

---

---

**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, 2008

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)

**42-1406262**  
(I.R.S. Employer  
Identification No.)

**121 East Fifth Street, Storm Lake, Iowa**  
(Address of principal executive offices)

**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, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☒

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 December 9, 2008, there were outstanding 2,601,103 shares of the Registrant's Common Stock.

As of March 31, 2008, 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 \$34.6 million.

**DOCUMENTS INCORPORATED BY REFERENCE**

PART III of Form 10-K — Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held January 26, 2009.

---

---

---

[This page left intentionally blank.]

---

**META FINANCIAL GROUP, INC.**  
**FORM 10-K**

**Table of Contents**

|   | <u>Page No.</u> |
|---|-----------------|
| <b>Part I.</b>  |                 |
| Item 1. Description of Business   | 3               |
| Item 1A. Risk Factors   | 45              |
| Item 1B. Unresolved Staff Comments  | 55              |
| Item 2. Properties  | 56              |
| Item 3. Legal Proceedings   | 56              |
| Item 4. Submission of Matters to a Vote of Security Holders   | 58              |
| <b>Part II.</b>   |                 |
| Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Securities | 58              |
| Item 6. Selected Financial Data   | 59              |
| Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations                 | 60              |
| Item 7A. Quantitative and Qualitative Disclosure About Market Risk  | 78              |
| Item 8. Consolidated Financial Statements and Supplementary Data  | 79              |
| Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure                  | 119             |
| Item 9A(T). Controls and Procedures   | 119             |
| Item 9B. Other Information  | 120             |
| <b>Part III.</b>  |                 |
| Item 10. Directors, Executive Officers and Corporate Governance   | 120             |
| Item 11. Executive Compensation   | 121             |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters       | 121             |
| Item 13. Certain Relationships and Related Transactions, and Director Independence                            | 122             |
| Item 14. Principal Accountant Fees and Services   | 122             |
| <b>Part IV.</b>   |                 |
| Item 15. Exhibits and Financial Statement Schedules   | 123             |
| Signatures  | 124             |

[This page left intentionally blank.]

---

## **Forward-Looking Statements**

Meta Financial Group, Inc. <sup>®</sup>, (“Meta Financial” or “the Company”) and its wholly-owned subsidiaries, MetaBank <sup>™</sup> (the “Bank”), and Meta Trust Company <sup>®</sup> (“Meta Trust” or the “Trust Company”), may from time to time make written or oral “forward-looking statements,” including statements contained in its filings with the Securities and Exchange Commission (“SEC”), in its reports to 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, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company’s balance sheet and income statements; growth and expansion; new products and services, such as those offered by MetaBank or Meta Payment Systems <sup>®</sup> (“MPS”), a division of 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 risks of dealing with or utilizing third-party vendors; the impact of changes in financial services’ laws and regulations; technological changes, including but not limited to the protection of electronic files or databases; acquisitions; litigation risk in general, including but not limited to those risks involving the MPS division; the growth of the Company’s business as well as expenses related thereto; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default.

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

## **Available Information**

The Company’s website address is [www.metacash.com](http://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.

[This page left intentionally blank.]

## PART I

### Item 1. Description of Business

#### General

Meta Financial, a registered unitary savings and loan holding company, is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of MetaBank, a federal savings bank. 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 West Central (“MetaBank WC”) until its sale of MetaBank WC in March 2008, at which time Meta Financial became a unitary savings and loan holding company again, all as discussed below. Unless the context otherwise requires, references herein to the Company include Meta Financial and MetaBank, and all subsidiaries on a consolidated basis.

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 commercial bank subsidiary of Meta Financial. On March 28, 2008, the Company sold MetaBank WC and reclassified financial information as discontinued bank operations in the consolidated financial statements and the notes thereto in the Annual Report for fiscal 2007. As such, information in this Annual Report on Form 10-K has been adjusted to eliminate the effect of discontinued bank operations unless otherwise indicated.

MetaBank, the only direct, active full service banking subsidiary of Meta Financial, is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves and a payments company that provides services nationwide. The Company provides a full range of financial services. The principal business of MetaBank has historically 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 operations and real estate, construction, and consumer and commercial business loans primarily in MetaBank’s market areas. 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 MPS, which issues various prepaid cards, consumer credit products, and sponsors ATMs into various debit networks and offers other payment industry products and services. MPS generates fee income and low- and no-cost deposits for MetaBank through its activities. As noted in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is included in Item 7 of this Annual Report on Form 10-K, MPS is expanding and playing a significant role in the Company’s financial performance.

MetaBank also purchases mortgage-backed securities and other investments permissible under applicable regulations. Meta Financial also owns Meta Trust, a South Dakota trust corporation. At September 30, 2008, the Company had total assets of \$757.3 million, deposits of \$546.0 million, and shareholders’ equity of \$46.8 million.



The Company's revenues are derived primarily from interest on commercial and residential mortgage loans, mortgage-backed securities, fees generated through the activities of MPS, other investments, consumer loans, agricultural operating loans, commercial business loans, income from service charges, loan origination fees, and loan servicing fee income.

Meta Trust, 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, MetaBank and Meta Trust are subject to comprehensive regulation and supervision. 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 Areas**

MetaBank has four market areas and the MPS 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 two offices in Storm Lake, Iowa. Brookings operates one office in Brookings, South Dakota. CI operates a total of six offices in Iowa: Des Moines (3), West Des Moines (2) and Urbandale. SE operates four offices and one administrative office in Sioux Falls, SD. MPS, which offers prepaid cards and other payment industry products and services nationwide, operates out of Sioux Falls, South Dakota and has an administrative office in Omaha, Nebraska. See "Meta Payment Systems<sup>®</sup> Division."

The Company also has a non-retail service branch in Memphis, Tennessee.

The Company's primary commercial banking market area includes the Iowa counties of Buena Vista, Dallas and Polk, and the South Dakota counties of Brookings, Lincoln and Minnehaha.

Iowa ranks sixth "most livable" state in the nation (Morgan Quinto State Rankings, 2007), and has low corporate income and franchise taxes.

South Dakota ranks first in students per computer (Education Weekly, Technology Counts 2006), ninth "most livable" state in the nation (Morgan Quinto State Rankings, 2007) 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. The Northwest Iowa market operates two offices in Storm Lake.

Brookings is located in 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 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 the heart of downtown Des Moines. The Urbandale office is in a high growth area just off I-80 at the intersection of two major streets. 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 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, Iowa Health – Des Moines, Mercy Hospital Medical Center, Hy-Vee Food Stores, Inc., City of Des Moines, United Parcel Service, Nationwide Mutual Insurance Co., Pioneer Hi Bred International Inc., and Wells Fargo Financial and Home Mortgage. 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 3.47% as of September 2008.

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. The main branch is located at the high growth area of 57<sup>th</sup> and Western. Other branches are located at 33<sup>rd</sup> and Minnesota, the intersection of 12<sup>th</sup> and Elmwood, and on North Minnesota Avenue just north of Russell Road. Major employers in the area include Sanford Health, Avera McKennan Hospital, John Morrell & Company, Citibank (South Dakota) NA, and Hy-Vee Food Stores. Sioux Falls is home to Augustana College and The University of Sioux Falls. The unemployment rate in Sioux Falls was 2.5% as of September 2008 (ties for the national lead with Bismarck, ND, Casper, WY, and Logan, UT).

Several of the Company's market areas are dependent 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. Agricultural commodity prices will serve to offset slightly 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, higher input costs 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 of Financial Condition and Results of Operations," which is included in Item 7 of this Annual Report on 10-K for further information on Asset/Liability Management.

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 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, 2008, the Company's net loan portfolio totaled \$427.9 million, or 56.5% 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 entire loan committee, a majority of the entire loan committee, or by the Company'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, 2008, the Company's largest lending relationship to a single borrower or group of related borrowers totaled \$8.1 million. The Company had 24 other lending relationships in excess of \$3.5 million as of September 30, 2008. At September 30, 2008, two of these loans were classified as substandard totaling \$12.7 million.

**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. Balances related to discontinued bank operations have been eliminated for all periods presented.

|                             | At September 30, |               |                  |               |                  |               |                  |               |                  |               |
|-----------------------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
|                             | 2008             |               | 2007             |               | 2006             |               | 2005             |               | 2004             |               |
|                             | Amount           | Percent       | Amount           | Percent       | Amount           | Percent       | Amount           | Percent       | Amount           | Percent       |
| (Dollars in Thousands)      |                  |               |                  |               |                  |               |                  |               |                  |               |
| <b>Real Estate Loans:</b>   |                  |               |                  |               |                  |               |                  |               |                  |               |
| 1-4 Family                  | \$ 56,362        | 13.0%         | \$ 45,407        | 12.6%         | \$ 58,165        | 15.4%         | \$ 68,138        | 15.8%         | \$ 72,186        | 18.3%         |
| Commercial & Multi Family   | 222,651          | 51.2%         | 169,877          | 47.1%         | 159,107          | 42.2%         | 201,431          | 46.6%         | 189,141          | 48.0%         |
| Agricultural                | 30,046           | 6.9%          | 16,582           | 4.6%          | 14,098           | 3.7%          | 12,773           | 3.0%          | 10,308           | 2.6%          |
| Total Real Estate Loans     | <u>309,059</u>   | <u>71.1%</u>  | <u>231,866</u>   | <u>64.3%</u>  | <u>231,370</u>   | <u>61.3%</u>  | <u>282,342</u>   | <u>65.3%</u>  | <u>271,635</u>   | <u>68.9%</u>  |
| <b>Other Loans:</b>         |                  |               |                  |               |                  |               |                  |               |                  |               |
| Consumer Loans:             |                  |               |                  |               |                  |               |                  |               |                  |               |
| Home Equity                 | 21,353           | 4.9%          | 23,832           | 6.6%          | 24,559           | 6.5%          | 24,140           | 5.6%          | 21,522           | 5.5%          |
| Automobile                  | 922              | 0.2%          | 1,241            | 0.3%          | 1,708            | 0.5%          | 2,135            | 0.5%          | 2,513            | 0.6%          |
| Other (1)                   | 27,054           | 6.2%          | 11,690           | 3.2%          | 3,800            | 1.0%          | 4,203            | 1.0%          | 5,232            | 1.3%          |
| Total Consumer Loans        | <u>49,329</u>    | <u>11.4%</u>  | <u>36,763</u>    | <u>10.2%</u>  | <u>30,067</u>    | <u>8.0%</u>   | <u>30,478</u>    | <u>7.0%</u>   | <u>29,267</u>    | <u>7.4%</u>   |
| Agricultural Operating      | 31,153           | 7.2%          | 33,143           | 9.2%          | 28,661           | 7.6%          | 23,084           | 5.3%          | 18,993           | 4.8%          |
| Commercial Business         | <u>44,972</u>    | <u>10.3%</u>  | <u>58,705</u>    | <u>16.3%</u>  | <u>87,202</u>    | <u>23.1%</u>  | <u>96,467</u>    | <u>22.3%</u>  | <u>74,267</u>    | <u>18.8%</u>  |
| Total Other Loans           | <u>125,454</u>   | <u>28.9%</u>  | <u>128,611</u>   | <u>35.7%</u>  | <u>145,930</u>   | <u>38.7%</u>  | <u>150,029</u>   | <u>34.7%</u>  | <u>122,527</u>   | <u>31.1%</u>  |
| Total Loans                 | <u>434,513</u>   | <u>100.0%</u> | <u>360,477</u>   | <u>100.0%</u> | <u>377,300</u>   | <u>100.0%</u> | <u>432,371</u>   | <u>100.0%</u> | <u>394,162</u>   | <u>100.0%</u> |
| <b>Less:</b>                |                  |               |                  |               |                  |               |                  |               |                  |               |
| Loans in Process            | 693              |               | 254              |               | 1,773            |               | 9,733            |               | 7,342            |               |
| Deferred Fees and Discounts | 160              |               | 117              |               | 177              |               | 277              |               | 270              |               |
| Allowance for Losses        | <u>5,732</u>     |               | <u>4,493</u>     |               | <u>6,391</u>     |               | <u>6,793</u>     |               | <u>5,144</u>     |               |
| Total Loans Receivable, Net | <u>\$427,928</u> |               | <u>\$355,612</u> |               | <u>\$368,959</u> |               | <u>\$415,568</u> |               | <u>\$381,406</u> |               |

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

## Table of Contents

The following table shows the composition of the Company's loan portfolio by fixed and adjustable rate at the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

|                                    | September 30, |         |           |         |           |         |           |         |           |         |
|------------------------------------|---------------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|
|                                    | 2008          |         | 2007      |         | 2006      |         | 2005      |         | 2004      |         |
|                                    | Amount        | Percent | Amount    | Percent | Amount    | Percent | Amount    | Percent | Amount    | Percent |
| (Dollars in Thousands)             |               |         |           |         |           |         |           |         |           |         |
| <b>Fixed Rate Loans:</b>           |               |         |           |         |           |         |           |         |           |         |
| Real Estate:                       |               |         |           |         |           |         |           |         |           |         |
| 1-4 Family                         | \$ 42,952     | 9.9%    | \$ 34,157 | 9.5%    | \$ 45,593 | 11.8%   | \$ 38,921 | 8.9%    | \$ 46,331 | 11.7%   |
| Commercial & Multi Family          | 171,114       | 39.4%   | 128,495   | 35.6%   | 113,072   | 29.1%   | 126,275   | 28.7%   | 102,557   | 25.2%   |
| Agricultural                       | 20,262        | 4.7%    | 11,610    | 3.2%    | 8,229     | 2.4%    | 6,347     | 1.7%    | 3,992     | 1.3%    |
| Total Fixed-Rate Real Estate Loans | 234,328       | 53.9%   | 174,262   | 48.3%   | 166,894   | 43.3%   | 171,543   | 39.3%   | 152,880   | 38.2%   |
| Consumer                           | 42,192        | 9.7%    | 21,470    | 6.0%    | 21,128    | 5.6%    | 17,066    | 3.9%    | 14,694    | 3.7%    |
| Agricultural Operating             | 16,840        | 3.9%    | 16,519    | 4.6%    | 15,145    | 4.1%    | 7,161     | 1.8%    | 5,315     | 1.4%    |
| Commercial Business                | 25,224        | 5.8%    | 31,386    | 8.7%    | 36,701    | 9.6%    | 35,252    | 8.0%    | 22,553    | 5.8%    |
| Total Fixed-Rate Loans             | 318,584       | 73.3%   | 243,637   | 67.6%   | 239,868   | 62.6%   | 231,022   | 52.9%   | 195,442   | 49.1%   |
| <b>Adjustable Rate Loans:</b>      |               |         |           |         |           |         |           |         |           |         |
| Real Estate:                       |               |         |           |         |           |         |           |         |           |         |
| 1-4 Family                         | 13,410        | 3.1%    | 11,250    | 3.1%    | 12,572    | 3.2%    | 29,217    | 6.5%    | 25,855    | 6.3%    |
| Commercial & Multi Family          | 51,537        | 11.9%   | 41,382    | 11.5%   | 46,035    | 13.1%   | 75,156    | 18.1%   | 86,584    | 22.0%   |
| Agricultural                       | 9,784         | 2.3%    | 4,972     | 1.4%    | 5,869     | 1.7%    | 6,426     | 1.6%    | 6,316     | 1.8%    |
| Total Adjustable Real Estate Loans | 74,731        | 17.2%   | 57,604    | 16.0%   | 64,476    | 18.0%   | 110,799   | 26.2%   | 118,755   | 30.1%   |
| Consumer                           | 7,137         | 1.6%    | 15,293    | 4.2%    | 8,939     | 2.3%    | 13,412    | 3.0%    | 14,573    | 3.5%    |
| Agricultural Operating             | 14,313        | 3.3%    | 16,624    | 4.6%    | 13,516    | 3.5%    | 15,923    | 3.6%    | 13,678    | 3.6%    |
| Commercial Business                | 19,748        | 4.5%    | 27,319    | 7.6%    | 50,500    | 13.6%   | 61,215    | 14.4%   | 51,714    | 13.7%   |
| Total Adjustable Loans             | 115,929       | 26.7%   | 116,840   | 32.4%   | 137,431   | 37.4%   | 201,349   | 47.1%   | 198,720   | 50.9%   |
| Total Loans                        | 434,513       | 100.0%  | 360,477   | 100.0%  | 377,300   | 100.0%  | 432,371   | 100.0%  | 394,162   | 100.0%  |
| <b>Less:</b>                       |               |         |           |         |           |         |           |         |           |         |
| Loans in Process                   | 693           |         | 254       |         | 1,773     |         | 9,733     |         | 7,342     |         |
| Deferred Fees and Discounts        | 160           |         | 117       |         | 177       |         | 277       |         | 270       |         |
| Allowance for Losses               | 5,732         |         | 4,493     |         | 6,391     |         | 6,793     |         | 5,144     |         |
| Total Loans Receivable, Net        | \$427,928     |         | \$355,612 |         | \$368,959 |         | \$415,568 |         | \$381,406 |         |

The following table illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 2008. 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. Balances related to discontinued bank operations have been eliminated for all periods presented.

| Due During Years<br>Ending September 30, | Real Estate (1)        |       | Consumer            |       | Commercial Business |       | Agricultural Operating |       | Total               |       |
|--|------------------------|-------|---------------------|-------|---------------------|-------|------------------------|-------|---------------------|-------|
|  | Weighted<br>Average    |       | Weighted<br>Average |       | Weighted<br>Average |       | Weighted<br>Average    |       | Weighted<br>Average |       |
|  | Amount                 | Rate  | Amount              | Rate  | Amount              | Rate  | Amount                 | Rate  | Amount              | Rate  |
|  | (Dollars in Thousands) |       |                     |       |                     |       |                        |       |                     |       |
| 2009 (2)                                 | \$ 36,606              | 5.78% | \$ 4,836            | 4.38% | \$16,475            | 7.05% | \$ 20,278              | 5.79% | \$ 78,195           | 5.96% |
| 2010-2011                                | 39,597                 | 6.01% | 6,413               | 6.97% | 13,647              | 5.85% | 2,331                  | 6.47% | 61,988              | 6.08% |
| 2012 and following                       | 232,856                | 6.30% | 38,080              | 5.04% | 14,850              | 6.55% | 8,544                  | 6.55% | 294,330             | 5.84% |
| Total                                    | <u>\$309,059</u>       |       | <u>\$49,329</u>     |       | <u>\$44,972</u>     |       | <u>\$ 31,153</u>       |       | <u>\$434,513</u>    |       |

(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. At September 30, 2008, the Company's one- to four-family residential mortgage loan portfolio totaled \$56.4 million, or 13% of the Company's total gross loan portfolio. See "Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." At September 30, 2008, the average outstanding principal balance of a one- to four-family residential mortgage loan was approximately \$71,000.

The Company offers fixed-rate and ARM loans for both permanent structures and those under construction. During the year ended September 30, 2008, the Company originated \$14.1 million of adjustable-rate loans and \$38.1 million of fixed-rate loans secured by one- to four-family residential real estate. 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 97% 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. The Company has not engaged in sub-prime residential mortgage originations.

*Commercial and Multi-Family Real Estate Lending.* The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and has purchased whole loan and participation interests in loans from other financial institutions. At September 30, 2008, the Company's commercial and multi-family real estate loan portfolio totaled \$222.7 million, or 51% 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 \$39.8 million, \$19.8 million, and \$8.9 million, of such loans during fiscal 2008, 2007 and 2006, respectively. At September 30, 2008, \$1.3 million, or 0.6%, of the Company's commercial and multi-family real estate loans was 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, 2008, the Company's largest commercial and multi-family real estate loan was an \$8.0 million loan secured by assets of the borrower. At September 30, 2008, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately \$714,000.

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. At September 30, 2008, MetaBank's nonresidential real estate loans totaled 329% of risk-based capital.

*Agricultural Lending.* The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and other farm related products. At September 30, 2008, the Company had agricultural real estate loans secured by farmland of \$30.0 million or 7% of the Company's gross loan portfolio. At the same date, \$31.2 million, or 7% 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, 2008, the average outstanding principal balance of an agricultural operating loan held by the Company was \$83,000. At September 30, 2008, \$121,000, or 0.4%, of the Company's agricultural operating loans was 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, 2008, \$12,000, or 0.04%, 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 most 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, 2008, the Company's consumer loan portfolio totaled \$49.3 million, or 11% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 2008, \$42.2 million were short- and intermediate-term, fixed-rate loans, while \$7.1 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, 2008, \$1,000, or 0%, 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, 2008, \$45.0 million, or 10% 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, 2008 was a \$3.0 million loan secured by assets of the borrower. The next largest commercial business loan outstanding at September 30, 2008 was a \$2.4 million loan secured by assets of the borrower. At September 30, 2008, the average outstanding principal balance of a commercial business loan held by the Company was approximately \$157,000.

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, 2008, \$538,000, or 1.2%, 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 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, 2008, 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 \$28.7 million at September 30, 2008, of which \$18.7 million were sold to Fannie Mae and \$10.0 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 originations (including undisbursed portions of loans in process), purchases and advances on purchased loans, and repayment activities of the Company for the periods indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

|   | September 30,     |                    |                    |
|---|-------------------|--------------------|--------------------|
|   | 2008              | 2007               | 2006               |
| (Dollars in Thousands)                    |                   |                    |                    |
| <b>Originations by Type:</b>              |                   |                    |                    |
| Adjustable Rate:                          |                   |                    |                    |
| Real Estate - 1-4 Family                  | \$ 14,068         | \$ 5,850           | \$ 5,849           |
| -Commercial and Multi-Family              | 34,894            | 18,874             | 33,300             |
| -Agricultural Real Estate                 | 2,058             | 551                | 565                |
| Non-Real Estate - Consumer                | 183,643           | 1,287              | 1,480              |
| -Commercial Business                      | 60,502            | 59,798             | 83,831             |
| -Agricultural Operating                   | 27,674            | 31,188             | 32,413             |
| Total Adjustable Rate                     | <u>322,839</u>    | <u>117,548</u>     | <u>157,438</u>     |
| Fixed Rate:                               |                   |                    |                    |
| Real Estate - 1-4 Family                  | 38,090            | 50,114             | 29,206             |
| -Commercial and Multi-Family              | 107,296           | 55,518             | 36,942             |
| -Agricultural Real Estate                 | 8,978             | 3,599              | 7,500              |
| Non-Real Estate - Consumer                | 180,210           | 3,224              | 2,292              |
| -Commercial Business                      | 29,647            | 22,153             | 58,930             |
| -Agricultural Operating                   | 39,143            | 22,320             | 14,248             |
| Total Fixed-Rate                          | <u>403,364</u>    | <u>156,928</u>     | <u>149,118</u>     |
| Total Loans Originated                    | <u>726,203</u>    | <u>274,476</u>     | <u>306,556</u>     |
| <b>Purchases:</b>                         |                   |                    |                    |
| Real Estate - 1-4 Family                  | 1,079             | 156                | 599                |
| -Commercial and Multi-Family              | 39,830            | 19,826             | 8,924              |
| -Agricultural Real Estate                 | 215               | 342                | —                  |
| Non-Real Estate - Commercial Business     | 7,561             | 22,321             | 50,257             |
| -Agricultural Operating                   | 6,605             | 400                | (851)              |
| Total Loans                               | <u>55,290</u>     | <u>43,045</u>      | <u>58,929</u>      |
| Total Mortgage-Backed Securities          | <u>102,790</u>    | <u>11,682</u>      | <u>—</u>           |
| Total Purchased                           | <u>158,080</u>    | <u>54,727</u>      | <u>58,929</u>      |
| <b>Sales and Repayments:</b>              |                   |                    |                    |
| <b>Sales:</b>                             |                   |                    |                    |
| Real Estate - 1-4 Family                  | 6,152             | 10,695             | 1,737              |
| Real Estate - Commercial and Multi-Family | 2,296             | 3,587              | —                  |
| Non-Real Estate - Consumer                | 257,119           | —                  | —                  |
| Total Loans                               | <u>265,567</u>    | <u>14,282</u>      | <u>1,737</u>       |
| Mortgage-Backed Securities                | <u>16,990</u>     | <u>—</u>           | <u>—</u>           |
| Total Sales                               | <u>282,557</u>    | <u>14,282</u>      | <u>1,737</u>       |
| <b>Repayments:</b>                        |                   |                    |                    |
| Loan Principal Repayments                 | 148,815           | 333,283            | 428,190            |
| Mortgage-Backed Securities Repayments     | 34,417            | 26,893             | 37,144             |
| Total Principal Repayments                | <u>183,232</u>    | <u>360,176</u>     | <u>465,334</u>     |
| Total Reductions                          | <u>465,789</u>    | <u>374,458</u>     | <u>467,071</u>     |
| Increase (decrease) in other items, net   | (4,682)           | 26,559             | 16,206             |
| Net Increase (Decrease)                   | <u>\$ 131,255</u> | <u>\$ (32,978)</u> | <u>\$ (87,117)</u> |

At September 30, 2008, approximately \$38.6 million, or 8.9%, 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 primary 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.

At September 30, 2008, the Company's purchased loans were secured by properties located, as a percentage of total loans, as follows: 4% in Iowa, 2% in Washington, 1% each in Colorado, Florida, and Oregon, and the remaining 1% in eleven other states.

### 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, 2008.

|                           | Loans Delinquent For: |          |                     |            |          |                     |                  |          |                     |
|---------------------------|-----------------------|----------|---------------------|------------|----------|---------------------|------------------|----------|---------------------|
|                           | 30-59 Days            |          |                     | 60-89 Days |          |                     | 90 Days and Over |          |                     |
|                           | 42192                 | Amount   | Percent of Category | Number     | Amount   | Percent of Category | Number           | Amount   | Percent of Category |
| (Dollars in Thousands)    |                       |          |                     |            |          |                     |                  |          |                     |
| Real Estate:              |                       |          |                     |            |          |                     |                  |          |                     |
| 1-4 Family                | —                     | \$ —     | —                   | 1          | \$ 16    | 0%                  | 3                | \$ 942   | 13%                 |
| Commercial & Multi-Family | 1                     | 1,812    | 46%                 | 1          | 3,785    | 60%                 | 2                | 1,302    | 17%                 |
| Agricultural Real Estate  | —                     | —        | —                   | 1          | 87       | 1%                  | 1                | 12       | 0%                  |
| Consumer                  | 4                     | 27       | 1%                  | —          | —        | —                   | 1                | 1        | 0%                  |
| Agricultural Operating    | —                     | —        | —                   | —          | —        | —                   | 1                | 121      | 2%                  |
| Commercial Business       | 4                     | 2,062    | 53%                 | 2          | 2,384    | 38%                 | 6                | 5,118    | 68%                 |
| Total                     | 9                     | \$ 3,901 | 100%                | 5          | \$ 6,272 | 100%                | 14               | \$ 7,496 | 100%                |

Delinquencies 90 days and over constituted 1.7% of total gross loans and 1.0% of total assets.

## Table of Contents

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 becomes 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. Balances related to discontinued bank operations have been eliminated for all periods presented.

|                                       | At September 30,       |          |          |          |        |
|---------------------------------------|------------------------|----------|----------|----------|--------|
|                                       | 2008                   | 2007     | 2006     | 2005     | 2004   |
|                                       | (Dollars in Thousands) |          |          |          |        |
| Non-Accruing Loans:                   |                        |          |          |          |        |
| 1-4 Family                            | \$ 942                 | \$ 243   | \$ 22    | \$ —     | \$ —   |
| Commercial & Multi Family             | 1,302                  | —        | —        | —        | 399    |
| Agricultural Real Estate              | 12                     | 13       | —        | —        | —      |
| Consumer                              | 1                      | 5        | —        | 1        | 59     |
| Agricultural Operating                | —                      | —        | 182      | 218      | 254    |
| Commercial Business                   | 538                    | 1,867    | 5,076    | 2,204    | —      |
| Total                                 | 2,795                  | 2,128    | 5,280    | 2,423    | 712    |
|                                       |                        |          |          |          |        |
| Accruing Loans Delinquent:            |                        |          |          |          |        |
| 90 Days or More                       |                        |          |          |          |        |
| Total                                 | 4,600                  | —        | —        | —        | —      |
|                                       |                        |          |          |          |        |
| Restructured Loans:                   |                        |          |          |          |        |
| Consumer                              | —                      | —        | —        | —        | —      |
| Agricultural Operating                | 121                    | 150      | —        | 7        | 9      |
| Commercial Business                   | —                      | 15       | —        | —        | 8      |
| Total                                 | 121                    | 165      | —        | 7        | 17     |
|                                       |                        |          |          |          |        |
| Foreclosed Assets:                    |                        |          |          |          |        |
| 1-4 Family                            | —                      | —        | 15       | —        | —      |
| Commercial & Multi Family             | —                      | 229      | 35       | 1,841    | —      |
| Consumer                              | —                      | 24       | —        | —        | —      |
| Commercial Business                   | —                      | 65       | —        | 2,865    | —      |
| Total                                 | —                      | 318      | 50       | 4,706    | —      |
| Less: Allowance for Losses            | —                      | —        | —        | —        | —      |
| Total Foreclosed Assets, Net          | —                      | 318      | 50       | 4,706    | —      |
|                                       |                        |          |          |          |        |
| Total Non-Performing Assets           | \$ 7,516               | \$ 2,611 | \$ 5,330 | \$ 7,136 | \$ 729 |
| Total as a Percentage of Total Assets | 0.99%                  | 0.38%    | 0.72%    | 0.92%    | 0.09%  |

For the year ended September 30, 2008, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately \$622,000, of which none was included in interest income.

*Non-Accruing Loans* . At September 30, 2008, the Company had \$2.8 million in non-accruing loans, which constituted 0.6% of the Company's gross loan portfolio.

*Accruing Loans Delinquent 90 Days or More.* At September 30, 2008, the Company had \$4.6 million in accruing loans delinquent 90 days or more, which constituted 1.1% of the Company's gross loan portfolio.

*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.

When assets are classified as either substandard or doubtful, MetaBank 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," MetaBank 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. MetaBanks' 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, 2008, the Company had classified a total of \$15.8 million of its assets as substandard, \$88,000 as doubtful and none as loss. There were no real estate owned or other foreclosed assets at September 30, 2008.

*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.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime loans, management is concerned that developments over the past 18 months in the sub-prime mortgage market may have a ripple effect on residential real estate prices. In addition, the current recessionary environment may strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Over the past six years, loss rates in the commercial and multi-family real estate market have remained moderate. Management recognizes that low charge-off rates over the past several years reflect the formerly strong economic environment and are not indicative of likely losses over a full business cycle. This observation, as well as the aforementioned concerns regarding the economic slowdown, has led management to the conclusion that future losses in this portfolio may be somewhat higher than recent historical experience, excluding loan losses related to fraud by borrowers. On the other hand, current trends in agricultural markets remain reasonable. Higher commodity prices as well as

average to above average yields created positive economic conditions for most farmers in our markets in 2008. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the aforementioned recession may also negatively impact consumers' repayment capacities. Additionally, a sizable portion of the Company's consumer loan portfolio is secured by residential real estate, as discussed above, which is an area to be closely monitored by management in view of its stated concerns.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at September 30, 2008 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. 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.

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.



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

|  | September 30,          |          |          |          |          |
|--|------------------------|----------|----------|----------|----------|
|  | 2008                   | 2007     | 2006     | 2005     | 2004     |
|  | (Dollars in Thousands) |          |          |          |          |
| Balance at Beginning of Period   | \$ 4,493               | \$ 6,391 | \$ 6,793 | \$ 5,144 | \$ 4,668 |
| Charge Offs:   |                        |          |          |          |          |
| 1-4 Family   | (2)                    | —        | —        | —        | (7)      |
| Agricultural Operating   | —                      | —        | —        | —        | —        |
| Commercial & Multi Family  | —                      | (1,762)  | —        | (141)    | —        |
| Consumer   | (5)                    | (50)     | (6)      | (13)     | (19)     |
| Commercial Business  | (1,542)                | (3,803)  | (1,036)  | (3,057)  | —        |
| Total Charge Offs  | (1,549)                | (5,615)  | (1,042)  | (3,211)  | (26)     |
| Recoveries:  |                        |          |          |          |          |
| 1-4 Family   | 7                      | —        | —        | —        | 2        |
| Consumer   | 12                     | 3        | 5        | 33       | 25       |
| Commercial Business  | 38                     | 546      | 324      | —        | 2        |
| Commercial & Multi Family  | —                      | —        | —        | 114      | —        |
| Agricultural Operating   | 16                     | —        | —        | —        | —        |
| Total Recoveries   | 73                     | 549      | 329      | 147      | 29       |
| Net Charge Offs (Recoveries)   | (1,476)                | (5,066)  | (713)    | (3,064)  | 3        |
| Additions Charged to Operations  | 2,715                  | 3,168    | 311      | 4,713    | 473      |
| Balance at End of Period   | \$ 5,732               | \$ 4,493 | \$ 6,391 | \$ 6,793 | \$ 5,144 |
| Ratio of Net Charge Offs During the Period to Average<br>Loans Outstanding During the Period | 0.42%                  | 1.43%    | 0.18%    | 0.75%    | 0.00%    |
| Ratio of Net Charge Offs During the Period to Non-<br>Performing Assets                      | 19.64%                 | 194.03%  | 13.38%   | 42.94%   | -0.41%   |

For more information on the Provision for Loan Losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in Item 7 of this Annual Report on Form 10-K.

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

|                           | At September 30,       |  |                 |  |                 |  |                 |  |                 |  |
|---------------------------|------------------------|--|-----------------|--|-----------------|--|-----------------|--|-----------------|--|
|                           | 2008                   |  | 2007            |  | 2006            |  | 2005            |  | 2004            |  |
|                           | Amount                 | Percent of Loans in Each Category of Total Loans | Amount          | Percent of Loans in Each Category of Total Loans | Amount          | Percent of Loans in Each Category of Total Loans | Amount          | Percent of Loans in Each Category of Total Loans | Amount          | Percent of Loans in Each Category of Total Loans |
|                           | (Dollars in Thousands) |  |                 |  |                 |  |                 |  |                 |  |
| One-to-Four Family        | \$ 98                  | 12.96%   | \$ 111          | 12.59%   | \$ 120          | 15.41%   | \$ 93           | 15.76%   | \$ 88           | 18.30%   |
| Commercial & Multi Family |                        |  |                 |  |                 |  |                 |  |                 |  |
| Real Estate               | 3,236                  | 51.24%   | 1,246           | 47.13%   | 1,403           | 42.17%   | 2,243           | 46.59%   | 2,767           | 47.99%   |
| Agricultural Real Estate  | 94                     | 6.91%  | 70              | 4.60%  | 101             | 3.74%  | 130             | 2.95%  | 166             | 2.62%  |
| Consumer                  | 207                    | 11.36%   | 153             | 10.20%   | 116             | 7.97%  | 416             | 7.05%  | 373             | 7.43%  |
| Agricultural Operating    | 1,645                  | 7.18%  | 178             | 9.19%  | 205             | 7.60%  | 454             | 5.34%  | 466             | 4.82%  |
| Commercial Business       | 148                    | 10.35%   | 2,404           | 16.29%   | 4,140           | 23.11%   | 3,288           | 22.31%   | 1,258           | 18.84%   |
| Unallocated               | 304                    | —  | 331             | —  | 306             | —  | 169             | —  | 26              | —  |
| Total                     | <u>\$ 5,732</u>        | <u>100.00%</u>                                   | <u>\$ 4,493</u> | <u>100.00%</u>                                   | <u>\$ 6,391</u> | <u>100.00%</u>                                   | <u>\$ 6,793</u> | <u>100.00%</u>                                   | <u>\$ 5,144</u> | <u>100.00%</u>                                   |

## 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 Company'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, 2008, 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 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

As of September 30, 2008, investment and mortgage-backed securities with fair values of approximately \$82.1 million were pledged as collateral for MetaBank's FHLB advances and reverse repurchase agreements. For additional information regarding the Company's collateralization of borrowings, see Notes 9 and 10 to the "Notes to Consolidated Financial Statement," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

*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.

