

META FINANCIAL GROUP INC

Form 10-K

December 14, 2015

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, 2015

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.)

5501 South Broadband Lane, Sioux Falls, SD 57108

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number: (712) 732 4117

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

Title of Class

Name of each exchange on which registered

Common Stock, par value \$0.01 per share NASDAQ Global Market

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark 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. (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 March 31, 2015, 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 Global Market as of such date, was \$253.5 million.

As of December 9, 2015, there were outstanding 8,220,075 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K -- Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held January 25, 2016.

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FORM 10-K

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Forward-Looking Statements

Meta Financial Group, Inc.[®], (“Meta Financial” or “the Company” or “us”) and its wholly-owned subsidiary, MetaBank[®] (the “Bank” or “MetaBank”), may from time to time make written or oral “forward-looking statements,” including statements contained in this Annual Report on Form 10-K, in its other filings with the Securities and Exchange Commission (“SEC”), in its reports to stockholders, and in other communications by the Company and the Bank, which are made in good faith by the Company pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue,” “could,” “future,” or the negative of those terms, or other words or phrases having similar meaning. You should carefully read statements that contain these words because they discuss our future expectations or state other “forward-looking” information. These forward-looking statements 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; statements about the terms, timing, completion, and effects of the Company’s proposed private placement transactions with Nantahala Capital Partners SI, LP, BEP IV LLC and BEP Investors LLC; the potential benefits of the acquisition of Fort Knox Financial Services Corporation and its wholly-owned subsidiary, Tax Product Services LLC (collectively, “Fort Knox”); important components of the Company’s balance sheet and statements of financial condition and operations; growth and expansion; new products and services, such as those offered by MetaBank or Meta Payment Systems[®] (“MPS”), a division of the Bank; credit quality and adequacy of reserves; technology; and the Company’s employees. The following factors, among others, could cause the Company’s financial performance and results of operations to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the businesses of the Bank and Fort Knox may not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected; the risk that sales of Fort Knox products by the Bank may not be as high as anticipated; the expected growth opportunities or cost savings from the acquisition may not be fully realized or may take longer to realize than expected; customer losses and business disruption following the acquisition, including adverse effects on relationships with former or current employees of Fort Knox, may be greater than expected; regulatory reception to the Fort Knox business may not be as anticipated and the Company may incur unanticipated or unknown losses or liabilities on a post-acquisition basis, including risks similar to those expressed above, especially given the Company’s entry into a new line of business; the risk that the Company may incur unanticipated or unknown losses or liabilities as a result of the completion of the transaction with Fort Knox; the strength of the United States’ economy, in general, and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), as well as efforts of the United States Treasury in conjunction with bank regulatory agencies to stimulate the economy and protect the financial system; inflation, interest rate, market, and monetary fluctuations; the timely development of, and acceptance of new products and services, offered by the Company, as well as risks (including reputational and litigation) attendant thereto, and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third parties; any actions which may be initiated by our regulators; the impact of changes in financial services laws and regulations, including, but not limited to, laws and regulations relating to the tax refund industry, our relationship with our primary regulators, the Office of the Comptroller of the Currency (“OCC”) and the Federal Reserve, as well as the Federal Deposit Insurance Corporation (“FDIC”), which insures the Bank’s deposit accounts up to applicable limits; 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; continued maintenance by the Bank of its status as a well-capitalized institution, particularly in light of our deposit base, a substantial portion of which has been characterized as “brokered”; changes in consumer spending and saving habits; the success of the Company at managing and collecting assets of borrowers in default; and the

Company not being able to complete the proposed private placement transactions with Nantahala Capital Partners SI, LP, BEP IV LLC and BEP Investors LLC on acceptable terms, or at all because of a number of factors, including the failure to satisfy closing conditions in the purchase agreement.

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The foregoing list of factors is not exclusive. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. 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.metabank.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. Investors are encouraged to access these reports and other information about our business on our website. 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. We also will provide copies of our Annual Report on Form 10-K, free of charge, upon written request to Debra Thompson, Senior Executive Assistant, at the Company's address. Also posted on our website, among other things, are the charters of our committees of the Board of Directors as well as the Company's and the Bank's Codes of Ethics.

PART I

Item 1. 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 the Bank, a federal savings bank, the accounts of which are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC. Unless the context otherwise requires, references herein to the Company include Meta Financial and the Bank, and all subsidiaries of Meta Financial, direct or indirect, on a consolidated basis.

The Bank, a wholly-owned full-service banking subsidiary of Meta Financial, is both a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves and a payments company providing services on a nationwide basis, as further described below. The business of the Bank consists 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, consumer and commercial operating loans, and premium finance loans primarily in the Bank's market areas. The Bank also purchases loan participations from time to time from other financial institutions, but presently at a lower level compared to prior years, as well as mortgage-backed securities and other investments permissible under applicable regulations.

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In addition to its community-oriented lending and deposit gathering activities, the Bank's MPS division issues prepaid cards, designs innovative consumer credit products, sponsors Automatic Teller Machines ("ATMs") into various debit networks, offers tax refund transfer services and other payment industry products and services. Through its activities, MPS generates both fee income and low- and no-cost deposits for the Bank. 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 continues to expand and to play a very significant role in the Company's financial performance.

On December 2, 2014, the Bank purchased substantially all of the commercial loan portfolio and related assets of AFS/IBEX Financial Services Inc., ("AFS/IBEX"), an insurance premium financing company. The transaction has diversified the Company's business and further expands its loan portfolio and growth prospects.

On September 8, 2015, the Bank also purchased substantially all of the assets and related liabilities of Fort Knox Financial Services Corporation and its subsidiary, Tax Product Services, LLC (together "Refund Advantage"). The assets acquired by MetaBank in the acquisition include the Fort Knox operating platform and trade name, Refund Advantage®, and other assets. The transaction expands the Company's business into tax refund-transfer services for its customers.

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 and the Bank are subject to comprehensive regulation and supervision. See "Regulation" herein.

The principal executive office of the Company is located at 5501 South Broadband Lane, Sioux Falls, South Dakota 57108. Its telephone number at that address is (605) 782-1767.

Market Areas

The Bank has four market areas: Northwest Iowa ("NWI"), Brookings, South Dakota ("Brookings"), Central Iowa ("CI"), and Sioux Empire ("SE") and two divisions of the Bank: MPS and AFS/IBEX. The Bank's home office is located at 5501 South Broadband Lane, Sioux Falls, South Dakota. NWI operates two offices in Storm Lake, Iowa. Brookings operates one office in Brookings, South Dakota. CI operates a total of four offices in Iowa: Des Moines (2), West Des Moines, and Urbandale. SE operates three offices and one administrative office in Sioux Falls, South Dakota. AFS/IBEX operates an office in Texas and one in California. MPS, which offers prepaid cards, tax remittance services, and other payment industry products and services nationwide, operates out of Sioux Falls, South Dakota, with an office in Louisville, Kentucky. See "Meta Payment System® Division."

The Bank has a total of ten full-service branch offices, one non-retail service branch in Memphis, Tennessee, and two agency offices, one in Texas and one in California.

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, Minnehaha, and Moody. South Dakota ranks 9th and Iowa 14th in "The Best States for Business and Careers" (Forbes.com, October 2015). Iowa has low corporate income and franchise taxes. South Dakota has no corporate income tax, personal income tax, personal property tax, business inventory tax, or inheritance tax.

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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 NWI 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 60-mile radius surrounding 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.

Des Moines, Iowa's capital, is located in central Iowa and is the political, economic, and cultural capital of the state. Des Moines was ranked second in "Best Cities for Jobs" (Forbes.com, 2015). The Des Moines metro area is a center of insurance, printing, finance, retail and wholesale trades as well as industry, providing a diverse economic base. 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. Universities and colleges in the area include Des Moines Area Community College, Drake University, Simpson College, Des Moines University, Grand View College, AIB College of Business, and Upper Iowa University. The unemployment rate in the Des Moines metro area was 3.6% as of September 2015.

Sioux Falls is located at the crossroads of Interstates 29 and 90 in southeast South Dakota, 270 miles southwest of Minneapolis. On Forbes' July 2015 list of "The Best Small Places for Business and Careers," Sioux Falls ranked third among the best small cities. Major employers in the area include Sanford Health, Avera McKennan Hospital and Health system, John Morrell & Company, Citibank (South Dakota) NA, Sioux Falls School District 49-5, Wells Fargo Bank, 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 2.7% as of September 2015.

Several of the Company's market areas are dependent on agriculture and agriculture-related businesses, which are exposed to exogenous risk factors such as weather conditions and commodity prices. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years. Low loss rates are primarily due to higher than average livestock prices and strong crop yields over the last few years, offset by lower grain prices in 2014 and 2015. Overall, these factors have created positive economic conditions for most farmers in our markets during this time period. 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 recent positive weather conditions within our markets have been offset by low commodity prices and high input costs, which have the potential to more than offset higher yields, providing a negative economic effect on our agricultural markets.

Lending Activities

General. The Company originates both fixed-rate and adjustable-rate ("ARM") residential mortgage loans in response to consumer demand. At September 30, 2015, the Company had \$638.6 million in fixed-rate loans and \$74.4 million in ARM loans. 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 for further information on Asset/Liability Management.

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In addition, the Company has more recently focused its lending activities on the origination of commercial and multi-family real estate loans, agricultural-related loans, commercial operating loans, and premium finance loans. The Company also continues to originate one-to-four family mortgage loans and consumer loans. The Company originates most of its loans in its primary market area. At September 30, 2015, the Company's net loan portfolio totaled \$706.3 million, or 27.9% of the Company's total assets, as compared to \$493.0 million, or 24.0%, at September 30, 2014. During fiscal 2015, the Company entered the insurance premium finance lending business through its purchase of substantially all the commercial lending portfolio and related assets of AFS/IBEX.

Loan applications are initially considered and approved at various levels of authority, depending on the type and amount of the loan. The Company has a loan committee consisting of senior lenders and Market Presidents, and is led by the Chief Lending Officer. Loans in excess of certain amounts require approval by at least two members of the loan committee, a majority of the loan committee, or by the Company's Board Loan Committee, which has responsibility for the overall supervision of the loan portfolio. The Company may discontinue, adjust, or create new lending programs to respond to competitive factors. The Company also created a Specialty Lending committee to oversee its insurance premium finance division and other specialized lending activities in which the Company may become involved. The Committee consists of senior personnel with diverse backgrounds well suited for oversight of these types of activities. Insurance premium finance loans in excess of certain amounts require approval from one or more members of the Committee.

At September 30, 2015, the Company's largest lending relationship to a single borrower or group of related borrowers totaled \$29.7 million. The Company had 24 other lending relationships in excess of \$6.5 million as of September 30, 2015. At September 30, 2015, one of these relationships had loans totaling \$5.6 million and was classified as substandard. See "Non-Performing Assets, Other Loans of Concern, and Classified Assets."

Loan Portfolio Composition. The following table provides information about the composition of the Company's loan portfolio in dollar amounts and in percentages as of the dates indicated. In general, for the fiscal year ended September 30, 2015, the amounts in all categories of loans discussed below, except commercial operating loans, increased over levels from the prior fiscal year.

