.; Nasdaq Execution Services LLC; National Stock Exchange; Sandler O’Neill & Partners; and UBS Securities LLC.



**METABANK
NORTHWEST IOWA MARKET**

STORM LAKE MAIN OFFICE

121 East Fifth Street
P.O. Box 1307
Storm Lake, Iowa 50588
712.732.4117
800.792.6815
712.732.8122 fax

Storm Lake Plaza
1413 North Lake Avenue
P.O. Box 1307
Storm Lake, Iowa 50588
712.732.6655
712.732.7924 fax

Lake View
419 Main Street
P.O. Box 649
Lake View, Iowa 51450
712.657.2721
712.657.2896 fax

Laurens
104 North Third Street
Laurens, Iowa 50554
712.841.2588
712.841.2029 fax

Odebolt
219 South Main Street
P.O. Box 465
Odebolt, Iowa 51458
712.668.4881
712.668.4882 fax

Sac City
518 Audubon Street
P.O. Box 6
Sac City, Iowa 50583
712.662.7195
712.662.7196 fax

**METABANK
BROOKINGS MARKET**

BROOKINGS MAIN OFFICE

600 Main Avenue
P.O. Box 98
Brookings, South Dakota 57006
605.692.2314
800.842.7452
605.692.7059 fax

**METABANK
CENTRAL IOWA MARKET**

CENTRAL IOWA MAIN OFFICE

4848 86th Street
Urbandale, Iowa 50322
515.309.9800
515.309.9801 fax

Highland Park

3624 Sixth Avenue
Des Moines, Iowa 50313
515.288.4866
515.288.3104 fax

Ingersoll
3401 Ingersoll Avenue
Des Moines, Iowa 50312
515.274.9674
515.274.9675 fax

Jordan Creek
270 South 68th Street
West Des Moines, Iowa 50266
515.223.0440
515.223.0439 fax

West Des Moines
3448 Westown Parkway
West Des Moines, Iowa 50266
515.226.8474
515.226.8475 fax

METABANK
SIOUX EMPIRE MARKET

SIOUX FALLS MAIN OFFICE
4900 South Western Avenue
P.O. Box 520
Sioux Falls, South Dakota 57101
605.338.0059
605.338.0155 fax

North Minnesota
1600 North Minnesota Avenue
P.O. Box 520
Sioux Falls, South Dakota 57101
605.338.3470
605.338.3471 fax

South Minnesota
2500 South Minnesota Avenue
P.O. Box 520
Sioux Falls, South Dakota 57101
605.977.7500
605.977.7501 fax

West 12th Street
2104 West 12th Street
P.O. Box 520
Sioux Falls, South Dakota 57101
605.336.8900
605.336.8901 fax

MPS and Administrative Office
101 West 69th Street, Suite 104
P.O. Box 520
Sioux Falls, South Dakota 57101
605.338.0774
605.338.0596 fax

METABANK
WEST CENTRAL

WEST CENTRAL MAIN OFFICE
615 South Division
P.O. Box 606
Stuart, Iowa 50250
515.523.2203
800.523.8003

515.523.2460 fax

Casey
101 East Logan
P.O. Box 97
Casey, Iowa 50048
641.746.3366
800.746.3367
641.746.2828 fax

Menlo
501 Sherman
P.O. Box 36
Menlo, Iowa 50164
641.524.4521



META PAYMENT SYSTEMS
4900 South Western Avenue
P.O. Box 520
Sioux Falls, South Dakota 57101
605.275.9555
800.550.6382
605.782.1701 fax
metapay.com



META TRUST
4900 South Western Avenue
Sioux Falls, South Dakota 57101
605.782.1780
605.338.0155 fax



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MetaBank Building
121 East Fifth Street
P.O. Box 1307
Storm Lake, Iowa 50588
metacash.com

EXHIBIT 21**SUBSIDIARIES OF THE REGISTRANT**

Parent	Subsidiary	Percentage of Ownership	State of Incorporation or Organization
Meta Financial Group, Inc.	MetaBank	100%	Federal
Meta Financial Group, Inc.	MetaBank WC	100%	Iowa
Meta Financial Group, Inc.	First Midwest Financial Capital Trust I	100%	Delaware
Meta Financial Group, Inc.	Meta Trust Company	100%	South Dakota
MetaBank	First Services Financial Limited	100%	Iowa
First Services Financial Limited	Brookings Service Corporation	100%	South Dakota

The financial statements of Meta Financial Group, Inc. are consolidated with those of its subsidiaries, except First Midwest Financial Capital Trust I.

EXHIBIT 23

CONSENT OF MCGLADREY & PULLEN, LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Meta Financial Group, Inc.
Storm Lake, Iowa

We consent to the incorporation by reference in the Meta Financial Group, Inc. Registration Statements on Form S-8 of Meta Financial Group, Inc., pertaining to the Meta Financial Group, Inc. 1995 Stock Option and Incentive Plan and the Meta Financial Group, Inc. 2002 Omnibus Incentive Plan, of our report dated November 22, 2006, relating to our audit of the consolidated financial statements, which appears in the annual report on Form 10-K of Meta Financial Group, Inc. and subsidiaries for the year ended September 30, 2006.

/s/ McGladrey & Pullen, LLP
McGladrey & Pullen, LLP

Des Moines, Iowa
December 20 , 2006

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, J. Tyler Haahr, certify that:

1. I have reviewed this annual report on Form 10-K of Meta Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers 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)) 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) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant issuer's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that as materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers 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 function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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: December 20 , 2006

/s/ J. Tyler Haahr
Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jonathan M. Gaiser, certify that:

1. I have reviewed this annual report on Form 10-K of Meta Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers 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)) 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) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) 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 as materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers 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 function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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: December 20 , 2006

/s/ Jonathan M. Gaiser _____
Chief Financial Officer

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

In connection with the Annual Report of Meta Financial Group, Inc. (the “Company”) on Form 10-K for the year ended September 30, 2006, as filed with the Securities and Exchange Commission on the date of this Certification (the “Report”), I, J. Tyler Haahr, the Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted 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/ J. Tyler Haahr
Name: J. Tyler Haahr
Chief Executive Officer
December 20 , 2006

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

In connection with the Annual Report of Meta Financial Group, Inc. (the “Company”) on Form 10-K for the year ended September 30, 2006, as filed with the Securities and Exchange Commission on the date of this Certification (the “Report”), I, Jonathan M. Gaiser, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted 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/ Jonathan M. Gaiser
Name: Jonathan M. Gaiser
Chief Financial Officer
December 20 , 2006