## Table of Contents

The following table sets forth the carrying value of the Company's investment security portfolio, excluding mortgage-backed securities and other equity securities, at the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

|  | At September 30,       |                  |                   |
|--|------------------------|------------------|-------------------|
|  | 2008                   | 2007             | 2006              |
|  | (Dollars in Thousands) |                  |                   |
| <b>Investment Securities</b>   |                        |                  |                   |
| Trust Preferred & Corporate Securities (1)   | \$ 18,174              | \$ 24,410        | \$ 26,279         |
| Municipal Bonds  | 1,537                  | 1,550            | 95                |
| Other  | —                      | —                | 109               |
| Subtotal   | 19,711                 | 25,960           | 26,483            |
| <b>FHLB Stock</b>  | 8,092                  | 4,015            | 5,053             |
| <b>Total Investment Securities and FHLB Stock</b>                                    | <u>\$ 27,803</u>       | <u>\$ 29,975</u> | <u>\$ 31,536</u>  |
| <b>Other Interest-Earning Assets:</b>  |                        |                  |                   |
| Interest bearing deposits in other financial institutions and Federal Funds Sold (2) | <u>\$ 5,188</u>        | <u>\$ 85,110</u> | <u>\$ 100,243</u> |

- (1) Within the trust preferred securities presented above, there are no 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 as of September 30, 2008 are as follows: Key Corp Capital I, \$3.3 million; Bank Boston Capital Trust IV, \$4.1 million; BankAmerica Capital III, \$3.7 million; PNC Capital Trust, \$4.2 million; Huntington Capital Trust II, \$1.8 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, 2008, the Company had no interest bearing deposits held at the Federal Home Loan Bank of Des Moines ("FHLB"). At September 30, 2008, the Company had \$5.2 million of federal funds sold at a private institution. The Company does not believe this deposit carries a significant risk of loss, but cannot provide assurances that no loss could occur if this institution 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, 2008 |                              |                                |                  |                             |                  |
|--|--------------------|------------------------------|--------------------------------|------------------|-----------------------------|------------------|
|  | 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              | Fair Value       |
| (Dollars in Thousands)                 |                    |                              |                                |                  |                             |                  |
| Trust Preferred & Corporate Securities | \$ —               | \$ —                         | \$ —                           | \$ 18,174        | \$ 25,795                   | \$ 18,174        |
| Municipal Bonds                        | —                  | 658                          | 879                            | —                | 1,534                       | 1,537            |
| Total Investment Securities            | <u>\$ —</u>        | <u>\$ 658</u>                | <u>\$ 879</u>                  | <u>\$ 18,174</u> | <u>\$ 27,329</u>            | <u>\$ 19,711</u> |
| Weighted Average Yield (1)             | 0.00%              | 3.96%                        | 3.93%                          | 3.31%            | 3.75%                       | 3.85%            |

(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, 2008, the Company had mortgage-backed securities with a carrying value of \$176.6 million, representing 96% of the total portfolio, which had fixed rates of interest and \$7.5 million, representing 4% 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, 2008, \$116.1 million or 63% 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. Balances related to discontinued bank operations have been eliminated for all periods presented.

|  | At September 30,       |                   |                   |
|--|------------------------|-------------------|-------------------|
|  | 2008                   | 2007              | 2006              |
|  | (Dollars in Thousands) |                   |                   |
| CMO  | \$ 4                   | \$ 4              | \$ 6              |
| Freddie Mac  | 59,479                 | 73,749            | 88,486            |
| Fannie Mae   | 124,577                | 58,921            | 56,455            |
| Privately Issued Mortgages Pass-Through Certificates | 63                     | 67                | 73                |
| Total  | <u>\$ 184,123</u>      | <u>\$ 132,741</u> | <u>\$ 145,020</u> |

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 2008. 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, 2008     |                              |                                |                  |                             |                   |
|--|------------------------|------------------------------|--------------------------------|------------------|-----------------------------|-------------------|
|  | 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              | Fair Value        |
|  | (Dollars in Thousands) |                              |                                |                  |                             |                   |
| CMO  | \$ —                   | \$ —                         | \$ —                           | \$ 4             | \$ 4                        | \$ 4              |
| Freddie Mac  | —                      | 39,032                       | 7,693                          | 12,754           | 59,558                      | 59,479            |
| Fannie Mae   | 1                      | 37,868                       | 13,118                         | 73,590           | 124,895                     | 124,577           |
| Privately Issued Mortgages Pass-Through Certificates | —                      | —                            | 63                             | —                | 58                          | 63                |
| Total Investment Securities                          | <u>\$ 1</u>            | <u>\$ 76,900</u>             | <u>\$ 20,874</u>               | <u>\$ 86,348</u> | <u>\$ 184,515</u>           | <u>\$ 184,123</u> |
| Weighted Average Yield                               | 4.55%                  | 4.15%                        | 4.69%                          | 4.72%            | 4.58%                       | 4.58%             |

At September 30, 2008, the contractual maturity of 46.9% 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 ("GAAP"), 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 and statement savings accounts, money market savings accounts, NOW and regular checking accounts, deposits related to prepaid cards that are primarily categorized as checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 months. The Company 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, and the expanding activities of MPS, 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.

\$331.0 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. \$330.2 million are included with non-interest-bearing checking accounts and \$800,000 are included with money market accounts on the Company's Consolidated Statement of Financial Condition. Generally, these deposits do not earn interest. MPS 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 MetaBank to reduce its reliance on higher costing certificates of deposits and public funds.

## Table of Contents

The following table sets forth the savings flows at the Company during the periods indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

|                             | September 30,          |                    |                   |
|-----------------------------|------------------------|--------------------|-------------------|
|                             | 2008                   | 2007               | 2006              |
|                             | (Dollars in Thousands) |                    |                   |
| Opening Balance             | \$ 522,978             | \$ 538,169         | \$ 510,459        |
| Deposits                    | 42,199,490             | 21,679,955         | 11,675,007        |
| Withdrawals                 | (42,172,568)           | (21,663,212)       | (11,654,804)      |
| Sale of Deposit             | (9,313)                | (39,172)           | —                 |
| Interest Credited           | 5,385                  | 7,238              | 7,507             |
| Ending Balance              | <u>\$ 545,972</u>      | <u>\$ 522,978</u>  | <u>\$ 538,169</u> |
| Net Increase (Decrease)     | <u>\$ 22,994</u>       | <u>\$ (15,191)</u> | <u>\$ 27,710</u>  |
| Percent Increase (Decrease) | <u>4.40%</u>           | <u>-2.82%</u>      | <u>5.43%</u>      |

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. Balances related to discontinued bank operations have been eliminated for all periods presented.

|                                      | September 30, |                     |            |                     |            |                     |
|--------------------------------------|---------------|---------------------|------------|---------------------|------------|---------------------|
|                                      | 2008          |                     | 2007       |                     | 2006       |                     |
|                                      | Amount        | Percent of<br>Total | Amount     | Percent of<br>Total | Amount     | Percent of<br>Total |
|                                      |               |                     |            |                     |            |                     |
| Transactions and Savings Deposits:   |               |                     |            |                     |            |                     |
| Non-Interest Bearing Demand Accounts | \$ 355,020    | 65.03%              | \$ 260,098 | 49.73%              | \$ 186,135 | 34.59%              |
| Interest Bearing Demand Accounts     | 15,029        | 2.75                | 14,600     | 2.79                | 24,524     | 4.56                |
| Passbook Savings Accounts            | 9,394         | 1.72                | 10,265     | 1.96                | 28,178     | 5.24                |
| Money Market Accounts                | 43,038        | 7.88                | 81,292     | 15.54               | 98,697     | 18.34               |
| Total Non-Certificate                | 422,481       | 77.38               | 366,255    | 70.03               | 337,534    | 62.72               |
| Certificates:                        |               |                     |            |                     |            |                     |
| Variable                             | 779           | 0.14                | 1,085      | 0.21                | 1,501      | 0.28                |
| 0.00 - 1.99%                         | 7,039         | 1.29                | 18         | 0.00                | 1,370      | 0.03                |
| 2.00 - 3.99%                         | 57,977        | 10.62               | 24,696     | 4.72                | 62,788     | 11.67               |
| 4.00 - 5.99%                         | 57,686        | 10.57               | 130,914    | 25.03               | 134,966    | 25.08               |
| 6.00 - 7.99%                         | 10            | 0.00                | 10         | 0.00                | 10         | 0.00                |
| Total Certificates                   | 123,491       | 22.62               | 156,723    | 29.97               | 200,635    | 37.28               |
| Total Deposits                       | \$ 545,972    | 100.00%             | \$ 522,978 | 100.00%             | \$ 538,169 | 100.00%             |

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 2008.

| Certificate accounts maturing<br>in quarter ending: | Variable | 0.00- 1.99% | 2.00- 3.99% | 4.00- 5.99% | 6.00- 7.99% | Total      | Percent of<br>Total |
|---|----------|-------------|-------------|-------------|-------------|------------|---------------------|
| (Dollars in Thousands)                              |          |             |             |             |             |            |                     |
| December 31, 2008                                   | \$ 77    | \$ 3,744    | \$ 12,142   | \$ 11,671   | \$ —        | \$ 27,634  | 22.4%               |
| March 31, 2009                                      | 279      | 1,396       | 8,639       | 5,554       | —           | 15,868     | 12.8                |
| June 30, 2009                                       | 122      | 1,460       | 10,339      | 8,794       | —           | 20,715     | 16.8                |
| September 30, 2009                                  | 99       | 166         | 13,871      | 3,131       | —           | 17,267     | 14.0                |
| December 31, 2009                                   | 120      | 128         | 1,208       | 5,050       | —           | 6,506      | 5.3                 |
| March 31, 2010                                      | 82       | 27          | 1,722       | 10,525      | —           | 12,356     | 10.0                |
| June 30, 2010                                       | —        | 102         | 1,915       | 2,248       | —           | 4,265      | 3.5                 |
| September 30, 2010                                  | —        | 16          | 1,516       | 1,664       | —           | 3,196      | 2.6                 |
| December 31, 2010                                   | —        | —           | 3,087       | 984         | —           | 4,071      | 3.3                 |
| March 31, 2011                                      | —        | —           | 433         | 973         | —           | 1,406      | 1.1                 |
| June 30, 2011                                       | —        | —           | 513         | 685         | —           | 1,198      | 1.0                 |
| September 30, 2011                                  | —        | —           | 378         | 1,101       | 10          | 1,489      | 1.2                 |
| Thereafter  | —        | —           | 2,214       | 5,306       | —           | 7,520      | 6.1                 |
| Total   | \$ 779   | \$ 7,039    | \$ 57,977   | \$ 57,686   | \$ 10       | \$ 123,491 | 100.0%              |
| Percent of total                                    | 0.6%     | 5.7%        | 46.9%       | 46.7%       | 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, 2008.

|  | Maturity               |                     |                      |                 |            | Total |
|--|------------------------|---------------------|----------------------|-----------------|------------|-------|
|  | 3 Months or Less       | After 3 to 6 Months | After 6 to 12 Months | After 12 Months |            |       |
|  | (Dollars in Thousands) |                     |                      |                 |            |       |
| Certificates of deposit less than \$100,000  | \$ 21,175              | \$ 13,100           | \$ 29,714            | \$ 32,787       | \$ 96,776  |       |
| Certificates of deposit of \$100,000 or more | 6,459                  | 2,768               | 8,268                | 9,220           | \$ 26,715  |       |
| Total certificates of deposit                | \$ 27,634              | \$ 15,868           | \$ 37,982            | \$ 42,007       | \$ 123,491 |       |

At September 30, 2008, there were \$1.0 million in deposits from governmental and other public entities included in certificates of deposit.

**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, 2008, the Bank had \$132.0 million of advances from the FHLB of Des Moines and the ability to borrow up to an approximate additional \$74.8 million. At September 30, 2008, advances totaling \$91.0 million (including \$20.0 million in overnight federal funds purchased) had terms to maturity of one year or less. The remaining \$41.0 million had maturities ranging up to 12 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 the London Interbank Offered Rate ("LIBOR") 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 are required to 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, 2007. The option has not been exercised as of the date of this filing. 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 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, 2008, the Company had \$5.3 million 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, 2008, the Company had no 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. Balances related to discontinued bank operations have been eliminated for all periods presented.

|  | September 30,          |           |            |
|--|------------------------|-----------|------------|
|  | 2008                   | 2007      | 2006       |
|  | (Dollars in Thousands) |           |            |
| <b>Maximum Balance:</b>                  |                        |           |            |
| FHLB advances                            | \$ 162,525             | \$ 89,300 | \$ 147,450 |
| Repurchase agreements                    | 51,439                 | 15,470    | 19,469     |
| Subordinated debentures                  | 10,310                 | 10,310    | 10,310     |
| <b>Average Balance:</b>                  |                        |           |            |
| FHLB advances                            | \$ 103,768             | \$ 77,433 | \$ 115,102 |
| Retail and reverse repurchase agreements | 9,794                  | 7,862     | 16,536     |
| Subordinated debentures                  | 10,310                 | 10,310    | 10,310     |

The following table sets forth certain information as to the Company's FHLB advances and other borrowings at the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

|   | September 30,          |                  |                   |
|---|------------------------|------------------|-------------------|
|   | 2008                   | 2007             | 2006              |
|   | (Dollars in Thousands) |                  |                   |
| FHLB advances   | \$ 132,025             | \$ 68,000        | \$ 89,300         |
| Repurchase agreements                                     | 5,348                  | 224              | 15,179            |
| Subordinated debentures                                   | 10,310                 | 10,310           | 10,310            |
| Total borrowings  | <u>\$ 147,683</u>      | <u>\$ 78,534</u> | <u>\$ 114,789</u> |
| Weighted average interest rate of FHLB advances           | 4.28%                  | 5.43%            | 4.96%             |
| Weighted average interest rate of repurchase agreements   | 3.00%                  | 3.37%            | 3.13%             |
| Weighted average interest rate of subordinated debentures | 7.83%                  | 9.06%            | 9.30%             |

### Subsidiary Activities

The subsidiaries of the Company are MetaBank, Meta Trust and First Midwest Financial Capital Trust I. MetaBank has one service corporation subsidiary, First Services Financial Limited ("First Services"). At September 30, 2008, the net book value of MetaBank's investment in First Services was approximately \$115,000. 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 Meta Payment Systems, is focused on the electronic payments industry and offers a complement of "open-loop" prepaid cards, consumer credit products and other payment industry related products and services that are marketed to consumers through financial institutions and other commercial entities. The products and services offered by Meta Payment Systems are generally designed to facilitate the processing and settlement of authorized electronic transactions involving the movement of funds some of which were previously deposited at MetaBank. Meta Payment Systems offers specific product solutions in the following areas: (i) prepaid cards, (ii) consumer credit products, and (iii) ATM sponsorship. Meta Payment Systems' products and services generally target banks, card processors and third party marketers who distribute the cards.

Each segment of Meta Payment System's business is discussed generally below. With respect to the segments, there can be a significant amount of cross-selling and cross-utilization of personnel and resources (e.g., a client asks Meta Payment Systems to develop products for both prepaid and credit card needs).

*Prepaid Cards*. Prepaid cards take the form of credit card-sized plastics embedded with a magnetic stripe which encodes relevant card data (which may or may not include information about the user and/or purchaser of such card). When the holder of such a card attempts a permitted transaction,

necessary information, including the authorization for such transaction, is shared between the “point of use” or “point of sale” and authorization systems maintaining the account of record.

The funds associated with such cards are held in pooled accounts at MetaBank representing the aggregate value of all cards issued in connection with particular products or programs, further described below. The cards may work in a closed loop ( *e.g.*, the card will only work at one particular merchant and will not work anywhere else), a semi-closed loop ( *e.g.*, the card will only work at a specific set of merchants such as a shopping mall), or open loop which function as a Visa, MasterCard, or Discover branded debit card that will work wherever such cards are accepted for payment. Most of MPS’ prepaid cards are open-loop.

This segment of Meta Payment Systems’ business can generally be divided into three categories: reloadable cards, non-reloadable cards, and benefit/insurance cards. Government benefits are another growing application for prepaid cards; however, MPS has not focused on this category to date.

*Reloadable cards* . The most common reloadable prepaid card programs are payroll cards, whereby an employee’s payroll is loaded to the card by their employer utilizing direct deposit, or General Purpose Reloadable (GPR) whereby cards are usually distributed by retailers and can be reloaded an indefinite number of times at participating retail load networks. Other examples of reloadable cards are travel cards which are used to replace travelers checks and can be reloaded a predetermined number of times and tax cards where a taxpayer’s refund, refund anticipation loan, or preseason tax loan proceeds are placed on the card. Reloadable cards are generally open loop cards that consumers can use to obtain cash at ATMs or purchase goods and services wherever such cards are accepted for payment.

*Non-reloadable cards* . Non-reloadable prepaid cards are sometimes referred to as disposable and may only be used until the relevant funds initially loaded to the card have been exhausted. These include gift cards, rebate cards, and promotional or incentive cards. These cards may be closed loop or open loop but are generally not available to obtain cash. Under certain conditions, these cards may be anonymous, whereby no customer relationship is created and the identity of the cardholder is unknown. Except for gift cards, many non-reloadable card programs are funded by a corporation as a marketing expense rather than from consumer funds.

*Benefit/insurance cards* . Benefit/insurance cards are traditionally used by employers and large commercial companies (such as property insurers) to distribute benefits to persons entitled to such funds. Possible uses of benefit cards could be the distribution of money for qualified expenses related to an employer sponsored flexible spending account program (FSA) or the distribution of insurance claim proceeds to insureds who have made a payable claim against an existing insurance policy. These cards are generally open loop or semi-closed loop as in the case of an FSA card that can only be used for qualified medical expenses.

*Consumer Credit Products* . MPS is offering various consumer credit products including credit cards, short term/micro loan products, and installment loans targeted at various consumers across the credit spectrum. Under such programs, MPS typically utilizes vendors to market and service loans, sells a significant portion of the receivables and revenue stream to third parties without recourse, and remains the owner of the consumer account relationship. MPS collects fee income from each account and interest income from its share of receivable balances.

*ATM Sponsorship* . Meta Payment Systems sponsors financial institutions into various networks to enable them to issue network-branded debit cards and accept cards issued by other financial institutions at their ATM terminals. The division also sponsors ATM independent sales organizations (“ISOs”) into various networks and provides associated sponsorships of encryption support organizations and third

party processors in support of the financial institutions and the ATM ISO sponsorships. Sponsorship consists of the review and oversight of entities participating in debit and credit networks. In certain instances, Meta Payment Systems also has certain leasehold interests in certain ATMs which require bank ownership and registration for compliance with applicable state law.

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

***Emergency Economic Stabilization Act of 2008*** . On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 ("EESA"), giving the US Treasury authority to take certain actions to restore liquidity and stability to the U.S. banking markets. Based upon its authority in the EESA, a number of programs to implement the EESA have been announced. Those programs include the following:

- Capital Purchase Program ("CPP"). Pursuant to this program, the US Treasury, on behalf of the US government, will purchase up to \$250 billion of preferred stock, along with warrants to purchase common stock, from certain financial institutions, including bank holding companies, savings and loan holding companies and banks or savings associations not controlled by a holding company. The investment will have a dividend rate of 5% per year, until the fifth anniversary of the US Treasury's investment and a dividend of 9% thereafter.
- Temporary Liquidity Guarantee Program. That program contains both a debt guarantee component, whereby the FDIC will guarantee until June 30, 2012, the senior unsecured debt issued by eligible financial institutions between October 14, 2008 and June 30, 2009, and an account transaction guarantee component, whereby the FDIC will insure 100% of non-interest bearing deposit transaction accounts held at eligible financial institutions, such as payment processing accounts, payroll accounts and working capital accounts through December 31, 2009. The deadline for participation in this program has been extended to December 5, 2008. Institutions that do not opt out before December 5, 2008, will be required to pay fees related to participation in the program; institutions that exercise their opt out right will not be required to pay such fees. MetaBank has decided to opt out of both components of this program.
- Temporary increase in deposit insurance coverage. Pursuant to the EESA, the FDIC temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The EESA provides that the basic deposit insurance limit will return to \$100,000 after December 31, 2009.

Given the current international, national and regional economic climate, it is unclear what effect the provisions of the EESA will have with respect to the profitability and operations of both the Company and MetaBank. In addition, the US government, either through the US Treasury or some other federal agency, may also advance additional programs that could materially impact the profitability and operations of both the Company and MetaBank. The failure of these governmental efforts to stabilize national and international markets could have a material effect on the Company's business, financial condition, results of operations or access to the credit markets.

*US Treasury Department Report* . In March 2008, the U.S. Treasury Department released a report containing short-, intermediate- and long-term recommendations to reform and modernize this country's federal financial regulatory structure. With respect to the banking industry, the report recommended the elimination of the federal thrift charter and conversion to the national bank charter, with the OTS merging with and into the Office of the Comptroller of the Currency, the federal agency that regulates national banks. On a longer term basis, the report also recommended a consolidation of the current functional regulation scheme for financial institutions into three distinct regulators: a market stability regulator (the Federal Reserve); a prudent financial regulator (new); and a business conduct regulator (new). It is unclear whether and to what extent this proposal will be implemented in the future and the impact it will have upon the operations of both the Company and MetaBank.

*USA Patriot Act of 2001*. In October 2001, the USA Patriot Act of 2001 (the "Patriot Act") 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 provisions, the Patriot Act requires financial institutions to have anti-money laundering programs in place and requires banking regulators to consider a holding company's effectiveness in combating money laundering when ruling on certain merger or acquisition applications.

*Sarbanes-Oxley Act of 2002* . On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (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 SEC under the Exchange Act.

Pursuant to Section 302 of the SOA, Meta Financial's Chief Executive Officer and Chief Financial Officer are required to certify that the Company's quarterly and annual reports filed with the SEC fairly present, in all material respects, the operations and conditions of Meta Financial. In addition, as required by Section 404 of the SOA, management must make an assessment regarding the effect of internal controls on financial reporting and the Company's external auditors must attest to such management assessment and reports. The Company is considered a smaller reporting company based on criteria established by the SEC, and accordingly, beginning with this annual report for the fiscal year ending September 30, 2008, the Company is required to provide management's assessment of the effectiveness of its internal control over financial reporting, which assessment is included in Item 9A(T)

below. Because the Company is not a “large accelerated filer” or “accelerated filer,” its independent registered public accounting firm is not yet required to issue its attestation regarding the Company’s internal control over financial reporting.

Meta Financial has developed policies, procedures and internal processes to ensure compliance with the SOA. It is believed, however, that the implementation of the SOA’s compliance requirements will result in additional expense for Meta Financial.

*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 Federal Deposit Insurance Corporation (“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 abolished 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 current assessment rates. For both 2007 and 2008, the FDIC set the designated reserve ratio at 1.25%. (For more information on current proposals issued by the FDIC with respect to the reserve ratio, see “*Bank Supervision and Regulation – Insurance of Accounts and Regulation by the FDIC*” below.)

Deposit insurance coverage limits were 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). Congress included in the FDIRA, however, 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. (See “*Regulation — Federal Economic Stabilization Programs*” above for a discussion of the temporary increase in deposit insurance coverage.)

Certain one-time deposit premium assessment credits were also authorized under the FDIRA. On May 25, 2007, MetaBank was notified of its assessment credit. The assessment credit was applied automatically to reduce deposit insurance assessments beginning with the Bank’s assessment due on June 29, 2007. The amount calculated as MetaBank’s share of the credit was \$289,425.65. At September 30, 2008, there was no credit remaining.

*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 (adopted by the SEC in October, 2007);

- 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 were adopted jointly by the SEC and the Federal Reserve in September, 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 (final rules were adopted by the banking agencies in March, 2007);
- 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; and
- repealing certain requirements governing purchased mortgage servicing rights found in the Home Owners' Loan Act.

*DoD Credit Regulations* . Effective October 1, 2007, the US Department of Defense (the "DOD") regulations implementing certain provisions of the John Warner National Defense Authorization Act for Fiscal Year 2007 went into effect. These regulations impose certain restrictions on the types of provisions that may be found in consumer credit products provided to "covered borrowers," a term generally defined as active duty service members and their dependents. The rules affect all "creditors," including MetaBank.

The regulations were implemented by the DOD in an effort to protect service members from predatory loan practices and are an attempt to balance service member protections with access to credit. Importantly, for the transactions covered by the regulations, there is a new Military Annual Percentage Rate ("MAPR") that must be calculated and the MAPR is capped at 36%.

It should be noted that, in the adopting regulations, the DOD stated that it maintains the ability to issue additional rules in the future.

*Privacy* . MetaBank is required by statute and regulation to disclose their privacy policies to its consumers and, on an annual basis, to its customers. Pursuant to such privacy notices, the Bank's customers may opt out of the sharing of their nonpublic personal information with non-affiliated third parties. The Bank is also required to appropriately safeguard its customers' personal information.

*Other Regulation* . The Bank is also subject to a variety of other regulations with respect to their business operations including, but not limited to, the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Electronic Funds Transfer Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair Debt Collection Practices Act, and the Fair Credit Reporting Act. As discussed below, any change in the regulations affecting the Bank's operations is not predicable and could affect the Bank's operations and profitability.

## **Bank Supervision & Regulation**

*General* . MetaBank, a federal savings bank subsidiary of Meta Financial, a unitary savings and loan holding company, is subject to regulation, examination and supervision by both the OTS and the Federal Deposit Insurance Corporation (the “FDIC”). MetaBank must file regular reports with the OTS, which regularly inspects MetaBank and its subsidiaries to evaluate their compliance with regulatory requirements and their safety and soundness. OTS and, depending on the transaction, other bank regulatory agencies also possess approval authority before MetaBank may enter into certain transactions such as mergers with or acquisitions of other financial institutions. As discussed below, MetaBank’s deposits are insured up to applicable limits by the Deposit Insurance Fund (the “DIF”) which is administered by the FDIC.

MetaBank is also a member of the Federal Home Loan Bank (“FHLB”) System and is subject to certain limited regulation by the Board of Governors of the Federal Reserve System (the “FRB” or the “Board”).

Meta Financial currently has three wholly-owned subsidiaries: MetaBank, a federally chartered thrift institution; First Midwest Financial Capital Trust I, a statutory business trust organized under the Delaware Business Trust Act; and Meta Trust, a South Dakota corporation that provides trust services.

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. Typically, these actions are undertaken due to violations of laws or regulations or conduct of operations in an unsafe or unsound manner.

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 or MetaBank and their respective operations. The discussion herein of the regulatory and supervisory structure within which MetaBank operates is general and does not purport to be exhaustive or a complete description of the laws and regulations involved in MetaBank’s operations. The discussion is qualified in its entirety by the actual laws and regulations.

*Federal Regulation of MetaBank* . Federal law and regulation, including but not limited to the Home Owners’ Loan Act and the related regulations issued by the OTS, govern the activities of all federal savings associations, including MetaBank. For example, as discussed in further detail below, certain lending authority for federal savings associations (such as commercial, nonresidential real property and consumer loans) is limited to a specified percentage of the association’s capital or assets.

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, as discussed above. The last regular examination of MetaBank was conducted in early 2008.

OTS 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, the ability to issue cease-and-desist or removal orders and the ability 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 applicable 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. Generally, any institution which fails to comply with these standards must submit a compliance plan. (For further discussion, see “— *Standards for Safety and Soundness*” herein.)

In addition, the investment, lending and branching authority of MetaBank is prescribed by federal law and it is prohibited from engaging in any activities not permitted by such laws. For example, a federal savings association is generally permitted to branch into any state or multiple states subject to OTS approval.

MetaBank’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). At September 30, 2008, MetaBank’s lending limit under these restrictions was \$8.3 million. MetaBank is in compliance with this lending limit.

*Insurance of Accounts and Regulation by the FDIC.* MetaBank is a member of the DIF, 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 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.

Pursuant to a rule adopted by the Board of Directors of the FDIC in November 2006, beginning in 2007, the FDIC places each insured institution into one of four risk categories. Category placement is a two-step process based upon (i) capital ratios (the capital assignment group), and (ii) other relevant information (the supervisory group assignment). Capital group assignments are made quarterly and include the following designations: well capitalized, adequately capitalized and undercapitalized. Supervisory group assignments are divided as follows: (X) group A (financially sound institutions); (Y) group B (institutions that demonstrate weakness); and (Z) group C (institutions that pose a substantial possibility of loss to the DIF unless corrective action is taken).

The schedule of DIF assessment rates has been revised. Effective January 1, 2007, there are four risk categories. Premiums for 2008 range from 5 cents per \$100 of assessable deposits (for institutions deemed to be in the lowest risk category) to 43 cents per \$100 assessable deposits (for institutions deemed to be in the highest risk category). Deposit insurance rates may be adjusted by the FDIC uniformly from one quarter to the next although no single adjustment can exceed three basis points. At September 30, 2008, MetaBank’s risk category assignment required a payment of six cents per \$100 of assessable deposits.

Notably, the FDIC has the authority to increase insurance assessments. Pursuant to this authority, on October 7, 2008, the Board of Directors of the FDIC released for comment a plan to restore the DIF reserve ratio to 1.15% by the end of 2013 (the reserve ratio was estimated to be at 1.01% of insured deposits as of June 30, 2008, and the FDIC expects that it may continue to decline). Pursuant to this plan, the FDIC would put in place an across-the-board increase of 7 basis points (annualized) per \$100 of

assessable deposits beginning January 1, 2009. In addition, beginning in the second quarter of 2009, changes to the deposit insurance system would be made such that the increased assessments would be required of riskier institutions ( *i.e.*, those with a significant level of brokered deposits or those that relied significantly on secured liabilities). Certain institutions, however, could see a reduction in their premiums, such as those that hold long-term unsecured debt. MetaBank would not be materially affected by these potential changes.

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 fourth quarter of 2008, the FICO assessment was equal to 1.10 basis points for each \$100 in domestic deposits. These assessments will continue until the bonds mature in 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 Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

*Assessments* . As a federal savings bank, MetaBank is required to pay assessments to the OTS to fund its operations. Paid semi-annually, these assessments are based upon the institution’s total assets, including consolidated subsidiaries, as reported in the Bank’s latest quarterly financial report, its general financial condition and the complexity of the Bank’s portfolio.

*Regulatory Capital Requirements* . Federally insured financial institutions, such as MetaBank, 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%. Core (Tier 1) capital is defined as common stockholders’ equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority investments in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. Supplementary capital is currently defined to include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

Generally, in meeting the tangible, leverage and risk-based capital standards, federal savings associations must deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank. If a subsidiary’s activities are permitted to a national bank that subsidiary’s assets are generally consolidated with those of the parent’s on a line-for-line basis.

Capital requirements in excess of the standards set forth above may be imposed on individual institutions on a case-by-case basis upon a determination that the association’s capital level is or may become inadequate in light of the particular circumstances. The OTS and the FDIC are generally permitted to take enforcement action against a savings bank that fails to meet its capital requirements. Such action may include restrictions on operations and banking activities, the imposition of a capital directive, a cease-and-desist order, civil money penalties, or more stringent measures such as the appointment of a conservator or receiver or a forced merger with another institution.

As of September 30, 2008, MetaBank exceeded all of its regulatory capital requirements with core, tangible and risk-based capital ratios of 7.35%, 7.35% and 10.89% respectively, and was designated as “well-capitalized” under federal guidelines. See Note 15 of the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Form 10-K.

*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. Under the regulations, an institution is deemed to be (a) “well capitalized” if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure; (b) “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized; (c) “undercapitalized” if it has a total risk-based capital ratio that is less than 8.0%, a tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (d) “significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%; and (e) “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. In certain situations, a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized or undercapitalized institution to comply with supervisory actions as if the institution were in the next lower category.

The federal banking agencies are generally required to take action to restrict the activities of an “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized” bank. Any such bank must submit a capital restoration plan that is guaranteed by the parent holding company. Until such plan is approved, it 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 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” ( *ie*, Tier 1 risk-based or core capital ratios of less than 3% or a risk-based capital ratio of less than 6%) 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” 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 FDIC’s concurrence) 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.

Institutions must file a capital restoration plan with the OTS within 45 days of the date it receives a notice from the OTS that it is “undercapitalized,” “significantly undercapitalized,” or “critically

undercapitalized.” Compliance with a capital restoration plan must be guaranteed by a parent holding company. In addition, the OTS is permitted to take any one of a number of discretionary supervisory actions, including but not limited to the issuance of a capital directive and the replacement of senior executive officers and directors.

Though not expected, the imposition of any of these measures on MetaBank may have a substantial adverse effect on it 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 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.

*Branching by Federal Savings Associations* . Generally, subject to OTS approval, federal savings banks like MetaBank are able to branch nationwide without state law interference. Community Reinvestment Act performance is assessed, however, and could be the basis for the denial of branching (or other) applications submitted to the OTS by a federal savings bank.

*Standards for Safety and Soundness* . The federal banking agencies have adopted the *Interagency Guidelines Establishing Standards for Safety and Soundness* . The guidelines establish certain safety and soundness standards for all depository institutions. The operational and managerial standards in the guidelines relate to the following: (1) internal controls and information systems; (2) internal audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate exposure; (6) asset growth; (7) compensation, fees and benefits; (8) asset quality; and (9) earnings. Again, rather than providing specific rules, the guidelines set forth basic compliance considerations and guidance with respect to a depository institution. Failure to meet the standards in the guidelines, however, could result in a request by the OTS to MetaBank to provide a written compliance plan to demonstrate its efforts to come into compliance with such guidelines.

*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 results 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 MetaBank’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 two top examination categories; (ii) are not of supervisory concern, and will remain adequately or well-capitalized, as found 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 state requirements, it must obtain prior approval of the OTS before declaring any proposed distributions.

The OTS has the authority, however, to prohibit a proposed capital distribution that would otherwise be permitted by regulation if it determines that such distribution would be an unsafe or unsound activity. MetaBank is also subject to certain restrictions on dividends as a result of its conversion from the mutual form of ownership. Such restrictions are not expected to interfere with the dividend policies of the Bank.

*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 (primarily residential mortgages and related investments, including certain mortgage-backed securities) 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 to loans and investments. At September 30, 2008, MetaBank met the test and always has since its effectiveness.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it qualifies 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 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 a particular community. The CRA requires the OTS, in connection with the examination of MetaBank, 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 was examined for CRA compliance in October 2008 and received a satisfactory rating.

*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.

*Transactions with Affiliates*. MetaBank must comply with Sections 23A and 23B of the Federal Reserve Act relative to transactions with “affiliates,” generally defined to mean any company that controls or is under common control with the institution (as such, Meta Financial is an affiliate of

MetaBank for these purposes). Transactions between an institution or its subsidiaries and its affiliates are required to be on terms as favorable to MetaBank as terms prevailing at the time for transactions with nonaffiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the institutions' capital ( *e.g.*, the aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the institution; the aggregate amount of covered transactions with all affiliates is limited to 20% of the institution's capital and surplus). In addition, a savings and loan holding company 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 MetaBank. The Regulation unifies and updates staff interpretations issued over the years, incorporates several new interpretive 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 and must not create an abnormal risk of repayment or other unfavorable features for the Bank.

*Federal Home Loan Bank System* . MetaBank is a member of the FHLB of Des Moines, one of 12 regional FHLBs that administers the home financing credit function of savings associations that is subject to supervision and regulation by the Federal Housing Finance Agency. 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 is required to purchase and maintain activity-based capital stock in the FHLB of Des Moines in the amount of 4.45% to support outstanding advances and mortgage loans. At September 30, 2008, the Bank had in the aggregate \$8.1million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 2008, dividends paid by the FHLB of Des Moines to MetaBank totaled \$254,000.

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 Bank's FHLB stock may result in a corresponding reduction in the Bank's capital. 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.

## **Holding Company Supervision & Regulation**

Meta Financial is a unitary savings and loan holding company within the meaning of the Home Owners' Loan Act. (Meta Financial deregistered as a bank holding company once it completed the sale of MetaBank WC in the spring of 2008.) As such, it is registered with the Office of Thrift Supervision and is subject to OTS regulations, examinations, supervision, reporting requirements and regulations concerning corporate governance and activities. The OTS requires payment of a semi-annual assessment which includes a \$3,000 base assessment with an additional assessment based upon the holding company's risk or complexity, organizational form and condition.

Pursuant to federal law, a savings and loan holding company may not, directly or indirectly: (i) acquire control of a savings institution without prior OTS approval; (ii) through one or more subsidiaries, acquire more than 5% of the voting stock of another savings institution, or its holding company, without the prior written approval of the OTS; (iii) acquire through merger, consolidation or purchase of assets of another savings institution (or holding company thereof) without prior OTS approval, or (iv) acquire control of an uninsured institution. When considering applications made by holding companies to it, the OTS must consider the financial and managerial resources and future prospects of the company and institution(s) involved, the effect of the potential acquisition on the DIF, the convenience and needs of the community and competitive issues.

*Failure to Meet QTL Test.* If a banking subsidiary of a savings and loan holding company fails to meet the QTL test, the holding company must register with the FRB as a bank holding company within one year of the savings institution's failure to comply.

*Acquisition of Control.* Under the Change in Bank Control Act, a notice must be submitted to the OTS if any person (defined to include both individuals and corporate entities) or group of persons acting in concert seeks to acquire control of a savings and loan holding company or its depository institution subsidiary. An acquisition of control can occur upon the acquisition of 10% or more of the voting stock of a savings and loan holding company or savings institution subsidiary or as otherwise defined by the OTS. This presumption of control at the 10% level of ownership of voting securities can be rebutted with a submission to the OTS prior to the acquisition of stock or the occurrence of any other circumstance giving rise to such presumption.

Pursuant to the CIBC Act, the OTS has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the effect the acquisition could have on the depositors or the public, the competitive effects of the acquisition and the financial and managerial resources of the acquirer. Any company deemed to be in "control" would then be subject to regulation as a savings and loan holding company and subject to registration with the OTS and the agency's registration, examination and regulation.

## **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, 2008, 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 files Iowa franchise tax returns. Meta Financial and First Services Financial, a subsidiary of MetaBank 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 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's retail banking operation 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's retail banking operation attracts 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's retail banking operation serves Buena Vista, Dallas and Polk counties in Iowa and Brookings, Lincoln and Minnehaha counties in South Dakota. There are twenty-two commercial banks, four savings banks other than MetaBank, and two credit unions which compete for deposits and loans in MetaBank's primary market area in northwest Iowa and eight commercial banks, one savings bank other than MetaBank, and one credit union which compete for deposits and loans in MetaBank's market area in Brookings, South Dakota. The Bank competes for deposits and loans with numerous financial institutions located throughout the metropolitan market areas of Des Moines, Iowa and Sioux Falls, South Dakota.

The Company's payment systems division serves customers nationally and faces competition from large commercial banks and specialty providers of electronic payments processing and servicing, including prepaid, debit, and credit card issuers, ACH processors, and ATM network sponsors. Many of these national players are aggressive competitors, leveraging relationships and economies of scale the Company is still developing.

## **Employees**

At September 30, 2008, the Company and its subsidiaries had a total of 398 employees, including 8 part-time employees. The Company's employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

## **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 40, 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.

On April 23, 2007, Mr. Scott Galit, age 38, was named Executive Vice President of Meta Payments Systems. Additionally, Mr. Galit serves on the MetaBank Executive Committee. Mr. Galit previously served as Senior Vice President of Global Prepaid Products at MasterCard® Worldwide. Prior to joining MasterCard®, Mr. Galit was Senior Vice President and General Manager of First Data Prepaid Solutions. Mr. Galit was a founding board member of the Network Branded Prepaid Card Association ("NBPCA") and currently serves on the NBPCA Advisory Board.

On January 28, 2008, Mr. David W. Leedom, age 54, was appointed Senior Vice President and Secretary, Treasurer, and Chief Financial Officer of the Company. Additionally, Mr. Leedom became a member of the Executive Committees for both the Company and MetaBank. Mr. Leedom brings over 23 years of experience in the banking and financial services industry to the company. Since January, 2007, Mr. Leedom served as Senior Vice President of Portfolio Credit and Business Analytics at MetaBank. He previously served as a Senior and as an Executive Vice President for BankFirst for 11 years prior to joining Meta in January 2007; his experience at BankFirst included his positions as EVP of Accounting and Finance and Credit Portfolio Management. Mr. Leedom received a Bachelor of Business Administration in Accounting degree from the University of Iowa.

## **Item 1A. Risk Factors**

Factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results include those described below as well as other risks and factors identified from time to time in our SEC filings. 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. Among other things, adverse

changes in the economy, including but not limited to the current economic downturn, 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, the vast majority 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.

***Recessionary environment may adversely impact the Company's earnings and new governmental initiatives may not prove effective.***

Recently, there seems to be widespread agreement that the U.S., and perhaps the world economy in general, has entered a period of recession. As described above, a recession may have an adverse impact on the Company's revenues and income, both in the banking and MPS segments. Further, passage of the Emergency Economic Stabilization Act of 2008 and the implementation thereof by the US Treasury and the federal banking agencies may not prove effective enough to blunt the effect of the downturn in the economy. See "Regulation" herein.