	At September 30,														
	2015			2014			2013			2012			2011		
	Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent	
	(Dollars in Thousands)														
<u>Real Estate</u>															
<u>Loans:</u>															
1-4 Family	\$125,021	17.5	%	\$116,395	23.3	%	\$82,287	21.4	%	\$49,134	14.9	%	\$34,128	10.7	%
Commercial &															
Multi-Family	310,199	43.5	%	224,302	44.9	%	192,786	50.1	%	191,905	57.9	%	194,414	60.9	%
Agricultural	64,316	9.0	%	56,071	11.3	%	29,552	7.7	%	19,861	6.0	%	20,320	6.4	%
Total Real Estate Loans	499,536	70.0	%	396,768	79.5	%	304,625	79.2	%	260,900	78.8	%	248,862	78.0	%
<u>Other Loans:</u>															
<u>Consumer</u>															
<u>Loans:</u>															
Home Equity	18,463	2.6	%	15,116	3.0	%	13,799	3.6	%	13,299	4.0	%	14,835	4.6	%
Automobile	573	0.1	%	671	0.1	%	658	0.1	%	792	0.2	%	794	0.2	%
Other (1)	14,491	2.0	%	13,542	2.7	%	15,857	4.1	%	18,747	5.7	%	18,769	5.9	%

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Total Consumer Loans	33,527	4.7	%	29,329	5.8	%	30,314	7.8	%	32,838	9.9	%	34,398	10.7	%
Agricultural Operating Commercial	43,626	6.1	%	42,258	8.5	%	33,750	8.8	%	20,981	6.3	%	21,200	6.6	%
Operating Premium Finance	29,893	4.2	%	30,846	6.2	%	16,264	4.2	%	16,452	5.0	%	14,955	4.7	%
	106,505	15.0	%	-	0.0	%	-	0.0	%	-	0.0	%	-	-	
Total Other Loans	213,551	30.0	%	102,433	20.5	%	80,328	20.8	%	70,271	21.2	%	70,553	22.0	%
Total Loans	713,087	100.0	%	499,201	100.0	%	384,953	100.0	%	331,171	100.0	%	319,415	100.0	%

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

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

	September 30, 2015			2014			2013			2012			2011		
	Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent	
(Dollars in Thousands)															
<u>Fixed Rate</u>															
<u>Loans:</u>															
Real Estate:															
1-4 Family	\$116,171	16.3	%	\$105,870	21.2	%	\$75,477	19.6	%	\$44,045	13.3	%	\$30,410	9.5	%
Commercial															
&															
Multi-Family	284,586	39.9	%	203,840	40.8	%	173,373	45.1	%	162,552	49.1	%	155,786	48.8	%
Agricultural	59,219	8.3	%	49,643	10.0	%	22,433	5.8	%	15,399	4.6	%	16,416	5.1	%
Total															
Fixed-Rate															
Real Estate															
Loans	459,976	64.5	%	359,353	72.0	%	271,283	70.5	%	221,996	67.0	%	202,612	63.4	%
Consumer	20,842	2.9	%	19,279	3.9	%	20,129	5.2	%	20,322	6.1	%	15,494	4.9	%
Agricultural															
Operating	35,802	5.0	%	24,991	5.0	%	23,137	6.0	%	10,627	3.2	%	12,570	3.9	%
Commercial															
Operating	15,520	2.2	%	13,659	2.7	%	8,070	2.1	%	6,818	2.1	%	7,138	2.3	%
Premium															
Finance	106,505	15.0	%	-	0.0	%	-	0.0	%	-	0.0	%	-	0.0	%
Total															
Fixed-Rate															
Loans	638,645	89.6	%	417,282	83.6	%	322,619	83.8	%	259,763	78.4	%	237,814	74.5	%
<u>Adjustable</u>															
<u>Rate Loans:</u>															
Real Estate:															
1-4 Family	8,850	1.2	%	10,525	2.1	%	6,810	1.8	%	5,089	1.5	%	3,718	1.2	%
Commercial															
&															
Multi-Family	25,613	3.6	%	20,461	4.1	%	19,413	5.0	%	29,353	8.9	%	38,628	12.1	%
Agricultural	5,097	0.7	%	6,429	1.3	%	7,119	1.9	%	4,462	1.4	%	3,904	1.2	%
Total															
Adjustable															
Real Estate															
Loans	39,560	5.5	%	37,415	7.5	%	33,342	8.7	%	38,904	11.8	%	46,250	14.5	%
Consumer	12,685	1.8	%	10,050	2.0	%	10,185	2.6	%	12,516	3.8	%	18,904	5.9	%
Agricultural															
Operating	7,824	1.1	%	17,267	3.5	%	10,613	2.8	%	10,354	3.1	%	8,630	2.7	%
Commercial															
Operating	14,373	2.0	%	17,187	3.4	%	8,194	2.1	%	9,634	2.9	%	7,817	2.4	%
Total	74,442	10.4	%	81,919	16.4	%	62,334	16.2	%	71,408	21.6	%	81,601	25.5	%
Adjustable															

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Loans

Total Loans	713,087	100.0%	499,201	100.0%	384,953	100.0%	331,171	100.0%	319,415	100.0%
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Less:

Deferred Fees

and Discounts	577		797		595		219		79	
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Allowance

for Loan

Losses	6,255		5,397		3,930		3,971		4,926	
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Total Loans

Receivable,

Net	\$706,255		\$493,007		\$380,428		\$326,981		\$314,410	
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The following table illustrates the maturity analysis of the Company's loan portfolio at September 30, 2015.

Mortgages that have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract reprices. The table reflects management's estimate of the effects of loan prepayments or curtailments based on data from the Company's historical experiences and other third-party sources.

	Real Estate ⁽¹⁾		Consumer		Commercial Operating		Agricultural Operating		Premium Finance		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)											

Due in
one year
or less

(2)	\$14,921	4.78%	\$14,626	0.49%	\$9,693	3.91%	\$31,157	4.34%	\$106,505	7.83%	\$176,902	6.13%
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Due
after
one year
through
five
years

	153,818	4.40%	17,283	4.27%	16,316	4.33%	\$9,430	4.06%	\$-	0.00%	196,847	4.37%
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Due
after
five
years

	330,797	4.35%	1,618	5.07%	3,884	4.09%	\$3,039	4.58%	\$-	0.00%	339,338	4.35%
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Total	\$499,536		\$33,527		\$29,893		\$43,626		\$106,505		\$713,087	
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(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, 2015, the Company's one-to-four family residential mortgage loan portfolio totaled \$125.0 million, or 17.5% of the Company's total loans. See "Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." At September 30, 2015, the average outstanding principal balance of a one-to-four family residential mortgage loan was approximately \$131,000. At September 30, 2015, an immaterial amount of the Company's one-to-four family

residential mortgage loans were non-performing.

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The Company offers fixed-rate and ARM loans for both permanent structures and those under construction. During the year ended September 30, 2015, the Company originated \$15.4 million of ARM loans and \$48.6 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 100% of the lesser of the appraised value of the security property or the contract price. The Company generally requires that private mortgage insurance be obtained in an amount sufficient to reduce the Company's exposure to at or below the 80% loan to value level, unless the loan is insured by the Federal Housing Administration, guaranteed by Veterans Affairs or guaranteed by the Rural Housing Administration. Residential loans generally do not include prepayment penalties.

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

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. The Company typically holds all fixed-rate mortgage loans and does not engage in secondary market sales. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions.

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

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and, in order to supplement its loan portfolio, has purchased participation interests in loans from other financial institutions. At September 30, 2015, the Company's commercial and multi-family real estate loan portfolio totaled \$310.2 million, or 43.5% of the Company's total loans. 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." At September 30, 2015, \$0.9 million, or 0.3% of the Company's commercial and multi family real estate loans, were non-performing. See "Non-Performing Assets, Other Loans of Concern and Classified Assets."

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The Company's commercial and multi-family real estate loan portfolio is secured primarily by apartment buildings, office buildings, and hotels. Commercial and multi-family real estate loans generally are underwritten with terms not exceeding 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 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, 2015, the Company's largest commercial and multi-family real estate loan was a \$14.0 million loan secured by real estate. At September 30, 2015, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately \$1.1 million.

Commercial and multi-family real estate loans generally present a higher level of risk than loans secured by one-to-four family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial and multi-family real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and other farm-related products. At September 30, 2015, the Company had agricultural real estate loans secured by farmland of \$64.3 million or 9.0% of the Company's total loans. At the same date, \$43.6 million, or 6.1%, of the Company's total loans consisted of secured loans related to agricultural operations. Agricultural-related lending constituted 15.1% of total loans.

At September 30, 2015, the Company's largest agricultural real estate and agricultural operating loan relationship was \$29.7 million. At September 30, 2015, the average outstanding principal balance of an agricultural real estate loan and agricultural operating loan held by the Company was approximately \$0.7 million and \$0.2 million, respectively.

Agricultural operating loans are originated at either an adjustable or fixed-rate of interest for up to a one-year term or, in the case of livestock, upon sale. Such loans provide for payments of principal and interest at least annually or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years. At September 30, 2015, the average outstanding principal balance of an agricultural operating loan held by the Company was \$180,000. At September 30, 2015, \$5.1 million, or 11.8%, of the Company's agricultural operating loans were non-performing.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first five to ten years, which then balloon or adjust annually thereafter. In addition, such loans generally amortize over a period of 20 to 25 years. Fixed-rate agricultural real estate loans generally have terms up to ten years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan. At September 30, 2015, none of the Company's agricultural real estate loans were non-performing.

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

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

Consumer Lending. The Company, through the auspices of its “Retail Bank” (generally referring to the Company’s operations in our four market areas discussed above), originates a variety of secured consumer loans, including home equity, home improvement, automobile, boat and loans secured by savings deposits. In addition, the Retail Bank offers other secured and unsecured consumer loans. The Retail Bank currently originates most of its consumer loans in its primary market area and surrounding areas. At September 30, 2015, the Retail Bank’s consumer loan portfolio totaled \$20.3 million, or 2.8% of its total loans. Of the consumer loan portfolio at September 30, 2015, \$8.0 million were short- and intermediate-term, fixed-rate loans, while \$11.4 million were adjustable-rate loans.

The largest component of the Retail Bank’s consumer loan portfolio consists of home equity loans and lines of credit. Substantially all of the Retail Bank’s home equity loans and lines of credit are secured by second mortgages on principal residences. The Retail Bank will lend amounts which, together with all prior liens, may be up to 90% of the appraised value of the property securing the loan. Home equity loans and lines of credit generally have maximum terms of five years.

The Retail Bank primarily originates automobile loans on a direct basis to the borrower, as opposed to indirect loans, which are made when the Retail Bank purchases loan contracts, often at a discount, from automobile dealers which have extended credit to their customers. The Bank’s automobile loans typically are originated at fixed interest rates with terms up to 60 months for new and used vehicles. Loans secured by automobiles are generally originated for up to 80% of the N.A.D.A. book value of the automobile securing the loan.

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

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Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus 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, 2015, none of the Bank's consumer loans were non-performing.

Consumer Lending - MPS. The Company believes that well-managed, nationwide credit programs can help meet legitimate credit needs for prime and sub-prime borrowers, and affords the Company an opportunity to diversify the loan portfolio and minimize earnings exposure due to economic downturns. Therefore, MPS designs and administers certain credit programs that seek to accomplish these objectives. The MPS Credit Committee, consisting of members of Executive Management of the Company, is charged with monitoring, evaluating and reporting portfolio performance and the overall credit risk posed by its credit products. All proposed credit programs must first be reviewed and approved by the committee before such programs are presented to the Bank's Board of Directors for approval. The Board of Directors of the Bank is ultimately responsible for final approval of any credit program.

At September 30, 2015, the Bank's MPS consumer loan portfolio totaled \$13.2 million, or 1.9% of total loans. Of the MPS consumer loan portfolio at September 30, 2015, \$12.8 million were short-term, fixed-rate loans, while \$0.4 million were adjustable-rate loans.

MPS strives to offer consumers innovative payment products, including credit products. Most credit products have fallen into the category of portfolio lending. MPS continues to work on new alternative portfolio lending products striving to serve its core customer base and to provide unique and innovative lending solutions to the unbanked and under-banked segment.

A Portfolio Credit Policy which has been approved by the Board of Directors governs portfolio credit initiatives undertaken by MPS, whereby the Company retains some or all receivables and relies on the borrower as the underlying source of repayment. Several portfolio lending programs also have a contractual provision that requires the Bank to be indemnified for credit losses that meet or exceed predetermined levels. Such a program carries additional risks not commonly found in sponsorship programs, specifically funding and credit risk. Therefore, MPS has strived to employ policies, procedures and information systems that it believes commensurate with the added risk and exposure.

The Company recognizes concentrations of credit may naturally occur and may take the form of a large volume of related loans to an individual, a specific industry, a geographic location or an occupation. Credit concentration is a direct, indirect or contingent obligation that has a common bond where the aggregate exposure equals or exceeds a certain percentage of the Bank's Tier 1 Capital plus the Allowance for Loan Losses. The MPS Credit Committee monitors and identifies the credit concentrations in accordance with the Bank's concentration policy and evaluates the specific nature of each concentration to determine the potential risk to the Bank. An evaluation includes the following:

- A recommendation regarding additional controls needed to mitigate the concentration exposure.
- A limitation or cap placed on the size of the concentration.

The potential necessity for increased capital and/or credit reserves to cover the increased risk caused by the concentration(s).

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·A strategy to reduce to acceptable levels those concentration(s) that are determined to create undue risk to the Bank.

No MPS credit products were non-performing as of September 30, 2015.

Commercial Operating Lending. The Company also originates commercial operating loans. Most of the Company's commercial operating loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also may involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. At September 30, 2015, \$29.9 million, or 4.2% of the Company's total loans, were comprised of commercial operating 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 operating lending policy includes credit file documentation and analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Company's current credit analysis. Nonetheless, such loans are believed to carry higher credit risk than more traditional lending activities.

Our largest commercial operating exposure outstanding at September 30, 2015, was \$5.5 million in loan relationships secured by assets of the borrower. At September 30, 2015, the average outstanding principal balance of a commercial operating loan held by the Company was approximately \$122,000.

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 operating loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial operating loans may be substantially dependent on the success of the business itself (which, in turn, is likely to be dependent upon the general economic environment). The Company's commercial operating loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At September 30, 2015, none of the Company's commercial operating loans were non-performing.

Premium Finance Lending. Through its AFS/IBEX division, MetaBank provides short-term, primarily collateralized financing to facilitate the commercial customers' purchase of insurance for various forms of risk otherwise known as insurance premium financing. This includes, but is not limited to, policies for commercial property, casualty and liability risk. The AFS/IBEX division markets itself to the insurance community as a competitive option based on service, its reputation, competitive terms, cost and ease of operation. At September 30, 2015, \$106.5 million, or 14.9% of the Company's total loans, were comprised of premium finance loans.