***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 the Company operate in a highly regulated environment and are subject to extensive regulation, supervision and examination by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"). 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 MetaBank 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 MetaBank 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, MetaBank encounters 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 MetaBank's competitors have substantially greater resources and lending limits and may offer services that MetaBank 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.***

MetaBank originates 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 is greatly dependent on many things outside the control of either the Bank or the borrowers. These factors include weather, commodity prices, and interest rates, among others.
- *MPS Program Loans .* MPS originates consumer loans, in some cases related to anticipated tax refunds that are funded to prepaid cards. For certain of these loans, repayment is based on the customer filing a tax return and the Internal Revenue Service funding the tax refund. If either or both do not occur, losses could result. MPS has loss protection agreements in place with certain business partners in which they will absorb some or all of such losses in the event they were to occur.

***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.***

Beginning with this annual report on Form 10-K, the Company has to include in its annual reports filed with the SEC a report of the Company's management regarding internal control over financial reporting. As a result, we began last year 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 (or SOA) and SEC 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. The SOA also requires an attestation report by the Company's independent auditors addressing these assessments at the conclusion of our 2009 fiscal year on September 30, 2009. 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 material weaknesses or 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.

The previously reported two material weaknesses in internal controls from fiscal year 2007 have been corrected and eliminated. No other material weaknesses have been identified in connection with the Company's fiscal year 2008 audit. If material weaknesses are identified in the future, such weaknesses could have a material impact on the profitability and performance of the Company.

***The Company's duties under the Sarbanes-Oxley Act of 2002 have been increasing and are anticipated to increase further in fiscal 2009.***

As indicated in a preceding risk fact, pursuant to the requirements of Section 404 of the SOA Act, beginning with this annual report the Company is required to provide an annual management assessment of the effectiveness of our internal controls over financial reporting. Beginning with our next annual report for the fiscal year ending September 30, 2009, Section 404 of the SOA will also require a report by our independent auditors addressing our management's assessments. These reporting and other obligations have placed, and will increasingly continue to place, significant demands on our management, administrative, operational, internal audit, tax and accounting resources. We are implementing additional

financial and management controls, reporting systems and procedures and an internal audit function and are hiring additional accounting, internal audit and finance staff. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with our financial reporting requirements and other rules that apply to public companies could be impaired.

***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.***

MetaBank, including the Meta Payment Systems Division of MetaBank, depends 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 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.

***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, 2008, the Company was authorized to issue up to 5,200,000 shares of common stock, of which 2,601,103 shares were outstanding, and 356,896 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, without further stockholder approval, the Company may issue up to 2,598,897 additional shares of common stock. This factor may affect the market price for shares of the Company's common stock.

***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 MetaBank's earnings, capital requirements, financial condition and other factors considered relevant by the Company's Board of Directors.

#### **Risks Related to Meta Payment Systems<sup>®</sup>, a division of MetaBank**

***MPS' products and services are highly regulated financial products subject to extensive supervision and regulation.***

The products and services offered by MPS are highly regulated by federal banking agencies, state banking agencies, and other federal and state regulators. Some of the laws and related regulations affecting its operations include consumer protection laws, escheat laws, privacy laws, and data protection laws. Compliance with the relevant legal paradigm in which the division operates is costly and requires significant personnel resources, as well as extensive contacts with outside lawyers and consultants hired by MPS to stay abreast of the applicable regulatory schemes.



***While some proposed legislation would benefit MPS, it is possible that new legislation could restrict MPS's current operations or change the regulatory environment in which the division's customers operate.***

Although it is possible that some newly enacted legislation could have either a positive or *de minimis* impact on its operations and profitability it is just as likely that any new legislation affecting the operations of MPS or its customers, some of which are also regulated entities, would have a negative impact on the conduct of the relevant business. There is no way to quantify the impact that such changes could have on the profitability or operations of MPS at this time given the unpredictable nature of the risk.

In addition to the relevant legal paradigm set forth above, it should also be noted that there has been concern within the bank regulatory environment over the use of credit and, in particular, prepaid cards as a means by which to illegally launder and move money. Should the regulatory scheme change in any fashion as to alter the current environment by which such products and services may be offered, this could have a significant impact upon MPS's operations as well as the operations of its customers.

***MPS, through MetaBank, owns or is seeking a number of patents, trademarks and other forms of intellectual property with respect to the operation of its business and the protection of such intellectual property may in the future require material expenditures.***

In its operations, MPS, through MetaBank, is seeking protection for various forms of intellectual property. No assurance can be given that such protection will be granted. In addition, the competitive market environment of its business, MPS must be vigilant in ensuring that its patents and other intellectual property are protected and not exploited by unlicensed third parties.

MPS must also protect itself and defend against intellectual property challenges initiated by third parties making various claims against MPS. With respect to these claims, regardless of whether we are pursuing our claims against perceived infringers or defending our intellectual property from third parties asserting various claims of infringement, it is possible that significant personnel time and monetary resources could be used to pursue or defend such claims.

It should also be noted that intellectual property risks extend to foreign countries whose protections of such property are not as extensive as those in the United States. As such, MPS may need to spend additional sums to ensure that its intellectual property protections are maximized globally. Moreover, should there be a material, improper use of MPS' intellectual property; this could have an impact on the division's operations.

***Contracts with third-parties may not be renewed, may be renegotiated on terms that are not as favorable to MPS or may not be fulfilled.***

MPS has entered into numerous contracts with third parties with respect to the operations of its business. In some instances, the third parties provide services to MPS; in other instances, MPS provides products and services to such third parties. Were such agreements not to be renewed by the third party or were such agreements to be renewed on terms less favorable to MPS, such actions could have a material impact on the division's profitability.

Similarly, were one of these parties unable to meet their obligations to us for any reason (including but not limited to bankruptcy, computer or other technological interruptions or failures, personnel loss or Acts of God), we may need to seek alternative service providers and the terms with such alternate providers may not be as favorable as those currently in place. In addition, were such failures to

cause a material disruption in our ability to service our customers, it is possible that our customer base would shrink. Moreover, were the disruptions in our ability to provide services significant, this could negatively affect the perception of our business in the card industry.

***International expansion presents unique opportunities and challenges .***

The international use of cards, both credit and prepaid, continues to grow. Such growth presents MPS with opportunities to acquire market share where its presence has been either minimal or nonexistent. Investments must be made by the division to pursue such opportunities, however, and the return on such investments may either be slow to mature or may fail to materialize completely. In addition, the pursuit of additional foreign opportunities may prevent the division from focusing on its current domestic business.

***Existing insurance policies may not adequately protect MPS.***

Business interruption and property insurance policies are in place with respect to the operations of MPS. Should any event triggering such policies occur, however, it is possible that our policies would not fully reimburse us for the losses we could sustain.

***Costs of conforming products and services to the Payment Card Industry Data Security Standards (the “PCI DSS”) are costly and could continue to affect the operations of MPS.***

The PCI DSS is a multifaceted standard that includes data security management, policies and procedures, as well as other protective measures, that was created by the largest credit card associations in the world in an effort to protect the nonpublic personal information of all types of cardholders, including prepaid cardholders and holders of network branded credit cards (such as Discover, MasterCard, and Visa). The PCI DSS mandates a prescribed technical foundation for the collection, storage and transmission of cardholder data and also contains significant provisions regarding the testing of security protections by various entities in the payment card industry, including MPS. Compliance with the PCI DSS is costly and changes to the standards could have an equal, or greater, effect on profitability of the relevant business division.

***The potential for fraud in the card payment industry is significant.***

Issuers of prepaid and credit cards have suffered significant losses in recent years with respect to the theft of cardholder data that has been illegally exploited for personal gain. The theft of such information is regularly reported and affects not only individuals but businesses as well (albeit to a lesser degree). Many types of credit card fraud exist, including the counterfeiting of cards and “skimming.” “Skimming” is the term for a specialized type of credit card information theft whereby, typically, an employee of a merchant will copy the cardholder’s number and security code (either by handwriting the information onto a piece of paper, entering such information into a keypad or other device, or using a handheld device which “reads” and then stores the card information embedded in the magnetic strip). Once a credit card number and security code has been skimmed, the skimmer can use such information for purchases until the unauthorized use is detected either by the cardholder or the card issuer.

Losses from skimming have been substantial for certain card industry participants. Although skimming has not had a material impact on the profitability of MPS, it is possible that such activity could impact this division at some time in the future.

***Part of our business depends on sales agents who do not sell our products exclusively .***

Our business model, to some degree, depends upon the use of sales agents who are not our employees. These agents sell the products and services of many different processors to merchants and other parties in need of a card services. Failure to maintain good relations with such sales agents could have a negative impact on our business.

***Products and services offered by MPS involve many business parties and the possibility of collusion exists.***

As described above, the theft of cardholder data is a significant threat in the industry in which MPS operates. This threat also includes the possibility that there is collusion between certain participants in the card system to act illegally. Although MPS is not aware of any instances to date, it is possible that such activities could occur in the future, thereby impacting its operation and profitability.

***Competition in the card industry is significant. In order to maintain an edge to its products and offerings, MPS must invest significantly in technology and research and development.***

The heavy emphasis upon technology in the products and services offered by MPS requires significant expenditures with respect to research and development both to exploit technological gains and to develop new products and services to meet customers' needs. As is common with most research and development, while some efforts may yield substantial benefits for the division, others will not, thereby resulting in expenditures for which profits will not be realized. MPS is not able to predict with any degree of certainty as to the level of research and development that will be required in the future, how much those efforts will cost, or how profitable such developments will be for the division once undertaken.

***Discover, MasterCard, and Visa, as well as other electronic funds networks in which MPS operates, could change their rules.***

Pursuant to the agreements between MPS and Discover, MasterCard, Visa and other card networks, these third parties typically have retained the right to prescribe certain business practices and procedures with respect to parties such as MPS. Such prescribed terms include, but are not limited to, a contracting party's level of capital as well as other business requirements.

Discover, MasterCard, and Visa also retain the right in their agreements with industry participants such as MPS to unilaterally change the rules under which such transactions are processed with little or no advance warning. This power includes the power to prevent MPS from accessing their networks in order to process transactions. Should any third party choose to invoke this right unilaterally, such changes could materially impact the operations of the MPS division.

***Our business is heavily dependent upon the Internet and any negative disruptions to its operation could negatively impact our business.***

Much of our business depends upon transactions being processed through the Internet. Like nearly all other commercial enterprises, we rely upon others to provide the Internet so that commerce can be conducted. Were there to be a failure in the operation of the Internet or a significant impairment in our ability to move information on the Internet or our ability to do so in accordance with customer safeguard protocols, the MPS division would develop alternative processes during which time profitability may be somewhat lower.

*Our ability to process transactions requires functioning communication and electricity lines.*

The nature of the credit card and debit card industry is that it must be operational every day of the week every hour of the week. Any disruption in the utilities utilized by MPS could have a negative effect on our operations and extensive disruptions could materially affect our operations.

*Data encryption technology has not been perfected and vigilance in Meta Payments Systems’ information technology systems is costly.*

MPS holds sensitive business and personal information with respect to the products and services it offers. This information, which is generally digitally encrypted, is passed along various technology channels, including the Internet. Although MPS encrypts its customer and other sensitive information and expends significant financial and personnel resources to maintain the integrity of its technology networks and the confidentiality of nonpublic customer information, because such information may travel on public technology and other non-secure channels, the confidential information is susceptible to hacking and other illegal intrusions. Were such a security breach to occur, the provision of products and services to Meta Payment System’s customers would be impaired and the division could incur significant fines from the electronic funds associations involved, significant regulatory fines imposed by federal and/or state regulators and other prohibitions, as well as extensive litigation from commercial parties and consumers affected by such breach.

*Unclaimed funds represented by unused value on the cards presents compliance and other risks.*

The notion of escheatment involves property that is abandoned and its rightful owner cannot be readily located and/or identified. In the context of prepaid cards, the funds represented on such cards can sometimes be “abandoned” or unused for the relevant period of time set forth in each applicable state’s abandoned property laws. Although MPS utilizes automated programs to ensure its operations are compliant with such applicable laws and regulations, there appears to be a movement among some state regulators to interpret definitions in those statutes and regulations in a manner that is different from standard industry interpretations. Should such state regulators choose to do so, they may initiate enforcement or other litigation action against prepaid card issuers such as Meta Payments Systems.

*MPS operates in a highly competitive environment and the ability to attract and retain qualified personnel may be difficult.*

MPS competes in a highly competitive environment with other larger and better capitalized financial intermediaries. In addition, the field of professionals involved in the design and production of products and services offered by MPS is highly skilled and actively sought after by financial institutions, electronic card networks and other commercial entities. As such, MPS must spend significant sums to attract employees and executives and must monitor compensation and other employment trends to ensure that compensation packages both foster the necessary creative environment and appropriately compensate such individuals in order to retain them.

**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. The Company operates six offices in metro Des Moines, Iowa. The Company also operates one office in Brookings, South Dakota and four offices in Sioux Falls, South Dakota. In addition, the Company leases space at another facility in Sioux Falls, South Dakota, which houses general corporate and MPS functions, leases space in Omaha, Nebraska, which houses certain MPS functions and operates a non-retail service branch in Memphis, Tennessee.

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, the administrative and MPS offices located on Broadband Lane in Sioux Falls, Omaha and the non-retail service branch in Memphis, Tennessee. In regard to the South Western and West 12<sup>th</sup> 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, 2008 was \$22.0 million. See Note 7 to the "Notes to Consolidated Financial Statements" which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The Company is experiencing rapid growth, particularly as a result of growth of MPS. While current facilities are adequate to meet its present needs, the Company may add additional locations in the future, and may be required to expand capacity for administrative support functions.

MetaBank 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, 2008 was approximately \$2.6 million.

**Item 3. Legal Proceedings**

MetaBank ("the Bank") was named in several lawsuits relating to certain borrowers of the Bank, known as the Dan Nelson companies. All of these lawsuits have now been resolved.

The case of *Chris Dengler, et al, v. Nelson Automotive Group, Inc., et al* was recently resolved when the South Dakota Supreme Court dismissed the plaintiffs' appeal of the lower court's dismissal of the Bank. In the Circuit Court of South Dakota, County of Minnehaha, (Civ. No. 06-1106) a lawsuit was filed by a number of plaintiffs who had purchased vehicles from the Dan Nelson companies. This suit named the Bank and J. Tyler Haahr, together with a number of other defendants. The Bank, in conjunction with a group of participating banks, had provided a series of loans and lines of credit to Dan Nelson Auto Group ("DNAG") and South Dakota Acceptance Corporation ("SDAC"). Plaintiffs allege that the defendants, including the Bank, "participated in the fraudulent scheme" by virtue of providing these lines of credit and loans despite being aware of the predatory consumer practices of the Nelson companies, and that MetaBank profited by receiving undisclosed "special benefits" for providing these loans. DNAG, SDAC and Dan Nelson have since filed for bankruptcy. Plaintiffs also allege that MetaBank did not vigorously pursue claims against Dan Nelson and fellow DNAG executive Chris Tapken in their respective personal bankruptcies in order to allow these individuals to emerge with control over assets of their former companies. After the Bank filed a Motion to Dismiss, the claims against J. Tyler Haahr personally and MetaBank were dismissed with prejudice on January 4, 2008. Plaintiffs appealed as to the dismissal of MetaBank only, to the South Dakota Supreme Court. The South Dakota Supreme Court dismissed the plaintiff's appeal.

*First Midwest Bank-Deerfield Branches, et al, v. MetaBank.* U.S. District Court for the District of South Dakota, Southern Division (4:06-cv-4114). During the three months ended June 30, 2006 or shortly thereafter three banks filed lawsuits against MetaBank. An additional bank, North American Banking Company, joined these three bank plaintiffs in one consolidated federal lawsuit. These four Plaintiffs were participating lenders with MetaBank on a series of loans made to the Dan Nelson companies, including DNAG and SDAC. Plaintiffs alleged that they suffered damages as a result of MetaBank's placement and administration of the loans that were the subject of the loan participation agreements. The complaints alleged breach of contract, negligence, gross negligence, negligent misrepresentation, fraud in the inducement, unjust enrichment and breach of fiduciary duty. All of these four cases have now been resolved through mediations which took place in July and August, 2008. Settlement agreements have been executed, and the cases have been dismissed. The Company's insurance carrier has agreed to cover virtually all of the settlement amounts in three cases and paid for counsel to defend all four actions through discovery.

*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. The complaint alleged 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 Dan Nelson, DNAG and SDAC by the Iowa Attorney General at the time Home Federal agreed to an extension of the loan participation agreements. After discovery was complete and a trial date scheduled, this case was successfully mediated and settled in Sioux Falls on October 2, 2008. A settlement agreement was signed on that date, and the case has now been dismissed. As a result of the Home Federal settlement, on a pro rated basis net of previously established reserves and insurance proceeds already collected, the net effect on the Registrant is a charge of \$1.0 million. As a result of all these Dan Nelson settlements, the Company recorded a final charge of approximately \$2.1 million (\$1.3 million after taxes), including legal expenses and after insurance claims and reserves are accounted for.

In an unrelated suit, *First Federal Bank Littlefield Texas ssb, formerly known as, First Federal Savings and Loan Association, Littlefield, Texas v. MetaBank, formerly known as First Federal Savings Bank of the Midwest, filed in the 154<sup>th</sup> Judicial District Court of Lamb County* (Cause No. 17435); *The Frost National Bank v. MetaBank and Meta Financial Group, Inc., filed in the United States District Court for the Northern District of Texas* (Cause No. 3:08-CV-625-M). On April 3, 2008, First Federal Bank filed suit against MetaBank in Texas State Court in Lubbock seeking recovery of a purported MetaBank certificate of deposit (CD) that it claims it purchased. On April 11, 2008, Frost National Bank filed suit against MetaBank in the United States District Court for the District of Texas seeking a similar recovery. On June 25, 2008, an action was filed in the 95<sup>th</sup> Judicial District Court for Dallas County, Texas entitled *Methodist Hospitals of Dallas v MetaBank and Meta Financial Group* seeking recovery of a purported MetaBank CD purchased in May, 2001. Additionally, on July 14, 2008, a class action complaint was filed in the United States District Court for the District of New Hampshire entitled *Guardian Angel Credit Union v MetaBank* (Cause No. 08-CV-261-PB) and was filed on behalf of Guardian Angel Credit Union and all other CD purchasers similarly situated, to recover funds in connection with purported MetaBank CDs. Further, on November 18, 2008, Coreplus Federal Credit Union (Cause No. 3.08 cv 1763 AVC) filed a civil action in the Superior Court for New London County in the state of Connecticut seeking recovery of funds connected to a purported MetaBank CD. Earlier, MetaBank had been contacted by another institution, but could find no record of the CD it had allegedly purchased, and commenced an investigation. As a result of that investigation, it now appears that a former MetaBank employee had been selling fraudulent CDs, using MetaBank's name and standard form of CD, to various financial institutions through an independent broker and instructing purchasers to wire the purchase money into one of a number of false accounts she had created at MetaBank. The Bank continues to receive a number of demands from purchasers of these fraudulent CDs in addition to the

lawsuits listed above. All evidence currently available indicates that the former employee ran this fraud for her own benefit and regularly took money from the MetaBank accounts to which the purchase monies had been wired. As a result of the interruption of this fraud, there are some \$4.2 million of bogus CDs still outstanding to various financial institutions. As the former employee was apparently using the funds of new victims to pay off the previous victims of her scheme, it does not appear at this time that she stole any Bank money as part of this fraud. MetaBank therefore does not appear at this time to have suffered any direct loss as a result of the fraud, but it may suffer a loss to the extent it is exposed to liability for claims such as these. There are unresolved questions as whether, under what theory and to what degree the Bank might be liable for the former employee's actions. At this time, MetaBank's insurer has agreed to provide a defense to the two litigations in Texas under a reservation of rights.

Other than the matters set forth above, there are no other material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation 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, 2008.

**PART II**

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

Meta Financial Group's common stock trades on the NASDAQ Global Market<sup>®</sup> under the symbol "CASH." Quarterly dividends for 2008 and 2007 were \$0.13. The price range of the common stock, as reported on the NASDAQ System, was as follows:

|                | Fiscal Year 2008 |          | Fiscal Year 2007 |          |
|----------------|------------------|----------|------------------|----------|
|                | Low              | High     | Low              | High     |
| First Quarter  | \$ 38.83         | \$ 41.98 | \$ 24.15         | \$ 29.80 |
| Second Quarter | 17.34            | 40.75    | 27.32            | 35.50    |
| Third Quarter  | 16.00            | 27.00    | 31.00            | 38.22    |
| Fourth Quarter | 16.85            | 27.55    | 37.50            | 42.00    |

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.

As of September 30, 2008, Meta Financial Group had 2,503,655 shares of common stock outstanding, which were held by 249 shareholders of record, and 311,328 shares subject to outstanding options. The shareholders of record number does not reflect approximately 500 persons or entities that hold their stock in nominee or "street" name.



The transfer agent for the Company's common stock is Registrar & Transfer Company, 10 Commerce Drive, Cranford, New Jersey, 07016.

There have been no purchases by the Company during the quarter ended September 30, 2008 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

**Item 6. Selected Financial Data**

| <u>SEPTEMBER 30,</u>   | <u>2008</u>    | <u>2007</u>    | <u>2006</u>    | <u>2005</u>      | <u>2004</u>    |
|--|----------------|----------------|----------------|------------------|----------------|
| <b>SELECTED FINANCIAL CONDITION DATA</b><br>(Dollars in Thousands)               |                |                |                |                  |                |
| Total assets   | \$ 757,256     | \$ 686,080     | \$ 740,921     | \$ 775,839       | \$ 780,799     |
| Loans receivable, net  | 427,928        | 355,612        | 368,959        | 415,568          | 381,406        |
| Securities available for sale  | 203,834        | 158,701        | 172,444        | 213,245          | 290,186        |
| Goodwill   | 2,206          | 1,508          | 1,508          | 1,508            | 1,508          |
| Deposits   | 545,972        | 522,978        | 538,169        | 510,258          | 433,928        |
| Total borrowings   | 147,683        | 78,534         | 114,789        | 176,857          | 241,354        |
| Shareholders' equity   | 46,807         | 48,098         | 45,099         | 42,959           | 47,274         |
| <u>YEAR ENDED SEPTEMBER 30,</u>  | <u>2008</u>    | <u>2007</u>    | <u>2006</u>    | <u>2005</u>      | <u>2004</u>    |
| <b>SELECTED OPERATIONS DATA</b><br>(Dollars in Thousands, Except Per Share Data) |                |                |                |                  |                |
| Total interest income  | \$ 37,418      | \$ 37,774      | \$ 38,112      | \$ 38,368        | \$ 33,433      |
| Total interest expense   | 13,415         | 16,967         | 19,611         | 20,305           | 16,894         |
| Net interest income  | 24,003         | 20,807         | 18,501         | 18,063           | 16,539         |
| Provision for loan losses  | 2,715          | 3,168          | 310            | 4,713            | 473            |
| Net interest income after provision for loan losses                              | 21,288         | 17,639         | 18,191         | 13,350           | 16,066         |
| Total non-interest income  | 37,696         | 21,858         | 13,495         | 3,502            | 3,296          |
| Total non-interest expense   | 61,820         | 36,958         | 26,641         | 17,995           | 13,797         |
| Income (loss) from continuing operations before income tax expense (benefit)     | (2,836)        | 2,539          | 5,045          | (1,143)          | 5,565          |
| Income tax expense (benefit)   | (1,002)        | 1,227          | 1,666          | (491)            | 1,903          |
| Income (loss) from continuing operations   | (1,834)        | 1,312          | 3,379          | (652)            | 3,662          |
| Income (loss) from discontinued operations, net of tax                           | 1,885          | (141)          | 309            | (272)            | 325            |
| Net income (loss)  | <u>51</u>      | <u>1,171</u>   | <u>3,688</u>   | <u>(924)</u>     | <u>3,987</u>   |
| Basic earnings (loss) per common share:  |                |                |                |                  |                |
| Income (loss) from continuing operations   | \$ (0.71)      | \$ 0.52        | \$ 1.36        | \$ (0.27)        | \$ 1.48        |
| Income (loss) from discontinued operations                                       | 0.73           | (0.06)         | 0.12           | (0.11)           | 0.13           |
| Net income (loss)  | <u>\$ 0.02</u> | <u>\$ 0.46</u> | <u>\$ 1.48</u> | <u>\$ (0.38)</u> | <u>\$ 1.61</u> |
| Diluted earnings (loss) per common share:  |                |                |                |                  |                |
| Income (loss) from continuing operations   | \$ (0.70)      | \$ 0.50        | \$ 1.34        | \$ (0.27)        | \$ 1.46        |
| Income (loss) from discontinued operations                                       | 0.72           | (0.05)         | 0.12           | (0.11)           | 0.13           |
| Net income (loss)  | <u>\$ 0.02</u> | <u>\$ 0.45</u> | <u>\$ 1.46</u> | <u>\$ (0.38)</u> | <u>\$ 1.59</u> |



| YEAR ENDED SEPTEMBER 30,                                  | 2008     | 2007     | 2006     | 2005     | 2004     |
|---|----------|----------|----------|----------|----------|
| <b>SELECTED FINANCIAL RATIOS AND OTHER DATA</b>           |          |          |          |          |          |
| <b>PERFORMANCE RATIOS</b>                                 |          |          |          |          |          |
| Return on average assets                                  | 0.01%    | 0.17%    | 0.49%    | -0.12%   | 0.51%    |
| Return on average assets-continuing operations            | -0.24%   | 0.19%    | 0.45%    | -0.08%   | 0.47%    |
| Return on average equity                                  | 0.11%    | 2.69%    | 8.55%    | -2.04%   | 8.69%    |
| Return on average equity-continuing operations            | -3.98%   | 3.01%    | 7.83%    | -1.44%   | 7.98%    |
| Net interest margin-continuing operations                 | 3.75%    | 3.38%    | 2.85%    | 2.59%    | 2.44%    |
| Operating expense to average assets-continuing operations | 8.24%    | 5.26%    | 3.55%    | 2.29%    | 1.78%    |
| <b>QUALITY RATIOS-Continuing Operations</b>               |          |          |          |          |          |
| Non-performing assets to total assets at end of year      | 0.99%    | 0.38%    | 0.72%    | 0.84%    | 0.09%    |
| Allowance for loan losses to non-performing loans         | 76%      | 196%     | 121%     | 373%     | 706%     |
| <b>CAPITAL RATIOS</b>                                     |          |          |          |          |          |
| Shareholders' equity to total assets at end of period     | 6.18%    | 7.01%    | 6.09%    | 5.54%    | 6.05%    |
| Average shareholders' equity to average assets            | 6.15%    | 6.20%    | 5.76%    | 5.77%    | 5.91%    |
| <b>OTHER DATA</b>   |          |          |          |          |          |
| Book value per common share outstanding                   | \$ 18.00 | \$ 18.57 | \$ 17.79 | \$ 17.16 | \$ 18.98 |
| Dividends declared per share                              | 0.52     | 0.52     | 0.52     | 0.52     | 0.52     |
| Number of full-service offices                            | 13       | 17       | 19       | 17       | 16       |

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

This section should be read in conjunction with the following parts on this Form 10-K: Part II, Item 8 "Consolidated Financial Statements and Supplementary Data," Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," and Part I, Item 1 "Description of Business."

**General**

Meta Financial Group, Inc. ® (the "Company") is a unitary savings and loan holding company whose primary subsidiary is MetaBank (the "Bank"). The Company focuses on two core businesses, its regional retail banking business and a national payments business, conducted through its Meta Payment Systems ® ("MPS") division. The Company's retail bank business is focused 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 retail bank's primary market area includes the following counties: Buena Vista, Dallas and Polk located in central and northwestern Iowa, and Brookings, Lincoln, and Minnehaha located in east central South Dakota. The traditional retail bank segment 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, and to originate consumer, agricultural and other commercial loans.

MPS, a division of the Bank, is an industry leader in the issuance of prepaid debit cards and is also a provider of a wide range of payment-related products and services, including prepaid debit cards such as those related to gift, tax refunds, rebate, travel and payroll, ATMs, and consumer credit products. MPS pursues a strategy of working with industry-leading companies in a variety of businesses to help them introduce new payment products to their customers. In addition, MPS partners with emerging companies to develop and introduce new payment products. MPS earns revenues from fees as well as being a significant provider of low- and no-cost demand deposits related to its prepaid card business.

## Overview of Corporate Developments

The MPS division continued to demonstrate significant growth on a year-over-year basis. Fiscal 2008 MPS-related card fee income grew 125% as all product lines were higher than in fiscal 2007. MPS has expanded its tax-related business and rebate business lines. During fiscal 2008 the Bank participated in a test program for tax refund anticipation loans with a major tax preparation firm. The Company took steps to manage the funding and credit risks and realized its expected return on the program. In addition, MPS provided a prepaid debit card for refunds with another major tax preparation company. The division also continued to exhibit product innovation as fifteen additional patents were filed during the fiscal 2008. The iAdvance micro lending product, which is a program designed to provide a line of credit on prepaid cards, is experiencing increasing consumer acceptance and performance and has thus far validated management's expectations. Expansion opportunities are currently being considered for this product.

The traditional bank segment is continuing to build its customer base from its previous expansion in the growing metropolitan areas of Sioux Falls, South Dakota and Des Moines, Iowa. The Bank has added seven branches in approximately the past seven years in these markets. The Bank focuses primarily on establishing lending and deposit relationships with commercial businesses and commercial real estate developers in these communities. During the second quarter of fiscal 2008, the Company sold its commercial banking subsidiary, MetaBank WC, which included three branches in rural West-Central Iowa. The transaction closed March 28, 2008. The Company is now a unitary savings and loan holding company, not a bank holding company, and is subject to the jurisdiction of the OTS. This transaction allows the Company to increase its focus on higher growth markets and business lines. The Bank now operates 13 retail banking branches: in Brookings (1) and Sioux Falls (4), South Dakota, in Des Moines (6) and Storm Lake (2), Iowa and a non-retail service branch in Memphis, Tennessee.

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 in this Annual Report.

As of September 30, 2008, the Company's assets grew by \$71.2 million, or 10.4%, to \$757.3 million compared to \$686.1 million at September 30, 2007, including the sale of approximately \$35.8 million of assets as part of the MetaBank WC sale during the second quarter of fiscal 2008. See Note 2 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for further discussion on discontinued operations. The increase in assets was reflected primarily in increases in the Company's securities, loan portfolios and other assets offset in part by decreases in the Company's cash, federal funds sold and assets related to discontinued operations.

Total cash and cash equivalents and federal funds sold were \$8.2 million at September 30, 2008, a decrease of \$78.2 million, or 90.6%, from \$86.3 million at September 30, 2007. The decrease primarily was the result of the Company's loan growth and decision to purchase mortgage-backed securities during fiscal 2008. In general, the Company maintains its cash investments in interest-bearing overnight deposits with various correspondent banks. Federal funds sold deposits may be maintained at various commercial banks, including, but not limited to the following: CitiBank, JP Morgan Chase, LaSalle Bank, M&I Bank, BNP Paribas, Bank of America, and Banker's Bank, with assets in excess of \$1.0 billion. At September 30, 2008 the Company held \$5.2 million of federal funds sold.

Investment securities available for sale, including mortgage-backed securities, increased \$45.1 million, or 28.4%, to \$203.8 million at September 30, 2008, as investment purchases exceeded related maturities, sales, and principal paydowns. The Company's portfolio of investment securities available for sale consists primarily of mortgage-backed securities with balloon maturities, which have relatively short expected lives and limited maturity extension risk. During fiscal year 2008, the Company purchased \$102.8 million of mortgage-backed securities with average lives of three to four years or stated finals of approximately eleven years or less and sold mortgage-backed securities in the amount of \$17.0 million. See Note 4 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The Company's portfolio of net loans receivable increased by \$72.3 million, or 20.3%, to \$427.9 million at September 30, 2008 from \$355.6 million at September 30, 2007. The Company's loan growth primarily relates to strong demand for commercial real estate and agricultural real estate loans. All categories of loans experienced growth except for commercial and agricultural business loans, both of which decreased. See Note 5 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The Company owns stock in the Federal Home Loan Bank ("FHLB") of Des Moines due to its membership and participation in this banking system. The Company's investment in such stock increased \$4.1 million, or 101.5%, to \$8.1 million at September 30, 2008 from \$4.0 million at September 30, 2007. The increase was due to an increase in the level of borrowings from the FHLB, which require a calculated level of stock investment based on a formula determined by the FHLB.

Bond insurance receivable increased \$6.1 million at September 30, 2008 due to the Company recording a receivable during fiscal 2008 from our insurance company related to an anticipated recovery of certificate of deposit fraud and litigation settlement of DNAG.

Assets related to discontinued operations, held for sale, decreased 100.0% or \$35.8 million from the levels at September 30, 2007 due to the sale of MetaBank WC on March 28, 2008. See Note 2 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for further discussion on discontinued operations.

MPS Accounts Receivable increased \$48.3 million to \$50.0 million at September 30, 2008 from \$1.7 million at September 30, 2007. The increase was primarily related to an increase in prepaid card funding in transit items at MPS.

Total deposits increased by \$23.0 million, or 4.4%, to \$546.0 million at September 30, 2008 from \$523.0 million at September 30, 2007. The majority of this increase related to an increase in non-interest-bearing checking deposits on prepaid cards due to growth at MPS, although non-MPS deposits grew as well. The Company's deposit mix continues to shift away from higher costing certificates of deposit and money market deposits toward low- and no-cost checking deposits. Total checking deposits increased by \$95.3 million, or 34.7%, to \$370.0 million at September 30, 2008 from \$274.7 million at September 30, 2007. Total savings and certificates of deposit declined \$34.1 million, or 20.4%, to \$132.9 million at September 30, 2008 from \$167.0 million at September 30, 2007. Money market account balances also decreased during fiscal year 2008, decreasing \$38.3 million, or 47.1%, to \$43.0 million at September 30, 2008 from \$81.3 million at September 30, 2007.

The Company's total borrowings increased \$69.1 million, or 88.0%, much of which is due to a short-term borrowing need at the end of the quarter, to \$147.7 million at September 30, 2008 from \$78.5 million at September 30, 2007. See Notes 9, 10, and 11 to the "Notes to Consolidated Financial

Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

The Company’s contingent liability for potential loss on certificates of deposit fraud increased \$4.3 million for fiscal 2008 as compared to the prior year. This liability is offset by the above referenced bond insurance receivable recorded during the first quarter of fiscal 2008.

Liabilities related to discontinued operations, held for sale, decreased 100.0% or \$30.9 million from the levels at September 30, 2007 due to the sale of MetaBank WC on March 28, 2008. See Note 2 to the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K for further discussion on discontinued operations.

At September 30, 2008, the Company’s shareholders’ equity totaled \$46.8 million, down \$1.3 million from \$48.1 million at September 30, 2007. The decrease was related to an unfavorable change in the accumulated other comprehensive loss on the Company’s available for sale portfolio and payment of dividends on the Company’s common stock. The above was partially offset by an increase to additional paid in capital as a result of stock compensation payments for fiscal 2008. At September 30, 2008, MetaBank continues to meet regulatory requirements for classification as a well-capitalized institution. See Note 15 to the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

## **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 in this Annual Report.

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. In fiscal 2008, the Company’s net interest income after provision for loan losses and its non-interest income improved significantly from levels in fiscal 2007. Non-interest expense also increased in proportion to net interest income and non-interest income. However, other non-interest expense increased more dramatically from 2007 primarily due to litigation settlement expense. A more detailed explanation of the factors responsible for results of operations of the Company is presented below.

The Company’s non-interest income is derived primarily from prepaid card and ATM fees attributable to MPS and fees charged on loans and transaction accounts. This income is offset, in part, by expenses, such as compensation and occupancy expenses associated with additional personnel and office locations as well as card processing expenses attributable to MPS. To a lesser extent, non-interest income is derived from gains or losses on the sale of 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<sup>®</sup> (“Meta Trust”), a wholly-owned subsidiary of Meta Financial Group, which provides a variety of professional trust services. Non-interest expense is also impacted by occupancy and equipment expenses and legal and consulting expenses. The Company’s fiscal year 2007 non-interest income was impacted by a gain on sale of four branches in the amount of \$3.3 million.

## Comparison of Operating Results for the Years Ended September 30, 2008 and September 30, 2007

**General.** The Company's loss from continuing operations was \$1.8 million, or \$0.70 per diluted share, for the year ended September 30, 2008 compared to income of \$1.3 million, or \$0.50 per diluted share, for the year ended September 30, 2007. Including discontinued operations, the Company recorded net income of \$51,000, or \$0.02 per diluted share, for the year ended September 30, 2008 compared to \$1.2 million, or \$0.45 per diluted share, for the year ended September 30, 2007. Net earnings in fiscal 2008 were impacted by a pre-tax gain of \$2.3 million resulting from the sale of the Company's commercial banking subsidiary, MetaBank WC. See Note 2 of the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for further information on discontinued operations. Fiscal year 2008 income was reduced by the settlement expense for the Dan Nelson-related lawsuits as well as an increase in provision expense related to one borrower's apparently fraudulent actions against the Bank (and other banks) in obtaining several commercial real estate and commercial operating loans. Additionally, earnings were positively impacted by increased income from card fees from all of MPS' programs and services, loan growth and higher net interest income. In particular, MPS-related card fees for the fiscal 2008 grew by 125.3% over the prior fiscal year. Offsetting these factors, in part, were higher operating expenses as MPS continued to build its supporting infrastructure, operational scalability, and product development capacity. Earnings in fiscal year 2007 were impacted by a large provision for loan losses related primarily to an impairment on a commercial loan relationship of \$5.0 million related to fraud by the borrower and a gain on the sale of four branches in northwest Iowa of \$3.3 million.

**Net Interest Income.** Net interest income from continuing operations for fiscal 2008 increased by \$3.2 million, or 15.4%, to \$24.0 million from \$20.8 million for the prior fiscal year. The increase in net interest income reflects a higher net interest margin and a larger average earning asset base. Net interest margin increased 13 basis points to 3.51% in fiscal year 2008 from 3.38% in fiscal year 2007. The improvement also resulted from the continued shift in the Company's funding mix attributable to growth in non-interest-bearing deposits and decreases in higher costing certificates and public funds deposits.

The Company's average earning assets increased \$67.2 million, or 10.9%, to \$683.5 million during fiscal year 2008 from \$616.3 million during fiscal year 2007. The increase is primarily the result of the increase in the loan portfolio and mortgage-backed securities. The Company's yield on earning assets declined 66 basis points to 5.47% during fiscal year 2008 from 6.13% during fiscal year 2007. The decrease is the result primarily of decreasing yields on the Company's loan portfolio and other investments.

The Company's average total deposits and interest-bearing liabilities increased \$76.3 million, or 12.4%, to \$693.0 million during fiscal year 2008 from \$616.7 million during fiscal year 2007. The increase resulted mainly from an increase in the Company's non-interest-bearing deposits and wholesale borrowings. The Company's cost of total deposits and interest-bearing liabilities declined 81 basis points to 1.94% during fiscal year 2008 from 2.75% during fiscal year 2007.

## 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 resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments have been made. Non-Accruing loans have been included in the table as loans carrying a zero yield. Balances related to discontinued operations have been reclassified to non-interest earning assets and non-interest bearing liabilities for all periods presented.

| Year Ended September 30,<br>(Dollars in Thousands)                                       | 2008                              |                              |                 | 2007                              |                              |                 | 2006                              |                              |                 |
|--|-----------------------------------|------------------------------|-----------------|-----------------------------------|------------------------------|-----------------|-----------------------------------|------------------------------|-----------------|
|  | Average<br>Outstanding<br>Balance | Interest<br>Earned /<br>Paid | Yield /<br>Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned /<br>Paid | Yield /<br>Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned /<br>Paid | Yield /<br>Rate |
| <b>Interest-earning assets:</b>  |                                   |                              |                 |                                   |                              |                 |                                   |                              |                 |
| Loans receivable   | \$ 413,866                        | \$ 25,909                    | 6.26%           | \$ 354,465                        | \$ 25,584                    | 7.22%           | \$ 390,002                        | \$ 27,948                    | 7.17%           |
| Mortgage-backed securities   | 194,785                           | 8,484                        | 4.36%           | 135,007                           | 5,500                        | 4.07%           | 163,032                           | 6,185                        | 3.79%           |
| Other investments  | 74,809                            | 3,025                        | 4.04%           | 126,853                           | 6,690                        | 5.27%           | 96,416                            | 3,979                        | 4.13%           |
| <b>Total interest-earning assets</b>   | <b>683,460</b>                    | <b>\$ 37,418</b>             | <b>5.47%</b>    | <b>616,325</b>                    | <b>\$ 37,774</b>             | <b>6.13%</b>    | <b>649,450</b>                    | <b>\$ 38,112</b>             | <b>5.87%</b>    |
| Non-interest-earning assets  | 66,388                            |                              |                 | 86,502                            |                              |                 | 99,960                            |                              |                 |
| <b>Total assets</b>  | <b>\$ 749,848</b>                 |                              |                 | <b>\$ 702,827</b>                 |                              |                 | <b>\$ 749,410</b>                 |                              |                 |
| Non-interest bearing deposits  | \$ 341,624                        | \$ —                         | 0.00%           | \$ 230,930                        | \$ —                         | 0.00%           | \$ 147,520                        | \$ —                         | 0.00%           |
| <b>Interest-bearing liabilities:</b>   |                                   |                              |                 |                                   |                              |                 |                                   |                              |                 |
| Interest-bearing checking  | 15,075                            | 104                          | 0.69%           | 22,004                            | 538                          | 2.45%           | 21,852                            | 789                          | 3.61%           |
| Savings  | 10,072                            | 105                          | 1.04%           | 17,586                            | 471                          | 2.68%           | 46,822                            | 1,388                        | 2.96%           |
| Money markets  | 61,592                            | 1,478                        | 2.40%           | 67,087                            | 2,301                        | 3.43%           | 83,486                            | 2,354                        | 2.82%           |
| Time deposits  | 139,868                           | 6,071                        | 4.34%           | 183,505                           | 8,355                        | 4.55%           | 215,815                           | 8,225                        | 3.81%           |
| FHLB advances  | 103,768                           | 3,960                        | 3.82%           | 77,433                            | 4,091                        | 5.28%           | 115,102                           | 5,488                        | 4.77%           |
| Other borrowings   | 20,965                            | 1,697                        | 8.09%           | 18,172                            | 1,211                        | 6.66%           | 26,846                            | 1,367                        | 5.09%           |
| <b>Total interest-bearing liabilities</b>  | <b>351,340</b>                    | <b>13,415</b>                | <b>3.82%</b>    | <b>385,787</b>                    | <b>16,967</b>                | <b>4.40%</b>    | <b>509,923</b>                    | <b>19,611</b>                | <b>3.85%</b>    |
| <b>Total deposits and interest-bearing liabilities</b>                                   | <b>692,964</b>                    | <b>\$ 13,415</b>             | <b>1.94%</b>    | <b>616,717</b>                    | <b>\$ 16,967</b>             | <b>2.75%</b>    | <b>657,443</b>                    | <b>\$ 19,611</b>             | <b>2.98%</b>    |
| Other non-interest bearing liabilities   | 10,778                            |                              |                 | 42,557                            |                              |                 | 48,831                            |                              |                 |
| <b>Total liabilities</b>   | <b>703,742</b>                    |                              |                 | <b>659,274</b>                    |                              |                 | <b>706,274</b>                    |                              |                 |
| Shareholders' equity   | 46,106                            |                              |                 | 43,553                            |                              |                 | 43,136                            |                              |                 |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 749,848</b>                 |                              |                 | <b>\$ 702,827</b>                 |                              |                 | <b>\$ 749,410</b>                 |                              |                 |
| Net interest income and net interest rate spread including non-interest bearing deposits |                                   | <b>\$ 24,003</b>             | <b>3.54%</b>    |                                   | <b>\$ 20,807</b>             | <b>3.38%</b>    |                                   | <b>\$ 18,501</b>             | <b>2.89%</b>    |
| <b>Net interest margin</b>   |                                   |                              | <b>3.51%</b>    |                                   |                              | <b>3.38%</b>    |                                   |                              | <b>2.85%</b>    |

## 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.

### Rate / Volume

| Year Ended September 30,<br>(Dollars in Thousands) | 2008 vs. 2007                             |   |                                   | 2007 vs. 2006                             |   |                                   |
|--|---|---|-----------------------------------|---|---|-----------------------------------|
|  | Increase /<br>(Decrease)<br>Due to Volume | Increase /<br>(Decrease)<br>Due to Rate | Total<br>Increase /<br>(Decrease) | Increase /<br>(Decrease)<br>Due to Volume | Increase /<br>(Decrease)<br>Due to Rate | Total<br>Increase /<br>(Decrease) |
| <b>Interest-earning assets</b>                     |   |   |                                   |   |   |                                   |
| Loans receivable                                   | \$ 1,573                                  | \$ (1,248)                              | \$ 325                            | \$ (2,567)                                | \$ 203                                  | \$ (2,364)                        |
| Mortgage-backed securities                         | 2,570                                     | 414                                     | 2,984                             | (1,203)                                   | 518                                     | (685)                             |
| Other investments                                  | (2,336)                                   | (1,329)                                 | (3,665)                           | 1,444                                     | 1,267                                   | 2,711                             |
| <b>Total interest-earning assets</b>               | <b>\$ 1,808</b>                           | <b>\$ (2,164)</b>                       | <b>\$ (356)</b>                   | <b>\$ (2,326)</b>                         | <b>\$ 1,988</b>                         | <b>\$ (338)</b>                   |
| <b>Interest-bearing liabilities</b>                |   |   |                                   |   |   |                                   |
| Interest-bearing checking                          | \$ (132)                                  | \$ (302)                                | \$ (434)                          | \$ 6                                      | \$ (257)                                | \$ (251)                          |
| Savings  | (150)                                     | (216)                                   | (366)                             | (794)                                     | (123)                                   | (917)                             |
| Money markets                                      | (176)                                     | (647)                                   | (823)                             | 521                                       | (574)                                   | (53)                              |
| Time deposits                                      | (1,913)                                   | (371)                                   | (2,284)                           | (433)                                     | 563                                     | 130                               |
| FHLB advances                                      | (701)                                     | 570                                     | (131)                             | (2,086)                                   | 689                                     | (1,397)                           |
| Other borrowings                                   | 203                                       | 283                                     | 486                               | (3,510)                                   | 3,354                                   | (156)                             |
| <b>Total interest-bearing liabilities</b>          | <b>\$ (2,870)</b>                         | <b>\$ (682)</b>                         | <b>\$ (3,552)</b>                 | <b>\$ (6,296)</b>                         | <b>\$ 3,652</b>                         | <b>\$ (2,644)</b>                 |
| <b>Net effect on net interest income</b>           | <b>\$ 4,678</b>                           | <b>\$ (1,482)</b>                       | <b>\$ 3,196</b>                   | <b>\$ 3,970</b>                           | <b>\$ (1,664)</b>                       | <b>\$ 2,306</b>                   |

**Provision for Loan Losses.** In fiscal 2008, the Company recorded a provision for loan losses of \$2.7 million, compared to \$3.2 million for fiscal 2007. Due to delinquency trends in the Company's loan portfolio, the Company was able to maintain the level of loan loss allowance considered to be acceptable by the Company's management in the current year. The provision recorded in the prior fiscal year was directly related to a \$5.0 million provision on a purchased participation loan relationship. See "Non-performing Assets and Allowance for Loan Losses" herein.

As disclosed in the Registrant's 10-Q for the period ending June 30, 2008, the Company had learned that a borrower of the Bank had likely participated in a fraud on the Bank and other banks. On October 8, 2008, the Bank's investigation of the fraud, loans and advances to the borrower, the collateral underlying the loan, and insurance coverage lead it to conclude that it is appropriate to establish a reserve for loan losses at September 30, 2008 of \$1.8 million (approximately \$1.1 million after taxes).

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime loans, management is concerned that developments over the past 18 months in the sub-prime mortgage market may have a ripple effect on residential real estate prices. In addition, the current recessionary environment may strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Over the past six years, loss rates in the commercial and multi-family real estate market have remained moderate. Management recognizes that low charge-off rates over the past several



years reflect the formerly strong economic environment and are not indicative of likely losses over a full business cycle. This observation, as well as the aforementioned concerns regarding the economic slowdown, has led management to the conclusion that future losses in this portfolio may be somewhat higher than recent historical experience, excluding loan losses related to fraud by borrowers. On the other hand, current trends in agricultural markets remain reasonable. Higher commodity prices as well as higher yields have created positive economic conditions for most farmers. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the aforementioned recession may also negatively impact consumers' repayment capacities. Additionally, a sizable portion of the Company's consumer loan portfolio is secured by residential real estate, as discussed above, is an area to be closely monitored by management in view of its stated concerns.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at September 30, 2008 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. 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 \$15.8 million, or 72.5%, to \$37.7 million for fiscal 2008 from \$21.9 million for fiscal 2007. Fees earned on prepaid debit cards and other payment systems products and services were \$34.6 million for fiscal 2008 as compared to \$15.4 million for fiscal 2007.

Noninterest income in the prior year was impacted by a pre-tax gain of \$3.3 million resulting from the sale of four branches in northwest Iowa. Management performed an evaluation of whether the sale of the branches constituted discontinued operations, and concluded that the operations and cash flows of the branches sold were not discontinued operations. Revenue and expenses of the entity, including the gain on sale, are, therefore, included in the appropriate income statement line items for all periods presented.

**Non-interest Expense.** Non-interest expense increased by \$24.8 million, or 67.3%, to \$61.8 million for fiscal 2008 from \$37.0 million for the same period in fiscal year 2007.

Compensation expense totaled \$25.7 million for fiscal 2008 as compared to \$18.2 million for fiscal 2007. The increase represents the addition of management, client relations, product development, compliance and operations support staff within MPS, as well as software developers, Information Technology ("IT") support staff, and other administrative support within the Company. Many of the new employees at MPS and in IT are focused on developing and supporting new product lines and increasing market penetration of our payments systems products and services. Management expects that payroll costs will continue to increase as MPS issues more cards and offers new and expanded products and services.

Costs associated with the operational support of card-related products at MPS also increased. Card processing expenses totaled \$15.6 million for fiscal 2008 as compared to \$6.4 million for fiscal 2007. These expenses primarily stem from prepaid card programs managed by MPS. Other card processing expense increases are attributable to settlement functions for value loading, card sales and



anticipated growth of existing products. Management expects that these costs will continue to increase as MPS issues more cards and offers new and expanded products and services.

The Company's occupancy and equipment expense also rose during fiscal year 2008 as compared to fiscal 2007, primarily driven by the addition of administrative office space in Sioux Falls, SD, and Omaha, NE, and a new branch/administrative office in downtown Des Moines, IA, as well as investment in computer hardware and software, primarily to support growth at MPS. Occupancy and equipment expense for fiscal 2008 was \$6.6 million compared to \$4.0 million for fiscal 2007. Management expects that occupancy and equipment costs will continue to increase as MPS issues more cards and offers new and expanded products and services.

**Income Tax Expense.** Income tax benefit from continuing operations for fiscal 2008 was \$1.0 million, or an effective tax rate of 35.3%, compared to a tax expense of \$1.2 million, or an effective tax rate of 48.3%, in fiscal 2007. The change is due primarily to the decrease in net income before income tax expense (benefit). The Company's recorded income tax benefit was also impacted primarily by permanent differences between book and taxable income.

**Discontinued Operations.** Income (loss) from discontinued operations was income of \$1.9 million for fiscal 2008 compared to a loss of \$141,000 for fiscal 2007. The increase was primarily related to the gain on sale of MetaBank WC. See Note 2 of the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for further discussion on discontinued operations.

### **Comparison of Operating Results for the Years Ended September 30, 2007 and September 30, 2006**

**General.** The Company's income from continuing operations was \$1.3 million, or \$0.50 per diluted share, for the year ended September 30, 2007 compared to \$3.4 million, or \$1.34 per diluted share, for the year ended September 30, 2006. Net income was \$1.2 million, or \$0.45 per diluted share, for the year ended September 30, 2007 compared to \$3.7 million, or \$1.46 per diluted share, for the year ended September 30, 2006. Earnings in fiscal year 2007 were impacted by a large provision for loan losses related primarily to an impairment on a commercial loan relationship of \$5.0 million related to fraud by the borrower and a gain on the sale of four branches in northwest Iowa of \$3.3 million. Earnings in fiscal year 2006 were impacted by non-recurring fee income of \$2.6 million associated with a portfolio of purchased prepaid debit cards.

**Net Interest Income.** Net interest income from continuing operations for the year ended September 30, 2007 increased by \$2.3 million, or 12.5%, to \$20.8 million from \$18.5 million for the year ended September 30, 2006. 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 53 basis points to 3.38% in fiscal year 2007 from 2.85% in fiscal year 2006. The improvement resulted primarily from the shift in the Company's funding mix attributable to growth in non-interest-bearing deposits and decreases in higher costing certificates, public funds deposits, and wholesale borrowings.

The Company's average earning assets decreased \$33.1 million, or 5.1%, to \$616.3 million during fiscal year 2007 from \$649.5 million during fiscal year 2006. The decrease is primarily the result of the decrease in the loan portfolio. The Company's yield on earning assets rose 26 basis points to 6.13% during fiscal year 2007 from 5.87% during fiscal year 2006. The increase is the result primarily of increasing yields on the Company's other investments.

The Company's average total deposits and interest-bearing liabilities decreased \$40.7 million, or 6.2%, to \$616.7 million during fiscal year 2007 from \$657.4 million during fiscal year 2006. The decrease resulted mainly from a decrease in the Company's interest-bearing deposits and 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 decreased 23 basis points during fiscal year 2007 to 2.75% during fiscal year 2007 from 2.98% during fiscal year 2006. Despite an increasing interest rate environment in 2007, 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 2007, the Company recorded a provision for loan losses of \$3.2 million, compared to \$311,000 for fiscal year 2006. The reduction in the provision in 2006 relates in part to the Company's settlement agreement with one of several participants in an 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 relatively large provision in fiscal year 2007 is the primary reason that net interest income after provision for loan losses decreased by \$551,000, from \$18.2 million in fiscal 2006 to \$17.6 million in fiscal year 2007. For fiscal year 2007, the Company's provision for loan losses of \$3.2 million consisted of the impairment of a commercial lending relationship due to fraud by the borrower partially offset by a decrease in loans, a decrease in impaired loans and a \$500,000 recovery of a fidelity bond claim payment by the Company's insurance carrier.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime loans, management is concerned that recent developments in the sub-prime mortgage market may have a ripple effect on residential real estate prices. In addition, the potential for an economic slowdown and recent increase in energy prices may strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Over the past six years, loss rates in the commercial and multi-family real estate market have remained moderate. Management recognizes that low charge-off rates over the past several years reflect the strong economic environment and are not indicative of likely losses over a full business cycle. This observation, as well as the aforementioned concerns regarding an economic slowdown, has led management to the conclusion that future losses in this portfolio may be somewhat higher than recent historical experience, excluding loan losses related to fraud by borrowers. On the other hand, current trends in agricultural markets are very favorable. Higher commodity prices as well as higher yields have created positive economic conditions for most farmers. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the aforementioned possibility for a slowdown in economic growth during the next fiscal year may also negatively impact consumers' repayment capacities. Additionally, a sizable portion of the Company's consumer loan portfolio is secured by residential real estate, as discussed above, is an area to be closely monitored by management in view of its stated concerns.

Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, the size of the loan portfolio, and other factors, the current level of the allowance for loan losses at September 30, 2007 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. 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 \$8.4 million, or 62.0%, to \$21.9 million for the fiscal year 2007 from \$13.5 million for fiscal year 2006. Non-interest income in fiscal year 2007 was impacted by a gain on the sale of four branches in northwest Iowa of \$3.3 million. Non-interest income in the 2006 period was impacted by non-recurring pre-tax fee income of \$2.6 million related to a purchased portfolio of prepaid debit cards. Adjusting for these non-recurring items, non-interest income for fiscal year 2007 rose \$7.6 million, or 69.4%, over the same period in the prior fiscal year primarily due to an increase in card fee income. The majority of this growth is related to higher fee income earned on prepaid debit cards and other products and services offered by MPS.

Management performed an evaluation of whether the sale of the branches constituted discontinued operations, and concluded that the operations and cash flows of the branches sold were not discontinued operations. Revenue and expenses of the entity, including the gain on sale, are, therefore, included in the appropriate income statement line items for all periods presented.

**Non-interest Expense.** Non-interest expense increased by \$10.4 million, or 38.7%, to \$37.0 million for fiscal year 2007 from \$26.6 million for fiscal year 2006. Several factors contributed to this increase. Compensation expense rose \$5.4 million during the year, from \$12.8 million in fiscal year 2006 to \$18.2 million in fiscal year 2007. The increase represents the addition of executive level management, client relations, compliance and operations support staff within MPS, as well as software developers, Information Technology ("IT") support staff, and other administrative support within the Company. Many of the new employees at MPS and in IT will be focused on developing new product lines and increasing market penetration of our payments systems products and services.

Costs associated with the processing of card-related products at MPS also increased during fiscal year 2007. Card processing expense rose \$3.4 million from \$3.0 million in fiscal year 2006 to \$6.4 million in fiscal year 2007 as a result of the significant growth in the division's product lines. These expenses stem primarily from MPS' Simplexus<sup>®</sup> prepaid card product and other prepaid card programs managed by MPS. Other card processing expense increases are attributable to settlement functions for value loading, card sales and anticipated growth of existing products. Management expects that these costs will continue to increase as MPS issues more cards; however, it is anticipated that overall costs will increase less than revenues associated with these cards.

The Company's occupancy and equipment expense also rose during fiscal year 2007, driven primarily by the addition of administrative office space in Sioux Falls and Omaha, as well as investment in computer hardware and software, primarily to support growth at MPS. Occupancy and equipment expense for fiscal year 2007 was \$4.0 million compared to \$2.9 million in fiscal year 2006.

**Income Tax Expense.** Income tax expense from continuing operations for fiscal year 2007 was \$1.2 million, or an effective tax rate of 48.3%, compared to \$1.7 million, or an effective tax rate of 33.0%, in fiscal year 2006. The change is due primarily to the decrease in net income before income tax expense. The Company's recorded income tax expense was also impacted primarily by permanent differences between book and taxable income.

**Discontinued Operations.** Income (loss) from discontinued operations was a loss of \$141,000 for fiscal year 2007 compared to income of \$309,000 for fiscal year 2006. The decrease was primarily related to an increase in provision for loan losses in the amount of \$703,000 as compared to the prior fiscal year. See Note 2 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8

“Financial Statements and Supplementary Data” of this Annual Report on Form 10-K for further discussion on discontinued operations.

### **Critical Accounting Policies**

The Company’s financial statements are prepared in accordance with GAAP. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that 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 allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company’s historical loss experience, delinquency and charge-off trends, collateral values, changes in 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 methodology. As the Company adds new products and increases the complexity of its loan portfolio, it will enhance its methodology accordingly. Management may have reported a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company’s financial statements and the accompanying notes presented in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K, 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, 2008 and September 30, 2007 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 to the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

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.

**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 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, 2008 and 2007, 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, at September 30, 2008, the Company was more exposed to a decline in market value in a rising interest rate environment compared to September 30, 2007.

| Change in Interest Rate<br>(Basis Points)<br>(Dollars in Thousands) | Board Limit<br>% Change | At September 30, 2008 |          | At September 30, 2007 |          |
|---|-------------------------|-----------------------|----------|-----------------------|----------|
|   |                         | \$ Change             | % Change | \$ Change             | % Change |
| +200 bp   | (20)%                   | \$ (10,035)           | (14)%    | \$ 606                | (1)%     |
| +100 bp   | (10)                    | (4,739)               | (7)      | (221)                 | (1)      |
| 0   | —                       | —                     | —        | —                     | —        |
| -100 bp   | (10)                    | 2,447                 | 4        | (545)                 | (1)      |
| -200 bp   | (20)                    | 668                   | 1        | (3,226)               | (4)      |

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, 2008, nonperforming assets, consisting of impaired/non-accruing loans, accruing loans delinquent 90 days or more, restructured loans, foreclosed real estate, and repossessed consumer property, totaled \$7.5 million, or 1.10% of total assets, compared to \$2.6 million, or 0.38% of total assets, at September 30, 2007. This increase primarily relates to one commercial operating loan of \$4.6 million for which the Bank has set aside a \$1.0 million reserve.

Impaired/non-accruing and restructured loans at September 30, 2008 totaled \$7.5 million. There were no foreclosed real estate and repossessed assets at September 30, 2008.

The Company maintains an allowance for loan losses because of the potential that some loans may not be repaid in full. See Note 1 to the “Notes to Consolidated Financial Statements,” which is

included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. At September 30, 2008, the Company had an allowance for loan losses in the amount of \$5.7 million as compared to \$4.5 million at September 30, 2007. 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. As stated previously, 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 bank is subject to review by the OTS, which has 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, 2008, \$3.5 million of the allowance for loan losses was allocated to impaired loans, representing 22.2% of the related loan balances. See Note 5 of the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Form 10-K. \$113,000 of the allowance was allocated to other identified problem loan situations, representing 1.4% of the related loan balances, and \$2.1 million, representing 0.5% 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, 2007, \$1.5 million of the allowance for loan losses was allocated to impaired loans, representing 65.1% of the related loan balances. \$639,000 was allocated to other identified problem loan situations, and \$2.4 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 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 is required by regulation to maintain sufficient liquidity to assure its safe and sound operation. In the opinion of management, MetaBank is 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, 2008, 2007 and 2006, the Company originated loans totaling \$726.2 million, \$274.5 million, and \$306.6 million, respectively. Purchases of loans totaled \$55.3 million, \$44.9 million, and \$58.9 million during the years ended September 30, 2008, 2007 and 2006, respectively. During the years ended September 30, 2008, 2007 and 2006, the Company purchased mortgage-backed securities and other securities available for sale in the amount of \$102.8 million, \$13.2 million and \$109,000, respectively.

At September 30, 2008, the Company had unfunded loan commitments of \$57.4 million. See Note 16 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.. Certificates of deposit scheduled to mature in one year or less from September 30, 2008 totaled \$81.5 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, 2008 (Dollars in Thousands):

| <b>Contractual Obligations</b> | <b>Total</b>      | <b>Less than 1 year</b> | <b>1 to 3 years</b> | <b>3 to 5 years</b> | <b>More than 5 years</b> |
|--------------------------------|-------------------|-------------------------|---------------------|---------------------|--------------------------|
| Time deposits                  | \$ 123,491        | \$ 81,484               | \$ 34,487           | \$ 7,520            | \$ —                     |
| Long-term debt                 | 137,373           | 96,373                  | 30,000              | 2,500               | 8,500                    |
| Operating leases               | 12,038            | 1,642                   | 3,068               | 2,735               | 4,593                    |
| Subordinate debentures         |                   |                         |                     |                     |                          |
| Issued to capital trust        | 10,310            | —                       | —                   | —                   | 10,310                   |
| Data processing services       | 1,342             | 610                     | 732                 | —                   | —                        |
| <b>Total</b>                   | <b>\$ 284,554</b> | <b>\$ 180,109</b>       | <b>\$ 68,287</b>    | <b>\$ 12,755</b>    | <b>\$ 23,403</b>         |

During July 2001, the Company's unconsolidated trust subsidiary, First Midwest Financial Capital Trust I, sold \$10.0 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 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, 2007. The Company used the proceeds for general corporate purposes. See Note 11 to the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K..

The Company and its banking subsidiary, MetaBank, met regulatory requirements for classification as well capitalized institutions. See Note 15 to the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. 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, 2008, the ESOP held no unallocated shares.

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.

### **Off-Balance Sheet Financing Arrangements**

For discussion of the Company’s off-balance sheet financing arrangements, see Note 16 of “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. Depending on the extent to which the commitments or contingencies described in Note 16 occur, the effect on the Company’s capital and net income could be significant.

### **Other Matters**

The Company utilizes various third parties for, among other things, its processing needs, both with respect to standard bank operations and with respect to its MPS division. MPS was notified in April 2008 by one of the processors that the processor’s computer system had been breached, which led to the unauthorized load and spending of funds from Bank-issued cards. The Bank believes the amount in question to be approximately \$2.0 million and the processor has notified its insurer. The processor and program manager both have agreements with the Bank to indemnify it for any losses as a result of such unauthorized activity, and have additionally notified the Bank that they are sufficiently insured for such events. In addition, the Bank has given notice to its own insurer. As a result, the Bank does not presently anticipate any loss with respect to this event. As of the date of this filing, the Bank has been advised that the insurance claims filed by its third parties are still pending. The Company has made demand for payment and has filed a demand for arbitration to recover the unauthorized loading and spending amounts and certain damages.

### **Impact of Inflation and Changing Prices**

The Consolidated Financial Statements and Notes thereto presented in this Annual Report have been prepared in accordance with GAAP, 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.

## Impact of New Accounting Standards

In June 2006 the FASB issued FASB Interpretation No. 48, (“FIN No. 48”), *Accounting for Uncertainty in Income Taxes*, an Interpretation of Statement No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 was effective for the Company on October 1, 2007. As a result of the adoption and implementation of FIN No. 48, the Company determined that no liability for unrecognized tax benefits existed at October 1, 2007. There have been no changes to this amount during fiscal 2008.

At its September 2006 meeting, the Emerging Issues Task Force (“EITF”) reached a final consensus on Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under Statement No. 106 (“SFAS No. 106”) or Accounting Principles Board (“APB”) Opinion No. 12, *Omnibus Opinion - 1967*. The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue No. 06-04 is effective for the Company beginning October 1, 2008 and will not have an impact on the Company’s financial position, results of operation or cash flows.

In September 2006, the FASB issued Statement No. 157, (“SFAS No. 157”), *Fair Value Measurements*. SFAS No. 157 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. SFAS No. 157 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. SFAS No. 157 is effective for the Company beginning October 1, 2008 and adoption of SFAS No. 157 will not have a material impact on the Company’s financial position, results of operation or cash flows.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting principles. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company beginning October 1, 2008 and adoption of SFAS No. 159 will not have a material impact on the Company’s financial position, results of operation or cash flows.

At its March 2007 meeting, the EITF reached a final consensus on Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*. A consensus was reached that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106 or APB Opinion

No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive agreement with the employee. A consensus also was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The consensus are effective for the Company beginning October 1, 2008, including interim periods within those fiscal years, with early application permitted. Issue No. 06-10 will not have an impact on the Company's financial position, results of operation or cash flows.

In December 2007, the FASB issued FASB Statement No. 141R, *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R improves reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. SFAS No. 141R is effective July 1, 2009. The Company is currently evaluating the impact that the Statement will have on its consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("SFAS No. 160") which is effective for the Company beginning July 1, 2009. SFAS 160 improves the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interest in subsidiaries in the same way—as equity in the consolidated financial statements. The Company does not currently have any noncontrolling interest in the consolidated financial statements.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS No. 161"). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The Company will adopt SFAS 161 effective January 1, 2009. Management has reviewed SFAS No. 161 and does not expect the adoption of this statement to have a material impact on the Company's consolidated financial condition, results of operations or cash flow.

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 162"). SFAS No. 162 makes the hierarchy explicitly and directly applicable to preparers of financial statements, a step that recognizes preparers' responsibilities for selecting the accounting principles for their financial statements. SFAS No. 162 provides for slight modifications to the current hierarchy in place by adding FASB Staff Positions, Statement No. 133 Implementation Issues and EITF D-Topics to it. The Company will adopt SFAS No. 162 effective November 15, 2008.

**Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

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

The Company monitors and measures its exposure to changes in interest rates in order to comply with applicable government regulations and risk policies established by the Board of Directors, and in order to preserve 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, which thereby compresses 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.

**Item 8.                    Consolidated Financial Statements and Supplementary Data**

**Table of Contents**

|   |    |
|---|----|
| <b>Independent Registered Public Accounting Firm’s Report on the Financial Statements</b> | 80 |
| <b>Consolidated Financial Statements</b>  |    |
| <a href="#">Statements of Financial Condition</a>   | 81 |
| <a href="#">Statements of Operations</a>  | 82 |
| <a href="#">Statements of Comprehensive Income (Loss)</a>                                 | 83 |
| <a href="#">Statements of Shareholders’ Equity</a>  | 84 |
| <a href="#">Statements of Cash Flows</a>  | 85 |
| <a href="#">Notes to Consolidated Financial Statements</a>                                | 87 |



KPMG LLP  
2500 Ruan Center  
666 Grand Avenue  
Des Moines, IA 50309

### **Independent Auditors' Report**

Audit Committee

Meta Financial Group, Inc.:

We have audited the accompanying consolidated statement of financial condition of Meta Financial Group, Inc. and subsidiaries as of September 30, 2008, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of Meta Financial Group, Inc. and subsidiaries as of September 30, 2007, were audited by other auditors whose report thereon dated January 7, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2008 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, 2008, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

December 12, 2008

KPMG LLP, a U.S. limited liability partnership, is the U.S.  
member firm of KPMG International, a Swiss cooperative.

**META FINANCIAL GROUP, INC.  
AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
(Dollars in Thousands, Except Share and Per Share Data)

| ASSETS   | September 30, 2008 | September 30, 2007 |
|--|--------------------|--------------------|
| Cash and due from banks  | \$ 2,963           | \$ 1,210           |
| Interest-bearing deposits in other financial institutions  | —                  | 10,110             |
| <b>Total cash and cash equivalents</b>   | <b>2,963</b>       | <b>11,320</b>      |
| Federal funds sold   | 5,188              | 75,000             |
| Investment securities available for sale   | 19,711             | 25,960             |
| Mortgage-backed securities available for sale  | 184,123            | 132,741            |
| Loans receivable - net of allowance for loan losses of \$5,732 at September 30, 2008 and \$4,493 at September 30, 2007   | 427,928            | 355,612            |
| Federal Home Loan Bank stock, at cost  | 8,092              | 4,015              |
| Accrued interest receivable  | 4,497              | 4,189              |
| Bond insurance receivable  | 6,098              | —                  |
| Premises, furniture, and equipment, net  | 21,992             | 19,707             |
| Bank-owned life insurance  | 12,758             | 12,261             |
| Assets related to discontinued operations, held for sale   | —                  | 35,770             |
| Goodwill   | 2,206              | 1,508              |
| MPS accounts receivable  | 50,046             | 1,748              |
| Other assets   | 11,654             | 6,249              |
| <b>Total assets</b>  | <b>\$ 757,256</b>  | <b>\$ 686,080</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                    |                    |
| <b>LIABILITIES</b>   |                    |                    |
| Non-interest-bearing checking  | \$ 355,020         | \$ 260,098         |
| Interest-bearing checking  | 15,029             | 14,600             |
| Savings deposits   | 9,394              | 10,265             |
| Money market deposits  | 43,038             | 81,292             |
| Time certificates of deposit   | 123,491            | 156,723            |
| <b>Total deposits</b>  | <b>545,972</b>     | <b>522,978</b>     |
| Advances from Federal Home Loan Bank   | 132,025            | 68,000             |
| Securities sold under agreements to repurchase   | 5,348              | 224                |
| Subordinated debentures  | 10,310             | 10,310             |
| Accrued interest payable   | 578                | 842                |
| Contingent liability   | 4,293              | —                  |
| Liabilities related to discontinued operations, held for sale  | —                  | 30,949             |
| Accrued expenses and other liabilities   | 11,923             | 4,679              |
| <b>Total liabilities</b>   | <b>710,449</b>     | <b>637,982</b>     |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                    |                    |
| <b>SHAREHOLDERS' EQUITY</b>  |                    |                    |
| 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, 2,601,103 and 2,589,717 shares outstanding at September 30, 2008 and September 30, 2007, respectively | 30                 | 30                 |
| Additional paid-in capital   | 23,058             | 21,958             |
| Retained earnings - substantially restricted   | 35,516             | 36,805             |
| Accumulated other comprehensive (loss)   | (5,022)            | (3,345)            |
| Unearned Employee Stock Ownership Plan shares  | —                  | (377)              |
| Treasury stock, 356,896 and 368,282 common shares, at cost, at September 30, 2008 and September 30, 2007, respectively   | (6,775)            | (6,973)            |
| <b>Total shareholders' equity</b>  | <b>46,807</b>      | <b>48,098</b>      |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 757,256</b>  | <b>\$ 686,080</b>  |

See Notes to Consolidated Financial Statements.



**META FINANCIAL GROUP, INC  
AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in Thousands, Except Share and Per Share Data)

|   | For the Years Ended September 30, |                 |                 |
|---|-----------------------------------|-----------------|-----------------|
|   | 2008                              | 2007            | 2006            |
| Interest and dividend income:   |                                   |                 |                 |
| Loans receivable, including fees  | \$ 25,909                         | \$ 25,584       | \$ 27,948       |
| Mortgage-backed securities  | 8,484                             | 5,500           | 6,185           |
| Other investments   | 3,025                             | 6,690           | 3,979           |
|   | <u>37,418</u>                     | <u>37,774</u>   | <u>38,112</u>   |
| Interest expense:   |                                   |                 |                 |
| Deposits  | 7,758                             | 11,664          | 12,756          |
| FHLB advances and other borrowings  | 5,657                             | 5,303           | 6,855           |
|   | <u>13,415</u>                     | <u>16,967</u>   | <u>19,611</u>   |
| <b>Net interest income</b>  | <u>24,003</u>                     | <u>20,807</u>   | <u>18,501</u>   |
| Provision for loan losses   | 2,715                             | 3,168           | 311             |
| <b>Net interest income after provision for loan losses</b>                          | <u>21,288</u>                     | <u>17,639</u>   | <u>18,190</u>   |
| Non-interest income:  |                                   |                 |                 |
| Card fees   | 34,634                            | 15,375          | 10,821          |
| Gain on sale of branch office   | —                                 | 3,331           | —               |
| Deposit fees  | 833                               | 885             | 852             |
| Loan fees   | 777                               | 580             | 446             |
| Gain on sale of securities available for sale, net                                  | 24                                | 496             | —               |
| Gain on sale of membership equity interests, net                                    | 543                               | —               | —               |
| Bank-owned life insurance income  | 498                               | 436             | 555             |
| Other income  | 387                               | 755             | 821             |
|   | <u>37,696</u>                     | <u>21,858</u>   | <u>13,495</u>   |
| Non-interest expense:   |                                   |                 |                 |
| Compensation and benefits   | 25,731                            | 18,248          | 12,794          |
| Card processing expense   | 15,630                            | 6,377           | 2,986           |
| Occupancy and equipment expense   | 6,619                             | 4,003           | 2,932           |
| Legal and consulting expense  | 3,386                             | 2,965           | 3,021           |
| Marketing   | 1,250                             | 797             | 712             |
| Data processing expense   | 1,248                             | 911             | 628             |
| Other expense   | 7,956                             | 3,657           | 3,567           |
|   | <u>61,820</u>                     | <u>36,958</u>   | <u>26,640</u>   |
| <b>Income (loss) from continuing operations before income tax expense (benefit)</b> | <u>(2,836)</u>                    | <u>2,539</u>    | <u>5,045</u>    |
| Income tax expense (benefit) from continuing operations                             | (1,002)                           | 1,227           | 1,666           |
| <b>Income (loss) from continuing operations</b>                                     | <u>(1,834)</u>                    | <u>1,312</u>    | <u>3,379</u>    |
| Gain on sale from discontinued operations before taxes                              | 2,309                             | —               | —               |
| Income (loss) from discontinued operations before taxes                             | 76                                | (394)           | 458             |
| Income tax expense (benefit) from discontinued operations                           | 500                               | (253)           | 149             |
| <b>Income (loss) from discontinued operations</b>                                   | <u>1,885</u>                      | <u>(141)</u>    | <u>309</u>      |
| <b>Net income</b>   | <u>\$ 51</u>                      | <u>\$ 1,171</u> | <u>\$ 3,688</u> |
| Basic earnings (loss) per common share:   |                                   |                 |                 |
| Income (loss) from continuing operations  | \$ (0.71)                         | \$ 0.52         | \$ 1.36         |
| Income (loss) from discontinued operations  | 0.73                              | (0.06)          | 0.12            |
| Net income  | <u>\$ 0.02</u>                    | <u>\$ 0.46</u>  | <u>\$ 1.48</u>  |
| Diluted earnings (loss) per common share:   |                                   |                 |                 |
| Income (loss) from continuing operations  | \$ (0.70)                         | \$ 0.50         | \$ 1.34         |
| Income (loss) from discontinued operations  | 0.72                              | (0.05)          | 0.12            |
| Net income  | <u>\$ 0.02</u>                    | <u>\$ 0.45</u>  | <u>\$ 1.46</u>  |
| Dividends declared per common share:  | <u>\$ 0.52</u>                    | <u>\$ 0.52</u>  | <u>\$ 0.52</u>  |

See Notes to Consolidated Financial Statements.