Insurance premium financing is the business of extending credit to a policyholder to pay for insurance premiums when the insurance carrier requires payment in full at inception of coverage. Premiums are advanced either directly to the insurance carrier or through an intermediary/broker and repaid by the policyholder with interest during the policy term. The policyholder generally makes a 20% to 25% down payment to the insurance broker and finances the remainder over nine to ten months on average. The down payment is set such that if the policy is cancelled, the unearned premium is typically sufficient to cover the loan balance and accrued interest.

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The largest premium finance exposure outstanding at September 30, 2015, was \$2.6 million in loan relationships secured by the related insurance policy of the borrower. At September 30, 2015, the average outstanding principal balance of a premium finance loan held by the Company was approximately \$6,800.

Due to the nature of collateral for commercial premium finance receivables, it customarily takes 60-150 days to convert the collateral into cash. In the event of default, AFS/IBEX, by statute and contract, has the power to cancel the insurance policy and establish a first position lien on the unearned portion of the premium from the insurance carrier. In the event of cancellation, the cash returned in payment of the unearned premium by the insurer should typically be sufficient to cover the receivable balance, the interest and other charges due. Due to notification requirements and processing time by most insurance carriers, many receivables will become delinquent beyond 90 days while the insurer is processing the return of the unearned premium. Generally, when a premium finance loan becomes delinquent for 210 days or more, or when collection of principal or interest becomes doubtful, the Company will place the loan on non-accrual status until the loan becomes current and has demonstrated a sustained period of satisfactory performance. At September 30, 2015, \$1.7 million of the Company's premium finance loans were non-performing.

Originations, Sales and Servicing of Loans

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 loan participations, generally without recourse. At September 30, 2015, there were no loans outstanding sold with recourse. When loans are sold, the Company may retain 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 \$22.2 million at September 30, 2015, of which \$5.0 million were sold to Fannie Mae and \$17.2 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 if potential buyers (principally government agencies) reduce their purchasing activities.

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The following table shows the loan originations (including draws, loan renewals, and undisbursed portions of loans in process), purchases, and sales and repayment activities of the Company for the periods indicated.

	Years Ended September 30,		
	2015	2014	2013
<u>Originations by Type:</u>	(Dollars in Thousands)		
Adjustable Rate:			
1-4 Family Real Estate	\$ 15,360	\$ 12,412	\$ 11,856
Commercial and Multi-Family Real Estate	5,575	9,704	8,603
Agricultural Real Estate	-	1,130	4,282
Consumer	13	6	22
Commercial Operating	20,219	38,448	28,024
Agricultural Operating	12,347	23,492	23,895
Total Adjustable Rate	53,514	85,192	76,682
Fixed Rate:			
1-4 Family Real Estate	48,576	53,251	54,861
Commercial and Multi-Family Real Estate	109,173	94,868	63,990
Agricultural Real Estate	12,877	35,713	13,144
Consumer	204,258	157,776	147,496
Commercial Operating	15,533	13,985	5,427
Agricultural Operating	20,646	31,628	32,510
Premium Finance	208,183	-	-
Total Fixed-Rate	619,246	387,221	317,428
Total Loans Originated	672,760	472,413	394,110
<u>Purchases:</u>			
Commercial and Multi-Family Real Estate	-	-	706
Agricultural Operating	-	343	3,313
Premium Finance	74,120	-	-
Total Loans Purchased	74,120	343	4,019
<u>Sales and Repayments:</u>			
<u>Sales:</u>			
Commercial and Multi-Family Real Estate	4,843	11,665	7,140
Agricultural Real Estate	520	-	-
Consumer	11,650	12,144	12,782
Agricultural Operating	99	82	-
Total Loan Sales	17,112	23,891	19,922
<u>Repayments:</u>			
Loan Principal Repayments	515,883	334,616	324,424
Total Principal Repayments	515,883	334,616	324,424
Total Reductions	532,995	358,507	344,346
(Decrease) Increase in Other Items, Net	(637)	(1,670)	(336)
Net Increase (decrease)	\$ 213,248	\$ 112,579	\$ 53,447

At September 30, 2015, approximately \$8.1 million, or 1.1%, of the Company's 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 effects 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.

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At September 30, 2015, the Company's purchased loans were secured by properties located, as a percentage of total loans, as follows: 1% combined in Oregon and North Dakota and less than 1% in Minnesota, North Carolina, South Dakota and Connecticut. No loans were purchased in fiscal 2015, other than AFS/IBEX acquired loans of \$74.1 million.

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. Generally, 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.

The following table sets forth the Company's loan delinquencies by type, by amount and by percentage of type at September 30, 2015.

	Loans Delinquent For:											
	30-59 Days			60-89 Days			90 Days and Over					
	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
	(Dollars in Thousands)											
Real Estate:												
1-4 Family	4	\$ 142	14.2 %	-	\$ -	0.0 %	-	\$ -	0.0 %	-	\$ -	0.0 %
Consumer	3	152	15.3 %	-	-	0.0 %	1	13	0.2 %			
Agricultural Operating	-	-	0.0 %	-	-	0.0 %	4	4,197	70.7 %			
Premium Finance	288	702	70.5 %	270	362	100.0 %	978	1,728	29.1 %			
Total	295	\$ 996	100.0 %	270	\$ 362	100.0 %	983	\$ 5,938	100.0 %			

Delinquencies 90 days and over constituted 0.8% of total loans and 0.2% of total assets.

Generally, when a loan becomes delinquent, 210 days or more for Premium Finance, or 90 days or more for all other loan categories, 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 charged against current income. The loan will remain on a non-accrual status until the loan establishes a sustained period of satisfactory payment performance.

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The table below sets forth the amounts and categories of the Company's non-performing assets.

	At September 30,				
	2015	2014	2013	2012	2011
<u>Non-Performing Loans</u>	(Dollars in Thousands)				
Non-Accruing Loans:					
1-4 Family Real Estate	\$24	\$281	\$245	\$307	\$85
Commercial & Multi-Family Real Estate	904	312	427	1,423	13,025
Agricultural Real Estate	-	-	-	-	-
Agricultural Operating	5,132	340	-	-	-
Commercial Operating	-	-	7	18	30
Total	6,060	933	679	1,748	13,140
Accruing Loans Delinquent 90 Days or More:					
1-4 Family Real Estate	-	-	-	-	-
Commercial & Multi-Family Real Estate	-	-	-	-	-
Consumer	13	54	13	63	24
Commercial Operating	1,728	-	-	-	-
Total	1,741	54	13	63	24
Restructured Loans:					
1-4 Family	-	-	-	-	42
Total	-	-	-	-	42
Total Non-Performing Loans	7,801	987	692	1,811	13,206
<u>Other Assets</u>					
Non-Accruing Investments:					
Trust Preferred Securities	-	-	-	-	-
Total	-	-	-	-	-
Foreclosed Assets:					
1-4 Family Real Estate	-	-	-	9	451
Commercial & Multi-Family Real Estate	-	15	116	827	181
Agricultural Real Estate	-	-	-	-	2,020
Commercial Operating	-	-	-	2	19
Total	-	15	116	838	2,671
Total Other Assets	-	15	116	838	2,671
Total Non-Performing Assets	\$7,801	\$1,002	\$808	\$2,649	\$15,877
Total as a Percentage of Total Assets	0.31 %	0.05 %	0.05 %	0.16 %	1.24 %

For the year ended September 30, 2015, gross interest income that would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately \$889,000, of which none was included in interest income.

Non-Accruing Loans. At September 30, 2015, the Company had \$6.1 million in non-accruing loans, which constituted 0.8% of the Company's gross loan portfolio, or 0.2% of total assets. At September 30, 2014, the Company had \$0.9 million in non-accruing loans which constituted 0.2% of its gross loan portfolio, or 0.1% of total assets. The fiscal 2015 increase in non-performing loans primarily relates to an increase in non-accruing loans in the agricultural operating category of \$4.8 million.

Accruing Loans Delinquent 90 Days or More. At September 30, 2015, the Company had \$1.7 million in accruing premium finance loans delinquent 90 days or more.

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

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

On the basis of management’s review of its classified assets, at September 30, 2015, the Company had classified loans of \$11.9 million as substandard and none as doubtful or loss. Further, at September 30, 2015, the Bank had no real estate owned or other foreclosed assets.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses based on management’s evaluation of the risk inherent in its loan portfolio and changes in the nature and volume of its loan activity, including those loans which are being specifically monitored by management. Such evaluation, which includes a review of loans for which full collectability 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 appropriate loan loss allowance.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the appropriateness of its allowance for loan losses. The current economic environment continues to show signs of improvement in the Bank’s markets. The Bank’s loss rates over the past three years were very low. Notwithstanding these signs of improvement, the Bank does not believe it is likely these low loss conditions will continue indefinitely. All of the Bank’s four market areas have indirectly benefitted from a stable agricultural market. Loss rates in the agricultural real estate and agricultural operating loan portfolios have been minimal in the past three years. Management expects that future losses in this portfolio could be higher than recent historical experience. Management believes the low commodity prices and high land rents have the potential to negatively impact the economies of our agricultural markets.

The allowance for loan losses established by MPS results from an estimation process that evaluates relevant characteristics of its credit portfolio. MPS also considers other internal and external environmental factors such as changes in operations or personnel and economic events that may affect the adequacy of the allowance for credit losses. Adjustments to the allowance for loan losses are recorded periodically based on the result of this estimation process.

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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, 2015, reflects an appropriate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level it considers to be appropriate, 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 the OCC, which can require the establishment of additional general or specific allowances.

Real estate properties acquired through foreclosure are recorded at fair value. If fair value at the date of foreclosure is lower than the balance of the related loan, the difference will be charged 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,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Balance at Beginning of Period	\$5,397	\$3,930	\$3,971	\$4,926	\$5,234
Charge Offs:					
1-4 Family Real Estate	(45)	-	(25)	(3)	(229)
Commercial & Multi-Family Real Estate	(214)	-	(194)	(2,094)	(61)
Consumer	-	-	(1)	(6)	(774)
Commercial Operating	-	-	-	-	(43)
Agricultural Operating	(186)	(50)	-	-	-
Premium Finance	(285)	-	-	-	-
Total Charge Offs	(730)	(50)	(220)	(2,103)	(1,107)
Recoveries:					
1-4 Family Real Estate	-	2	2	1	-
Commercial & Multi-Family Real Estate	6	347	113	40	102
Consumer	-	-	1	4	419
Commercial Operating	3	18	63	4	-
Agricultural Operating	-	-	-	50	-
Premium Finance	114	-	-	-	-
Total Recoveries	123	367	179	99	521
Net (Charge Offs) Recoveries	(607)	317	(41)	(2,004)	(586)
Provision Charged to Expense	1,465	1,150	-	1,049	278
Balance at End of Period	\$6,255	\$5,397	\$3,930	\$3,971	\$4,926
Ratio of Net Charge Offs During the Period to Average Loans Outstanding During the Period	0.10 %	-0.07 %	0.01 %	0.61 %	0.17 %
Ratio of Net Charge Offs During the Period to Non-Performing Assets at Year End	7.78 %	-31.66 %	5.07 %	75.65 %	3.69 %
Allowance to Total Loans	0.88 %	1.08 %	1.02 %	1.20 %	1.54 %

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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, 2015			2014			2013			2012			2011		
	Percent of Loans in Each Category of Total Amount Loans			Percent of Loans in Each Category of Total Amount Loans			Percent of Loans in Each Category of Total Amount Loans			Percent of Loans in Each Category of Total Amount Loans			Percent of Loans in Each Category of Total Amount Loans		
	(Dollars in Thousands)														
1-4 Family Real Estate	\$278	17.5	%	\$552	23.3	%	\$333	21.4	%	\$193	14.8	%	\$165	10.7	%
Commercial & Multi-Family Real Estate	1,187	43.5	%	1,575	44.9	%	1,937	50.1	%	3,113	58.0	%	3,901	60.9	%
Agricultural Real Estate	163	9.0	%	263	11.2	%	112	7.6	%	1	6.0	%	-	6.3	%
Consumer	20	4.7	%	78	5.9	%	74	7.9	%	3	9.9	%	16	10.8	%
Agricultural Operating Commercial	3,537	6.1	%	719	8.5	%	267	8.8	%	-	6.3	%	67	6.6	%
Operating Premium Finance	28	4.2	%	93	6.2	%	49	4.2	%	49	5.0	%	36	4.7	%
Unallocated	293	15.0	%	-	-		-	-		-	-		-	-	
Total	749	-		2,117	-		1,158	-		612	-		741	-	
	\$6,255	100.0	%	\$5,397	100.0	%	\$3,930	100.0	%	\$3,971	100.0	%	\$4,926	100.0	%

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 closely monitors balances in these accounts, and maintains a portfolio of highly liquid assets to fund potential deposit outflows or other liquidity needs. To date, the Company has not experienced any significant outflows related to MPS, though no assurance can be given that this will continue to be the case.

As of September 30, 2015, investment and mortgage-backed securities with fair values of approximately \$625.2 million, \$149.3 million and \$20.6 million were pledged as collateral for the Bank’s Federal Home Loan Bank of Des Moines (“FHLB”) advances, Federal Reserve Bank (“FRB”) advances and collateral for securities sold under agreements to repurchase, respectively. For additional information regarding the Company’s collateralization of borrowings, see

Notes 8 and 9 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.

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

Beginning in June 2012, the Company began executing a strategy designed to diversify the Bank’s investment securities portfolio. This strategy involved purchasing other investments, primarily non-bank qualified municipal bond securities. The Company believes this diversification reduces the risk in the portfolio by spreading its investable dollars among a broader range of investment types and takes advantage of the Company’s innovative and low-cost funding structure. As of September 30, 2015, the Company had total investment securities, excluding mortgage-backed securities, with an amortized cost of \$953 million compared to \$697.6 million as of September 30, 2014. At September 30, 2015, \$310 million or 32.3% of the Company’s investment securities were pledged to secure various obligations of the Company.

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A large portion of this investment strategy involves the purchase of non-bank qualified obligations of political subdivisions. These bonds are issued in larger denominations than bank qualified obligations of political subdivisions, which allows for the purchase of larger blocks. These larger blocks of municipal bonds are typically issued in larger denominations by well-known issuers with reputable reporting and in turn, tend to be more liquid, which helps reduce price risk. These municipal bonds are tax-exempt and as such have a tax equivalent yield higher than their book yield. The tax equivalent yield calculation uses the Company's cost of funds as one of its components. Given the Company's relatively low cost of funds due to the volume of interest-free deposits generated by the MPS division, the tax equivalent yield for these bonds is higher than a similar term investment in other investment categories. Many of the Company's municipal holdings are able to be pledged at both the Federal Reserve and the Federal Home Loan Bank.

As of September 30, 2015, the Company had obligations of states and political subdivisions of \$887.8 million, representing 92.6% of total investment securities, excluding mortgage backed securities. This amount is spread among 48 states, with no individual state having a concentration higher than 10% of the total carrying value of the municipal portfolio. The Company has no direct municipal bond exposure in Detroit or Puerto Rico. Management believes this geographical diversification lessens the credit risk associated with these investments. The Company also monitors concentrations of the ultimate borrower and exposure to counties within each state to further enhance proper diversification.

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

	At September 30,		
	2015	2014	2013
	(Dollars in Thousands)		
Investment Securities AFS			
Trust preferred and corporate securities ⁽¹⁾	\$ 13,944	\$46,929	\$48,784
Small business administration securities	56,056	67,012	10,581
Obligations of states and political subdivisions	-	-	1,727
Non-bank qualified obligations of states and political subdivisions	608,590	367,580	238,729
Common equities and mutual funds	914	825	-
Subtotal AFS	679,504	482,346	299,821
Investment Securities HTM			
Agency and instrumentality securities	\$-	\$-	\$ 10,003
Obligations of states and political subdivisions	19,540	19,304	19,549
Non-bank qualified obligations of states and political subdivisions*	259,627	193,595	181,547
Subtotal HTM	279,167	212,899	211,099
FHLB Stock	24,410	21,245	9,994
Total Investment Securities and FHLB Stock	\$983,081	\$716,490	\$520,914
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds Sold ⁽²⁾	\$ 10,051	\$9,084	\$64,732

Within the trust preferred securities presented above, there are no securities from individual issuers that exceed 5% of the Company's total equity. The name and the aggregate market value of securities of each individual issuer as of ⁽¹⁾ September 30, 2015, are as follows: Key Corp Capital I, \$4.2 million; PNC Capital Trust, \$4.4 million; Huntington Capital Trust II SE, \$4.1 million.

⁽²⁾Includes \$3.1 million of taxable obligations of states and political subdivisions.

The Company at times maintains balances at the FHLB and the FRB, and also maintains balances in excess of FDIC-insured limits at various financial institutions. At September 30, 2015, the Company had \$0 and \$7.2 million ⁽³⁾ in interest-bearing deposits held at the FHLB and FRB, respectively, and \$2.8 million at other institutions. At September 30, 2015, the Company had no federal funds sold at a private institution.

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

	At September 30, 2015					
	1 Year or Less Carrying Value (Dollars in Thousands)	After 1 Year Through 5 Years Carrying Value	After 5 Years Through 10 Years Carrying Value	After 10 Years Carrying Value	Total Investment Securities Amortized Cost	Fair Value
<u>Available for Sale</u>						
Trust preferred and corporate securities	\$-	\$ -	\$ 1,277	\$ 12,667	\$ 16,199	\$ 13,944
Small business administration securities	-	-	56,056	-	54,493	56,056
Non-bank qualified obligations of states and political subdivisions	-	1,207	319,061	288,322	603,165	608,590
Total Investment Securities AFS	\$-	\$ 1,207	\$ 376,394	\$ 300,989	\$ 673,857	\$ 678,590
Weighted Average Yield ⁽¹⁾	0.00 %	1.37 %	2.01 %	2.29 %	2.27 %	2.14 %
<u>Held to Maturity</u>						
At September 30, 2015						
	1 Year or Less Carrying Value (Dollars in Thousands)	After 1 Year Through 5 Years Carrying Value	After 5 Years Through 10 Years Carrying Value	After 10 Years Carrying Value	Total Investment Securities Amortized Cost	Fair Value
Obligations of states and political subdivisions	\$95	\$ 5,355	\$ 10,149	\$ 3,941	\$ 19,540	\$ 19,413
Non-bank qualified obligations of states and political subdivisions	-	3,056	129,996	126,575	259,627	261,330
Total Investment Securities HTM	\$95	\$ 8,411	\$ 140,145	\$ 130,516	\$ 279,167	\$ 280,743
Weighted Average Yield ⁽¹⁾	0.80 %	1.94 %	2.24 %	2.84 %	2.51 %	2.35 %

(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 consisted entirely of securities issued by U.S. Government agencies or instrumentalities, including those of Ginnie Mae, Fannie Mae and Freddie Mac as of September 30, 2015. The Ginnie Mae, Fannie Mae and Freddie Mac certificates are modified pass through mortgage-backed securities representing 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 U.S. Government agencies or instrumentalities.

At September 30, 2015, the Company had a diverse portfolio of mortgage-backed securities with an amortized cost of \$646.7 million, all at fixed rates of interest. The Company held primarily seasoned 15-year, 20-year, and 30-year pass through and, to a lesser extent, various maturity delegated underwriting servicing ("DUS") mortgage-backed securities.

Coupons on these securities ranged from below 2% to 6%.

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, 2015, \$485.1 million or 75.4% 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 and other underwriting risks inherent in 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 continually monitored, and prepayment rate assumptions are adjusted as appropriate to update the Company's mortgage-backed securities accounting and asset/liability reports.

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

	At September 30,		
	2015	2014	2013
Available for Sale	(Dollars in Thousands)		
Freddie Mac	\$ 174,322	\$ 155,340	\$ 82,189
Fannie Mae	391,846	266,214	252,196
Fannie Mae DUS	10,415	194,663	224,379
Ginnie Mae	-	41,653	22,608
Total AFS	\$576,583	\$657,870	\$581,372

	At September 30,		
	2015	2014	2013
Held to Maturity	(Dollars in Thousands)		
Fannie Mae	\$61,026	\$70,034	\$76,927
Ginnie Mae	5,551	-	-
Total HTM	\$66,577	\$70,034	\$76,927

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 2015. 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 which typically lower the average life of these holdings.

	At September 30, 2015					
	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
Available for Sale	(Dollars in Thousands)					
Freddie Mac	\$-	\$ -	\$-	\$ 174,322	\$ 175,441	\$ 174,322
Fannie Mae	-	-	18,284	373,562	394,165	391,846
Fannie Mae DUS	-	-	10,415	-	10,559	10,415
Total Investment Securities	\$-	\$ -	\$ 28,699	\$ 547,884	\$ 580,165	\$ 576,583
Weighted Average Yield	0.00 %	0.00 %	2.46 %	2.55 %	2.14 %	2.55 %

	At September 30, 2015					
	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
Held to Maturity	(Dollars in Thousands)					

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Fannie Mae	\$-	\$ -	\$ -	\$61,025	\$61,025	\$60,595					
Ginnie Mae	-	-	-	5,552	5,552	5,509					
Total Investment Securities	\$-	\$ -	\$ -	\$66,577	\$66,577	\$66,104					
Weighted Average Yield	0.00%	0.00	%	0.00	%	2.33	%	2.33	%	2.27	%

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At September 30, 2015, the contractual maturity of approximately 95% 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 U.S. 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 mortgage-backed securities, 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, borrower credit scores, loan to premises value, 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. During periods of rising interest rates, these prepayments tend to decelerate as the prevailing market interest rates for mortgage rates increase and prepayment incentives dissipate.

Management has implemented a process to identify securities with potential credit impairment that are other-than-temporary. This process involves evaluation of the length of time and extent to which the fair value has been less than the amortized cost basis, review of available information regarding the financial position of the issuer, monitoring the rating, watch, and outlook of the security, monitoring changes in value, cash flow projections, and the Company's intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

For all securities considered temporarily impaired, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost, which may occur at maturity. The Company believes it will collect all principal and interest due on all investments with amortized cost in excess of fair value and considered only temporarily impaired.

In fiscal 2015, 2014 and 2013, there were no other-than-temporary impairments recorded. Fannie Mae and Freddie Mac, which are both in conservatorship, 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.

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, mortgage-backed securities and funds provided from operations.

Borrowings, including FHLB advances, repurchase agreements and funds available through the FRB Discount Window, 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 statement savings accounts, money market savings accounts, NOW and regular checking accounts, deposits related to prepaid cards primarily categorized as checking accounts and certificate accounts currently ranging in terms from 14 days to 60 days. The Company solicits deposits from its primary market area and relies primarily on competitive pricing policies, advertising and high-quality customer service to attract and retain these deposits.

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

The variety of deposit accounts offered by the Company has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company endeavors to manage the pricing of its deposits in keeping with its asset/liability management and profitability objectives. Based on its experience, the Company believes that its savings, money market accounts, NOW, regular checking accounts and deposits related to prepaid cards 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.

At September 30, 2015, \$1.42 billion of the Company's \$1.66 billion deposit portfolio was attributable to MPS. The majority of these deposits represent funds available to spend on prepaid debit cards and other stored value products, of which \$1.4 billion are included with non-interest-bearing checking accounts and \$21.2 million are included with savings deposits on the Company's Consolidated Statement of Financial Condition. Generally, these deposits do not pay interest. MPS originates debit card programs through outside sales agents and other financial institutions. As such, these deposits carry a somewhat higher degree of concentration risk than traditional consumer products. If a major client or card program were to leave the Bank, deposit outflows could be more significant than if the Bank were to lose a more traditional customer, although it is considered unlikely that all deposits related to a program would leave the Bank without significant advance notification. As such, historical results indicate, and management believes, the Company's deposit portfolio attributable to MPS is stable. The increase in deposits arising from MPS has allowed the Bank to reduce its reliance on higher costing certificates of deposits and public funds. See "Regulation – FDIC Deposit Classification Guidance."

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

	September 30, 2015 2014 2013 (Dollars in Thousands)		
Opening Balance	\$1,366,541	\$1,315,283	\$1,379,794
Deposits	315,944,447	215,420,492	180,050,543
Withdrawals	(315,653,993)	(215,369,877)	(180,115,818)
Interest Credited	539	643	764
Ending Balance	\$1,657,534	\$1,366,541	\$1,315,283
Net Increase (Decrease)	\$290,993	\$51,258	\$(64,511)
Percent Increase (Decrease)	21.29	% 3.90	% -4.68 %

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

	September 30, 2015		2014		2013	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in Thousands)						
<u>Transactions and Savings Deposits:</u>						
Non-Interest Bearing Checking	\$ 1,449,101	87.4 %	\$ 1,126,715	82.5 %	\$ 1,086,258	82.6 %
Interest Bearing Checking	33,320	2.0	37,188	2.7	31,181	2.4
Savings Deposits	41,720	2.5	27,610	2.0	26,229	2.0
Money Market Deposits	42,222	2.6	40,475	3.0	40,016	3.0
Total Non-Certificate Deposits	1,566,363	94.5	1,231,988	90.2	1,183,684	90.0
<u>Time Certificates of Deposit:</u>						
Variable	192	-	202	-	211	-
0.00 - 1.99%	89,044	5.4	128,730	9.4	122,136	9.3
2.00 - 3.99%	1,935	0.0	5,621	0.4	8,839	0.7
4.00 - 5.99%	-	-	-	-	413	-
Total Time Certificates of Deposits	91,171	5.5	134,553	9.8	131,599	10.0
Total Deposits	\$ 1,657,534	100.0 %	\$ 1,366,541	100.0 %	\$ 1,315,283	100.0 %

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 2015.