---

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

|  | Year Ended<br>September 30, |                 |                 |
|--|-----------------------------|-----------------|-----------------|
|  | 2008                        | 2007            | 2006            |
| Net income   | \$ 51                       | \$ 1,171        | \$ 3,688        |
| Other comprehensive income (loss):                                       |                             |                 |                 |
| Change in net unrealized gains (losses) on securities available for sale | (2,698)                     | 1,422           | (2,186)         |
| Gains realized in net income   | 24                          | 496             | —               |
|  | (2,674)                     | 1,918           | (2,186)         |
| Deferred income tax effect   | (997)                       | 715             | (819)           |
| Total other comprehensive income (loss)                                  | (1,677)                     | 1,203           | (1,367)         |
| Total comprehensive income (loss)  | <u>\$ (1,626)</u>           | <u>\$ 2,374</u> | <u>\$ 2,321</u> |

See Notes to Condensed Consolidated Financial Statements.

**META FINANCIAL GROUP, INC.  
AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Years Ended September 30, 2006, 2007, and 2008**  
(Dollars in Thousands, Except Share and Per Share Data)

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>other<br>Comprehensive<br>(Loss),<br>Net of Tax | Unearned<br>Employee<br>Stock<br>Ownership<br>Plan Shares | Treasury<br>Stock | Total<br>Shareholders'<br>Equity |
|---|-----------------|----------------------------------|----------------------|--|---|-------------------|----------------------------------|
| Balance, September 30, 2005   | \$ 30           | \$ 20,647                        | \$ 34,557            | \$ (3,181)   | \$ (825)  | \$ (8,269)        | \$ 42,959                        |
| Cash dividends declared on common stock (\$.52 per share)                               | —               | —                                | (1,292)              | —  | —   | —                 | (1,292)                          |
| Issuance of 18,712 common shares from treasury stock due to exercise of stock options   | —               | (156)                            | —                    | —  | —   | 429               | 273                              |
| Issuance of 3,667 common shares from treasury stock due to issuance of nonvested shares | —               | (44)                             | —                    | —  | —   | 44                | —                                |
| Stock compensation  | —               | 481                              | —                    | —  | —   | —                 | 481                              |
| 14,500 common shares committed to be released under the ESOP                            | —               | 41                               | —                    | —  | 316   | —                 | 357                              |
| Change in net unrealized losses on securities available for sale, net                   | —               | —                                | —                    | (1,367)  | —   | —                 | (1,367)                          |
| Net income for year ended September 30, 2006  | —               | —                                | 3,688                | —  | —   | —                 | 3,688                            |
| <b>Balance, September 30, 2006</b>  | <b>\$ 30</b>    | <b>\$ 20,969</b>                 | <b>\$ 36,953</b>     | <b>\$ (4,548)</b>  | <b>\$ (509)</b>   | <b>\$ (7,796)</b> | <b>\$ 45,099</b>                 |
| Balance, September 30, 2006   | \$ 30           | \$ 20,969                        | \$ 36,953            | \$ (4,548)   | \$ (509)  | \$ (7,796)        | \$ 45,099                        |
| Cash dividends declared on common stock (\$.52 per share)                               | —               | —                                | (1,319)              | —  | —   | —                 | (1,319)                          |
| Issuance of 55,350 common shares from treasury stock due to exercise of stock options   | —               | (130)                            | —                    | —  | —   | 823               | 693                              |
| Stock compensation  | —               | 1,117                            | —                    | —  | —   | —                 | 1,117                            |
| 5,750 common shares committed to be released under the ESOP                             | —               | 2                                | —                    | —  | 132   | —                 | 134                              |
| Change in net unrealized losses on securities available for sale, net                   | —               | —                                | —                    | 1,203  | —   | —                 | 1,203                            |
| Net income for year ended September 30, 2007  | —               | —                                | 1,171                | —  | —   | —                 | 1,171                            |
| <b>Balance, September 30, 2007</b>  | <b>\$ 30</b>    | <b>\$ 21,958</b>                 | <b>\$ 36,805</b>     | <b>\$ (3,345)</b>  | <b>\$ (377)</b>   | <b>\$ (6,973)</b> | <b>\$ 48,098</b>                 |
| Balance, September 30, 2007   | \$ 30           | \$ 21,958                        | \$ 36,805            | \$ (3,345)   | \$ (377)  | \$ (6,973)        | \$ 48,098                        |
| Cash dividends declared on common stock (\$.52 per share)                               | —               | —                                | (1,340)              | —  | —   | —                 | (1,340)                          |
| Issuance of 11,386 common shares from treasury stock due to exercise of stock options   | —               | 1                                | —                    | —  | —   | 198               | 199                              |
| Stock compensation  | —               | 901                              | —                    | —  | —   | —                 | 901                              |
| 16,562 common shares committed to be released under the ESOP                            | —               | 198                              | —                    | —  | 377   | —                 | 575                              |
| Change in net unrealized losses on securities available for sale, net                   | —               | —                                | —                    | (1,677)  | —   | —                 | (1,677)                          |
| Net income for year ended September 30, 2008  | —               | —                                | 51                   | —  | —   | —                 | 51                               |
| <b>Balance, September 30, 2008</b>  | <b>\$ 30</b>    | <b>\$ 23,058</b>                 | <b>\$ 35,516</b>     | <b>\$ (5,022)</b>  | <b>\$ —</b>   | <b>\$ (6,775)</b> | <b>\$ 46,807</b>                 |

See Notes to Consolidated Financial Statements.

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

|   | For the Years Ended September 30, |                  |                   |
|---|-----------------------------------|------------------|-------------------|
|   | 2008                              | 2007             | 2006              |
| <b>Cash flows from operating activities:</b>  |                                   |                  |                   |
| Net income  | \$ 51                             | \$ 1,171         | \$ 3,688          |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                                   |                  |                   |
| Effect of contribution to employee stock ownership plan                                     | 575                               | 134              | 357               |
| Depreciation, amortization and accretion, net   | 3,204                             | 2,580            | 3,025             |
| Provision for loan losses   | 2,715                             | 3,168            | 311               |
| (Gain) on sale of branches  | —                                 | (3,331)          | —                 |
| (Gain) on sale of investments available for sale, net                                       | (24)                              | (496)            | —                 |
| (Gain) on sale of membership equity interests, net  | (543)                             | —                | —                 |
| (Gain) on sale of other   | (81)                              | (71)             | (64)              |
| Net change in accrued interest receivable   | (308)                             | (127)            | (176)             |
| Net change in other assets  | (25,001)                          | (2,410)          | (2,264)           |
| Net change in accrued interest payable  | (264)                             | (53)             | 31                |
| Net change in accrued expenses and other liabilities  | (19,412)                          | 649              | 3,295             |
| Net cash (used in) provided by operating activities-continuing operations                   | (39,088)                          | 1,214            | 8,203             |
| Net cash provided by operating activities-discontinued operations                           | 6,029                             | 453              | 1,111             |
| <b>Net cash (used in) provided by operating activities</b>                                  | <b>(33,059)</b>                   | <b>1,667</b>     | <b>9,314</b>      |
| <b>Cash flow from investing activities:</b>   |                                   |                  |                   |
| Purchase of securities available for sale   | (102,790)                         | (13,216)         | (109)             |
| Net change in federal funds sold  | 69,812                            | (75,000)         | —                 |
| Proceeds from sales of securities available for sale  | 16,990                            | 1,098            | —                 |
| Net change in securities purchased under agreement to resell                                | —                                 | 5,891            | 31,622            |
| Proceeds from maturities and principal repayments of securities available for sale          | 37,355                            | 27,089           | 38,263            |
| Loans purchased   | (55,290)                          | (44,912)         | (58,929)          |
| Net change in loans receivable  | (19,961)                          | 52,830           | 107,707           |
| Proceeds from sales of foreclosed real estate   | 596                               | 318              | 4,281             |
| Cash transferred to buyer on sale of branch   | —                                 | (33,665)         | —                 |
| Net change in FHLB stock  | (4,077)                           | 1,038            | 2,419             |
| Proceeds from the sale of premises and equipment  | 105                               | 18               | —                 |
| Purchase of premises and equipment  | (5,195)                           | (4,758)          | (3,762)           |
| Other, net  | 1,283                             | —                | —                 |
| Net cash (used in) provided by investing activities-continuing operations                   | (61,172)                          | (83,269)         | 121,492           |
| Net cash provided by investing activities-discontinued operations                           | 17,598                            | 11,664           | 5,921             |
| <b>Net cash (used in) provided by investing activities</b>                                  | <b>(43,574)</b>                   | <b>(71,605)</b>  | <b>127,413</b>    |
| <b>Cash flows from financing activities:</b>  |                                   |                  |                   |
| Net change in checking, savings, and money market deposits                                  | 56,226                            | 37,562           | 77,642            |
| Net change in time deposits   | (33,232)                          | (15,882)         | (49,731)          |
| Net change in advances from Federal Home Loan Bank  | 64,025                            | (21,300)         | (57,250)          |
| Net change in securities sold under agreements to repurchase                                | 5,124                             | (14,955)         | (5,328)           |
| Cash dividends paid   | (1,340)                           | (1,319)          | (1,291)           |
| Stock compensation  | 901                               | 1,117            | 481               |
| Proceeds from exercise of stock options   | 199                               | 540              | 187               |
| Net cash provided by (used in) financing activities-continuing operations                   | 91,903                            | (14,237)         | (35,290)          |
| Net cash (used in) financing activities-discontinued operations                             | (33,210)                          | (4,275)          | (6,454)           |
| <b>Net cash provided by (used in) financing activities</b>                                  | <b>58,693</b>                     | <b>(18,512)</b>  | <b>(41,744)</b>   |
| <b>Net change in cash and cash equivalents</b>  | <b>(17,940)</b>                   | <b>(88,450)</b>  | <b>94,983</b>     |
| Cash and cash equivalents at beginning of period  | 20,903                            | 109,353          | 14,370            |
| Cash and cash equivalents at end of period  | <u>\$ 2,963</u>                   | <u>\$ 20,903</u> | <u>\$ 109,353</u> |

**META FINANCIAL GROUP, INC.  
AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (Con't.)**  
(Dollars in Thousands)

|  | For the Years Ended September 30, |                  |             |
|--|-----------------------------------|------------------|-------------|
|  | 2008                              | 2007             | 2006        |
| <b>Supplemental disclosure of cash flow information</b>                      |                                   |                  |             |
| Cash paid during the period for:   |                                   |                  |             |
| Interest   | \$ 14,277                         | \$ 18,319        | \$ 20,912   |
| Income taxes   | 470                               | 570              | 1,689       |
| <b>Supplemental schedule of non-cash investing and financing activities:</b> |                                   |                  |             |
| Loans transferred to foreclosed real estate                                  | \$ 278                            | \$ 318           | \$ 50       |
| Cash received on sale of commercial bank                                     | 8,224                             | —                | —           |
| Sale of Branches:  |                                   |                  |             |
| Assets disposed of:  |                                   |                  |             |
| Loans  | \$ —                              | \$ (2,223)       | \$ —        |
| Accrued interest receivable  | —                                 | (14)             | —           |
| Premises and equipment   | —                                 | (130)            | —           |
| Liabilities assumed by buyer:  |                                   |                  |             |
| Non-interest bearing demand, NOW, savings and money market deposits          | —                                 | 11,141           | —           |
| Time deposits  | —                                 | 28,030           | —           |
| Other liabilities  | —                                 | 192              | —           |
| (Gain) on sale of branches, net  | —                                 | (3,331)          | —           |
| Cash paid upon sale of branches  | <u>\$ —</u>                       | <u>\$ 33,665</u> | <u>\$ —</u> |

See Notes to Condensed Consolidated Financial Statements.

## **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 unitary savings and loan holding company located in Storm Lake, Iowa, and its wholly owned subsidiaries which include MetaBank (the “Bank”), a federally chartered savings bank whose primary federal regulator is the Office of Thrift Supervision, First Services Financial Limited and Brookings Service Corporation, which offer noninsured investment products, and Meta Trust Company<sup>®</sup>, 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 Trust is not included in the consolidated financial statements of the Company. All significant intercompany balances and transactions have been eliminated. The results of discontinued operations have been reported separately in the consolidated financial statements and the previously reported financial statements have been reclassified.

#### **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. Additionally, a significant source of income for the Company relates to payment processing services for prepaid debit cards, ATM sponsorship, and other money transfer systems and services. The Company accepts deposits from customers in the normal course of business primarily in northwest and central Iowa and eastern South Dakota and on a national basis for the MPS division. The Company operates in the banking industry, which accounts for the majority of its revenues and assets. 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 GAAP 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, the valuation of goodwill 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 AND FEDERAL FUNDS SOLD**

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 cash flows net for customer loan transactions, securities purchased under agreement to resell, deposit transactions, securities sold under agreements to repurchase, and Federal Home Loan Bank of Des Moines (“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 \$1.1 million and \$0 at September 30, 2008 and 2007, respectively. The Company at times maintains balances in excess of insured limits at various financial institutions including the FHLB, the Federal Reserve Bank, and other private institutions. At September 30, 2008 the Company had no interest bearing deposits held at the FHLB. At September 30, 2008 the Company had \$5.2 million of federal funds sold at several private institutions. The Company does not believe these 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 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.

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 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.

## **MORTGAGE SERVICING AND TRANSFERS OF FINANCIAL ASSETS**

MetaBank regularly sells residential mortgage loans to others on a non-recourse basis. Sold loans are not included in the consolidated financial statements. MetaBank generally retains the right to service the sold loans for a fee. At September 30, 2008 and 2007, MetaBank was servicing loans for others with aggregate unpaid principal balances of \$28.7 million and \$29.6 million, respectively.

## **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 loans not considered impaired and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Smaller-balance homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by one-to-four family residences, residential construction loans, and automobile, manufactured homes, home equity and second mortgage loans. Commercial and agricultural loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 90 days or more. 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 increased through a charge to income for reductions in fair value or increases in 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. Deferred tax assets



are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

MetaBank adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), as of October 1, 2007. The Company recognizes a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

## **PREMISES, FURNITURE, AND EQUIPMENT**

Land is carried at cost. Buildings, furniture, fixtures, leasehold improvements 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, 5 to 20 years for leasehold improvements 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 assets, 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.

## **ASSETS AND LIABILITIES RELATED TO DISCONTINUED OPERATIONS**

Assets and liabilities related to discontinued operations are carried at the lower of cost or estimated market value in the aggregate.

## **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 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.

## **REVENUE RECOGNITION**

Interest revenue from loans and investments is recognized on the accrual basis of accounting as the interest is earned according to the terms of the particular loan or investment. Income from service and other customer charges is recognized as earned. Card fee revenue within the MPS division is recognized as services are performed and service charges are earned in accordance with the terms of the various programs.

## **EARNINGS PER COMMON SHARE (EPS)**

Basic EPS 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. Diluted EPS shows the dilutive effect of additional potential common shares issuable under stock option plans. EPS, both basic and diluted, have been computed on a continuing and discontinued operations basis.

## **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 Statement of Financial Accounting Standards ("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 reclassifications have been made to prior periods' consolidated financial statements to present them on a basis comparable within the current period's consolidated financial statements.

## NEW ACCOUNTING PRONOUNCEMENTS

In June 2006 the FASB issued FASB Interpretation No. 48, (“FIN No. 48”), *Accounting for Uncertainty in Income Taxes*, an Interpretation of Statement No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 was effective for the Company on October 1, 2007. As a result of the adoption and implementation of FIN No. 48, the Company determined that no liability for unrecognized tax benefits existed at October 1, 2007. There have been no changes to this amount during fiscal 2008.

At its September 2006 meeting, the Emerging Issues Task Force (“EITF”) reached a final consensus on Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under Statement No. 106 (“SFAS No. 106”) or Accounting Principles Board (“APB”) Opinion No. 12, *Omnibus Opinion - 1967*. The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue No. 06-04 is effective for the Company beginning October 1, 2008 and will not have an impact on the Company’s financial position, results of operation or cash flows.

In September 2006, the FASB issued Statement No. 157, (“SFAS No. 157”), *Fair Value Measurements*. SFAS No. 157 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. SFAS No. 157 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. SFAS No. 157 is effective for the Company beginning October 1, 2008 and adoption of SFAS No. 157 will not have a material impact on the Company’s financial position, results of operation or cash flows.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* (“SFAS No. 159”). SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting principles. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company beginning October 1, 2008 and adoption of SFAS No. 159 will not have a material impact on the Company’s financial position, results of operation or cash flows.

At its March 2007 meeting, the EITF reached a final consensus on Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*. A consensus was reached that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee’s retirement or provide the employee with a death benefit based on the substantive agreement with the employee. A consensus also was reached that an employer should recognize and measure an

asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The consensuses are effective for the Company beginning October 1, 2008, including interim periods within those fiscal years, with early application permitted. Issue No. 06-10 will not have an impact on the Company's financial position, results of operation or cash flows.

In December 2007, the FASB issued FASB Statement No. 141R, *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R improves reporting by creating greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable, and relevant information for investors and other users of financial statements. SFAS No. 141R is effective July 1, 2009. The Company is currently evaluating the impact that the Statement will have on its consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("SFAS No. 160") which is effective for the Company beginning July 1, 2009. SFAS 160 improves the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interest in subsidiaries in the same way—as equity in the consolidated financial statements. The Company does not currently have any noncontrolling interest in the consolidated financial statements.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS No. 161"). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The Company will adopt SFAS 161 effective January 1, 2009. Management has reviewed SFAS No. 161 and does not expect the adoption of this statement to have a material impact on the Company's consolidated financial condition, results of operations or cash flow.

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 162"). SFAS No. 162 makes the hierarchy explicitly and directly applicable to preparers of financial statements, a step that recognizes preparers' responsibilities for selecting the accounting principles for their financial statements. SFAS No. 162 provides for slight modifications to the current hierarchy in place by adding FASB Staff Positions, Statement No. 133 Implementation Issues and EITF D-Topics to it. The Company will adopt SFAS No. 162 effective November 15, 2008.

## **NOTE 2. DISCONTINUED BANK OPERATIONS**

### **Sale of MetaBank West Central**

On November 29, 2007, the Company entered into an agreement to sell MetaBank WC. MetaBank WC has three branch offices in Stuart, Casey, and Menlo, Iowa. MetaBank WC is a state chartered commercial bank whose primary federal regulator is the Federal Reserve Bank of Chicago. On March 28, 2008 the Company consummated the sale of MetaBank WC to Anita Bancorporation (Iowa). The transaction involved the sale of the stock of MetaBank WC for approximately \$8.2 million and generated a pre-tax gain on sale of \$2.3 million. The activity related to Meta Bank WC is accounted for as discontinued operations.

Activities related to discontinued bank operations have been recorded separately with current and prior period amounts reclassified as assets and liabilities related to discontinued operations on the consolidated statements of financial condition and as discontinued operations on the consolidated

statements of operations and consolidated statement of cash flows. The notes to the consolidated financial statements have also been adjusted to eliminate the effect of discontinued bank operations.

Presented below are condensed financial statements for MetaBank WC.

## CONDENSED STATEMENTS OF FINANCIAL CONDITION - DISCONTINUED OPERATIONS

| September 30,  | 2008                   | 2007             |
|--|------------------------|------------------|
|  | (Dollars in Thousands) |                  |
| ASSETS   |                        |                  |
| Cash and cash equivalents                                      | \$ —                   | \$ 9,583         |
| Investments and mortgage-backed securities, available for sale | —                      | 11,658           |
| Loans receivable, net  | —                      | 9,599            |
| Other assets   | —                      | 4,930            |
| Total assets related to discontinued operations                | <u>\$ —</u>            | <u>\$ 35,770</u> |
| LIABILITIES  |                        |                  |
| LIABILITIES  |                        |                  |
| Deposits   | \$ —                   | \$ 24,610        |
| Other borrowings   | —                      | 6,300            |
| Other liabilities  | —                      | 39               |
| Total liabilities related to discontinued operations           | <u>\$ —</u>            | <u>\$ 30,949</u> |

## CONDENSED STATEMENTS OF OPERATIONS FOR DISCONTINUED OPERATIONS

|  | March 28, 2008         | September 30, 2007 | September 30, 2006 |
|--|------------------------|--------------------|--------------------|
|  | (Dollars in Thousands) |                    |                    |
| Interest income  | \$ 776                 | \$ 2,221           | \$ 2,466           |
| Interest expense   | 515                    | 1,305              | 1,331              |
| <b>Net interest income</b>                                 | <b>261</b>             | <b>916</b>         | <b>1,135</b>       |
| Provision for loan losses                                  | (57)                   | 627                | (76)               |
| <b>Net interest income after provision for loan losses</b> | <b>318</b>             | <b>289</b>         | <b>1,211</b>       |
| Noninterest income   | 2,441                  | 216                | 233                |
| Noninterest expense  | 374                    | 899                | 986                |
| <b>Net income (loss) before income tax expense</b>         | <b>2,385</b>           | <b>(394)</b>       | <b>458</b>         |
| Income tax expense (benefit)                               | 500                    | (253)              | 149                |
| <b>Net income (loss) from discontinued operations</b>      | <b>\$ 1,885</b>        | <b>\$ (141)</b>    | <b>\$ 309</b>      |

**NOTE 3. EARNINGS PER COMMON SHARE (EPS)**

A reconciliation of the income (loss) and common stock share amounts used in the computation of basic and diluted EPS for the fiscal years ended September 30, 2008, 2007 and 2006 is presented below.

|  | 2008  | 2007             | 2006             |
|--|---|------------------|------------------|
|  | (Dollars in Thousands, Except Share and Per Share Data) |                  |                  |
| Earnings (Loss)  |   |                  |                  |
| Income (loss) from continuing operations                                       | \$ (1,834)  | \$ 1,312         | \$ 3,379         |
| Discontinued operations, net of tax  | 1,885   | (141)            | 309              |
| Net income   | <u>\$ 51</u>  | <u>\$ 1,171</u>  | <u>\$ 3,688</u>  |
| Basic EPS  |   |                  |                  |
| Weighted average common shares outstanding                                     | 2,595,587   | 2,550,193        | 2,511,754        |
| Less weighted average unallocated ESOP and nonvested shares                    | (19,827)  | (25,213)         | (27,949)         |
| Weighted average common shares outstanding                                     | <u>2,575,760</u>  | <u>2,524,980</u> | <u>2,483,805</u> |
| Earnings (Loss) Per Common Share   |   |                  |                  |
| Income (loss) from continuing operations                                       | \$ (0.71)   | \$ 0.52          | \$ 1.36          |
| Discontinued operations, net of tax  | 0.73  | (0.06)           | 0.12             |
| Net income   | <u>\$ 0.02</u>  | <u>\$ 0.46</u>   | <u>\$ 1.48</u>   |
| Diluted EPS  |   |                  |                  |
| Weighted average common shares outstanding for basic earnings per common share | 2,575,760   | 2,524,980        | 2,483,805        |
| Add dilutive effect of assumed exercises of stock options, net of tax benefits | 57,204  | 92,916           | 38,052           |
| Weighted average common and dilutive potential common shares outstanding       | <u>2,632,964</u>  | <u>2,617,896</u> | <u>2,521,857</u> |
| Earnings (Loss) Per Common Share   |   |                  |                  |
| Income (loss) from continuing operations                                       | \$ (0.70)   | \$ 0.50          | \$ 1.34          |
| Discontinued operations, net of tax  | 0.72  | (0.05)           | 0.12             |
| Net income   | <u>\$ 0.02</u>  | <u>\$ 0.45</u>   | <u>\$ 1.46</u>   |

Stock options totaling 127,907, 26,682, and 99,355 were not considered in computing diluted earnings per common share for the years ended September 30, 2008, 2007, and 2006, respectively, because they were not dilutive.

**NOTE 4. SECURITIES**

Year end securities available for sale were as follows:

| <b>2008</b>                                      | <b>AMORTIZED<br/>COST</b>     | <b>GROSS<br/>UNREALIZED<br/>GAINS</b> | <b>GROSS<br/>UNREALIZED<br/>(LOSSES)</b> | <b>FAIR<br/>VALUE</b> |
|--|-------------------------------|---------------------------------------|--|-----------------------|
|  | <b>(Dollars in Thousands)</b> |                                       |  |                       |
| Debt securities                                  |                               |                                       |  |                       |
| Trust preferred and corporate securities         | \$ 25,795                     | \$ 25                                 | \$ (7,646)                               | \$ 18,174             |
| Obligations of states and political subdivisions | 1,534                         | 17                                    | (14)                                     | 1,537                 |
| Mortgage-backed securities                       | 184,515                       | 478                                   | (870)                                    | 184,123               |
| Total debt securities                            | <u>\$ 211,844</u>             | <u>\$ 520</u>                         | <u>\$ (8,530)</u>                        | <u>\$ 203,834</u>     |
|  |                               |                                       |  |                       |
| <b>2007</b>                                      | <b>AMORTIZED<br/>COST</b>     | <b>GROSS<br/>UNREALIZED<br/>GAINS</b> | <b>GROSS<br/>UNREALIZED<br/>(LOSSES)</b> | <b>FAIR<br/>VALUE</b> |
|  | <b>(Dollars in Thousands)</b> |                                       |  |                       |
| Debt securities                                  |                               |                                       |  |                       |
| Trust preferred and corporate securities         | \$ 26,784                     | \$ 172                                | \$ (2,546)                               | \$ 24,410             |
| Obligations of states and political subdivisions | 1,534                         | 17                                    | (1)                                      | 1,550                 |
| Mortgage-backed securities                       | 135,432                       | 76                                    | (2,767)                                  | 132,741               |
| Total debt securities                            | <u>\$ 163,750</u>             | <u>\$ 265</u>                         | <u>\$ (5,314)</u>                        | <u>\$ 158,701</u>     |

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, 2008 and 2007 are as follows:

|  | <b>LESS THAN 12 MONTHS</b>    |                                | <b>OVER 12 MONTHS</b> |                                | <b>TOTAL</b>          |                                |
|--|-------------------------------|--------------------------------|-----------------------|--------------------------------|-----------------------|--------------------------------|
|  | <b>Fair<br/>Value</b>         | <b>Unrealized<br/>(Losses)</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>(Losses)</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>(Losses)</b> |
| <b>2008</b>                                      |                               |                                |                       |                                |                       |                                |
|  | <b>(Dollars in Thousands)</b> |                                |                       |                                |                       |                                |
| Debt securities                                  |                               |                                |                       |                                |                       |                                |
| Trust preferred and corporate securities         | \$ 425                        | \$ (75)                        | \$ 17,224             | \$ (7,571)                     | \$ 17,649             | \$ (7,646)                     |
| Obligations of states and political subdivisions | 419                           | (14)                           | —                     | —                              | 419                   | (14)                           |
| Mortgage-backed securities                       | 115,225                       | (870)                          | 26                    | —                              | 115,251               | (870)                          |
| Total debt securities                            | <u>\$ 116,069</u>             | <u>\$ (959)</u>                | <u>\$ 17,250</u>      | <u>\$ (7,571)</u>              | <u>\$ 133,319</u>     | <u>\$ (8,530)</u>              |
|  |                               |                                |                       |                                |                       |                                |
|  | <b>LESS THAN 12 MONTHS</b>    |                                | <b>OVER 12 MONTHS</b> |                                | <b>TOTAL</b>          |                                |
|  | <b>Fair<br/>Value</b>         | <b>Unrealized<br/>(Losses)</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>(Losses)</b> | <b>Fair<br/>Value</b> | <b>Unrealized<br/>(Losses)</b> |
| <b>2007</b>                                      |                               |                                |                       |                                |                       |                                |
|  | <b>(Dollars in Thousands)</b> |                                |                       |                                |                       |                                |
| Debt securities                                  |                               |                                |                       |                                |                       |                                |
| Trust preferred and corporate securities         | \$ —                          | \$ —                           | \$ 22,238             | \$ (2,546)                     | \$ 22,238             | \$ (2,546)                     |
| Obligations of states and political subdivisions | 432                           | (1)                            | —                     | —                              | 432                   | (1)                            |
| Mortgage-backed securities                       | 4,082                         | (33)                           | 121,102               | (2,734)                        | 125,184               | (2,767)                        |
| Total debt securities                            | <u>\$ 4,514</u>               | <u>\$ (34)</u>                 | <u>\$ 143,340</u>     | <u>\$ (5,280)</u>              | <u>\$ 147,854</u>     | <u>\$ (5,314)</u>              |

As of September 30, 2008, the investment portfolio included 6 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, 2008. 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. Therefore,

mortgage-backed securities are not included in the maturity categories in the following maturity summary.

| September 30, 2008                     | AMORTIZED<br>COST      | FAIR<br>VALUE     |
|--|------------------------|-------------------|
|  | (Dollars in Thousands) |                   |
| Due in one year or less                | \$ —                   | \$ —              |
| Due after one year through five years  | 644                    | 658               |
| Due after five years through ten years | 890                    | 879               |
| Due after ten years                    | 25,795                 | 18,174            |
|  | 27,329                 | 19,711            |
| Mortgage-backed securities             | 184,515                | 184,123           |
| Total debt securities                  | <u>\$ 211,844</u>      | <u>\$ 203,834</u> |

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

|                      | 2008                   | 2007     | 2006 |
|----------------------|------------------------|----------|------|
|                      | (Dollars in Thousands) |          |      |
| Proceeds from sales  | \$ 16,990              | \$ 1,098 | \$ — |
| Gross gains on sales | 24                     | 496      | —    |

#### NOTE 5. LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

| September 30,                                 | 2008                   | 2007              |
|---|------------------------|-------------------|
|   | (Dollars in Thousands) |                   |
| One to four family residential mortgage loans | \$ 56,362              | \$ 45,407         |
| Commercial and multi-family real estate loans | 222,651                | 169,877           |
| Agricultural real estate loans                | 30,046                 | 16,582            |
| Consumer loans                                | 49,329                 | 36,763            |
| Commercial business loans                     | 44,972                 | 58,705            |
| Agricultural business loans                   | 31,153                 | 33,143            |
| Total Loans Receivable                        | <u>434,513</u>         | <u>360,477</u>    |
| Less:   |                        |                   |
| Allowance for loan losses                     | (5,732)                | (4,493)           |
| Undisbursed portion of loans in process       | (693)                  | (254)             |
| Net deferred loan origination fees            | (160)                  | (118)             |
| Total Loans Receivable, Net                   | <u>\$ 427,928</u>      | <u>\$ 355,612</u> |



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

| <u>Year ended September 30,</u> | <u>2008</u>     | <u>2007</u>            | <u>2006</u>     |
|---------------------------------|-----------------|------------------------|-----------------|
|                                 |                 | (Dollars in Thousands) |                 |
| Beginning balance               | \$ 4,493        | \$ 6,391               | \$ 6,793        |
| Provision for loan losses       | 2,715           | 3,168                  | 311             |
| Recoveries                      | 73              | 549                    | 329             |
| Charge offs                     | (1,549)         | (5,615)                | (1,042)         |
| Ending balance                  | <u>\$ 5,732</u> | <u>\$ 4,493</u>        | <u>\$ 6,391</u> |

Virtually all of the Company's originated loans are to Iowa- and South Dakota-based individuals and organizations. The Company's purchased loans totaled \$38.6 million at September 30, 2008, which were secured by properties located, as a percentage of total loans, as follows: 4% in Iowa, 2% in Washington, 1% each in Colorado, Florida, and Oregon, and the remaining 1% in eleven 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 \$16.3 million of loans secured by hotel properties and \$44.2 million of multi-family properties at September 30, 2008. The Company's commercial real estate loans include \$19.4 million of loans secured by hotel properties and \$21.8 million of multi-family properties at September 30, 2007. 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.

Impaired loans, which include non-accrual loans, were as follows:

| <u>Year ended September 30,</u>                                     | <u>2008</u>            | <u>2007</u> |
|---|------------------------|-------------|
|   | (Dollars in Thousands) |             |
| Year-end impaired loans with no allowance for loan losses allocated | \$ —                   | \$ —        |
| Year-end impaired loans with allowance for loan losses allocated    | 15,908                 | 2,270       |
| Amount of the allowance allocated to impaired loans                 | 3,540                  | 1,478       |
| Average of impaired loans during the year                           | 6,512                  | 4,536       |

Interest income and cash interest collected on impaired loans was not material during the years ended September 30, 2008 and 2007.

Non-Accruing loans were \$2.8 million and \$2.1 million at September 30, 2008 and 2007, respectively. Accruing loans delinquent 90 days or more were \$4.6 million at September 30, 2008. There were no accruing loans delinquent 90 days or more at September 30, 2007.

## 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:

|  | <u>2008</u>                   | <u>2007</u>      |
|--|-------------------------------|------------------|
|  | <u>(Dollars in Thousands)</u> |                  |
| Mortgage loan portfolios serviced for FNMA | \$ 18,669                     | \$ 20,422        |
| Other                                      | 10,029                        | 9,192            |
|  | <u>\$ 28,698</u>              | <u>\$ 29,614</u> |

## NOTE 7. PREMISES, FURNITURE, AND EQUIPMENT, NET

Year end premises and equipment were as follows:

| <u>September 30,</u>               | <u>2008</u>                   | <u>2007</u>      |
|------------------------------------|-------------------------------|------------------|
|                                    | <u>(Dollars in Thousands)</u> |                  |
| Land                               | \$ 2,689                      | \$ 2,751         |
| Buildings                          | 14,174                        | 14,384           |
| Furniture, fixtures, and equipment | 16,025                        | 10,928           |
|                                    | 32,888                        | 28,063           |
| Less accumulated depreciation      | (10,896)                      | (8,356)          |
|                                    | <u>\$ 21,992</u>              | <u>\$ 19,707</u> |

Depreciation expense of premises, furniture, and equipment included in occupancy and equipment expense was approximately \$2.8 million, \$1.8 million, and \$1.2 million for the years ended September 30, 2008, 2007, and 2006, respectively.

## NOTE 8. TIME CERTIFICATES OF DEPOSITS

Time certificates of deposits in denominations of \$100,000 or more were approximately \$26.7 million and \$35.7 million at September 30, 2008, and 2007, respectively.

At September 30, 2008, the scheduled maturities of time certificates of deposits were as follows for the years ending:

| <u>September 30,</u>          |                   |
|-------------------------------|-------------------|
| <u>(Dollars in Thousands)</u> |                   |
| 2009                          | \$ 81,484         |
| 2010                          | 26,323            |
| 2011                          | 8,164             |
| 2012                          | 4,028             |
| 2013                          | 3,492             |
| Total Certificates            | <u>\$ 123,491</u> |

## NOTE 9. ADVANCES FROM THE FEDERAL HOME LOAN BANK

At September 30, 2008, the Company's advances from the FHLB had fixed rates ranging from 2.19% to 7.02% with a weighted average rate of 3.67%. The scheduled maturities of FHLB advances were as follows for the years ending:

September 30,  
(Dollars in Thousands)

|                     |    |                |
|---------------------|----|----------------|
| 2009                | \$ | 71,000         |
| 2010                |    | 19,000         |
| 2011                |    | 11,000         |
| 2012                |    | —              |
| 2013                |    | 2,500          |
| Thereafter          |    | 8,500          |
| Total FHLB Advances | \$ | <u>112,000</u> |

The Company had one advance in the amount of \$8.7 million, with a weighted average fixed rate of 6.19%, carrying a quarterly call provision, whereby the FHLB can elect to accelerate the maturity of this borrowing. This advance is shown in the above table at its stated maturity date, which is 2009. The Company also had \$20.0 million in overnight federal funds purchased from the FHLB at a rate of 1.66%.

As of September 30, 2007, the Company's advances from the FHLB totaled \$68.0 million and carried a weighted average rate of 5.43%.

The Bank has executed blanket pledge agreements whereby the Bank assigns, transfers, and pledges to the FHLB and grants to the FHLB a security interest in all mortgage collateral and securities collateral. The Bank has the right to use, commingle, and dispose of the collateral it has assigned to the FHLB. Under the agreement, the Bank must maintain "eligible collateral" that has a "lending value" at least equal to the "required collateral amount," all as defined by the agreement.

At year end 2008, and 2007, the Bank pledged securities with fair values of approximately \$82.1 million and \$46.6 million, respectively, against specific FHLB advances. In addition, qualifying mortgage loans of approximately \$43.3 million, and \$31.8 million were pledged as collateral at September 30, 2008 and 2007, respectively.

## NOTE 10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase totaled approximately \$5.3 million and \$224,000 at September 30, 2008 and 2007, respectively.

An analysis of securities sold under agreements to repurchase follows:

| September 30,                               | 2008                   |        | 2007 |        |
|---|------------------------|--------|------|--------|
|   | (Dollars in Thousands) |        |      |        |
| Highest month-end balance                   | \$                     | 51,439 | \$   | 15,470 |
| Average balance                             |                        | 9,794  |      | 6,462  |
| Weighted average interest rate for the year |                        | 3.00%  |      | 3.37%  |
| Weighted average interest rate at yearend   |                        | 1.23%  |      | 5.16%  |

The Company pledged securities with fair values of approximately \$18.6 million at September 30, 2008, as collateral for securities sold under agreements to repurchase. There were no securities pledged as collateral for securities sold under agreements to repurchase at September 30, 2007.

#### **NOTE 11. SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES**

Subordinated debentures are due to First Midwest Financial Capital Trust I, a 100%-owned nonconsolidated 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.

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% (7.73% at September 30, 2008 and 9.06% at September 30, 2007), 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, 2007. 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 \$375,000, \$134,000 and \$357,000 was recorded for the years ended September 30, 2008, 2007 and 2006, respectively. Contributions of \$376,000, \$132,000 and \$316,000 were made to the ESOP during the years ended September 30, 2008, 2007 and 2006, respectively. During the year ended September 30, 2008 the ESOP made its final principal payment to the Company.