	Variable	0.00- 1.99 %	2.00- 3.99 %	Total	Percent of Total
(Dollars in Thousands)					
Certificate accounts maturing in quarter ending:					
December 31, 2015	24	34,821	1,414	36,259	39.8
March 31, 2016	53	19,738	166	19,957	21.9
June 30, 2016	19	8,813	184	9,016	9.9
September 30, 2016	47	1,545	140	1,732	1.9
December 31, 2016	10	5,438	21	5,469	6.0
March 31, 2017	39	991	10	1,040	1.1
June 30, 2017	-	6,014	-	6,014	6.6
September 30, 2017	-	1,114	-	1,114	1.2
December 31, 2017	-	3,457	-	3,457	3.8
March 31, 2018	-	555	-	555	0.6
June 30, 2018	-	1,307	-	1,307	1.4
September 30, 2018	-	275	-	275	0.3
Thereafter	-	4,976	-	4,976	5.5

Total	\$192	\$89,044	\$1,935	\$91,171	100.0 %
Percent of total	0.2 %	97.7	% 2.1	% 100.0	%

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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, 2015.

	Maturity <u>3</u> <u>Months</u> <u>or</u> <u>Less</u>	<u>After 3</u> <u>to 6</u> <u>Months</u>	<u>After 6</u> <u>to 12</u> <u>Months</u>	<u>After 12</u> <u>Months</u>	<u>Total</u>
(Dollars in Thousands)					
Certificates of deposit less than \$250,000	\$16,774	\$3,206	\$9,503	\$23,144	\$52,627
Certificates of deposit of \$250,000 or more	19,485	16,752	1,243	1,064	\$38,544
Total certificates of deposit	\$36,259	\$19,958	\$10,746	\$24,208	\$91,171

At September 30, 2015, there were \$34.1 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 practice 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 have historically consisted primarily of advances from the FHLB 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, 2015, the Bank had \$7.0 million of advances from the FHLB, \$540 million of federal funds purchased and the ability to borrow up to an approximate additional \$257.5 million. The Company is able to pledge additional assets to expand its borrowing capability at the FHLB. At September 30, 2015, there were \$7.0 million in advances that had maturities ranging up to approximately four years.

On July 16, 2001, the Company issued all of the 10,310 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 must 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. 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. 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. The preferential capital treatment of the Company's trust preferred securities was grandfathered under recent banking legislation.

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, 2015, the Company had \$4 million of retail repurchase agreements outstanding.

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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 seven days to six months, but on occasion longer term agreements have been entered into. At September 30, 2015, 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.

	September 30,		
	2015	2014	2013
	(Dollars in Thousands)		
<u>Maximum Balance:</u>			
FHLB advances	\$7,000	\$7,000	\$7,000
Repurchase agreements	17,400	33,999	19,901
Subordinated debentures	10,310	10,310	10,310
Overnight fed funds purchased	540,000	470,000	325,000

<u>Average Balance:</u>			
FHLB advances	\$7,000	\$7,000	\$8,096
Repurchase agreements	10,884	10,137	10,540
Subordinated debentures	10,310	10,310	10,310
Overnight fed funds purchased	234,025	186,153	129,825

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

	September 30,					
	2015		2014		2013	
	(Dollars in Thousands)					
FHLB advances	\$7,000		\$7,000		\$7,000	
Repurchase agreements	4,007		10,411		9,146	
Subordinated debentures	10,310		10,310		10,310	
Overnight fed funds purchased	540,000		470,000		190,000	
Total borrowings	\$561,317		\$497,721		\$216,456	
Weighted average interest rate of FHLB advances	6.98	%	6.98	%	6.98	%
Weighted average interest rate of repurchase agreements	0.52	%	0.52	%	0.52	%
Weighted average interest rate of subordinated debentures	4.28	%	4.08	%	4.15	%
Weighted average interest rate of overnight fed funds purchased	0.30	%	0.28	%	0.54	%

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Subsidiary Activities

The subsidiaries of the Company are the Bank and First Midwest Financial Capital Trust I.

Meta Payment Systems® Division

The Company, through the MPS division of the Bank, is focused on the electronic payments industry and offers a complement of 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 MPS are generally designed to facilitate the processing and settlement of authorized electronic transactions involving the movement of funds. MPS offers specific product solutions in the following areas: (i) prepaid cards, (ii) a consumer credit product, (iii) ATM sponsorship and (iv) tax refund transfers. MPS' products and services generally target banks, card processors, third parties who market and distribute the cards and independent Electronic Return Originators ("EROs").

Each line of MPS' business is discussed generally below. With respect to the lines of business, there is a significant amount of cross-selling and cross-utilization of personnel and resources (e.g., a client asks MPS to develop products for both prepaid and consumer credit 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) or a "virtual" card where there is no actual plastic but the transaction and account records are handled in the same manner. 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 typically held in pooled accounts at the Bank representing the aggregate value of all cards issued in connection with particular products or programs, further described below. Although the funds are held in pooled accounts, the account of record indicates the funds held by each individual card. 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 MPS' business can generally be divided into three categories: reloadable cards, non-reloadable cards and benefit/insurance cards. These programs are typically offered via a third-party relationship. 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. General Purpose Reloadable ("GPR") 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 traveler's checks and can be reloaded a predetermined number of times as well as tax-related cards where a taxpayer's refund is 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.

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Non-Reloadable Cards. Non-reloadable prepaid cards are sometimes referred to as disposable and may only be used until the 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 tool 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. In its belief that credit programs can help meet legitimate credit needs for prime and sub-prime borrowers, and afford the Company an opportunity to diversify the loan portfolio and minimize earnings exposure due to economic downturns, the Company has offered certain credit programs that were designed to accomplish these objectives, although only one such program currently exists.

MPS has strived to offer consumers innovative payment products, including credit products. Most credit products have historically fallen into one of two general categories: (1) sponsorship lending and (2) portfolio lending. In a sponsorship lending model, MPS typically originates loans and sells (without recourse) the resulting receivables to third-party investors equipped to take the associated credit risk. MPS’ sponsorship lending program is governed by the Policy for Sponsorship Lending which has been approved by the Board of Directors. MPS discontinued most sponsorship lending programs in fiscal year 2012 with only one run-off portfolio still in existence. A Portfolio Credit Policy which has been approved by the Board of Directors governs portfolio credit initiatives undertaken by MPS, whereby the Company retains some or all receivables and relies on the borrower as the underlying source of repayment.

ATM Sponsorship. MPS 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, MPS also has certain leasehold interests in certain ATMs which require bank ownership and registration for compliance with applicable state law.

While the Company has adopted policies and procedures to manage and monitor the risks attendant to this line of business, and 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 the MPS division. MPS has signed agreements through December 2019 or longer with nine of its largest sales agents/program managers, which helps mitigate this risk. See “- Regulation – Proposal Prepaid Payments Regulation”

Tax Refund Transfers. With the acquisition of Refund Advantage in September 2015, the Company is a leading provider of professional tax refund-transfer software used by independent Electronic Return Originators in over 10,000 locations nationwide and processes over one million refund transfers per year. Refund Advantage offers tax refund-transfer solutions through ACH direct deposit, check and prepaid card.

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Regulation

General

The Company is broadly regulated as a savings and loan holding company by the Federal Reserve, and is required to file reports with and otherwise comply with the rules and regulations of the Federal Reserve applicable to such companies. As a reporting company under the Securities Exchange Act of 1934, the Company is also required to file reports with the SEC and otherwise comply with federal securities laws. The Bank is a federally chartered thrift institution that is subject to broad federal regulation and oversight extending to all of its operations by the OCC, its primary federal regulator, and by the FDIC as deposit insurer. The Bank is also a member of the FHLB. See “Risk Factors” which is included in Item 1A of this Annual Report on Form 10-K.

The legislative and regulatory enactments described below have had and are expected to continue to have a material impact upon the operations of the Company and the Bank.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“the Dodd-Frank Act”). In response to the national and international economic recession that began in 2007-2008 and to strengthen supervision of financial institutions and systemically important non-bank financial institutions, Congress and the U.S. Government took a variety of actions, including the enactment of the Dodd-Frank Act on July 21, 2010. The Dodd-Frank Act represents the most comprehensive change to banking laws since the Great Depression of the 1930s and mandated changes in several key areas: regulation and compliance (both with respect to financial institutions and systemically important non-bank financial companies), securities regulation, executive compensation, regulation of derivatives, corporate governance, transactions with affiliates, deposit insurance assessments and consumer protection. Importantly for the Bank, the Dodd-Frank Act also abolished the Office of Thrift Supervision (the “OTS”) on July 21, 2011, and transferred rulemaking authority and regulatory oversight to the OCC with respect to federal savings banks, such as the Bank, and to the Board of Governors of the Federal Reserve System with respect to savings and loan holding companies, such as the Company. While the changes in the law required by the Dodd-Frank Act have had a major impact on large institutions, even relatively smaller institutions such as ours have been affected.

Pursuant to the Dodd-Frank Act, the Bank is subject to regulations promulgated by the Consumer Financial Protection Bureau (the “Bureau” or “CFPB”). The Bureau has consolidated rules and orders with respect to consumer financial products and services and has substantial power to define the rights of consumers and responsibilities of lending institutions, such as the Bank. The Bureau will not, however, examine or supervise the Bank for compliance with such regulations; rather, based on the Bank’s size (less than \$10 billion in assets), enforcement authority will remain with the OCC although the Bank may be required to submit reports or other materials to the Bureau upon its request. Notwithstanding jurisdictional limitations set forth in the Dodd-Frank Act, the Bureau and federal banking regulators may endeavor to work jointly in investigating and resolving cases as they arise.

The Dodd-Frank Act included provisions which restrict interchange fees to those which are “reasonable and proportionate” for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing (known as the “Durbin Amendment”). The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. In the final rule, interchange fees for debit card transactions were capped at \$0.21 plus five basis points to be eligible for a “safe harbor” such that the fee is conclusively reasonable and proportionate. Another related rule also permits an additional \$0.01 per transaction “fraud prevention adjustment” to the interchange fee if certain standards designed by the Federal Reserve are implemented including an annual review of fraud prevention policies and procedures. With respect to network exclusivity and merchant routing restrictions, it is now required that all debit cards participate in at least two unaffiliated networks so that the transactions initiated using those debit cards will have at least two independent routing channels. Notably, the interchange fee restrictions in the Durbin Amendment do not apply to the Bank because debit card issuers with total worldwide assets of less than \$10 billion are exempt.

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The Dodd-Frank Act also included a provision that supplements the Federal Trade Commission Act's prohibitions against practices that are unfair or deceptive by also prohibiting practices that are "abusive." The Bureau's Director, Richard Cordray, has publicly stated that this term will not be defined by regulation but will, instead, be illuminated by the enforcement actions the Bureau initiates. To date, only a handful of Bureau enforcement actions have referenced alleged "abusive" acts or practices.

The extent to which the new legislation and existing and planned governmental initiatives thereunder will succeed in improving tight credit conditions or otherwise result in an improvement in the national economy is uncertain. In addition, because some components of the Dodd-Frank Act still have not been finalized, it is difficult to predict the ultimate effect of the Dodd-Frank Act on us or the Bank at this time. It is likely, however, that our operational expenses will increase as a result of new compliance requirements.

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.

Privacy. The Bank is required by statute and regulation to disclose its privacy policies to its customers on an annual basis. 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.

Preemption. On July 21, 2011, the preemption provisions of the Dodd-Frank Act became effective, requiring that federal savings associations be subject to the same preemption standards as national banks, with respect to the application of state consumer laws to the interstate activities of federally chartered depository institutions. Under the preemption standards established under the Dodd Frank Act for both national banks and federal savings associations, preemption of a state consumer financial law is permissible only if: (1) application of the state law would have a discriminatory effect on national banks or federal thrifts as compared to state banks; (2) the state law is preempted under a judicial standard that requires a state consumer financial law to prevent or significantly interfere with the exercise of the national bank's or federal thrift's powers before it can be preempted, with such preemption determination being made by the OCC (by regulation or order) or by a court, in either case on a "case by case" basis; or (3) the state law is preempted by another provision of federal law other than Title X of the Dodd-Frank Act. Additionally, the Dodd-Frank Act specifies that such preemption standards only apply to national banks and federal thrifts themselves, and not their non-depository institution subsidiaries or affiliates. Specifically, operating subsidiaries of national banks and federal thrifts that are not themselves chartered as a national bank or federal thrift may no longer benefit from federal preemption of state consumer financial laws, which shall apply to such subsidiaries (or affiliates) to the same extent that they apply to any person, corporation or entity subject to such state laws. The Bank has no operating subsidiaries at present.

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Prohibition on Unfair, Deceptive and Abusive Acts and Practices. July 21, 2011, was the designated transfer date under the Dodd-Frank Act for the formal transfer of rulemaking functions under the federal consumer financial laws from each of the various federal banking agencies to a new governmental entity, the Bureau, which is charged with the mission of protecting consumer interests. The Bureau is responsible for administering and carrying out the purposes and objectives of the federal consumer financial laws and to prevent evasions thereof, with respect to all financial institutions that offer financial products and services to consumers. The Bureau is also authorized to prescribe rules applicable to any covered person or service provider identifying and prohibiting acts or practices that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. With its broad rulemaking and enforcement powers, the Bureau has the potential to reshape the consumer financial laws through rulemaking, which may directly impact the business operations of financial institutions offering consumer financial products or services including the Bank and its MPS division.

Other Regulation. The Bank is also subject to a variety of other regulations with respect to its 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 predictable and could affect the Bank's operations and profitability.

Proposed Prepaid Payments Regulation. On November 13, 2014, the CFPB released a proposed rule that would supplement the existing regulatory framework pursuant to which prepaid products (both cards and other delivery methods, including codes) are offered and serviced. The proposal would bring prepaid products fully within Regulation E, which implements the federal Electronic Funds Transfer Act, and, for prepaid products that have a "credit" component, within Regulation Z, which implements the federal Truth in Lending Act.

The proposed rule includes a lengthy discussion on the materials and comments studied and the focus groups used in connection with the proposal's release. Of particular note, the proposal would: (a) create a definition for a "prepaid account" in Regulation E that focuses on attributes relating to how prepaid accounts are issued and used, instead of how and where such accounts are obtained by consumers, and includes prepaid accounts that are non-reloadable; (b) require that an issuer make certain disclosures available to a consumer before such consumer agrees to acquire a prepaid account (providing both a short and long form disclosure which, if used, provides a "safe harbor" to the issuer); (c) extend Regulation E's periodic statement requirement that currently applies to payroll cards and federal government benefit accounts to prepaid accounts, although alternatives to paper statements are contemplated in the proposal; (d) extend Regulation E's limited liability and error resolution provisions to certain prepaid accounts that have been registered; (e) ensure that prepaid product users obtain the protections in the compulsory use provisions of Regulation E if such account contains a credit feature; (f) extend Regulation Z's credit card rules and disclosure requirements to prepaid accounts that provide overdraft services (also known as overdraft protection) and other credit features; (g) require the issuer to obtain a consumer's consent before adding overdraft services and credit features to a prepaid account; and (h) require that a consumer with a credit component to their prepaid account receive a periodic statement not more than once per month and then have at least 21 days to repay the debt the consumer incurred in connection with using the credit component of their account. In addition, the proposed rule includes a requirement that account issuers provide to the CFPB the terms and conditions used in connection with their offering of prepaid products and would require such issuers to post their terms and conditions on their own websites and make them available to consumers upon request.

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Bank Supervision & Regulation

The Bank is a federally chartered thrift institution that is subject to broad federal regulation and oversight extending to all of its operations by its primary federal regulator, the OCC, and by its deposit insurer, the FDIC. Such regulation covers all aspects of the banking business, including lending practices, safeguarding deposits, capital structure, transactions with affiliates and conduct and qualifications of personnel. The Bank pays assessment fees both to the OCC and the FDIC, and the level of such assessments reflects the condition of the Bank. If the condition of the Bank were to deteriorate, the level of such assessments could increase significantly, having a material adverse effect on the Company's financial condition and results of operations. The Bank is also a member of the FHLB System and is subject to certain limited regulation by the Federal Reserve.

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. The OCC has announced that supervisory strategies for 2016 will focus on the following: (i) governance and oversight; (ii) credit underwriting; (iii) cyber threats; (iv) operational risk; (v) BSA/AML; (vi) compliance; (vii) interest rate risk; and (viii) fair access and compliance with fair lending laws.

Any change in the nature of such regulation and oversight, whether by the OCC, the FDIC, the Federal Reserve or legislatively by Congress, could have a material impact on the Company or the Bank and their respective operations. The discussion herein of the regulatory and supervisory structure within which the Bank operates is general and does not purport to be exhaustive or a complete description of the laws and regulations involved in the Bank's operations. The discussion is qualified in its entirety by the actual laws and regulations.

Federal Regulation of the Bank. As the primary federal regulator for federal savings associations, the OCC has extensive authority over the operations of federal savings associations, such as the Bank. This regulation and supervision establishes a comprehensive framework for activities in which a federal savings association can engage and is intended primarily for the protection of the DIF and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies.

In connection with its assumption of responsibility for the ongoing examination, supervision and regulation of federal savings associations, the OCC published a final rule on July 21, 2011, that republishes those OTS regulations that the OCC has the authority to promulgate and enforce as of the July 21, 2011 transfer date, with nomenclature and other technical amendments to reflect OCC supervision of federal savings associations. In addition, on May 17, 2012, November 20, 2013, and June 2, 2015, the OCC rescinded additional OTS documents that formerly applied to federal savings and loan associations, and applied new policy guidance where policy guidance did not already exist. With respect to the 2015 rules, the OCC streamlined requirements (where permitted) to provide integrated treatment to national banks and federal savings associations with respect to certain corporate activities and transactions. The new regulations define an "eligible savings association" as one that: (i) is well capitalized as defined in 12 CFR 6.4; (ii) Has a composite rating of 1 or 2 under the Uniform Financial Institutions Rating System ("CAMELS"); (iii) Has a Community Reinvestment Act ("CRA"), 12 U.S.C. 2901 et seq., rating of "Outstanding" or "Satisfactory," if applicable; (iv) Has a consumer compliance rating of 1 or 2 under the Uniform Interagency Consumer Compliance Rating System; and (v) Is not subject to a cease and desist order, consent order, formal written agreement, or Prompt Corrective Action directive or, if subject to any such order, agreement, or directive, is informed in writing by the OCC that the savings association may be treated as an "eligible bank or eligible savings association" for purposes of the regulation. Prior to the adoption of the integration rule, both well and adequately capitalized institutions were eligible for expedited treatment and exempt from the application requirement. The OCC undertook this integration to promote

fairness in supervision, reduce regulatory duplication and create efficiencies for national banks and federal savings associations, as well as the OCC. Additional proposed rules by the OCC related to the streamlining of the treatment by federal savings associations and national banks have also been issued. Once finalized, the OCC's regulations and guidance supersede that of OTS and are indicative of the OCC's goal of one integrated policy platform for national banks and savings associations.

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It is possible that additional rulemaking could require significant revisions to the regulations under which the Bank operates and is supervised. Any change in such laws and regulations or interpretations thereof, whether by the OCC, the FDIC, the Bureau, the Federal Reserve or through legislation, could have a material adverse impact on the Bank and its operations and on the Company and its stockholders.

Business Activities

The activities of federal savings associations are generally governed by federal laws and regulations. These laws and regulations delineate the nature and extent of the activities in which federal savings associations may engage. In particular, many types of lending authority for federal savings associations are limited to a specified percentage of the institution's capital or assets.

Loan and Investment Powers

The Bank derives its lending and investment powers from the Home Owners' Loan Act ("HOLA") and the OCC's implementing regulations thereunder. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities and certain other assets. The Bank may also establish service corporations that are permitted to engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage activities. These investment powers are subject to various limitations, including (i) a prohibition against the acquisition of any corporate debt security unless, prior to acquisition, the savings association has determined that the investment is safe and sound and suitable for the institution and that the issuer has adequate resources and willingness to provide all required payments on its obligations in a timely manner; (ii) a limit of 400% of an association's capital on the aggregate amount of loans secured by non-residential real estate property; (iii) a limit of 20% of an association's assets on the aggregate amount of commercial and agricultural loans and leases with the amount of commercial loans in excess of 10% of assets being limited to small business loans; (iv) a limit of 35% of an association's assets on the aggregate amount of secured consumer loans and acquisitions of certain debt securities, with amounts in excess of 30% of assets being limited to loans made directly to the original obligor and where no third-party finder or referral fees were paid; (v) a limit of 5% of assets on non-conforming loans (loans in excess of the specific limitations of the HOLA); and (vi) a limit of the greater of 5% of assets or an association's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property. In addition, the HOLA and the OCC regulations provide that a federal savings association may invest up to 10% of its assets in tangible personal property for leasing purposes.

The Bank'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, 2015, the Bank's lending limit under these restrictions was \$32.9 million. The Bank is in compliance with this lending limit.

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Federal Deposit Insurance and Other Regulatory Requirements

Insurance of Accounts and Regulation by the FDIC. The Bank 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. While not our primary federal regulator, the FDIC as insurer 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 seek to terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC imposes an assessment against all depository institutions for deposit insurance. Pursuant to the Dodd-Frank Act, with respect to deposit insurance premiums, the assessment base calculation is average consolidated total assets less average tangible equity (defined as Tier 1 capital). As a small institution (one with less than \$10 billion in assets), the Bank is assigned to one of four risk categories based upon its capital level and its composite CAMELS ratings. Each bank is assigned one of three capital evaluations based on data reported in that institution's CALL Report: well-capitalized, adequately capitalized or undercapitalized. These ratios relate specifically to the ratios used by the federal banking agencies for purposes of prompt corrective action ("PCA"). In November 2014, the FDIC announced new rules for purposes of the calculation of deposit insurance premium assessments which went into effect on January 1, 2015, in an attempt to align the new PCA standards effective as of the same date with the agency's deposit insurance calculation matrix. Specifically, as of the effective date, an institution is (i) well-capitalized if it satisfies each of the following standards: total risk-based capital ratio, 10.0% or greater; Tier 1 risk-based capital ratio, 8.0% or greater; leverage ratio, 5.0% or greater; Common Equity Tier 1 capital ratio, 6.5% or greater; and (ii) adequately capitalized if it is not well capitalized but satisfies each of the following capital ratio standards: total risk-based capital ratio, 8.0% or greater; Tier 1 risk-based capital ratio, 6.0% or greater; leverage ratio, 4.0% or greater; and Common Equity Tier 1 capital ratio, 4.5% or greater. An institution will be undercapitalized if it does not qualify as either well-capitalized or adequately capitalized. At September 30, 2015, the Bank's risk category assignment required a payment of \$0.09 per \$100 of its total assessment base of approximately \$2.15 billion. The FDIC's board has the flexibility to adopt actual rates that are higher or lower than the total base assessment rates adopted without notice and comment if certain restrictions are met.

Under the Dodd-Frank Act, a permanent increase in deposit insurance was authorized to \$250,000. The coverage limit is per depositor, per insured depository institution for each account ownership category. The Dodd-Frank Act also set a new minimum DIF reserve ratio at 1.35% of estimated insured deposits. The FDIC is required to attain this ratio by September 30, 2020. In connection with this requirement, in November 2015, the FDIC released a proposed rulemaking (1) raising the minimum reserve ratio from 1.15% to 1.35%; (2) requiring that the reserve ratio reach 1.35% by September 30, 2020; and (3) requiring that the FDIC offset the effect of the increase in the minimum reserve ratio on insured depository institutions with less than \$10 billion in assets, like the Bank. Such banks with less than \$10 billion in assets would receive assessment credits for the portion of their assessments that contribute to the increase in the reserve ratio from 1.15% to 1.35%.

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 OCC. Management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

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A significant increase in DIF insurance premiums would have an adverse effect on the operating expenses and results of operations of the Bank.

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. At September 30, 2015, the FICO assessment was equal to 0.62 basis points for each \$100 of its total assessment base of approximately \$1.8 billion. These assessments will continue until the bonds mature in 2019.

Interest Rate Risk Management. The OCC requires federal savings banks, like the Bank, to have an effective and sound interest rate risk management program, including appropriate measurement and reporting, robust and meaningful stress testing, assumption development reflecting the institution’s experience, and comprehensive model valuation. Interest rate risk exposure is supposed to be managed using processes and systems commensurate with their earnings and capital levels; complexity; business model; risk profile; and scope of operations. As of March 31, 2012, federal savings banks are required to have an independent interest rate risk management process in place that measures both earnings and capital at risk.

Stress Testing. Although the Dodd-Frank Act requires institutions with more than \$10 billion in assets to conduct stress testing, the OCC expects every bank, regardless of its size or risk profile, to have an effective internal process to (1) assess its capital adequacy in relation to its overall risks at least annually, and (2) to plan for maintaining appropriate capital levels. It is the OCC’s belief that stress testing permits community banks to identify their key vulnerabilities to market forces and assess how to effectively manage those risks should they emerge. If stress testing results indicate that capital ratios could fall below the level needed to adequately support the bank’s overall risk profile, the OCC believes the bank’s board and management should take appropriate steps to protect the bank from such an occurrence, including establishing a plan that requires closer monitoring of market information, adjusting strategic and capital plans to mitigate risk, changing risk appetite and risk tolerance levels, limiting or stopping loan growth or adjusting the portfolio mix, adjusting underwriting standards, raising more capital and selling or hedging loans to reduce the potential impact from such stress events.