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, 2008, 2007 and 2006, 16,562 shares, 5,750 shares and 14,500 shares with a fair value of \$17.00, \$39.85 and \$24.60 per share, respectively, were released. Also for the years ended September 30, 2008, 2007 and 2006, allocated shares and total ESOP shares reflect 47,336 shares, 26,440 shares, and 11,332 shares, respectively, withdrawn from the ESOP by participants who are no longer with the Company or by participants diversifying their holdings and 1,265 shares, 3,521 shares, and 5,358 shares, respectively, purchased for dividend reinvestment.

Year-end ESOP shares are as follows:

| <u>September 30,</u>          | <u>2008</u>    | <u>2007</u>            | <u>2006</u>    |
|-------------------------------|----------------|------------------------|----------------|
|                               |                | (Dollars in Thousands) |                |
| Allocated shares              | 191,774        | 221,283                | 238,454        |
| Unearned shares               | —              | 16,562                 | 22,312         |
| Total ESOP shares             | <u>191,774</u> | <u>237,845</u>         | <u>260,766</u> |
| Fair value of unearned shares | <u>\$ —</u>    | <u>\$ 660</u>          | <u>\$ 549</u>  |

The Company also has a profit sharing plan covering substantially all full-time employees. Contribution expense to the profit sharing plan, included in compensation and benefits, for the years ended September 30, 2008, 2007, and 2006 was \$358,000, \$311,000, and \$322,000, respectively.

### 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.

The following table shows the effect to income, net of tax benefits, of share-based expense recorded in the years ended September 30, 2008, 2007 and 2006.

| <u>Year Ended September 30,</u>  | <u>2008</u> | <u>2007</u>            | <u>2006</u> |
|--|-------------|------------------------|-------------|
|  |             | (Dollars in Thousands) |             |
| Total employee stock-based compensation expense recognized in income, net of tax effects of \$191, \$191 and \$163, respectively | \$ 908      | \$ 926                 | \$ 318      |

As of September 30, 2008, stock based compensation expense not yet recognized in income totaled \$417,000 which is expected to be recognized over a weighted average remaining period of 1.04 years.

## Table of Contents

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, 2008, 2007, and 2006, 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.

| <u>Year Ended September 30,</u>                              | <u>2008</u>  | <u>2007</u>     | <u>2006</u>     |
|--|--|-----------------|-----------------|
|  | <b>(Dollars in Thousands, Except Share and Per Share Data)</b> |                 |                 |
| Risk-free interest rate                                      | 3.37% - 4.36%  | 4.46% - 5.14%   | 4.40% - 5.09%   |
| <u>Expected annual standard deviation</u>                    |  |                 |                 |
| Range  | 19.36% - 33.46%  | 19.52% - 19.72% | 19.46% - 20.60% |
| Weighted average   | 32.80%   | 19.62%          | 19.93%          |
| Expected life (years)  | 7  | 7               | 7               |
| <u>Expected dividend yield</u>                               |  |                 |                 |
| Range  | 1.34% - 3.25%  | 1.25% - 1.77%   | 2.13% - 2.55%   |
| Weighted average   | 3.18%  | 1.40%           | 2.32%           |
| Weighted average fair value of options granted during period | \$ 4.55  | \$ 10.29        | \$ 5.51         |
| Intrinsic value of options exercised during period           | \$ 98  | \$ 1,486        | \$ 218          |

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 fiscal years ended 2008 and 2007. Shares vest immediately up to 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 fiscal years ended 2008 and 2007. The fair value is determined based on the fair market value of the Company's stock on the grant date.

| <u>Year Ended September 30,</u>                                       | <u>2008</u>  | <u>2007</u> | <u>2006</u> |
|---|--|-------------|-------------|
|   | <b>(Dollars in Thousands, Except Share and Per Share Data)</b> |             |             |
| Weighted average fair value of nonvested shares granted during period | \$ 38.59   | \$ 39.84    | \$ 24.43    |
| Total fair value of nonvested shares vested during period             | \$ 41  | \$ 162      | \$ 90       |

In addition to the Company's active 2002 Omnibus Incentive Plan, the Company also maintains the 1995 Stock Option and Incentive Plan. No new options were, or could have been, awarded under the 1995 plan during the year ended September 30, 2008; however, previously awarded but unexercised options were outstanding under this plan during the year.

The following tables shows the activity of options and nonvested shares granted, exercised, or forfeited under all of the Company's option and incentive plans during the years ended September 30, 2008 and 2007.

|   | <b>Number<br/>of<br/>Shares</b>                                | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term (Yrs)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---|--|--|--|--|
|   | <b>(Dollars in Thousands, Except Share and Per Share Data)</b> |  |  |  |
| Options outstanding, September 30, 2007 | 424,269  | \$ 25.81   | 7.71   | \$ 5,971                                 |
| Granted                                 | 121,492  | 16.69  |  |  |
| Exercised                               | (14,983)   | 20.74  |  |  |
| Forfeited or expired                    | (16,450)   | 27.40  |  |  |
| Options outstanding, September 30, 2008 | <u>514,328</u>   | <u>\$ 23.85</u>                                    | <u>7.53</u>  | <u>\$ 329</u>                            |
| Options exercisable end of year         | <u>397,970</u>   | <u>\$ 22.21</u>                                    | <u>7.47</u>  | <u>\$ 315</u>                            |

|   | <b>Number<br/>of<br/>Shares</b>                                | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term (Yrs)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---|--|--|--|--|
|   | <b>(Dollars in Thousands, Except Share and Per Share Data)</b> |  |  |  |
| Options outstanding, September 30, 2006 | 386,425  | \$ 19.79   | 6.65   | \$ 1,793                                 |
| Granted                                 | 128,168  | 37.62  |  |  |
| Exercised                               | (88,824)   | 16.73  |  |  |
| Forfeited or expired                    | (1,500)  | 23.26  |  |  |
| Options outstanding, September 30, 2007 | <u>424,269</u>   | <u>\$ 25.81</u>                                    | <u>7.71</u>  | <u>\$ 5,971</u>                          |
| Options exercisable end of year         | <u>266,819</u>   | <u>\$ 24.07</u>                                    | <u>7.14</u>  | <u>\$ 4,207</u>                          |

|  | Number of<br>Shares                                     | Weighted Average<br>Fair Value At Grant |
|--|---|---|
|  | (Dollars in Thousands, Except Share and Per Share Data) |   |
| Nonvested shares outstanding, September 30, 2007 | 6,666   | \$ 24.43                                |
| Granted  | 10,000  | 38.59                                   |
| Vested   | (1,666)   | 24.43                                   |
| Forfeited or expired                             | (2,500)   | 38.59                                   |
| Nonvested shares outstanding, September 30, 2008 | 12,500  | \$ 32.93                                |

|  | Number of<br>Shares                                     | Weighted Average<br>Fair Value At Grant |
|--|---|---|
|  | (Dollars in Thousands, Except Share and Per Share Data) |   |
| Nonvested shares outstanding, September 30, 2006 | 8,333   | \$ 24.43                                |
| Granted  | 2,400   | 39.84                                   |
| Vested   | (4,067)   | 33.52                                   |
| Forfeited or expired                             | —   | —                                       |
| Nonvested shares outstanding, September 30, 2007 | 6,666   | \$ 24.43                                |

#### 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 from continuing operations consists of:

| Years ended September 30,           | 2008                   | 2007            | 2006            |
|-------------------------------------|------------------------|-----------------|-----------------|
|                                     | (Dollars in Thousands) |                 |                 |
| Federal:                            |                        |                 |                 |
| Current                             | \$ (329)               | \$ 405          | \$ 1,347        |
| Deferred                            | (588)                  | 644             | 20              |
|                                     | (917)                  | 1,049           | 1,367           |
| State:                              |                        |                 |                 |
| Current                             | (53)                   | 78              | 293             |
| Deferred                            | (32)                   | 100             | 6               |
|                                     | (85)                   | 178             | 299             |
| <b>Income tax expense (benefit)</b> | <b>\$ (1,002)</b>      | <b>\$ 1,227</b> | <b>\$ 1,666</b> |



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

| Years ended September 30,                            | 2008                   | 2007            | 2006            |
|--|------------------------|-----------------|-----------------|
|  | (Dollars in Thousands) |                 |                 |
| Income tax expense (benefit) at 35% federal tax rate | \$ (993)               | \$ 889          | \$ 1,766        |
| Increase (decrease) resulting from:                  |                        |                 |                 |
| State income taxes net of federal benefit            | (55)                   | 89              | 163             |
| Nontaxable buildup in cash surrender value           | (174)                  | (153)           | (194)           |
| Incentive stock option expense                       | 203                    | 191             | 61              |
| Tax exempt income                                    | (21)                   | (5)             | (97)            |
| Nondeductible expenses                               | 69                     | 125             | 25              |
| Other, net   | (31)                   | 91              | (58)            |
| <b>Total income tax expense (benefit)</b>            | <b>\$ (1,002)</b>      | <b>\$ 1,227</b> | <b>\$ 1,666</b> |

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

| September 30,  | 2008                   | 2007            |
|--|------------------------|-----------------|
|  | (Dollars in Thousands) |                 |
| Deferred tax assets:                                   |                        |                 |
| Bad debts  | \$ 2,134               | \$ 1,688        |
| Stock based compensation                               | 390                    | 253             |
| Net unrealized losses on securities available for sale | 2,988                  | 1,883           |
| Other, net   | 340                    | 101             |
|  | <u>5,852</u>           | <u>3,925</u>    |
| Deferred tax liabilities:                              |                        |                 |
| FHLB stock dividend                                    | (444)                  | (452)           |
| Premises and equipment                                 | (789)                  | (588)           |
| Deferred loan fees                                     | (128)                  | (118)           |
|  | <u>(1,361)</u>         | <u>(1,158)</u>  |
| <b>Net deferred tax assets</b>                         | <b>\$ 4,491</b>        | <b>\$ 2,767</b> |

Federal income tax laws provided savings banks with additional bad debt deductions through September 30, 1987 totaling \$6.7 million for the Bank. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total approximately \$2.3 million at September 30, 2008, and 2007. If the Bank were to be liquidated or otherwise cease to be a bank, or if tax laws were to change, the \$2.3 million would be recorded as expense.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on October 1, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under FIN 48, the Company recognizes the tax benefits from an uncertain tax position only when it is more likely than not, based on the technical merits of the position, that the tax position will be sustained upon examination, including the resolution of any related appeals or litigation. The tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

In addition, the Company is required to establish contingency reserves for material, known tax exposures. The Company's tax reserves reflect management's judgment as to the resolution of the issues involved if subject to judicial review. While the Company believes that its reserves are adequate to cover reasonably expected tax risks, there can be no assurance that, in all instances, an issue raised by a tax authority will be resolved at a financial cost that does not exceed its related reserve. With respect to these reserves, the Company's income tax expense would include (i) any changes in tax reserves arising from material changes during the period in the facts and circumstances surrounding a tax issue, and (ii) any difference from the Company's tax position as recorded in the financial statements and the final resolution of a tax issue during the period.

Income tax returns for fiscal years 2005 thru 2007, with few exceptions, remain open to examination by federal and state taxing authorities. As a result of the implementation of FIN 48, the Company determined that no additional liability for unrecognized tax benefits and associated accrued interest and penalties existed at October 1, 2007. There have been no changes to this amount during fiscal 2008.

#### **NOTE 15. CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS**

MetaBank is the Company's primary subsidiary. MetaBank is 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 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 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, 2008, MetaBank met all capital adequacy requirements.

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

| (Dollars in Thousands)                              | Actual    |       | Minimum Requirement For<br>Capital Adequacy Purposes |       | Minimum Requirement To Be<br>Well Capitalized Under Prompt<br>Corrective Action Provisions |       |
|---|-----------|-------|--|-------|--|-------|
|   | Amount    | Ratio | Amount   | Ratio | Amount   | Ratio |
| <b>September 30, 2008</b>                           |           |       |  |       |  |       |
| <b>MetaBank</b>                                     |           |       |  |       |  |       |
| Tangible capital (to tangible assets)               | \$ 56,175 | 7.35% | \$ 11,469  | 1.50% | n/a  | n/a   |
| Tier 1 (core) capital (to adjusted total assets)    | 56,175    | 7.35  | 30,583   | 4.00  | \$ 38,229  | 5.00% |
| Tier 1 (core) capital (to risk-weighted assets)     | 56,175    | 9.88  | 22,746   | 4.00  | 34,119   | 6.00  |
| Total risk based capital (to risk weighted assets)  | 61,907    | 10.89 | 45,492   | 8.00  | 56,865   | 10.00 |
| <b>September 30, 2007</b>                           |           |       |  |       |  |       |
| <b>MetaBank</b>                                     |           |       |  |       |  |       |
| Tangible capital (to tangible assets)               | \$ 49,475 | 7.59% | \$ 9,773   | 1.50% | n/a  | n/a   |
| Tier 1 (core) capital (to adjusted total assets)    | 49,475    | 7.59  | 26,062   | 4.00  | \$ 32,577  | 5.00% |
| Tier 1 (core) capital (to risk-weighted assets)     | 49,475    | 11.32 | 17,465   | 4.00  | 26,198   | 6.00  |
| Total risk based capital (to risk weighted assets)  | 52,770    | 12.08 | 34,931   | 8.00  | 43,663   | 10.00 |
| <b>MetaBank West Central</b>                        |           |       |  |       |  |       |
| Tier 1 capital (to average assets)                  | 3,930     | 10.22 | 1,539  | 4.00  | 1,923  | 5.00  |
| Tier 1 risk based capital (to risk weighted assets) | 3,930     | 19.16 | 820  | 4.00  | 1,230  | 6.00  |
| Total risk based capital (to risk weighted assets)  | 4,077     | 19.88 | 1,641  | 8.00  | 2,051  | 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 is currently a Tier 1 institution. Accordingly, MetaBank 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, 2008, approximately \$535,000 of MetaBank's retained earnings were potentially available for distribution to the Company.

#### NOTE 16. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments to extend credit which are not reflected in the accompanying consolidated financial statements.

At September 30, 2008 and 2007, unfunded loan commitments approximated \$57.4 million and \$50.3 million respectively, excluding undisbursed portions of loans in process. Unfunded loan commitments at September 30, 2008 and 2007 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 \$7.9 million and \$24.1 million at September 30, 2008 and 2007, respectively, were pledged as collateral for public funds on deposit. Securities with fair values of approximately \$6.5 million and \$1.9 million at September 30, 2008 and 2007, 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 \$3.4 million as of September 30, 2008.

### Legal Proceedings

MetaBank (“the Bank”) was named in several lawsuits relating to certain borrowers of the Bank, known as the Dan Nelson companies. All of these lawsuits have now been resolved.

The case of *Chris Dengler, et al, v. Nelson Automotive Group, Inc., et al* was recently resolved when the South Dakota Supreme Court dismissed the plaintiffs’ appeal of the lower court’s dismissal of the Bank. In the Circuit Court of South Dakota, County of Minnehaha, (Civ. No. 06-1106) a lawsuit was filed by a number of plaintiffs who had purchased vehicles from the Dan Nelson companies. This suit named the Bank and J. Tyler Haahr, together with a number of other defendants. The Bank, in conjunction with a group of participating banks, had provided a series of loans and lines of credit to Dan Nelson Auto Group (“DNAG”) and South Dakota Acceptance Corporation (“SDAC”). Plaintiffs allege that the defendants, including the Bank, “participated in the fraudulent scheme” by virtue of providing these lines of credit and loans despite being aware of the predatory consumer practices of the Nelson companies, and that MetaBank profited by receiving undisclosed “special benefits” for providing these loans. DNAG, SDAC and Dan Nelson have since filed for bankruptcy. Plaintiffs also allege that MetaBank did not vigorously pursue claims against Dan Nelson and fellow DNAG executive Chris Tapken in their respective personal bankruptcies in order to allow these individuals to emerge with control over assets of their former companies. After the Bank filed a Motion to Dismiss, the claims against J. Tyler Haahr personally and MetaBank were dismissed with prejudice on January 4, 2008. Plaintiffs appealed as to the dismissal of MetaBank only, to the South Dakota Supreme Court. The South Dakota Supreme Court dismissed the plaintiff’s appeal.

*First Midwest Bank-Deerfield Branches, et al, v. MetaBank*. U.S. District Court for the District of South Dakota, Southern Division (4:06-cv-4114). During the three months ended June 30, 2006 or shortly thereafter three banks filed lawsuits against MetaBank. An additional bank, North American Banking Company, joined these three bank plaintiffs in one consolidated federal lawsuit. These four Plaintiffs were participating lenders with MetaBank on a series of loans made to the Dan Nelson companies, including DNAG and SDAC. Plaintiffs alleged that they suffered damages as a result of MetaBank’s placement and administration of the loans that were the subject of the loan participation agreements. The complaints alleged breach of contract, negligence, gross negligence, negligent misrepresentation, fraud in the inducement, unjust enrichment and breach of fiduciary duty. All of these four cases have now been resolved through mediations which took place in July and August, 2008. Settlement agreements have been executed, and the cases have been dismissed. The Company’s insurance carrier has agreed to cover virtually all of the settlement amounts in three cases and paid for counsel to defend all four actions through discovery.

*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. The complaint alleged 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 Dan Nelson, DNAG and SDAC by the Iowa Attorney General at the time Home Federal agreed to an extension of the loan participation agreements. After discovery was complete and a trial date scheduled, this case was successfully mediated and settled in Sioux Falls on October 2, 2008. A settlement agreement was signed on that date, and the case has now been dismissed. As a result of the Home Federal settlement, on a pro rated basis net of previously established reserves and insurance proceeds already collected, the net effect on the Registrant is a charge of \$1.0 million. As a result of all these Dan Nelson settlements, the Company recorded a final charge of approximately \$2.1 million (\$1.3 million after taxes), including legal expenses and after insurance claims and reserves are accounted for.

In an unrelated suit, *First Federal Bank Littlefield Texas ssb, formerly known as, First Federal Savings and Loan Association, Littlefield, Texas v. MetaBank, formerly known as First Federal Savings Bank of the Midwest, filed in the 154<sup>th</sup> Judicial District Court of Lamb County* (Cause No. 17435); *The Frost National Bank v. MetaBank and Meta Financial Group, Inc., filed in the United States District Court for the Northern District of Texas* (Cause No. 3:08-CV-625-M). On April 3, 2008, First Federal Bank filed suit against MetaBank in Texas State Court in Lubbock seeking recovery of a purported MetaBank certificate of deposit (CD) that it claims it purchased. On April 11, 2008, Frost National Bank filed suit against MetaBank in the United States District Court for the District of Texas seeking a similar recovery. On June 25, 2008, an action was filed in the 95<sup>th</sup> Judicial District Court for Dallas County, Texas entitled *Methodist Hospitals of Dallas v MetaBank and Meta Financial Group* seeking recovery of a purported MetaBank CD purchased in May, 2001. Additionally, on July 14, 2008, a class action complaint was filed in the United States District Court for the District of New Hampshire entitled *Guardian Angel Credit Union v MetaBank* (Cause No. 08-CV-261-PB) and was filed on behalf of Guardian Angel Credit Union and all other CD purchasers similarly situated, to recover funds in connection with purported MetaBank CDs. Further, on November 18, 2008, Coreplus Federal Credit Union (Cause No. 3:08 cv 1763 AVC) filed a civil action in the Superior Court for New London County in the state of Connecticut seeking recovery of funds connected to a purported MetaBank CD. Earlier, MetaBank had been contacted by another institution, but could find no record of the CD it had allegedly purchased, and commenced an investigation. As a result of that investigation, it now appears that a former MetaBank employee had been selling fraudulent CDs, using MetaBank's name and standard form of CD, to various financial institutions through an independent broker and instructing purchasers to wire the purchase money into one of a number of false accounts she had created at MetaBank. The Bank continues to receive a number of demands from purchasers of these fraudulent CDs in addition to the lawsuits listed above. All evidence currently available indicates that the former employee ran this fraud for her own benefit and regularly took money from the MetaBank accounts to which the purchase monies had been wired. As a result of the interruption of this fraud, there are some \$4.2 million of bogus CDs still outstanding to various financial institutions. As the former employee was apparently using the funds of new victims to pay off the previous victims of her scheme, it does not appear at this time that she stole any Bank money as part of this fraud. MetaBank therefore does not appear at this time to have suffered any direct loss as a result of the fraud, but it may suffer a loss to the extent it is exposed to liability for claims such as these. There are unresolved questions as whether, under what theory and to what degree the Bank might be liable for the former employee's actions. At this time, MetaBank's insurer has agreed to provide a defense to the two litigations in Texas under a reservation of rights.

Other than the matters set forth above, there are no other material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation 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 \$6,000 to \$821,000 plus the payment of the property taxes, normal maintenance, and insurance on certain property.

The following table shows the total minimum rental commitment at September 30, 2008, under the leases.

**September 30,**  
**(Dollars in Thousands)**

---

|                          |    |               |
|--------------------------|----|---------------|
| 2009                     | \$ | 1,642         |
| 2010                     |    | 1,574         |
| 2011                     |    | 1,494         |
| 2012                     |    | 1,497         |
| 2013                     |    | 1,238         |
| Thereafter               |    | 4,593         |
| Total Leases Commitments | \$ | <u>12,038</u> |

**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. Operating segments are aggregated into reportable segments if certain criteria are met. The Company has determined that it has two reportable segments. The first reportable segment, Traditional Banking, is part of its banking subsidiary, MetaBank. MetaBank operates as a traditional community bank providing deposit, loan and other related products to individuals and small businesses, primarily in the communities where their offices are located. The second reportable segment, Meta Payment Systems<sup>®</sup> ("MPS"), is a division of MetaBank. MPS provides a number of products and services, to financial institutions and other businesses. These products and services include issuance of prepaid debit cards, sponsorship of ATMs into the debit networks, credit programs, ACH origination services, gift card programs, rebate programs, travel programs, and tax related programs. Other programs are in the process of development. The remaining grouping under the caption "All Others" consists of the operations of Meta Financial Group, Inc. and Meta Trust Company<sup>®</sup> and inter-segment eliminations. MetaBank WC is accounted for as discontinued bank operations. It was previously reported as part of the traditional banking segment, and has been separately classified to show the effect of continuing operations.

Fiscal year 2006 results for net interest income and non-interest expenses have been restated to be consistent with the fiscal year 2007 adoption of new deposit valuation and expense allocation methodologies between the Traditional Banking Segment, the Holding Company, and MPS. The primary result of this change in allocation was to increase the earnings credit paid by the bank for deposits originated within the MPS division and also to allocate a higher portion of expenses to MPS based on growth in departments which provide administration support to MPS.

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

|   | Traditional<br>Banking | Meta Payment<br>Systems® | All Others      | Total             |
|---|------------------------|--------------------------|-----------------|-------------------|
|   | (Dollars in Thousands) |                          |                 |                   |
| Year Ended September 30, 2008                       |                        |                          |                 |                   |
| Net interest income (loss)                          | \$ 13,177              | \$ 11,529                | \$ (703)        | \$ 24,003         |
| Provision for loan losses                           | 2,715                  | —                        | —               | 2,715             |
| Non-interest income                                 | 2,723                  | 34,821                   | 152             | 37,696            |
| Non-interest expense                                | 19,975                 | 41,387                   | 458             | 61,820            |
| Income (loss) from continuing operations before tax | (6,790)                | 4,963                    | (1,009)         | (2,836)           |
| Income tax expense (benefit)                        | (2,557)                | 1,707                    | (152)           | (1,002)           |
| Income (loss) from continuing operations            | <u>\$ (4,233)</u>      | <u>\$ 3,256</u>          | <u>\$ (857)</u> | <u>\$ (1,834)</u> |
| Inter-segment revenue (expense)                     | \$ 6,124               | \$ (6,124)               | \$ —            | \$ —              |
| Total assets  | 405,044                | 349,312                  | 2,900           | 757,256           |
| Total deposits                                      | 216,224                | 330,977                  | (1,229)         | 545,972           |
| Discontinued Operations-Traditional Banking         |                        |                          |                 |                   |
| Net interest income                                 | \$ 261                 |                          |                 |                   |
| Provision for loan losses                           | (57)                   |                          |                 |                   |
| Non-interest income                                 | 2,441                  |                          |                 |                   |
| Non-interest expense                                | 374                    |                          |                 |                   |
| Income from discontinued operations before tax      | 2,385                  |                          |                 |                   |
| Income tax (expense)                                | 500                    |                          |                 |                   |
| Income from discontinued operations                 | <u>\$ 1,885</u>        |                          |                 |                   |
| Inter-segment revenue                               | \$ 175                 |                          |                 |                   |
| Total assets  | —                      |                          |                 |                   |
| Total deposits                                      | —                      |                          |                 |                   |
|   | Traditional<br>Banking | Meta Payment<br>Systems® | All Others      | Total             |
|   | (Dollars in Thousands) |                          |                 |                   |
| Year Ended September 30, 2007                       |                        |                          |                 |                   |
| Net interest income (loss)                          | \$ 10,967              | \$ 10,748                | \$ (908)        | \$ 20,807         |
| Provision for loan losses                           | 3,168                  | —                        | —               | 3,168             |
| Non-interest income                                 | 5,956                  | 15,576                   | 326             | 21,858            |
| Non-interest expense                                | 15,476                 | 21,128                   | 354             | 36,958            |
| Income (loss) from continuing operations before tax | (1,721)                | 5,196                    | (936)           | 2,539             |
| Income tax expense (benefit)                        | (512)                  | 1,862                    | (123)           | 1,227             |
| Income (loss) from continuing operations            | <u>\$ (1,209)</u>      | <u>\$ 3,334</u>          | <u>\$ (813)</u> | <u>\$ 1,312</u>   |
| Inter-segment revenue (expense)                     | \$ 6,119               | \$ (6,119)               | \$ —            | \$ —              |
| Total assets  | 391,416                | 254,643                  | 4,251           | 650,310           |
| Total deposits                                      | 280,076                | 242,902                  | —               | 522,978           |
| Discontinued Operations-Traditional Banking         |                        |                          |                 |                   |
| Net interest income                                 | \$ 916                 |                          |                 |                   |
| Provision for loan losses                           | 627                    |                          |                 |                   |
| Non-interest income                                 | 216                    |                          |                 |                   |
| Non-interest expense                                | 899                    |                          |                 |                   |
| (Loss) from discontinued operations before tax      | (394)                  |                          |                 |                   |
| Income tax (benefit)                                | (253)                  |                          |                 |                   |
| (Loss) from discontinued operations                 | <u>\$ (141)</u>        |                          |                 |                   |
| Inter-segment revenue (expense)                     | \$ —                   |                          |                 |                   |
| Total assets  | 35,770                 |                          |                 |                   |
| Total deposits                                      | 24,610                 |                          |                 |                   |

|   | <u>Traditional<br/>Banking</u> | <u>Meta Payment<br/>Systems®</u> | <u>All Others</u> | <u>Total</u>    |
|---|--------------------------------|----------------------------------|-------------------|-----------------|
|   | <u>(Dollars in Thousands)</u>  |                                  |                   |                 |
| <b>Year Ended September 30, 2006</b>                |                                |                                  |                   |                 |
| Net interest income (loss)                          | \$ 13,082                      | \$ 5,673                         | \$ (254)          | \$ 18,501       |
| Provision for loan losses                           | 311                            | —                                | —                 | 311             |
| Non-interest income                                 | 2,326                          | 11,066                           | 103               | 13,495          |
| Non-interest expense                                | 15,068                         | 11,234                           | 338               | 26,640          |
| Income (loss) from continuing operations before tax | 29                             | 5,505                            | (489)             | 5,045           |
| Income tax expense (benefit)                        | (175)                          | 1,958                            | (117)             | 1,666           |
| Income (loss) from continuing operations            | <u>\$ 204</u>                  | <u>\$ 3,547</u>                  | <u>\$ (372)</u>   | <u>\$ 3,379</u> |
| Inter-segment revenue (expense)                     | \$ 3,406                       | \$ (3,406)                       | \$ —              | \$ —            |
| Total assets  | 530,649                        | 166,883                          | 3,091             | 700,623         |
| Total deposits                                      | 375,377                        | 162,792                          | —                 | 538,169         |
| <b>Discontinued Operations-Traditional Banking</b>  |                                |                                  |                   |                 |
| Net interest income                                 | \$ 1,135                       |                                  |                   |                 |
| Provision for loan losses                           | (76)                           |                                  |                   |                 |
| Non-interest income                                 | 233                            |                                  |                   |                 |
| Non-interest expense                                | 986                            |                                  |                   |                 |
| Income from discontinued operations before tax      | 458                            |                                  |                   |                 |
| Income tax expense                                  | 149                            |                                  |                   |                 |
| Income from discontinued operations                 | <u>\$ 309</u>                  |                                  |                   |                 |
| Inter-segment revenue (expense)                     | \$ —                           |                                  |                   |                 |
| Total assets  | 40,298                         |                                  |                   |                 |
| Total deposits                                      | 27,220                         |                                  |                   |                 |



**NOTE 19. PARENT COMPANY FINANCIAL STATEMENTS**

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

**CONDENSED STATEMENTS OF FINANCIAL CONDITION**

| September 30,                                 | 2008                   | 2007      |
|---|------------------------|-----------|
|   | (Dollars in Thousands) |           |
| ASSETS  |                        |           |
| Cash and cash equivalents                     | \$ 2,096               | \$ 2,211  |
| Securities available for sale                 | 950                    | 1,173     |
| Investment in subsidiaries                    | 53,625                 | 53,623    |
| Loan receivable from ESOP                     | —                      | 376       |
| Other assets                                  | 1,079                  | 2,224     |
| Total assets                                  | \$ 57,750              | \$ 59,607 |
| LIABILITIES AND SHAREHOLDERS' EQUITY          |                        |           |
| LIABILITIES                                   |                        |           |
| Loan payable to subsidiaries                  | \$ 500                 | \$ 710    |
| Subordinated debentures                       | 10,310                 | 10,310    |
| Other liabilities                             | 133                    | 489       |
| Total liabilities                             | \$ 10,943              | \$ 11,509 |
| SHAREHOLDERS' EQUITY                          |                        |           |
| Common stock                                  | 30                     | 30        |
| Additional paid-in capital                    | 23,058                 | 21,958    |
| Retained earnings                             | 35,516                 | 36,805    |
| Accumulated other comprehensive (loss)        | (5,022)                | (3,345)   |
| Unearned Employee Stock Ownership Plan shares | —                      | (377)     |
| Treasury stock, at cost                       | (6,775)                | (6,973)   |
| Total shareholders' equity                    | \$ 46,807              | \$ 48,098 |
| Total liabilities and shareholders' equity    | \$ 57,750              | \$ 59,607 |

## CONDENSED STATEMENTS OF OPERATIONS

| Years ended September 30,   | 2008                   | 2007            | 2006            |
|---|------------------------|-----------------|-----------------|
|   | (Dollars in Thousands) |                 |                 |
| Dividend income from subsidiaries   | \$ —                   | \$ 1,250        | \$ 3,700        |
| Gain on sale of securities available for sale   | —                      | 225             | —               |
| Gain on sale of commercial bank subsidiary  | 2,309                  | —               | —               |
| Other income  | 156                    | 125             | 191             |
| <b>Total income</b>   | <b>2,465</b>           | <b>1,600</b>    | <b>3,891</b>    |
| Interest expense  | 841                    | 1,033           | 936             |
| Other expense   | 276                    | 146             | 1,956           |
| <b>Total expense</b>  | <b>1,117</b>           | <b>1,179</b>    | <b>2,892</b>    |
| <b>Income (loss) before income taxes and equity in undistributed net income of subsidiaries</b> | <b>1,348</b>           | <b>421</b>      | <b>998</b>      |
| Income tax (benefit)  | 341                    | (87)            | (835)           |
| <b>Income before equity in undistributed net income (loss) of subsidiaries</b>                  | <b>1,007</b>           | <b>508</b>      | <b>1,833</b>    |
| Equity in undistributed net income (loss) of subsidiaries                                       | (956)                  | 663             | 1,855           |
| <b>Net income</b>   | <b>\$ 51</b>           | <b>\$ 1,171</b> | <b>\$ 3,688</b> |

## CONDENSED STATEMENTS OF CASH FLOWS

| For the Years Ended September 30,  | 2008                   | 2007     | 2006     |
|--|------------------------|----------|----------|
|  | (Dollars in Thousands) |          |          |
| CASH FLOWS FROM OPERATING ACTIVITIES   |                        |          |          |
| Net income   | \$ 51                  | \$ 1,171 | \$ 3,688 |
| Adjustments to reconcile net income to net cash provided by operating activities |                        |          |          |
| Equity in undistributed net (income) loss of subsidiaries                        | 956                    | (663)    | (1,855)  |
| (Gain) on sale of securities available for sale                                  | —                      | (225)    | —        |
| Change in other assets   | 1,145                  | (1,605)  | 574      |
| Change in other liabilities  | (693)                  | 1,764    | 244      |
| Other, net   | 575                    | —        | —        |
| Net cash provided by operating activities  | 2,034                  | 442      | 2,652    |
| CASH FLOWS FROM INVESTING ACTIVITIES   |                        |          |          |
| Investment in subsidiary   | (2,298)                | (100)    | (75)     |
| Maturity of securities available for sale  | —                      | —        | 500      |
| Proceeds from the sale of securities available for sale                          | —                      | 727      | —        |
| Repayments on loan receivable from ESOP  | 376                    | 133      | 316      |
| Other, net   | 223                    | —        | —        |
| Net cash (used in) provided by investing activities                              | (1,699)                | 760      | 741      |
| CASH FLOWS FROM FINANCING ACTIVITIES   |                        |          |          |
| Net change in loan payable to subsidiaries                                       | (210)                  | —        | (490)    |
| Cash dividends paid  | (1,340)                | (1,319)  | (1,292)  |
| Proceeds from exercise of stock options  | 199                    | 479      | 187      |
| Other, net   | 901                    | —        | —        |
| Net cash (used in) financing activities  | (450)                  | (840)    | (1,595)  |
| Net change in cash and cash equivalents  | \$ (115)               | \$ 362   | \$ 1,798 |
| CASH AND CASH EQUIVALENTS  |                        |          |          |
| Beginning of year  | \$ 2,211               | \$ 1,849 | \$ 51    |
| End of year  | 2,096                  | 2,211    | 1,849    |

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 Bank to pay dividends to the Company.

**NOTE 20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

|  | QUARTER ENDED          |          |           |              |
|--|------------------------|----------|-----------|--------------|
|  | December 31            | March 31 | June 30   | September 30 |
|  | (Dollars in Thousands) |          |           |              |
| Fiscal Year 2008   |                        |          |           |              |
| Interest income  | \$ 8,899               | \$ 9,895 | \$ 9,171  | \$ 9,453     |
| Interest expense   | 3,625                  | 3,679    | 3,180     | 2,931        |
| Net interest income  | 5,274                  | 6,216    | 5,991     | 6,522        |
| Provision for loan losses  | (130)                  | 200      | 125       | 2,520        |
| Net income (loss) from continuing operations                     | (790)                  | 1,203    | (410)     | (1,837)      |
| Income (loss) from discontinued operations                       | 50                     | 1,835    | 0         | 0            |
| Net income (loss)  | (740)                  | 3,038    | (410)     | (1,837)      |
| Earnings (loss) per common and common equivalent share - basic   |                        |          |           |              |
| Income (loss) from continuing operations                         | \$ (0.31)              | \$ 0.47  | \$ (0.16) | \$ (0.71)    |
| Income (loss) from discontinued operations                       | 0.02                   | 0.71     | —         | —            |
| Net income (loss)  | (0.29)                 | 1.18     | (0.16)    | (0.71)       |
| Earnings (loss) per common and common equivalent share - diluted |                        |          |           |              |
| Income (loss) from continuing operations                         | (0.31)                 | 0.46     | (0.16)    | (0.71)       |
| Income (loss) from discontinued operations                       | 0.02                   | 0.70     | —         | —            |
| Net income (loss)  | (0.29)                 | 1.16     | (0.16)    | (0.71)       |
| Dividend declared per share                                      | 0.13                   | 0.13     | 0.13      | 0.13         |
| Fiscal Year 2007   |                        |          |           |              |
| Interest income  | \$ 9,783               | \$ 9,720 | \$ 8,933  | \$ 9,338     |
| Interest expense   | 4,792                  | 4,277    | 4,058     | 3,840        |
| Net interest income  | 4,991                  | 5,443    | 4,875     | 5,498        |
| Provision for loan losses  | 4,063                  | (225)    | (500)     | (170)        |
| Net income (loss) from continuing operations                     | (2,296)                | 620      | 2,234     | 754          |
| Income (loss) from discontinued operations                       | (408)                  | 115      | 330       | (178)        |
| Net income (loss)  | (2,704)                | 735      | 2,564     | 576          |
| Earnings (loss) per common and common equivalent share - basic   |                        |          |           |              |
| Income (loss) from continuing operations                         | \$ (0.92)              | \$ 0.25  | \$ 0.88   | \$ 0.29      |
| Income (loss) from discontinued operations                       | (0.16)                 | 0.04     | 0.13      | (0.07)       |
| Net income (loss)  | (1.08)                 | 0.29     | 1.01      | 0.22         |
| Earnings (loss) per common and common equivalent share - diluted |                        |          |           |              |
| Income (loss) from continuing operations                         | (0.92)                 | 0.24     | 0.84      | 0.28         |
| Income (loss) from discontinued operations                       | (0.16)                 | 0.04     | 0.12      | (0.07)       |
| Net income (loss)  | (1.08)                 | 0.28     | 0.96      | 0.21         |
| Dividend declared per share                                      | 0.13                   | 0.13     | 0.13      | 0.13         |
| Fiscal Year 2006   |                        |          |           |              |
| Interest income  | \$ 9,550               | \$ 9,569 | \$ 9,439  | \$ 9,554     |
| Interest expense   | 5,116                  | 4,873    | 4,858     | 4,764        |
| Net interest income  | 4,434                  | 4,696    | 4,581     | 4,790        |
| Provision for loan losses  | 58                     | (345)    | 28        | 570          |
| Net income from continuing operations                            | 401                    | 193      | 2,135     | 650          |
| Income (loss) from discontinued operations                       | 114                    | 68       | 348       | (221)        |
| Net income   | 515                    | 261      | 2,483     | 429          |
| Earnings (loss) per common and common equivalent share - basic   |                        |          |           |              |
| Income from continuing operations                                | \$ 0.16                | \$ 0.08  | \$ 0.86   | \$ 0.26      |
| Income (loss) from discontinued operations                       | 0.05                   | 0.03     | 0.14      | (0.09)       |
| Net income   | 0.21                   | 0.10     | 1.00      | 0.17         |
| Earnings (loss) per common and common equivalent share - diluted |                        |          |           |              |
| Income from continuing operations                                | 0.16                   | 0.07     | 0.84      | 0.26         |
| Income (loss) from discontinued operations                       | 0.05                   | 0.03     | 0.14      | (0.09)       |
| Net income   | 0.21                   | 0.10     | 0.98      | 0.17         |
| Dividend declared per share                                      | 0.13                   | 0.13     | 0.13      | 0.13         |

## 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, 2008 and 2007, 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 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, 2008 and 2007. The information presented is subject to change over time based on a variety of factors.

| September 30,  | 2008                   |                      | 2007            |                      |
|--|------------------------|----------------------|-----------------|----------------------|
|  | Carrying Amount        | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
|  | (Dollars in Thousands) |                      |                 |                      |
| Financial assets   |                        |                      |                 |                      |
| Cash and cash equivalents                                    | \$ 2,963               | \$ 2,963             | \$ 11,320       | \$ 11,320            |
| Federal funds sold   | 5,188                  | 5,188                | 75,000          | 75,000               |
| Securities available for sale                                | 203,834                | 203,834              | 158,701         | 158,701              |
| Loans receivable, net  | 427,928                | 426,527              | 355,612         | 354,489              |
| FHLB stock   | 8,092                  | 8,092                | 4,015           | 4,015                |
| Accrued interest receivable                                  | 4,497                  | 4,497                | 4,189           | 4,189                |
| Financial liabilities  |                        |                      |                 |                      |
| Noninterest bearing demand deposits                          | 355,020                | 355,020              | 260,098         | 260,098              |
| Interest bearing demand deposits, savings, and money markets | 67,461                 | 67,461               | 106,157         | 106,157              |
| Certificates of deposit                                      | 123,491                | 124,808              | 156,723         | 156,980              |
| Total deposits   | 545,972                | 547,289              | 522,978         | 523,235              |
| Advances from FHLB   | 132,025                | 134,558              | 68,000          | 69,873               |
| Securities sold under agreements to repurchase               | 5,348                  | 5,348                | 224             | 224                  |
| Subordinated debentures                                      | 10,310                 | 17,834               | 10,310          | 12,574               |
| Accrued interest payable                                     | 578                    | 578                  | 842             | 842                  |
| Off-balance-sheet instruments, loan commitments              | —                      | —                    | —               | —                    |

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 2008 and 2007.

### 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 fair value using other available data. The amount of securities for which quoted market 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, 2008 and 2007. 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.

## **FHLB STOCK**

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

## **ACCRUED INTEREST RECEIVABLE**

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

## **DEPOSITS**

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

In accordance with 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, 2008 and 2007 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, 2008 and 2007 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.

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

Not applicable.

### **Item 9A(T).           Controls and Procedures**

#### **(a)            Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures", as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company required to be included in the Company's periodic SEC filings. There were no significant changes made in the Company's internal controls during the period covered by this report or, to the Company's knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

#### **(b)            Management's Annual Report on Internal Control over Financial Reporting.**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company assets that could have a material effect on the financial statements.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Because of such inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2008, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control-Integrated Framework." After conducting the assessment, management determined that, as of September 30, 2008, the Company's internal control over financial reporting is effective, based on those criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

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 2009, a copy of which will be filed not later than 120 days after September 30, 2008 (the "2008 Proxy Statement").

Executive Officers

Information concerning the executive officers of the Company is incorporated herein by reference from the Company's 2008 Proxy Statement for the Annual Meeting of Shareholders to be held in January 2009 and from the information set forth under the caption "Executive Officers of the Company Who Are Not Directors" contained in Part I, Item 1 "Description of Business" of this Annual Report on 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, 2008, 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 2008 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 2008 Proxy Statement for the 2009 Annual Meeting of Stockholders to be held on January 26, 2009, 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](http://www.metacash.com)).

### **Item 11. Executive Compensation**

Information concerning executive compensation is incorporated herein by reference from the Company's 2008 Proxy Statement for the Annual Meeting of Shareholders to be held in January 2009.

### **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" of the 2008 Proxy Statement is incorporated herein by reference.

#### **(b) Security Ownership of Management**

The information required by this item under the section captioned "Stock Ownership" of the 2008 Proxy Statement 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 750,000 shares to be issued under this plan, was approved by the Board of Directors on November 30, 2007, and



by the shareholders at the annual meeting held February 12, 2008. 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.

| <u>Plan Category</u>                                      | <u>Number of securities to<br/>be issued upon exercise<br/>of outstanding options,<br/>warrants and rights</u> | <u>Weighted-average<br/>exercise price of<br/>outstanding options,<br/>warrants and rights</u> | <u>Number of securities<br/>remaining available for<br/>future issuance under<br/>equity compensation plan<br/>(excluding securities<br/>reflected in (a))</u> |
|---|--|--|--|
| Equity compensation plans approved by<br>shareholders     | 514,328  | \$ 23.81   | 667,939  |
| Equity Compensation plans not approved by<br>shareholders | 0  | \$ 0.00  | 0  |

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information concerning certain relationships and transactions is incorporated herein by reference from the Company's 2008 Proxy Statement for the Annual Meeting of Shareholders to be held in January 2009.

**Item 14. Principal Accountant Fees and Services**

Information concerning the fees for professional services rendered by the Company's principal accountant is incorporated herein by reference from the discussion under the heading "Independent Public Accountants" in the Company's 2008 Proxy Statement for the Annual Meeting of Shareholders to be held in January 2009.

Information concerning the pre-approval policies and procedures of the Company's Audit Committee is incorporated by reference from the discussion under the heading "Independent Public Accountants" of the Company's 2008 Proxy Statement for the Annual Meeting of Shareholders to be held in January 2009.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

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

**(a) Financial Statements:**

The following financial statements are included under Part II, Item 8 of this Annual Report on Form 10-K:

1. Report of Independent Registered Public Accounting Firm.
2. Consolidated Statements of Financial Condition as of September 30, 2008 and 2007.
3. Consolidated Statements of Operations for the Years Ended September 30, 2008, 2007, and 2006.
4. Consolidated Statements of Comprehensive Income (Loss) for the Years ended September 30, 2008, 2007, and 2006.
5. Consolidated Statements of Changes in Shareholders' Equity for the Years Ended September 30, 2008, 2007, and 2006.
6. Consolidated Statements of Cash Flows for the Years Ended September 30, 2008, 2007, and 2006.
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 12, 2008

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: /s/ J. Tyler Haahr

J. Tyler Haahr, President  
and Chief Executive Officer  
*(Principal Executive Officer)*

Date: December 12, 2008

By: /s/ James S. Haahr

James S. Haahr, Chairman of the Board

Date: December 12, 2008

By: /s/ E. Wayne Cooley

E. Wayne Cooley, Director

Date: December 12, 2008

By: /s/ E. Thurman Gaskill

E. Thurman Gaskill, Director

Date: December 12, 2008

By: /s/ Brad Hanson

Bradley C. Hanson, Director

Date: December 12, 2008

By: /s/ Frederick V. Moore

Frederick V. Moore, Director

Date: December 12, 2008

By: /s/ Rodney G. Muilenburg

Rodney G. Muilenburg, Director

Date: December 12, 2008

By: /s/ Jeanne Partlow

Jeanne Partlow, Director

Date: December 12, 2008

By: /s/ David W. Leedom

David W. Leedom, Senior Vice  
President and Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

Date: December 12, 2008

## 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), is incorporated herein by reference.   |
| 3(ii)          | Registrant's Bylaws, as amended and restated, filed herewith as Exhibit 3(ii) to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2008 (Commission File No. 0-22140).   |
| 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. First amendment to such agreement is filed herewith. |
| 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. First amendment to such agreement is filed herewith.   |
| 10.6           | Employment agreement 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. First amendment to such agreement is filed herewith.         |
| 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.                     |

## Table of Contents

|       |  |
|-------|--|
| 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 | Employment agreement between MetaBank and Bradley C. Hanson, filed as an exhibit to Registrant's Report on Form 10-K for the fiscal year ended September 30, 2005 (Commission File No. 0-22140), is incorporated herein by reference. First amendment to such agreement is filed herewith.   |
| 10.11 | Employment agreement between MetaBank and Troy Moore III, filed as an exhibit to Registrant's Report on Form 10-K for the fiscal year ended September 30, 2005 (Commission File No. 0-22140), is incorporated herein by reference. First amendment to such agreement is filed herewith.  |
| 10.12 | 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 by reference.   |
| 10.13 | 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.  |
| 10.14 | The Second Amendment to Registrant's 2002 Omnibus Incentive Plan, adopted by the Registrant on November 30, 2007, and filed on January 3, 2008 as Exhibit A to Registrant's Schedule 14A (DEF 14A) Proxy Statement (Commission File No. 0-22140), is incorporated by reference.  |
| 10.15 | Agreement for Purchase of Selected Assets and Assumption of Certain Liabilities of the Laurens Office of MetaBank by and between MetaBank and Iowa Trust and Savings Bank dated January 31, 2007, filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007 (Commission File No. 0-22140).              |
| 10.16 | Agreement for Purchase of Selected Assets and Assumption of Certain Liabilities of the Sac City, Odebolt and Lake View Offices of MetaBank by and between MetaBank and Iowa State Bank dated January 31, 2007, filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007 (Commission File No. 0-22140). |
| 10.17 | Stock Purchase Agreement by and among Anita Bancorporation, Meta Financial Group, Inc. and MetaBank West Central dated November 27, 2007, filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2007 (Commission File No. 0-22140).  |
| 10.18 | Employment agreement between MetaBank and David W. Leedom, dated October 27, 2008 (filed herewith).  |
| 10.19 | Amended and Restated Contract for Deferred Compensation between MetaBank and James S. Haahr, dated September 27, 2005 and the first amendment thereto are filed herewith.  |
| 11    | Statement re: computation of per share earnings (See Note 3 of "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K).   |
| 21    | Subsidiaries of the Registrant is filed herewith.  |
| 23    | Consent of KPMG, LLP is filed herewith.  |

## [Table of Contents](#)

- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is filed herewith.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is filed herewith.
- 32.1 Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed herewith.
- 32.2 Certification of the CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed herewith.

**META FINANCIAL GROUP, INC.**  
**AMENDED AND RESTATED BY-LAWS**

---

**META FINANCIAL GROUP, INC.**

**AMENDED AND RESTATED BY-LAWS AS OF DECEMBER 27, 2007**

**ARTICLE I**

**STOCKHOLDERS**

Section 1. Annual Meeting.

An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date, and at such time as the Board of Directors shall each year fix, which date shall be within thirteen (13) months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

Section 2. Special Meetings.

Subject to the rights of the holders of any class or series of preferred stock of the Corporation, special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors which the Corporation would have if there were no vacancies on the Board of Directors (hereinafter the "Whole Board").

Section 3. Notice of Meetings.

Written notice of the place, date and time of all meetings of the stockholders shall be given, not less than ten (10) nor more than sixty (60) days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time, by the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation).

When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Section 4. Quorum.

At any meeting of the stockholders, the holders of at least one-third of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum for all purposes, unless or except to the extent that the preserve of a larger number may be required by law.

If a quorum shall fail to attend any meeting, the chairman of the meeting or the holders of a majority of the shares of stock entitled to vote who are present, in person or by proxy, may adjourn the meeting to another place, date or time.



If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, then except as otherwise required by law, those present at such adjourned meeting shall constitute a quorum, and all matters shall be determined by a majority of the votes cast at such meeting.

Section 5.        Organization.

Such person as the Board of Directors may have designated or, in the absence of such a person, the Chairman of the Board of the Corporation or, in his or her absence, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as chairman of the meeting. In the absence of the Secretary of the Corporation, the secretary of the meeting shall be such person as the chairman appoints.

Section 6.        Conduct of Business.

a)        The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him or her in order. The polls for each matter upon which the stockholders will vote at the meeting will be opened and closed in accordance with law.

b)        At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is entitled to vote with respect thereto and who complies with the notice procedures set forth in this Section 6(b). For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered or mailed to and received at the principal executive offices of the Corporation not less than sixty (60) days prior to the anniversary of the preceding year's annual meeting; *provided, however*, that in the event that the date of the annual meeting is advanced by more than twenty (20) days, or delayed by more than fifty (50) days from such anniversary date, notice by the stockholder to be timely must be so delivered not later than the close of business on the later of the sixtieth day prior to such annual meeting or the tenth day following the day on which notice of the date of the annual meeting was mailed or public announcement of the date of such meeting is first made. A stockholder's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting, (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder who proposed such business, (iii) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder and (iv) any material interest of such stockholder in such business. Notwithstanding anything in these By-laws to the contrary, no business shall be brought before or conducted at an annual meeting except in accordance with the provisions of this Section 6(b). The officer of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 6(b) and, if he should so determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

c) Only persons who are nominated in accordance with the procedures set forth in these By-laws shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders at which directors are to be elected only (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 6(c). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the Corporation not less than thirty (30) days prior to the date of the meeting; provided, however, that in the event that less than forty (40) days' notice or prior disclosure of the date of the meeting is given or made to stockholders, to be timely, notice by the stockholder must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth (i) as to each person whom such stockholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (ii) as to the stockholder giving the notice, (x) the name and address, as they appear on the Corporation's books, of such stockholder, and (y) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Section 6(c). The officer of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

#### Section 7. Proxies and Voting.

At all meetings of stockholders, every stockholder entitled to vote may vote in person or by proxy executed in writing (or as otherwise permitted under applicable law) by the stockholder or his duly authorized attorney-in-fact in accordance with the procedures established for the meeting. Proxies solicited on behalf of the management shall be voted as directed by the stockholder or, in the absence of such direction, as determined by a majority of the Board of Directors. No proxy shall be valid after eleven months from the date of its execution except for a proxy coupled with an interest.

Each stockholder shall have one (1) vote for every share of stock entitled to vote which is registered in his or her name on the record date for the meeting, except as otherwise provided herein or in the Certificate of Incorporation of the Corporation or as required by law.

All voting, including the election of directors but excepting where otherwise required by law, may be by a voice vote; provided, however, that the Board of Directors, in its discretion, or the officer of the Corporation presiding at the meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast pursuant to a roll call. Every vote taken by ballot shall be counted by an inspector or inspectors appointed by the Board of Directors in advance of the meeting of stockholders and such inspector or inspectors shall act at the meeting or any adjournment thereof and make a written report thereof, in accordance with law.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by the law or as provided in the Certificate of Incorporation, all other matters shall be determined by a majority of the votes cast.

Section 8. Stock List.

The officer who has charge of the stock transfer books of the Corporation shall prepare and make, in the time and manner required by applicable law, a list of stockholders entitled to vote and shall make such list available for such purposes, at such places, at such times and to such persons as required by law. The stock transfer books shall be the only evidence as to the identity of the stockholders entitled to examine the stock transfer books or to vote in person or by proxy at any meeting of stockholders.

Section 9. Consent of Stockholders in Lieu of Meeting.

Subject to the rights of the holders of any class or series of preferred stock of the Corporation, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

Section 10. Inspectors of Election.

The Board of Directors shall, in advance of any meeting of stockholders, appoint one or more persons as inspectors of election to act at the meeting or any adjournment thereof and make a written report thereof in accordance with law.

## **ARTICLE II**

### **BOARD OF DIRECTORS**

Section 1. General Powers, Number and Term of Office.

The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The number of directors shall be set as provided for in the Certificate of Incorporation. The number of directors who shall constitute the Whole Board shall be such number as the Board of Directors shall from time to time have designated except that in the absence of any such designation, such number shall be eight (8). The Board of Directors shall annually elect a Chairman of the Board and a President from among its members and shall designate, when present, either the Chairman of the Board or the President to preside at its meetings.

The directors, other than those who may be elected by the holders of any class or series of preferred stock, shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class to expire at the conclusion of the first annual meeting of stockholders, the term of office of the second class to expire at the conclusion of the annual meeting of stockholders one year thereafter and the term of office of the third class to expire at the conclusion of the annual meeting of stockholders two years thereafter, with each director to hold office until his or her successor shall have been duly elected and qualified. At each annual meeting of stockholders, commencing with the first annual meeting, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the conclusion of the third succeeding annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified.

Section 2. Vacancies and Newly Created Directorships.

Subject to the rights of the holders of any class or series of preferred stock then outstanding, and unless the Board of Directors otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause maybe filled only by a majority vote of the directors then in office, though less than a quorum, and each director so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which he or she has been elected expires, and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the Board shall shorten the term of any incumbent director.

Section 3. Regular Meetings.

Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required.

Section 4. Special Meetings.

Special meetings of the Board of Directors may be called by one-third (1/3) of the directors then in office (rounded up to the nearest whole number) or by the Chairman of the Board and shall be held at such place, on such date, and at such time as they or he or she shall fix. Notice of the place, date, and time of each such special meeting shall be given to each director by whom it is not waived by mailing written notice not less than five (5) days before the meeting or by telegraphing or telexing or by facsimile transmission of the same not less than twenty-four (24) hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 5. Quorum.

At any meeting of the Board of Directors, a majority of the authorized number of directors then constituting the Board shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date, or time, without further notice or waiver thereof. Notwithstanding the above, at any adjourned meeting of the Board of Directors, at least one-third of the authorized number of directors then constituting the Board shall constitute a quorum for all purposes.

Section 6. Participation in Meetings By Conference Telephone.

Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

Section 7. Conduct of Business.

At any meeting of the Board of Directors, business shall be transacted in such order and manner as the Board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law. Action may be

taken by the Board of Directors without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

Section 8. Powers.

The Board of Directors may, except as otherwise required by law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, including, without limiting the generality of the foregoing, the unqualified power:

- 1) To declare dividends from time to time in accordance with law;
- 2) To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;
- 3) To authorize the creation, making or issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith;
- 4) To remove any officer of the Corporation with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being;
- 5) To confer upon any officer of the Corporation the power to appoint, remove and suspend subordinate officers, employees and agents;
- 6) To adopt from time to time such stock, option, stock purchase, bonus or other compensation plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine;
- 7) To adopt from time to time such insurance, retirement, and other benefit plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and,
- 8) To adopt from time to time regulations, not inconsistent with these By-laws, for the management of the Corporation's business and affairs.

Section 9. Compensation of Directors.

Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including without limitation, their services as members of committees of the Board of Directors.

Section 10. Qualifications.

Any member of the Board of directors shall, in order to qualify as such, be domiciled in or have his or her primary place of business located in any county, a portion of which is within a 70 mile radius of any office of any subsidiary financial institution of the Company.

**ARTICLE III**  
**COMMITTEES**

Section 1.       Committees of the Board of Directors.

The Board of Directors, by a vote of a majority of the Whole Board of Directors, may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law if the resolution which designated the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in his or her place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 2.       Conduct of Business.

Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third (1/3) of the members shall constitute a quorum unless the committee shall consist of one (1) or two (2) members, in which event one (1) member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing and the writing or writings are filed with the minutes of the proceedings of such committee.

Section 3.       Nominating Committee.

The Board of Directors shall appoint a Nominating Committee of the Board, consisting of not less than three (3) members, one of which shall be the Chairman of the Board. The Nominating Committee shall have authority (a) to review any nominations for election to the Board of Directors made by a stockholder of the Corporation pursuant to Section 6(c)(ii) of Article I of these By-laws in order to determine compliance with such By-law, and (b) to recommend to the Whole Board nominees for election to the Board of Directors to replace those directors whose terms expire at the annual meeting of stockholders next ensuing.

**ARTICLE IV**  
**OFFICERS**

Section 1.       Generally.

a)       As soon as may be practicable after the annual meeting of stockholders, the Board of Directors shall choose a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Chief Financial Officer and from time to time may choose such other officers as it may deem proper.

The Chairman of the Board and the President shall be chosen from among the directors. Any number of offices may be held by the same person.

b) The term of office of all officers shall be until the next annual election of officers and until their respective successors are chosen, but any officer may be removed from office at any time by the affirmative vote of a majority of the authorized number of directors then constituting the Board of Directors.

c) All officers chosen by the Board of Directors shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article IV. Such officers shall also have such powers and duties as from time to time may be conferred by the Board of Directors or by any committee thereof.

Section 2. Chairman of the Board of Directors.

The Chairman of the Board of Directors of the Corporation shall have general responsibilities for the conduct of meetings of the Board of Directors, subject to the direction of the Board of Directors, Section 3 herein and to Article I, Section 6.

Section 3. President.

The President shall be the chief executive officer and, subject to the control of the Board of Directors, shall have general power over the management and oversight of the administration and operation of the Corporation's business and general supervisory power and authority over its policies and affairs. He shall see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect.

Each meeting of the stockholders and of the Board of Directors shall be presided over by the Chairman of the Board, or, in his absence, the President, or, in his absence, by such officer as has been designated by the Board of Directors or, in his absence, by such officer or other person as is chosen at the meeting. The Secretary or, in his absence, the General Counsel of the Corporation or such officer as has been designated by the Board of Directors or, in his absence, such officer or other person as is chosen by the person presiding, shall act as secretary of each such meeting.

Section 4. Vice President.

The Vice President or Vice Presidents, if any, shall perform the duties of the President in his absence or during his disability to act. In addition, the Vice Presidents shall perform the duties and exercise the powers usually incident to their respective offices and/or such other duties and powers as may be properly assigned to them from time to time by the Board of Directors, the Chairman of the Board or the President.

Section 5. Secretary.

The Secretary or an Assistant Secretary shall issue notices of meetings, shall keep their minutes, shall have charge of the seal and the corporate books, shall perform such other duties and exercise such other powers as are usually incident to such offices and/or such other duties and powers as are properly assigned thereto by the Board of Directors, the Chairman of the Board or the President.

Section 6. Chief Financial Officer.

The Chief Financial Officer shall have charge of all monies and securities of the Corporation, other than monies and securities of any division of the Corporation which has a treasurer or financial officer appointed by the Board of Directors, and shall keep regular books of account. The funds of the Corporation shall be deposited in the name of the Corporation of the Chief Financial Officer with such banks or trust companies as the Board of Directors from time to time shall designate. He or she shall sign or countersign such instruments as require his or her signature, shall perform all such duties and have all such powers as are usually incident to such officer and/or such other duties and powers as are properly assigned to him or her by the Board of Directors, the Chairman of the Board or the President, and maybe required to give bond for the faithful performance of his or her duties in such sum and with such surety as may be required by the Board of Directors.

Section 7. Assistant Secretaries and Other Officers.

The Board of Directors may appoint one or more assistant secretaries and one or more assistants to the Chief Financial Officer, or one appointee to both such positions, which officers shall have such powers and shall perform such duties as are provided in these By-laws or as may be assigned to them by the Board of Directors, the Chairman of the Board or the President.

Section 8. Action with Respect to Securities of Other Corporations.

Unless otherwise directed by the Board of Directors, the President or any officer of the Corporation authorized by the President shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation.

## ARTICLE V

### STOCK

Section 1. Certificates of Stock.

Each stockholder, except for those who have chosen to utilize uncertificated securities pursuant to a direct registration system, shall be entitled to a certificate signed by, or in the name of the Corporation by, the President or a Vice President, and by the Secretary or an Assistant Secretary, or the Chief Financial Officer or an assistant to the Chief Financial Officer, certifying the number of shares owned by him or her. Any or all of the signatures on the certificate may be by facsimile.

Section 2. Transfers of Stock.

Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 4 of Article V of these By-laws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefore.



Section 3. Record Date.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of any meeting of stockholders, nor more than sixty (60) days prior to the time for such other action as hereinbefore described; provided, however, that if no record date is fixed by the Board of Directors, the record date for determining the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 4. Lost, Stolen or Destroyed Certificates.

In the event of the loss, theft or destruction of any certificate of stock, another maybe issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

Section 5. Regulations.

The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

## **ARTICLE VI**

### **NOTICES**

Section 1. Notices.

Except as otherwise specifically provided herein or required bylaw, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be given effectively by hand delivery to the recipient thereof, by depositing such notice in the mail, postage paid, by sending such notice by prepaid telegram or mailgram or by sending such notice by facsimile machine or other electronic transmission. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his or her last known address as the same appears on the books of the Corporation. The time when such notice is received, if hand delivered, or dispatched, if delivered through the mail, by telegram or mailgram or by facsimile machine or other electronic transmission, shall be the time of the giving of the notice.

Section 2. Waivers.

A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver.

**ARTICLE VII**

**MISCELLANEOUS**

Section 1. Facsimile Signatures.

In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these By-laws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 2. Corporate Seal.

The Board of Directors may provide a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary. If and when so directed by the Board of Directors or a committee thereof, duplicates of the seal may be kept and used by the Chief Financial Officer or by an Assistant Secretary or an assistant to the Chief Financial Officer.

Section 3. Reliance upon Books, Reports and Records.

Each director, each member of any committee designated by the Board of Directors, and each officer of the Corporation shall, in the performance of his or her duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors so designated, or by any other person as to matters which such director or committee member reasonably believes are within such other persons professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 4. Fiscal Year.

The fiscal year of the Corporation shall begin on October 1 of each year.

Section 5. Time Periods.

In applying any provision of these By-laws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded and the day of the event shall be included.

## **ARTICLE VIII**

### **AMENDMENTS**

The By-laws of the Corporation maybe adopted, amended or repealed as provided in Article SEVENTH of the Certificate of Incorporation of the Corporation.

**FIRST AMENDMENT  
TO THE  
METABANK EMPLOYMENT AGREEMENT  
WITH  
J. TYLER HAAHR**

---

**THIS AMENDMENT** (the "Amendment") is entered into on the date set forth on the signature page hereof by and between **MetaBank** (the "Company") and **J. Tyler Haahr** (the "Employee").

## **RECITALS**

**WHEREAS** , the Company and the Employee previously entered into an employment agreement dated January 27, 1997 (the "Employment Agreement");

**WHEREAS** , the Company and the Employee desire to amend the Employment Agreement to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); and

**WHEREAS** , pursuant to Section 13 of the Employment Agreement, the Employment Agreement may be amended by written agreement of the parties thereto;

**NOW, THEREFORE** , the parties hereby agree to amend the Employment Agreement, generally effective January 1, 2008, as follows:

### **Section 2(b) is amended to read as follows:**

(b) Discretionary Bonuses . The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Bank in discretionary bonuses as authorized and declared by the Board of Directors of the Bank to its executive employees. Any such discretionary bonus shall be payable to the Employee at the time bonuses are paid to executive officers in accordance with the Bank's policies and practices; *provided* , however, that any such bonus shall be paid no later than March 15 of the year following the year in which the bonus is earned and vested. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

### **Section 2(c) is amended to read as follows:**

(c) Expenses . During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses he incurs (in accordance with policies and procedures at least as favorable to the Employee as those presently applicable to the senior executive officers of the Bank) in performing services hereunder, *provided* that the Employee properly accounts for such expenses in accordance with Bank policy. Such expense reimbursements shall be paid no later than the end of the Employee's taxable year following the taxable year in which the Employee incurs the expenses. The amount of expenses eligible for reimbursement during a taxable year may not affect the expenses eligible for reimbursement in any other taxable year, and the Employee's right to an expense reimbursement may not be liquidated or exchanged for another benefit.

### **Section 6(a) is amended so the first paragraph thereof reads as follows:**

(a) The Board of Directors may terminate the Employee's employment at any time, but any termination by the Bank's Board of Directors, other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under the Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to receive:

(i) his then-applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in installments not less frequently than biweekly, in

accordance with the Bank's regular payroll practices and procedures, subject to the customary withholding tax and other employee taxes as required with respect to compensation paid by a corporation to an employee, *provided* that if the Employee is a "specified employee" (as such term is defined in Code Section 409A and the regulations or other guidance in effect thereunder) at the time of his employment termination and his employment terminates under circumstances that require a distribution delay under Code Section 409A, the commencement of biweekly installments of the Employee's continued salary payments shall be delayed for six months and the installments that otherwise would have been paid during that six-month period shall be paid in a lump sum on the six-month anniversary of the Employee's employment termination date (or, if earlier, as soon as administratively feasible after his death); and

(ii) health insurance benefits as maintained by the Bank for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, *provided* that if the duration of such health insurance benefits extends beyond the end of the applicable continuation coverage period under the Consolidated Omnibus Budget Reconciliation Act (COBRA), (A) the amount of benefits provided during one calendar year shall not affect the amount of benefits provided during a subsequent calendar year (except with respect to health plan maximums), (B) the benefits may not be exchanged or substituted for other forms of compensation to the Employee, and (C) any reimbursement or payment under the benefit arrangement will be paid in accordance with applicable plan terms and no later than the last day of the Employee's taxable year following the taxable year in which he incurred the expense giving rise to such reimbursement or payment.

**Section 6(h) is amended to read as follows:**

(h) In the event the Bank purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 17 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Bank has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts; *provided*, however, that (i) the Employee shall have no right to cost reimbursements until the court or arbitrator enters a final and binding opinion that cause did not exist for the Employee's termination or that the Bank has failed to pay amounts due to the Employee under this Agreement, and (ii) cost reimbursements will be paid no later than March 15 of the year following the year in which the court or arbitrator enters its final and binding opinion. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

**Section 9(c) is amended so the last sentence thereof reads as follows:**

In the event that the Advisory Firm, based on controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Bank to or for the benefit of the Employee together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code, *provided* that such Underpayment and interest shall be paid no later than two and a half months after the date on which the Advisory Firm informs the Bank of its determination that an Underpayment has occurred.

**A new Section 18 is added to the Employment Agreement to read as follows:**

18. Code Section 409A. It is intended that any income or payments to the Employee provided under this Agreement will not be subject to the additional tax and interest under Code Section 409A (the "Section 409A Tax"). The provisions of the Agreement will be construed in favor of complying with any

applicable requirements of Code Section 409A as necessary to prevent the imposition of a Section 409A Tax. The Bank and the Employee agree to amend the Agreement (retroactively, if necessary) to comply with Code Section 409A, including amendment to enable the Employee to prevent the imposition of, or to reduce the amount of, any Section 409A Tax. The Bank and the Employee shall reasonably cooperate to give full effect to this provision and the consent to any amendment described in the preceding sentence shall not be unreasonably withheld by either party. The parties agree that neither party has (a) an obligation to bring any potential Section 409A Tax to the attention of the other party or (b) any liability for any Section 409A Tax or any other reporting or withholding obligation to the other party.

**In all other respects, the Employment Agreement shall remain unchanged and in full force and effect.**

**IN WITNESS WHEREOF** , this Amendment has been executed and delivered by the parties hereto this 28th day of January, 2008.

**METABANK**

/s/ E. Wayne Cooley

E. Wayne Cooley

Chairman, Compensation Committee

**EMPLOYEE**

/s/ J. Tyler Haahr

J. Tyler Haahr

**FIRST AMENDMENT  
TO THE  
FIRST FEDERAL SAVINGS BANK OF THE MIDWEST  
SUPPLEMENTAL EMPLOYEES' INVESTMENT PLAN FOR SALARIED EMPLOYEES**

---



**THIS AMENDMENT** (the “Amendment”) to the First Federal Savings Bank of the Midwest Supplemental Employees’ Investment Plan for Salaried Employees (the “Plan”) is hereby adopted on the 29th day of January, 2007 by MetaBank (formerly known as First Federal Savings Bank of the Midwest).

## **RECITALS**

**WHEREAS** , First Federal Savings Bank of the Midwest adopted the Plan effective October 1, 1993 for the benefit of a select group of senior management personnel;

**WHEREAS** , First Federal Savings Bank of the Midwest subsequently became known as MetaBank (the “Company”);

**WHEREAS** , Section 7.1 of the Plan authorizes the Company to amend the Plan by action of its Board of Directors; and

**WHEREAS** , the Company now desires to amend the Plan to comply with final regulations issued under Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”);

**NOW, THEREFORE** , the Company hereby amends the Plan, generally effective January 1, 2008, as follows:

### **Section 5.1 is amended to read as follows:**

5.1 Distribution . All amounts credited to a Participant’s Supplemental Account, including gains and losses credited in accordance with Section 4.1 of the Plan, shall be distributed to or with respect to the Participant upon the Participant’s separation from service (as defined in Treasury Regulation Section 1.409A-1(h)) with the Company and all affiliates thereof for any reason including death. Such amounts shall be distributed in a lump sum cash payment within ninety (90) days after the date of the Participant’s separation from service; *provided* , however, that if the Participant is a “specified employee” (as such term is defined in Code Section 409A and the regulations or other guidance in effect thereunder) on the date of his or her separation from service, the amounts in the Participant’s Supplemental Account shall be paid in a lump sum on the six-month anniversary of the date of his or her separation from service (or, if earlier, as soon as administratively feasible after his or her death).

If a Participant dies before the full amount of his or her Supplemental Account has been distributed, any remaining amount shall be distributed in a lump sum cash payment as soon as administratively feasible following the Participant’s date of death to the beneficiary designated by the Participant in a writing delivered to the Company prior to his or her death. If a Participant has not designated a beneficiary or if no designated beneficiary is living on the date of distribution, such remaining amount shall be distributed to the Participant’s estate.

### **Section 7.1 is amended so the first sentence thereof reads as follows:**

The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan when, in the sole opinion of the Company, such amendment or termination is advisable; *provided* , however, that any Plan termination shall comply with the requirements of Code Section 409A.

**Section 7.2 is amended so the second sentence thereof reads as follows:**

Upon termination of the Plan, distribution of amounts in the Supplemental Account shall be made to the Participant or his or her beneficiary in a lump sum cash payment within the timeframe required under Code Section 409A.

**Section 8.2 is amended so the first sentence thereof reads as follows:**

Except as otherwise expressly provided herein or prohibited by Code Section 409A or the regulations or other guidance in effect thereunder, all terms and conditions of the Qualified Plan applicable to a Qualified Plan Contribution, other than provisions governing the time and form of payment, will also apply to a Supplemental Contribution to be made hereunder.

**A new Section 8.11 is added to the Plan to read as follows:**

8.11 Code Section 409A . It is intended that any benefit provided under this Plan will not be subject to the additional tax and interest under Code Section 409A (the "Section 409A Tax"). The Plan provisions will be construed in favor of complying with any applicable requirements of Code Section 409A as necessary to prevent the imposition of a Section 409A Tax. The Company will amend the Plan (retroactively, if necessary) to comply with Code Section 409A, including amendment to enable the Participants to prevent the imposition of, or to reduce the amount of, any Section 409A Tax. Neither the Company nor any Participant has (a) an obligation to bring any potential Section 409A Tax to the attention of the other party or (b) any liability for any Section 409A Tax or any other reporting or withholding obligation to the other party.

**In all other respects, the Plan shall remain unchanged and in full force and effect.**

**IN WITNESS WHEREOF** , this Amendment has been executed and delivered on the date first set forth above.

**METABANK**

/s/ E. Wayne Cooley

E. Wayne Cooley

Chairman, Compensation Committee

**FIRST AMENDMENT  
TO THE  
METABANK EMPLOYMENT AGREEMENT  
WITH  
JAMES S. HAAHR**

---

**THIS AMENDMENT** (the "Amendment") is entered into on the date set forth on the signature page hereof by and between **MetaBank** (the "Company") and **James S. Haahr** (the "Employee").

## **RECITALS**

**WHEREAS**, the Company and the Employee previously entered into an employment agreement dated September 27, 1993 (the "Employment Agreement");

**WHEREAS**, the Company and the Employee desire to amend the Employment Agreement to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); and

**WHEREAS**, pursuant to Section 13 of the Employment Agreement, the Employment Agreement may be amended by written agreement of the parties thereto;

**NOW, THEREFORE**, the parties hereby agree to amend the Employment Agreement, generally effective January 1, 2008, as follows:

### **Section 2(b) is amended to read as follows:**

(b) Discretionary Bonuses. The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Bank in discretionary bonuses as authorized and declared by the Board of Directors of the Bank to its executive employees. Any such discretionary bonus shall be payable to the Employee at the time bonuses are paid to executive officers in accordance with the Bank's policies and practices; *provided*, however, that any such bonus shall be paid no later than March 15 of the year following the year in which the bonus is earned and vested. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

### **Section 2(c) is amended to read as follows:**

(c) Expenses. During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses he incurs (in accordance with policies and procedures at least as favorable to the Employee as those presently applicable to the senior executive officers of the Bank) in performing services hereunder, *provided* that the Employee properly accounts for such expenses in accordance with Bank policy. Such expense reimbursements shall be paid no later than the end of the Employee's taxable year following the taxable year in which the Employee incurs the expenses. The amount of expenses eligible for reimbursement during a taxable year may not affect the expenses eligible for reimbursement in any other taxable year, and the Employee's right to an expense reimbursement may not be liquidated or exchanged for another benefit.

### **Section 6(a) is amended so the first paragraph thereof reads as follows:**

(a) The Board of Directors may terminate the Employee's employment at any time, but any termination by the Bank's Board of Directors, other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under the Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to receive:

(i) his then-applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in installments not less frequently than biweekly, in

accordance with the Bank's regular payroll practices and procedures, subject to the customary withholding tax and other employee taxes as required with respect to compensation paid by a corporation to an employee, *provided* that if the Employee is a "specified employee" (as such term is defined in Code Section 409A and the regulations or other guidance in effect thereunder) at the time of his employment termination and his employment terminates under circumstances that require a distribution delay under Code Section 409A, the commencement of biweekly installments of the Employee's continued salary payments shall be delayed for six months and the installments that otherwise would have been paid during that six-month period shall be paid in a lump sum on the six-month anniversary of the Employee's employment termination date (or, if earlier, as soon as administratively feasible after his death); and

(ii) health insurance benefits as maintained by the Bank for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, *provided* that if the duration of such health insurance benefits extends beyond the end of the applicable continuation coverage period under the Consolidated Omnibus Budget Reconciliation Act (COBRA), (A) the amount of benefits provided during one calendar year shall not affect the amount of benefits provided during a subsequent calendar year (except with respect to health plan maximums), (B) the benefits may not be exchanged or substituted for other forms of compensation to the Employee, and (C) any reimbursement or payment under the benefit arrangement will be paid in accordance with applicable plan terms and no later than the last day of the Employee's taxable year following the taxable year in which he incurred the expense giving rise to such reimbursement or payment.