Assessments. The Dodd-Frank Act transferred authority to collect assessments for federal savings associations from the OTS to the OCC. This authority was effective as of the transfer date, July 21, 2011. The Dodd-Frank Act also provides that, in establishing the amount of an assessment, the Comptroller of the Currency may consider the nature and scope of the activities of the entity, the amount and type of assets it holds, the financial and managerial condition of the entity and any other factor that is appropriate. Beginning with assessments charged in September 2012, all national banks and federal savings associations are assessed using the OCC’s assessment structure. The Bank’s assessment (standard assessment) at September 30, 2015, was \$233,705. As of September 30, 2014, the Bank was no longer subject to a supervisory surcharge by the OCC.

Basel III Capital Requirements. In July 2013, our primary federal regulator, the Federal Reserve, and the Bank’s primary federal regulator, the OCC, approved final rules (the “Basel III Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules generally implement the Basel Committee on Banking Supervision’s (the “Basel Committee”) December 2010 final capital framework referred to as “Basel III” for strengthening international capital standards. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including us and the Bank, as compared to the current U.S. general risk-based capital rules. The Basel III Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The Basel III Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee’s 1988 “Basel I” capital accords, with a more risk-sensitive approach based, in part, on the “standardized approach” in the Basel Committee’s 2004 “Basel II” capital accords. In addition, the Basel III Capital Rules implement certain provisions of the Dodd-Frank Act,

including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The Basel III Capital Rules were effective for us and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

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Among other matters, the Basel III Capital Rules: (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the Basel III Capital Rules, for most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the Basel III Capital Rules’ specific requirements.

Pursuant to the Basel III Capital Rules, our Company and Bank, respectively, are subject to new regulatory capital adequacy requirements promulgated by the Federal Reserve and the OCC. Failure by our Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by our regulators that could have a material adverse effect on our consolidated financial statements. Prior to January 1, 2015, our Bank was subject to capital requirements under Basel I and there were no capital requirements for our Company. Under the capital requirements and the regulatory framework for prompt corrective action, our Company and Bank must meet specific capital guidelines that involve quantitative measures of our Company and Bank’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our Company’s and Bank’s capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Beginning January 1, 2016, Basel III implements a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer will be exclusively composed of Common Equity Tier 1 capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. On January 1, 2016, our Company and Bank will be expected to comply with the capital conservation buffer requirement, which will increase the minimum requirement of the three risk-based capital ratios by 0.625% each year through 2019, at which point, the Common Equity Tier 1 risk-based, tier 1 risk-based and total risk-based capital ratios will be 7.0%, 8.5% and 10.5%, respectively.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. 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.

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Pursuant to the Basel III Capital Rules, the effects of certain accumulated other comprehensive income or loss (“AOCI”) items are not excluded; however, “non-advanced approaches banking organizations,” including us and the Bank, may make a one-time permanent election to continue to exclude these items. This election was made concurrently with the first filing of certain of our and the Bank’s periodic regulatory reports in the beginning of 2015 in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolio. The Basel III Capital Rules also preclude certain hybrid securities, such as trust preferred securities issued prior to May 19, 2010, from inclusion in our Tier 1 capital, subject to grandfathering in the case of companies, such as us, that had less than \$15 billion in total consolidated assets as of December 31, 2009.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will be phased in over a four-year period (beginning at 40% on January 1, 2015, and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016, at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to the Bank, the Basel III Capital Rules revise the “PCA” regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any PCA category.

The Basel III Capital Rules prescribe a standardized approach for risk weightings for a large and risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in high-risk weights for a variety of asset classes.

Should the Company or the Bank not meet the requirements of the Basel III Capital Rules, the Company and the Bank would be subject to adverse regulatory action by our regulators, which action could result in material adverse consequences for us, the Bank, and our shareholders.

As of September 30, 2015, the Bank exceeded all of its regulatory capital requirements as showing in the table below and was designated as “well-capitalized” under federal guidelines. The table below includes certain non-GAAP financial measures that are used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews these measures along with other measures of capital as part of its financial analyses and has included this non-GAAP financial information, and the corresponding reconciliation to total equity. 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.

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Regulatory Capital Data

	Company (Actual)		Bank (Actual)		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)							
September 30, 2015								
Tier 1 (core) capital (to adjusted total assets)	\$224,426	9.36 %	\$213,220	8.89 %	\$8,977	4.00 %	\$11,221	5.00 %
Common equity Tier 1 (to risk-weighted assets)	216,931	19.85	213,220	19.52	9,762	4.50	14,101	6.50
Tier 1 (core) capital (to risk-weighted assets)	224,426	20.54	213,220	19.52	13,466	6.00	17,954	8.00
Total qualifying capital (to risk-weighted assets)	230,820	21.12	219,614	20.11	18,466	8.00	23,082	10.00

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

Reconciliation:

	Standardized Approach (1) September 30, 2015 (Dollars in Thousands)
Total equity	\$ 271,335
Adjustments:	
LESS: Goodwill, net of associated deferred tax liabilities	36,642
LESS: Certain other intangible assets	13,431
LESS: Net deferred tax assets from operating loss and tax credit carry-forwards	1,876
LESS: Net unrealized gains (losses) on available-for-sale securities	2,455
Common Equity Tier 1 ⁽¹⁾	216,931
Long-term debt and other instruments qualifying as Tier 1	10,310
LESS: Additional tier 1 capital deductions	2,815
Total Tier 1 capital	224,426
Allowance for loan losses	6,394
Total qualifying capital	230,820

(1) Capital ratios were determined using the Basel III capital rules that became effective on January 1, 2015. Basel III revised the definition of capital, increased minimum capital ratios, and introduced a minimum CET1 ratio; those

changes are being fully phased in through the end of 2021.

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 current 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 8.0% or more, has a CET1 risk based capital ratio of 6.5% or more, and has 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 6.0% or more, a CET1 risk based capital ratio of 4.5% or more and has a 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 6.0%, a CET1 capital ratio less than 4.5% or a Tier 1 leverage capital ratio that is less than 4.0%; (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 4.0%, a CET1 capital ratio less than 3% 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.

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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.

Adequately capitalized banks cannot normally pay dividends or make any capital contributions that would leave them undercapitalized; they cannot pay a management fee to a controlling person if, after paying the fee, they would be undercapitalized; and they cannot accept, renew or roll over any brokered deposit unless they have applied for and been granted a waiver by the FDIC. The FDIC has defined the “national rate” for all interest-bearing deposits held by less-than-well-capitalized institutions as “a simple average of rates paid by all insured depository institutions and branches for which data are available” and has stated that its presumption is that this national rate is the prevailing rate in any market. As such, less-than-well-capitalized institutions generally may not pay an interest rate in excess of the national rate plus 75 basis points on brokered deposits.

Undercapitalized banks may not accept, renew or rollover brokered deposits, and are subject to restrictions on the soliciting of deposits over prevailing rates. In addition, undercapitalized banks are subject to certain regulatory restrictions. These restrictions include, among others, that such a bank generally may not make any capital distributions, must submit an acceptable capital restoration plan to the FDIC, may not increase its average total assets during a calendar quarter in excess of its average total assets during the preceding calendar quarter unless any increase in total assets is consistent with a capital restoration plan approved by the FDIC and the bank’s ratio of equity to total assets increases during the calendar quarter at a rate sufficient to enable the bank to become adequately capitalized within a reasonable time. In addition, such banks may not acquire a business, establish or acquire a branch office or engage in a new line of business without regulatory approval. Further, as part of a capital restoration plan, the bank’s holding company must generally guarantee that the bank will return to adequately capitalized status and provide appropriate assurances of performance of that guarantee. If a capital restoration plan is not approved, or if the bank fails to implement the plan in any material respect, the bank would be treated as if it were “significantly undercapitalized,” which would result in the imposition of a number of additional requirements and restrictions. It should also be noted all FDIC-insured institutions are assigned an assessment risk category. In general, weaker banks (those with a higher assessment risk category) are subject to higher assessments than stronger banks. An adverse change in category can lead to materially higher expenses for insured institutions. Finally, bank regulatory agencies have the ability to seek to impose higher than normal capital requirements known as individual minimum capital requirements (“IMCR”) for institutions with higher risk profiles. If the Bank’s capital status – well-capitalized – changes as a result of future operations or regulatory order, or if it becomes subject to an IMCR, the Company’s financial condition or results of operations could be adversely affected.

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Any institution that fails to comply with its capital plan or is “significantly undercapitalized” (i.e., Tier 1 risk-based ratio of less than 4% or CET1 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 the Federal Deposit Insurance Corporation Improvement Act of 1991 (“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 OCC 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.

The imposition of any of these measures on the Bank may have a substantial adverse effect on it and on the Company’s operations and profitability. Meta Financial stockholders do not have preemptive rights and, therefore, if Meta Financial is directed by its regulators to issue additional shares of common stock, such issuance may result in the dilution in stockholders’ percentage of ownership of Meta Financial.

Institutions in Troubled Condition. Certain events, including entering into a formal written agreement with a bank’s regulator that requires action to improve the bank’s financial condition, or simply being informed by the regulator that the bank is in troubled condition, will automatically result in limitations on so-called “golden parachute” agreements pursuant to Section 18(K) of the FDIA. In addition, organizations that are not in compliance with minimum capital requirements, or are otherwise in a troubled condition, must give 90 days’ written notice before appointing a Director or Senior Executive Officer, pursuant to the OCC’s regulations.

Branching by Federal Savings Associations. Subject to certain limitations, the HOLA and the OCC regulations permit federally chartered savings associations to establish branches in any state of the United States. The authority to establish such branches is available if the law of the state in which the branch is located, or is to be located, would permit establishment of the branch if the savings association were a state savings association chartered by such state or if the association qualifies as a “domestic building and loan association” under the Internal Revenue Code of 1986, as amended, which imposes qualification requirements similar to those for a “qualified thrift lender” under the HOLA. See “—Qualified Thrift Lender Test.” The branching authority under the HOLA and the OCC regulations preempts any state law purporting to regulate branching by federal savings associations.

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 OCC to the Bank to provide a written compliance plan to demonstrate its efforts to come into compliance with such guidelines.

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Limitations on Dividends and Other Capital Distributions. Federal regulations govern the permissibility of capital distributions by a federal savings association. Pursuant to the Dodd-Frank Act, savings associations that are part of a savings and loan holding company structure must now file a notice of a declaration of a dividend with the Federal Reserve at least 30 days before the proposed dividend declaration by the Bank's board of directors. In the case of cash dividends, OCC regulations require that federal savings associations that are subsidiaries of a stock savings and loan holding company must file an informational copy of that notice with the OCC at the same time the notice is filed with the Federal Reserve. OCC regulations further set forth the circumstances under which a federal savings association is required to submit an application or notice before it may make a capital distribution.

A federal savings association proposing to make a capital distribution is required to submit an application to the OCC if: the association does not qualify for expedited treatment pursuant to criteria set forth in OCC regulations; the total amount of all of the association's capital distributions (including the proposed capital distribution) for the applicable calendar year exceeds the association's net income for that year to date plus the association's retained net income for the preceding two years; the association would not be at least adequately capitalized following the distribution; or the proposed capital distribution would violate a prohibition contained in any applicable statute, regulation or agreement between the association and the OCC or the Company's and Bank's former regulator, the OTS, or violate a condition imposed on the association in an application or notice approved by the OCC or the OTS.

A federal savings association proposing to make a capital distribution is required to submit a prior notice to the OCC if: the association would not be well-capitalized following the distribution; the proposed capital distribution would reduce the amount of or retire any part of the association's common or preferred stock or retire any part of debt instruments such as notes or subordinate debentures included in the association's capital (other than regular payments required under a debt instrument); or the association is a subsidiary of a savings and loan holding company; however, where a savings association subsidiary of a stock savings and loan holding company is proposing to pay a cash dividend only an informational filing is required.

Each of the Federal Reserve and OCC have primary reviewing responsibility for the applications or notices required to be submitted to them by savings associations relating to a proposed distribution. The Federal Reserve may disapprove of a notice, and the OCC may disapprove of a notice or deny an application, if:

- the savings association would be undercapitalized, significantly undercapitalized or critically undercapitalized following the distribution;

- the proposed distribution raises safety and soundness concerns; or

- the proposed distribution violates a prohibition contained in any statute, regulation, enforcement action or agreement between the savings association (or its holding company, in the case of the Federal Reserve) and the entity's primary federal regulator, or a condition imposed on the savings association (or its holding company, in the case of the Federal Reserve) in an application or notice approved by the entity's primary federal regulator.

Under current regulations, the Bank is not permitted to pay dividends on its stock if its regulatory capital would fall below the amount required for the liquidation account established to provide a limited priority claim to the assets of the Bank to qualifying depositors at March 31, 1992, who continue to maintain deposits at the Bank after its conversion from a federal mutual savings and loan association to a federal stock savings bank pursuant to its Plan of Conversion adopted August 21, 1991.