**Section 6(h) is amended to read as follows:**

(h) In the event the Bank purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 17 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Bank has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts; *provided*, however, that (i) the Employee shall have no right to cost reimbursements until the court or arbitrator enters a final and binding opinion that cause did not exist for the Employee's termination or that the Bank has failed to pay amounts due to the Employee under this Agreement, and (ii) cost reimbursements will be paid no later than March 15 of the year following the year in which the court or arbitrator enters its final and binding opinion. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

**Section 9(c) is amended so the last sentence thereof reads as follows:**

In the event that the Advisory Firm, based on controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Bank to or for the benefit of the Employee together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code, *provided* that such Underpayment and interest shall be paid no later than two and a half months after the date on which the Advisory Firm informs the Bank of its determination that an Underpayment has occurred.

**A new Section 18 is added to the Employment Agreement to read as follows:**

18. Code Section 409A. It is intended that any income or payments to the Employee provided under this Agreement will not be subject to the additional tax and interest under Code Section 409A (the "Section 409A Tax"). The provisions of the Agreement will be construed in favor of complying with any

applicable requirements of Code Section 409A as necessary to prevent the imposition of a Section 409A Tax. The Bank and the Employee agree to amend the Agreement (retroactively, if necessary) to comply with Code Section 409A, including amendment to enable the Employee to prevent the imposition of, or to reduce the amount of, any Section 409A Tax. The Bank and the Employee shall reasonably cooperate to give full effect to this provision and the consent to any amendment described in the preceding sentence shall not be unreasonably withheld by either party. The parties agree that neither party has (a) an obligation to bring any potential Section 409A Tax to the attention of the other party or (b) any liability for any Section 409A Tax or any other reporting or withholding obligation to the other party.

**In all other respects, the Employment Agreement shall remain unchanged and in full force and effect.**

**IN WITNESS WHEREOF** , this Amendment has been executed and delivered by the parties hereto this 28th day of January, 2008.

**METABANK**

/s/ E. Wayne Cooley

E. Wayne Cooley

Chairman, Compensation Committee

**EMPLOYEE**

/s/ James S. Haahr

James S. Haahr

**FIRST AMENDMENT  
TO THE  
METABANK EMPLOYMENT AGREEMENT  
WITH  
BRADLEY C. HANSON**

---

**THIS AMENDMENT** (the "Amendment") is entered into on the date set forth on the signature page hereof by and between **MetaBank** (the "Company") and **Bradley C. Hanson** (the "Employee").

## **RECITALS**

**WHEREAS** , the Company and the Employee previously entered into an employment agreement dated October 24, 2005 (the "Employment Agreement");

**WHEREAS** , the Company and the Employee desire to amend the Employment Agreement to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); and

**WHEREAS** , pursuant to Section 13 of the Employment Agreement, the Employment Agreement may be amended by written agreement of the parties thereto;

**NOW, THEREFORE** , the parties hereby agree to amend the Employment Agreement, generally effective January 1, 2008, as follows:

### **Section 2(b) is amended to read as follows:**

(b) Discretionary Bonuses . The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Bank in discretionary bonuses as authorized and declared by the Board of Directors of the Bank to its executive employees. Any such discretionary bonus shall be payable to the Employee at the time bonuses are paid to executive officers in accordance with the Bank's policies and practices; *provided* , however, that any such bonus shall be paid no later than March 15 of the year following the year in which the bonus is earned and vested. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

### **Section 2(c) is amended to read as follows:**

(c) Expenses . During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses he incurs (in accordance with policies and procedures at least as favorable to the Employee as those presently applicable to the senior executive officers of the Bank) in performing services hereunder, *provided* that the Employee properly accounts for such expenses in accordance with Bank policy. Such expense reimbursements shall be paid no later than the end of the Employee's taxable year following the taxable year in which the Employee incurs the expenses. The amount of expenses eligible for reimbursement during a taxable year may not affect the expenses eligible for reimbursement in any other taxable year, and the Employee's right to an expense reimbursement may not be liquidated or exchanged for another benefit.

### **Section 6(a) is amended so the first paragraph thereof reads as follows:**

(a) The Board of Directors may terminate the Employee's employment at any time, but any termination by the Bank's Board of Directors, other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under the Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to receive:

(i) his then-applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in installments not less frequently than biweekly, in



accordance with the Bank's regular payroll practices and procedures, subject to the customary withholding tax and other employee taxes as required with respect to compensation paid by a corporation to an employee, *provided* that if the Employee is a "specified employee" (as such term is defined in Code Section 409A and the regulations or other guidance in effect thereunder) at the time of his employment termination and his employment terminates under circumstances that require a distribution delay under Code Section 409A, the commencement of biweekly installments of the Employee's continued salary payments shall be delayed for six months and the installments that otherwise would have been paid during that six-month period shall be paid in a lump sum on the six-month anniversary of the Employee's employment termination date (or, if earlier, as soon as administratively feasible after his death); and

(ii) health insurance benefits as maintained by the Bank for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, *provided* that if the duration of such health insurance benefits extends beyond the end of the applicable continuation coverage period under the Consolidated Omnibus Budget Reconciliation Act (COBRA), (A) the amount of benefits provided during one calendar year shall not affect the amount of benefits provided during a subsequent calendar year (except with respect to health plan maximums), (B) the benefits may not be exchanged or substituted for other forms of compensation to the Employee, and (C) any reimbursement or payment under the benefit arrangement will be paid in accordance with applicable plan terms and no later than the last day of the Employee's taxable year following the taxable year in which he incurred the expense giving rise to such reimbursement or payment.

**Section 6(h) is amended to read as follows:**

(h) In the event the Bank purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 17 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Bank has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts; *provided*, however, that (i) the Employee shall have no right to cost reimbursements until the court or arbitrator enters a final and binding opinion that cause did not exist for the Employee's termination or that the Bank has failed to pay amounts due to the Employee under this Agreement, and (ii) cost reimbursements will be paid no later than March 15 of the year following the year in which the court or arbitrator enters its final and binding opinion. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

**Section 9(c) is amended so the last sentence thereof reads as follows:**

In the event that the Advisory Firm, based on controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Bank to or for the benefit of the Employee together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code, *provided* that such Underpayment and interest shall be paid no later than two and a half months after the date on which the Advisory Firm informs the Bank of its determination that an Underpayment has occurred.

**A new Section 18 is added to the Employment Agreement to read as follows:**

18. Code Section 409A. It is intended that any income or payments to the Employee provided under this Agreement will not be subject to the additional tax and interest under Code Section 409A (the "Section 409A Tax"). The provisions of the Agreement will be construed in favor of complying with any

applicable requirements of Code Section 409A as necessary to prevent the imposition of a Section 409A Tax. The Bank and the Employee agree to amend the Agreement (retroactively, if necessary) to comply with Code Section 409A, including amendment to enable the Employee to prevent the imposition of, or to reduce the amount of, any Section 409A Tax. The Bank and the Employee shall reasonably cooperate to give full effect to this provision and the consent to any amendment described in the preceding sentence shall not be unreasonably withheld by either party. The parties agree that neither party has (a) an obligation to bring any potential Section 409A Tax to the attention of the other party or (b) any liability for any Section 409A Tax or any other reporting or withholding obligation to the other party.

**In all other respects, the Employment Agreement shall remain unchanged and in full force and effect.**

**IN WITNESS WHEREOF** , this Amendment has been executed and delivered by the parties hereto this 28th day of January, 2008.

**METABANK**

/s/ E. Wayne Cooley

E. Wayne Cooley

Chairman, Compensation Committee

**EMPLOYEE**

/s/ Bradley C. Hanson

Bradley C. Hanson

**FIRST AMENDMENT  
TO THE  
METABANK EMPLOYMENT AGREEMENT  
WITH  
TROY MOORE, III**

---

**THIS AMENDMENT** (the "Amendment") is entered into on the date set forth on the signature page hereof by and between **MetaBank** (the "Company") and **Troy Moore, III** (the "Employee").

## **RECITALS**

**WHEREAS** , the Company and the Employee previously entered into an employment agreement dated October 24, 2005 (the "Employment Agreement");

**WHEREAS** , the Company and the Employee desire to amend the Employment Agreement to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); and

**WHEREAS** , pursuant to Section 13 of the Employment Agreement, the Employment Agreement may be amended by written agreement of the parties thereto;

**NOW, THEREFORE** , the parties hereby agree to amend the Employment Agreement, generally effective January 1, 2008, as follows:

### **Section 2(b) is amended to read as follows:**

(b) Discretionary Bonuses . The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Bank in discretionary bonuses as authorized and declared by the Board of Directors of the Bank to its executive employees. Any such discretionary bonus shall be payable to the Employee at the time bonuses are paid to executive officers in accordance with the Bank's policies and practices; *provided* , however, that any such bonus shall be paid no later than March 15 of the year following the year in which the bonus is earned and vested. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

### **Section 2(c) is amended to read as follows:**

(c) Expenses . During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses he incurs (in accordance with policies and procedures at least as favorable to the Employee as those presently applicable to the senior executive officers of the Bank) in performing services hereunder, *provided* that the Employee properly accounts for such expenses in accordance with Bank policy. Such expense reimbursements shall be paid no later than the end of the Employee's taxable year following the taxable year in which the Employee incurs the expenses. The amount of expenses eligible for reimbursement during a taxable year may not affect the expenses eligible for reimbursement in any other taxable year, and the Employee's right to an expense reimbursement may not be liquidated or exchanged for another benefit.

### **Section 6(a) is amended so the first paragraph thereof reads as follows:**

(a) The Board of Directors may terminate the Employee's employment at any time, but any termination by the Bank's Board of Directors, other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under the Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to receive:

(i) his then-applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in installments not less frequently than biweekly, in

accordance with the Bank's regular payroll practices and procedures, subject to the customary withholding tax and other employee taxes as required with respect to compensation paid by a corporation to an employee, *provided* that if the Employee is a "specified employee" (as such term is defined in Code Section 409A and the regulations or other guidance in effect thereunder) at the time of his employment termination and his employment terminates under circumstances that require a distribution delay under Code Section 409A, the commencement of biweekly installments of the Employee's continued salary payments shall be delayed for six months and the installments that otherwise would have been paid during that six-month period shall be paid in a lump sum on the six-month anniversary of the Employee's employment termination date (or, if earlier, as soon as administratively feasible after his death); and

(ii) health insurance benefits as maintained by the Bank for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, *provided* that if the duration of such health insurance benefits extends beyond the end of the applicable continuation coverage period under the Consolidated Omnibus Budget Reconciliation Act (COBRA), (A) the amount of benefits provided during one calendar year shall not affect the amount of benefits provided during a subsequent calendar year (except with respect to health plan maximums), (B) the benefits may not be exchanged or substituted for other forms of compensation to the Employee, and (C) any reimbursement or payment under the benefit arrangement will be paid in accordance with applicable plan terms and no later than the last day of the Employee's taxable year following the taxable year in which he incurred the expense giving rise to such reimbursement or payment.

**Section 6(h) is amended to read as follows:**

(h) In the event the Bank purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 17 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Bank has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts; *provided*, however, that (i) the Employee shall have no right to cost reimbursements until the court or arbitrator enters a final and binding opinion that cause did not exist for the Employee's termination or that the Bank has failed to pay amounts due to the Employee under this Agreement, and (ii) cost reimbursements will be paid no later than March 15 of the year following the year in which the court or arbitrator enters its final and binding opinion. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

**Section 9(c) is amended so the last sentence thereof reads as follows:**

In the event that the Advisory Firm, based on controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Bank to or for the benefit of the Employee together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code, *provided* that such Underpayment and interest shall be paid no later than two and a half months after the date on which the Advisory Firm informs the Bank of its determination that an Underpayment has occurred.

**A new Section 18 is added to the Employment Agreement to read as follows:**

18. Code Section 409A. It is intended that any income or payments to the Employee provided under this Agreement will not be subject to the additional tax and interest under Code Section 409A (the "Section 409A Tax"). The provisions of the Agreement will be construed in favor of complying with any

applicable requirements of Code Section 409A as necessary to prevent the imposition of a Section 409A Tax. The Bank and the Employee agree to amend the Agreement (retroactively, if necessary) to comply with Code Section 409A, including amendment to enable the Employee to prevent the imposition of, or to reduce the amount of, any Section 409A Tax. The Bank and the Employee shall reasonably cooperate to give full effect to this provision and the consent to any amendment described in the preceding sentence shall not be unreasonably withheld by either party. The parties agree that neither party has (a) an obligation to bring any potential Section 409A Tax to the attention of the other party or (b) any liability for any Section 409A Tax or any other reporting or withholding obligation to the other party.

**In all other respects, the Employment Agreement shall remain unchanged and in full force and effect.**

**IN WITNESS WHEREOF** , this Amendment has been executed and delivered by the parties hereto this 28th day of January, 2008.

**METABANK**

/s/ E.Wayne Cooley

E. Wayne Cooley

Chairman, Compensation Committee

**EMPLOYEE**

/s/ Troy Moore, III

Troy Moore, III

EMPLOYMENT AGREEMENT

---

**THIS EMPLOYMENT AGREEMENT** ("Agreement") is made and entered into as of this 27th day of October, 2008, by and between **MetaBank**, 121 E. 5<sup>th</sup> Street, Storm Lake, Iowa 50588 (hereinafter referred to as the "Bank" whether in mutual or stock form) and **David W. Leedom** (the "Employee"), who resides at 305 Spyglass Drive, Sioux Falls, South Dakota 57105.

**WHEREAS**, the Employee is currently serving as Senior Vice President and Chief Financial Officer; and

**WHEREAS**, the Bank is a publically held corporation as the subsidiary of Meta Financial Group, Inc. (the "Holding Company") and

**WHEREAS**, the Board of Directors of the Bank recognizes that, as is the case with publicly held corporations generally, the possibility of a change in control of the Holding Company and/or the Bank may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of key management personnel to the detriment of the Bank, the Holding Company and its stockholders; and

**WHEREAS**, the Board of Directors of the Bank believes it is in the best interests of the Bank to enter into this Agreement with the Employee in order to assure continuity of management of the Bank and to reinforce and encourage the continued attention and dedication of the Employee to his assigned duties without distraction in the face of potentially disruptive circumstances arising from the possibility of a change in control of the Holding Company, although no such change is now contemplated; and

**WHEREAS**, the Board of Directors of the Bank has approved and authorized the execution of this Agreement with the Employee to take effect as stated in Section 4 hereof;

**NOW, THEREFORE**, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, it is AGREED as follows:

1. Employment. The Employee will be employed as Senior Vice President and Chief Financial Officer of the Bank. As Senior Vice President and Chief Financial Officer, Employee shall render administrative and management services as are customarily performed by persons situated in similar executive capacities, and shall have other powers and duties as may from time to time be prescribed by the Board, provided that such duties are consistent with the Employee's position as Senior Vice President and Chief Financial Officer. The Employee shall continue to devote his best efforts and substantially all his business time and attention to the business and affairs of the Bank and its subsidiaries and affiliated companies.

2. Compensation.

(a) Salary. The Bank agrees to pay the Employee during the term of this Agreement a salary established by the Board of Directors. The salary hereunder as of the Commencement Date (as defined in Section 4 hereof) shall be at least equal to the Employee's salary in effect immediately prior to the Commencement Date. The salary provided for herein shall be payable not less frequently than biweekly in accordance with the practices of the Bank, provided, however, that no such salary is required to be paid by the terms of this Agreement in respect of any month or portion thereof subsequent to the termination of this Agreement and provided further, that the amount of such salary shall be reviewed by the Board of Directors not less often than annually and may be increased (but not decreased) from time to time in such amounts as the Board of Directors in its discretion may decide, subject to the customary withholding tax and other employee taxes as required with respect to compensation paid by a corporation to an employee.



(b) Discretionary Bonuses. The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Bank in discretionary bonuses as authorized and declared by the Board of Directors of the Bank to its executive employees. Any such discretionary bonus shall be payable to the Employee at the time bonuses are paid to executive officers in accordance with the Bank's policies and practices; *provided*, however, that any such bonus shall be paid no later than March 15 of the year following the year in which the bonus is earned and vested. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

(c) Expenses. During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses he incurs (in accordance with policies and procedures at least as favorable to the Employee as those presently applicable to the senior executive officers of the Bank) in performing services hereunder, *provided* that the Employee properly accounts for such expenses in accordance with Bank policy. Such expense reimbursements shall be paid no later than the end of the Employee's taxable year following the taxable year in which the Employee incurs the expenses. The amount of expenses eligible for reimbursement during a taxable year may not affect the expenses eligible for reimbursement in any other taxable year, and the Employee's right to an expense reimbursement may not be liquidated or exchanged for another benefit.

### 3. Benefits.

(a) Participation in Retirement and Employee Benefit Plans. The Employee shall be entitled while employed hereunder to participate in, and receive benefits under, all plans relating to stock options, stock purchases, pension, thrift, profit-sharing, group life insurance, medical coverage, education, cash or stock bonuses, and other retirement or employee benefits or combinations thereof, that are now or hereafter maintained for the benefit of the Bank's executive employees or for its employees generally.

(b) Fringe Benefits. The Employee shall be eligible while employed hereunder to participate in, and receive benefits under, any other fringe benefits which are or may become applicable to the Bank's executive employees or to its employees generally.

4. Term. The term of employment under this Agreement shall be a period of three (3) years commencing on the date of effective date of this document (the "Commencement Date") subject to earlier termination as provided herein. Beginning on the first anniversary of the Commencement Date, and on each anniversary thereafter, the term of employment under this Agreement shall be extended for a period of one year unless either the Bank or the Employee gives contrary written notice to the other not less than 90 days in advance of the date on which the term of employment under this Agreement would otherwise be extended, *provided* that such term will not be automatically extended unless, prior thereto, such extension is approved by the Board of Directors following the Board's review of a formal performance evaluation of the Employee performed by the disinterested members of the Board of Directors of the Bank and reflected in the minutes of the Board of Directors. Reference herein to the term of employment under this Agreement shall refer to both such initial term and such extended terms.

5. Vacations. The Employee shall be entitled, without loss of pay, to absent himself voluntarily from the performance of his employment under this Agreement, all such voluntary absences to count as vacation time, provided that:

(a) the Employee shall be entitled to an annual vacation of not less than five (5) weeks per year;

(b) the timing of vacations shall be scheduled in a reasonable manner by the Employee; and

(c) solely at the Employee's request, the Board of Directors shall be entitled to grant to the Employee a leave or leaves of absence with or without pay at such time or times and upon such terms and conditions as the Board, in its discretion, may determine.

6. Termination of Employment; Death.

(a) The Board of Directors may terminate the Employee's employment at any time, but any termination by the Bank's Board of Directors, other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under the Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to receive:

(i) his then-applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in installments not less frequently than biweekly, in accordance with the Bank's regular payroll practices and procedures, subject to the customary withholding tax and other employee taxes as required with respect to compensation paid by a corporation to an employee, provided that if the Employee is a "specified employee" (as such term is defined in Code Section 409A and the regulations or other guidance in effect thereunder) at the time of his employment termination and his employment terminates under circumstances that require a distribution delay under Code Section 409A, the commencement of biweekly installments of the Employee's continued salary payments shall be delayed for six months and the installments that otherwise would have been paid during that six-month period shall be paid in a lump sum on the six-month anniversary of the Employee's employment termination date (or, if earlier, as soon as administratively feasible after his death); and

(ii) health insurance benefits as maintained by the Bank for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, provided that if the duration of such health insurance benefits extends beyond the end of the applicable continuation coverage period under the Consolidated Omnibus Budget Reconciliation Act (COBRA), (A) the amount of benefits provided during one calendar year shall not affect the amount of benefits provided during a subsequent calendar year (except with respect to health plan maximums), (B) the benefits may not be exchanged or substituted for other forms of compensation to the Employee, and (C) any reimbursement or payment under the benefit arrangement will be paid in accordance with applicable plan terms and no later than the last day of the Employee's taxable year following the taxable year in which he incurred the expense giving rise to such reimbursement or payment.

(b) The Employee's employment may be voluntarily terminated by the Employee at any time upon 90 days written notice to the Bank or upon such shorter period as may be agreed upon between the Employee and the Board of Directors of the Bank. In the event of such voluntary termination, the Bank shall be obligated to continue to pay the Employee his salary only through the date of termination, at the time such payments are due, and the Bank shall have no further obligation to the Employee under this Agreement.

(c) In the event of the death of the Employee during the term of employment under this agreement and prior to any termination hereunder, the Employee's estate, or such person as the Employee may have previously designated in writing, shall be entitled to receive from the Bank the salary of the Employee through the last day of the calendar month in which his death shall have occurred, and the term of employment under this Agreement shall end on such last day of the month.

(d) If the Employee is suspended from office and/or temporarily prohibited from participating in the conduct of the Bank's affairs by a notice served under Section 8(e) (3) or (g) (1) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818 (e) (3); (g) (1), the Bank's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank may in its discretion (i) pay the Employee all or part of the compensation withheld while its obligations under this Agreement were suspended and (ii) reinstate in whole or in part any of the obligations which were suspended.

(e) If the Employee is removed from office and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under Section (8) (e) (4) or (g) (1) of the FDIA, 12 U.S.C. § 1818 (e) (4); (g) (1), all obligations of the Bank under this Agreement shall terminate, as of the effective date of the order, but vested rights of the parties shall not be affected.

(f) If the Bank becomes in default (as defined in Section 3 (x) (1) of the FDIA, 12 U.S.C. § 1813 (x) (1)), all obligations under this Agreement shall terminate as of the date of default, but this provision shall not affect any vested rights of the parties.

(g) All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the Bank: (i) by the Director of the Office of Thrift Supervision ("OTS") or his or her designee at the time the Federal Deposit Insurance Corporation or the Resolution Trust Corporation enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13 (c) of the FDIA, 12 U.S.C. § 1823 (c); or (ii) by the Director of the OTS or his or her designee at the time the Director of the OTS or his or her designee approves a supervisory merger to resolve problems related to operation of the Bank or when the Bank is determined by the Director of the OTS to be in unsafe or unsound condition. Any rights of the parties that have already vested, however, shall not be affected by any such action.

(h) In the event the Bank purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 17 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Bank has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts; provided, however, that (i) the Employee shall have no right to cost reimbursements until the court or arbitrator enters a final and binding opinion that cause did not exist for the Employee's termination or that the Bank has failed to pay amounts due to the Employee under this Agreement, and (ii) cost reimbursements will be paid no later than March 15 of the year following the year in which the court or arbitrator enters its final and binding opinion. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

7. Disability . If during the term of employment hereunder the Employee shall become disabled or incapacitated to the extent that he is unable to perform the duties of the Senior Vice President and Chief Financial Officer, he shall be entitled to receive disability benefits of the type provided for other executive employees of the Bank.

#### 8. Change in Control .

(a) Involuntary Termination . If the Employee's employment is involuntarily terminated (other than for cause or pursuant to any of Sections 6 (c) through 6 (g) or Section 7 of this Agreement) in connection with or within 12 months after a change in control which occurs at any time during the term of employment under this Agreement, in addition to any payments under Section 6 (a) of the Agreement, the

Bank shall pay to the Employee in a lump sum in cash within 25 business days after the Date of Termination (as hereinafter defined) of employment an amount equal to 299% of the Employee's "base amount" of compensation as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code").

(b) Definitions. For purposes of Section 8, 9 and 11 of this Agreement, "Date of Termination" means the earlier of (i) the date upon which the Bank gives notice to the Employee of the termination of his employment with the Bank, or (ii) the date upon which the Employee ceases to serve as an Employee of the Bank; and "change in control" is defined solely as any acquisition of control (other than pursuant to the Conversion or by a trustee or other fiduciary holding securities under an employee benefit plan of the Holding Company or a subsidiary of the Holding Company), as defined in 12 C.F.R. § 574.4, or any successor regulation, of the Bank or Holding Company which would require the filing of an application for acquisition of control or notice of change in control in a manner as set forth in 12 C.F.R. § 574.3, or any successor regulation.

9. Certain Reduction of Payments by the Bank.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Bank to or for the benefit of the Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be nondeductible (in whole or part) by the Bank for Federal income tax purposes because of Section 280G of the Code, then the aggregate present value of amounts payable or distributable to or for the benefit of the Employee pursuant to this Agreement (such amounts payable or distributable pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced to the Reduced Amount. The "Reduced Amount" shall be an amount, not less than zero, expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any Payment to be nondeductible by the Bank because of Section 280G of the Code. For purposes of this Section 9, present value shall be determined in accordance with Section 280G (d) (4) of the Code.

(b) All determinations required to be made under this Section 9 shall be made by the Bank's independent auditors, or at the election of such auditors by such other firm or individuals of recognized expertise as such auditors may select (such auditors or, if applicable, such other firm or individual, are hereinafter referred to as the "Advisory Firm"). The Advisory Firm shall within ten business days of the Date of Termination, or at such earlier time as is requested by the Bank, provide to both the Bank and the Employee an opinion (and detailed supporting calculations) that the Bank has substantial authority to deduct for federal income tax purposes the full amount of the Agreement Payments and that the Employee has substantial authority not to report on his federal income tax return any excise tax imposed by Section 4999 of the Code with respect to the Agreement Payments. Any such determination and opinion by the Advisory Firm shall be binding upon the Bank and the Employee. The Employee shall determine which and how much, if any, of the Agreement Payments shall be eliminated or reduced consistent with the requirements of this Section 9, provided that, if the Employee does not make such determination within ten business days of the receipt of the calculations made by the Advisory Firm, the Bank shall elect which and how much, if any, of the Agreement Payments shall be eliminated or reduced consistent with the requirements of this Section 9 and shall notify the Employee promptly of such election. Within five business days of the earlier of (i) the Bank's receipt of the Employee's determination pursuant to the immediately preceding sentence of this Agreement or (ii) the Bank's election in lieu of such determination, the Bank shall pay to or distribute to or for the benefit of the Employee such amounts as are then due the Employee under this Agreement. The Bank and the Employee shall cooperate fully with the Advisory Firm, including without limitation providing to the Advisory Firm all information and

materials reasonably requested by it, in connection with the making of the determinations required under this Section 9.

(c) As a result of uncertainty in application of Section 280G of the Code at the time of the initial determination by the Advisory Firm hereunder, it is possible that Agreement Payments will have been made by the Bank which should not have been made ("Overpayment") or that additional Agreement Payments will not have been made by the Bank which should have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. In the event that the Advisory Firm, based on controlling precedent or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Bank to or for the benefit of the Employee together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code, *provided* that such Underpayment and interest shall be paid no later than two and a half months after the date on which the Advisory Firm informs the Bank of its determination that an Underpayment has occurred

(d) The total of payments to the Employee in the event of involuntary termination of employment under Section 6(a) and Section 8 (a) shall not exceed three times his average annual compensation from the Bank over the five most recent taxable years (or, if employed by the Bank for a shorter period, over the period of his employment by the Bank).

(e) Any payments made to the Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 U.S.C. 1828(k) and any regulations promulgated thereunder.

#### 10. Non-competition

(a) Upon the expiration of the term of the Employee's employment hereunder or in the event the Employee's employment hereunder terminates prior thereto for any reason whatsoever, the Employee shall not, for a period of one (1) year after the occurrence of such event, for himself, or as the agent of, on behalf of, or in conjunction with, any person or entity, solicit or attempt to solicit, whether directly or indirectly: (i) any employee of the Bank to terminate such employee's employment relationship with the Bank; or (ii) any savings and loan, banking or similar business from any person or entity that is or was a client, employee, or customer of the Bank and had dealt with the Employee or any other employee of the Bank under the supervision of the Employee.

(b) In the event Employee voluntarily resigns pursuant to section 6 (b) of this Agreement, or in the event the Employee's employment hereunder is terminated for cause, the Employee shall not, for a period of one (1) year from the date of termination, directly or indirectly, own, manage, operate or control, or participate in the ownership, management, operation or control of, or be employed by or connected in any manner with; (i) any financial institution having an office located within fifty (50) miles of any office of the Bank as of the date of termination; or by (ii) any person or entity engaged in any business or activity in the prepaid debit card, payments or similar industry, or which relates in any way to the prepaid debit card products, payment services and other related services of Bank, anywhere within the United States.

(c) The provisions of subsections (a) and (b) hereof shall not prevent the Employee from purchasing, solely for investment, not more than five percent (5%) of any financial institution's stock or other securities which are traded on any national or regional securities exchange or are actively traded in the over-the-counter market and registered under Section 12 (g) of the Securities Exchange Act of 1934.

(d) The provisions of this Section shall survive the termination of the Employee's employment hereunder whether by expiration of the term thereof or otherwise.

11. No Assignments.

(a) This Agreement is personal to each of the parties hereto, and neither party may assign or delegate any of its rights or obligations hereunder without first obtaining the written consent of the other party; provided, however, that the Bank will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Bank, by an assumption agreement in form and substance satisfactory to the Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession or assignment had taken place. Failure of the Bank to obtain such an assumption agreement prior to the effectiveness of any such succession or assignment shall be a breach of this Agreement and shall entitle the Employee to compensation from the Bank in the same amount and on the same terms as the compensation pursuant to Section 8 (a) hereof. For purposes of implementing the provisions of this Section 11 (a), the date on which any such succession becomes effective shall be deemed the Date of Termination.

(b) This Agreement and all rights of the Employee hereunder shall inure to the benefit of and be enforceable by the Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Employee should die while any amounts would still be payable to the Employee hereunder if the Employee had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Employee's devisee, legatee or other designee or if there is no such designee, to the Employee's estate.

12. Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement (provided that all notices to the Bank shall be directed to the attention of the Board of Directors of the Bank with a copy to the Secretary of the Bank), or to such other address as either party may have furnished to the other in writing in accordance herewith.

13. Amendments. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties, except as herein otherwise provided.

14. Paragraph Headings. The paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

15. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

16. Governing Law. This Agreement shall be governed by the laws of the United States to the extent applicable and otherwise by the laws of the State of Iowa.

17. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

18. Code Section 409A. It is intended that any income or payments to the Employee provided under this Agreement will not be subject to the additional tax and interest under Code Section 409A (the "Section 409A Tax"). The provisions of the Agreement will be construed in favor of complying with any applicable requirements of Code Section 409A as necessary to prevent the imposition of a Section 409A Tax. The Bank and the Employee agree to amend the Agreement (retroactively, if necessary) to comply with Code Section 409A, including amendment to enable the Employee to prevent the imposition of, or to reduce the amount of, any Section 409A Tax. The Bank and the Employee shall reasonably cooperate to give full effect to this provision and the consent to any amendment described in the preceding sentence shall not be unreasonably withheld by either party. The parties agree that neither party has (a) an obligation to bring any potential Section 409A Tax to the attention of the other party or (b) any liability for any Section 409A Tax or any other reporting or withholding obligation to the other party.

**IN WITNESS WHEREOF** , the parties have executed this Agreement as of the day and year first above written.

**THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY THE PARTIES.**

**METABANK**

/s/ E. Wayne Cooley

E. Wayne Cooley

Chairman, Compensation Committee

**EMPLOYEE**

/s/ David W Leedom

David W. Leedom

Senior Vice President and Chief Financial Officer

**AMENDED AND RESTATED CONTRACT FOR DEFERRED COMPENSATION  
AND THE  
FIRST AMENDMENT**

---



## AMENDED AND RESTATED CONTRACT FOR DEFERRED COMPENSATION

This Amended and Restated Contract for Deferred Compensation Contract is made this 27<sup>th</sup> day of September, 2005, by and between MetaBank, Storm Lake, Iowa, First Party, hereinafter referred to as the Company; and James S. Haahr, Sioux Falls, South Dakota, Second Party.

It is acknowledged that the Second Party is the Chairman of the Board of the Company, and that this contract is made as an inducement by the Company to retain his services as the Chairman of the Board and Chairman of the Executive Committee.

It is further acknowledged that the First Party and the Second Party previously entered into that certain Contract for Deferred Compensation dated August 22, 1980, which is hereby amended and restated in its entirety for purposes of clarification and compliance with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

It is therefore agreed as follows:

(1) Second Party shall continue in the employ of the Company upon the same terms as heretofore made subject to such adjustments as may be mutually agreed upon between the employee and the Directors of the Company. It is contemplated that Mr. James S. Haahr shall remain as an employee of the Company until he reaches the age of eighty (80) years. The purpose of this agreement is to provide for compensation for years of service in the event of his death or retirement. It is therefore agreed:

(a) If Mr. Haahr dies before his retirement date as set forth above, the Company shall pay to his wife the sum of Two Thousand Dollars (\$2,000.00) per annum for the period commencing October 1, 1979, to date of death payable in such annual installments of Two Thousand Dollars (\$2,000.00).

(b) In the event of the death of his wife, the compensation shall be paid to his children in equal shares.

(c) In the event James S. Haahr retires on or after age eighty (80) or severs his employment with the Company prior to age eighty (80), the Company shall make lump sum payment of the accrued deferred compensation as soon as administratively feasible.

(d) The deferred compensation herein contracted is in addition to all other benefits which James S. Haahr may receive by reason of his services to the Company as an employee hereof.

(2) Neither Haahr nor his beneficiaries shall have any right to commute, encumber, or dispose of the right to receive payments hereunder, which payments and the right thereto are expressly declared to be non-assignable and nontransferable.

(3) The Company shall not merge or consolidate with any other corporation until such corporation expressly assumes the duties of the Company herein set forth.

(4) This agreement shall be binding upon the parties hereto, their heirs, executors, administrators, or successors. The Company certifies that this contract has been authorized by resolution of its Board of Directors and that the Parties have been specifically authorized to execute the agreement for and in behalf of the Company.

(5) The parties hereto agree to amend this agreement to the extent necessary or appropriate to comply with Section 409A of the Code and the regulations promulgated thereunder.

**IN WITNESS WHEREOF** the Parties have executed this agreement on the date hereinabove stated at Storm Lake, Iowa.

**METABANK, STORM LAKE, IOWA,  
FIRST PARTY**

**James S. Haahr,  
SECOND PARTY**

By: /s/ E. Wayne Cooley  
E. Wayne Cooley,  
Compensation Committee Chairman

/s/ James S. Haahr  
James S. Haahr, Chairman of the Board

**THIS AMENDMENT** (the "Amendment") is entered into on the date set forth on the signature page hereof by and between **MetaBank** (the "Company") and **James S. Haahr** (the "Employee").

## **RECITALS**

**WHEREAS** , the Company and the Employee entered into the Amended and Restated Contract for Deferred Compensation on September 27, 2005 (the "Contract");

**WHEREAS** , the Company and the Employee desire to amend the Contract to comply with final regulations issued under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); and

**WHEREAS** , pursuant to Section (5) of the Contract, the Contract may be amended by written agreement of the parties thereto;

**NOW, THEREFORE** , the parties hereby agree to amend the Contract, generally effective January 1, 2008, as follows:

### **Section 1(a) is amended to read as follows:**

(a) For each year of Mr. Haahr's service to the Company, commencing October 1, 1979 and ending upon the earliest of his retirement, death or other severance from employment, Mr. Haahr shall accrue a benefit of Two Thousand Dollars (\$2,000.00) (the "Accrued Deferred Compensation"). If Mr. Haahr dies before his retirement date as set forth above, the Company shall pay the Accrued Deferred Compensation to his wife in installments of Two Thousand Dollars (\$2,000.00) per annum beginning no later than the end of the calendar year of Mr. Haahr's death and ending in the calendar year of his wife's death.

### **Section 1(b) is amended to read as follows:**

(b) If payments are being made under Section 1(a) then, in the event of the death of Mr. Haahr's wife, the remaining Accrued Deferred Compensation, if any, shall be paid to Mr. Haahr's surviving children in equal shares as soon as administratively feasible but no later than ninety (90) days following the Company's receipt of notice of the death of Mr. Haahr's wife.

### **Section 1(c) is amended to read as follows:**

(c) In the event that Mr. Haahr retires on or after age eighty (80) or severs his employment with the Company prior to age eighty (80), the Company shall pay the Accrued Deferred Compensation in a lump sum as soon as administratively feasible but no later than ninety (90) days following such retirement or employment severance date; *provided* , however, that if Mr. Haahr is a "specified employee" (as such term is defined in Code Section 409A and the regulations or other guidance in effect thereunder) at the time of his retirement or employment severance and his employment terminates under circumstances that require a distribution delay under Code Section 409A, the Accrued Deferred Compensation shall be paid in a lump sum on the six-month anniversary of Mr. Haahr's retirement or employment severance date (or, if earlier, as soon as administratively feasible after his death).

### **Section 1(d) is amended to read as follows:**

(d) The Accrued Deferred Compensation is in addition to all other benefits that Mr. Haahr may receive by reason of his services to the Company as an employee. The Accrued Deferred Compensation

provided for in this agreement constitutes an unfunded promise by the Company to pay benefits in the future, and any amounts set aside to cover such benefits are subject to the general claims of the Company's creditors.

**In all other respects, the Contract shall remain unchanged and in full force and effect.**

**IN WITNESS WHEREOF** , this Amendment has been executed and delivered by the parties hereto this 27th day of September, 2008.

**METABANK**

/s/ E. Wayne Cooley

E. Wayne Cooley

Chairman, Compensation Committee

/s/ James S. Haahr

JAMES S. HAAHR

SUBSIDIARIES OF THE REGISTRANT

---

## SUBSIDIARIES OF THE REGISTRANT

| <b>Parent</b>                    | <b>Subsidiary</b>                       | <b>Percentage of<br/>Ownership</b> | <b>State of<br/>Incorporation or<br/>Organization</b> |
|----------------------------------|---|------------------------------------|---|
| Meta Financial Group, Inc.       | MetaBank                                | 100%                               | Federal   |
| 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.

CONSENT OF KPMG, LLP

---

## **Consent of Independent Registered Public Accounting Firm**

Audit Committee  
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 (No. 333-22523) and the Meta Financial Group, Inc. 2002 Omnibus Incentive Plan (No. 333-151604), of our report dated December 12, 2008 with respect to the consolidated statement of financial condition of Meta Financial Group, Inc. as of September 30, 2008, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended, which report appears in the September 30, 2008 Annual Report on Form 10-K of Meta Financial Group, Inc. and subsidiaries.

/s/ KPMG, LLP

Des Moines, Iowa  
December 12, 2008



**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 12, 2008

/s/ J. Tyler Haahr  
Chief Executive Officer

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

I, David W. Leedom, 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 12, 2008

/s/ David W. Leedom  
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, 2008, 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 12, 2008

**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, 2008, as filed with the Securities and Exchange Commission on the date of this Certification (the "Report"), I, David W. Leedom, the Acting 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/ David W. Leedom

Name: David W. Leedom

Chief Financial Officer

December 12, 2008