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During the fiscal year ended September 30, 2015, the Bank paid no cash dividends to the Company, as the Company utilized existing cash holdings for payment of dividends to the Company's stockholders and other holding company expenses. The Company does not currently anticipate that it will need dividends from the Bank in order to fund dividends to the Company's stockholders. To declare a dividend under new rules adopted in 2015 by the OCC, an institution must file a notice with the OCC as an "eligible savings association" (as defined in the OCC's regulations) if, among other things, it would not remain well-capitalized or would not be an eligible savings association upon the distribution. An application to the OCC is required prior to a capital distribution if, among other things, a federal savings association is not an "eligible savings association." If neither of these are triggered, an institution does not need to file a notice or an application before declaring a dividend or otherwise making a capital distribution.

Qualified Thrift Lender Test. All savings associations, including the Bank, 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, 2015, the Bank met the test and always has since its inception.

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. The Bank currently meets its QTL requirement and expects to do so for the foreseeable future.

Community Reinvestment Act. Under the Community Reinvestment Act (the "CRA"), the Bank is evaluated periodically by its primary federal banking regulator to determine if it is meeting its continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its assessment areas, including low and moderate income neighborhoods. The Bank received a "Satisfactory" rating during its most recent Performance Evaluation as an Intermediate Small Bank, dated October 16, 2013. Due to its asset size, the Bank will be evaluated as a Large Bank in future CRA performance evaluations. A copy of the Bank's most recent Performance Evaluation is available as part of its Public File.

Volcker Rule. On December 10, 2013, five financial regulatory agencies, including our primary federal regulators the Federal Reserve and the OCC, adopted final rules implementing the so-called Volcker Rule embodied in Section 13 of the Bank Holding Company Act ("BHCA"), which was added by Section 619 of the Dodd-Frank Act. The final rules prohibit banking entities from (1) engaging in short-term proprietary trading for their own accounts and (2) having certain ownership interests in and relationships with hedge funds or private equity funds ("covered funds"). The final rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The final rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. Community and small banks, such as MetaBank, are afforded some relief under the final rules. If such banks are engaged only in exempted proprietary trading, such as trading in U.S. Government, agency, state and municipal obligations, they are exempt entirely from compliance program requirements. Moreover, even if a community or small bank engages in proprietary trading or covered fund activities under the rule, they need only incorporate references to the Volcker Rule into their existing policies and procedures. The compliance date for banks to conform to the Volcker Rule was July 21, 2015, but the regulators have granted an extension until July 21, 2016 for conformance of relationships with covered funds that existed prior to December 31, 2013. Beginning June 30, 2014, banking entities with \$50 billion or more in trading assets and liabilities were required to report quantitative metrics; on April 30, 2016, banking entities

with at least \$25 billion but less than \$50 billion must report; and on December 31, 2016, banking entities with at least \$10 billion but less than \$25 billion must report. The Company does not at this time expect the Volcker Rule to have a material impact on its operations.

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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.

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. The Bank 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 the Bank for these purposes). Transactions between an institution or its subsidiaries and its affiliates are required to be on terms as favorable to the Bank as terms prevailing at the time for transactions with non-affiliates. In addition, certain 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 OCC has the discretion to treat subsidiaries of savings institutions as affiliates on a case-by-case basis.

The Dodd-Frank Act also included specific changes to the law related to the definition of "covered transaction" in Sections 23A and 23B and limitations on asset purchases from insiders. With respect to the definition of "covered transaction," the Dodd-Frank Act now defines that term to include the acceptance of debt obligations issued by an affiliate as collateral for a bank's loan or extension of credit to another person or company. In addition, a "derivative transaction" with an affiliate is now deemed to be a "covered transaction" to the extent that such a transaction causes a bank or its subsidiary to have a credit exposure to the affiliate. A separate provision of the Dodd-Frank Act states that an insured depository institution may not "purchase an asset from, or sell an asset to" a bank insider (or their related interests) unless (1) the transaction is conducted on market terms between the parties, and (2) if the proposed transaction represents more than 10% of the capital stock and surplus of the insured institution, it has been approved in advance by a majority of the institution's non-interested directors.

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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. The Bank is a member of the FHLB of Des Moines, one of 11 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, the Bank is required to purchase and maintain activity-based capital stock in the FHLB in the amount of 4.00% to support outstanding advances and mortgage loans. At September 30, 2015, the Bank had in the aggregate \$24.4 million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 2015, dividends paid by the FHLB to the Bank totaled \$346,380. In June 2015, the FHLB of Des Moines and the FHLB of Seattle merged into the FHLB of Des Moines. Notably, pursuant to certain integration rules adopted by the OCC in 2015, federal savings associations are no longer required to become members of a Federal Home Loan Bank.

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 has increased 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.

FDIC Deposit Classification Guidance

On January 5, 2015, the Federal Deposit Insurance Corporation ("FDIC") published initial industry guidance (the "Guidance") in the form of Frequently Asked Questions with respect to the categorization of deposit liabilities as "brokered" deposits. This guidance was later supplemented on November 13, 2015, and is now described as proposed guidance with a solicitation for industry comment. As of September 30, 2015, the Bank categorized \$1.1 billion, or 65.1% of its deposit liabilities, as brokered deposits.

Due to the Bank's status as a "well-capitalized" institution under the FDIC's prompt corrective action regulations, and further with respect to the Bank's financial condition in general, the Company does not at this time anticipate that the Guidance, if adopted in its proposed form, will have a material adverse impact on the Company's liquidity, statements of financial condition or results of operations going forward. However, should the Bank ever fail to be

well-capitalized in the future, as a result of failing to meet the well-capitalized requirements, or the imposition of an individual minimum capital requirement or similar formal requirements, then, notwithstanding that the Bank has capital in excess of the well-capitalized minimum requirements, the Bank would be prohibited, absent waiver from the FDIC, from utilizing brokered deposits (i.e., may not accept, renew or rollover brokered deposits), which could produce serious adverse effects on the Company's liquidity, and financial condition and results of operations. Further, and although it does not anticipate doing so, if the Company is required to amend previous call reports with respect to its level of brokered deposits, or is ever required to pay a higher surcharge with respect to brokered deposits as a result of a change in our supervisory evaluation, such additional events could have a material adverse effect on our financial condition and results of operations.

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Holding Company Supervision & Regulation

We are a unitary savings and loan holding company within the meaning of the HOLA. As such, we are required to register with, and be subject to, Federal Reserve examination and supervision as well as certain reporting requirements. In addition, the Federal Reserve has enforcement authority over us and any of our non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of a subsidiary savings association.

As noted above, pursuant to the Dodd-Frank Act, the Federal Reserve has responsibility for the primary supervision and regulation of all savings and loan holding companies, including the Company. Given the extensive transfer of former OTS authority to multiple agencies, the Dodd-Frank Act requires the Federal Reserve to identify and publish in the Federal Register separate lists of the OTS regulations that the Federal Reserve will continue to enforce for savings and loan holding companies after the transfer date. In carrying out this mandate, and in connection with its assumption of responsibility for the ongoing examination, supervision and regulation of savings and loan holding companies, the Federal Reserve has published an interim final rule that provides for the corresponding transfer from the OTS to the Federal Reserve of the regulations necessary for the Federal Reserve to administer the statutes governing savings and loan holding companies. In addition, the Federal Reserve issued on November 7, 2014, a list identifying the supervisory guidance documents issued by it prior to July 21, 2011 that are now applicable to savings and loan holding companies such as the Company. The FRB stated that, among other things, this list was part of their initiative to establish a savings and loan holding company supervisory program similar in nature to its “long-established supervisory program for bank holding companies.”

Restrictions Applicable to All Savings and Loan Holding Companies.

Federal law prohibits a savings and loan holding company, including us, directly or indirectly, from acquiring:

control (as defined under the HOLA) of another savings institution (or a holding company parent) without prior Federal Reserve approval;

through merger, consolidation or purchase of assets another savings institution or a holding company thereof, or acquiring all or substantially all of the assets of such institution (or a holding company) without prior Federal Reserve approval; or

control of any depository institution not insured by the FDIC (except through a merger with and into the holding company's savings institution subsidiary that is approved by the Federal Reserve).

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A savings and loan holding company may not acquire as a separate subsidiary an FDIC-insured institution that has a principal office outside of the state where the principal office of its subsidiary institution is located, except:

- in the case of certain emergency acquisitions approved by the FDIC;

- if such holding company controls a savings institution subsidiary that operated a home or branch office in such additional state as of March 5, 1987; or

- if the laws of the state in which the savings institution to be acquired is located specifically authorize a savings institution chartered by that state to be acquired by a savings institution chartered by the state where the acquiring savings institution or savings and loan holding company is located, or by a holding company that controls such a state-chartered association.

The HOLA also prohibits a savings and loan holding company (directly or indirectly, or through one or more subsidiaries) from acquiring or retaining, with certain exceptions, more than 5% of a non subsidiary savings association, a non-subsidary holding company or a non-subsidary company engaged in activities other than those permitted by the HOLA. In evaluating applications by holding companies to acquire savings associations, the Federal Reserve must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the DIF, the convenience and needs of the community and competitive factors.

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.

Activities Restrictions.

Prior to the Dodd-Frank Act, savings and loan holding companies were generally permitted to engage in a wider array of activities than those permissible for their bank holding company counterparts and could have concentrations in real estate lending that are not typical for bank holding companies. Section 606 of the Dodd-Frank Act amends the HOLA and requires that covered savings and loan holding companies (e.g., those that are not exempt from activities restrictions under the HOLA) that intend to engage in activities that are permissible only for a financial holding company under Section 4(k) of the BHCA do so only if the covered company meets all of the criteria to qualify as a financial holding company, and complies with all of the requirements applicable to a financial holding company as if the covered savings and loan holding company was a bank holding company. Savings and loan holding companies engaging in new Section 4(k) activities permissible for bank holding companies will need to comply with notice and filing requirements of the Federal Reserve.

If the Federal Reserve believes that an activity of a savings and loan holding company or a non-bank subsidiary constitutes a serious risk to the financial safety, soundness or stability of a subsidiary savings association and is inconsistent with the principles of sound banking, the purposes of the HOLA or other applicable statutes, the Federal Reserve may require the savings and loan holding company to terminate the activity or divest control of the non-banking subsidiary. This obligation is established in Section 10(g)(5) of the HOLA and bank holding companies are subject to equivalent obligations under the BHCA and the Federal Reserve's Regulation Y.

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Source of Strength and Capital Requirements.

The Dodd-Frank Act requires all companies, including savings and loan holding companies, that directly or indirectly control an insured depository institution to serve as a source of financial and managerial strength to its subsidiary savings associations; to date, however, specific regulations implementing this requirement have not been published. Moreover, pursuant to the Dodd-Frank Act, savings and loan holding companies are generally subject to the same capital and activity requirements as those applicable to bank holding companies.

New rules related to holding company consolidated capital requirements have been announced by the FRB. For a summary of the applicable changes, see “Risk Factors – Risks Related to Our Industry and Business.”

Examination.

The Federal Reserve intends, to the greatest extent possible, taking into account any unique characteristics of savings and loan holding companies and the requirements of the HOLA, to assess the condition, performance and activities of savings and loan holding companies on a consolidated basis in a manner that is consistent with the Federal Reserve’s established risk-based approach regarding bank holding company supervision. As with bank holding companies, the Federal Reserve’s objective will be to ensure that a savings and loan holding company and its non-depository subsidiaries are effectively supervised and can serve as a source of strength for, and do not threaten the soundness of, its subsidiary depository institution(s).

In accordance with its goal to assess the condition, performance and activities of savings and loan holding companies on a consolidated basis in a manner that is consistent with the Federal Reserve’s established risk-based approach regarding bank holding company supervision, the Federal Reserve announced in 2013 that it will continue to use “RFI/C(D)” rating system (commonly referred to as “RFI”) to assign indicative ratings to such companies. Further, the Federal Reserve announced that it will soon issue a notice seeking public comment on the application of the RFI rating system for Savings and Loan Holding Companies. In addition, in late 2013, the Federal Reserve announced that, with respect to savings and loan holding companies with less than \$10 billion in assets (like the Company), such companies’ inspection frequency and scope requirements will be the same as those for bank holding companies of the same asset size. The FRB will also determine whether or not a savings and loan holding company is “complex” as determined by certain factors enumerated by the Federal Reserve. According to the Federal Reserve, with respect to institutions with less than \$5 billion in assets (such as the Company), the determination of whether a holding company is “complex” versus “noncomplex” is made at least annually on a case-by-case basis taking into account and weighing a number of considerations, such as: the size and structure of the holding company; the extent of intercompany transactions between insured depository institution subsidiaries and the holding company or uninsured subsidiaries of the holding company; the nature and scale of any non-bank activities, including whether the activities are subject to review by another regulator and the extent to which the holding company is conducting Gramm-Leach-Bliley authorized activities (e.g., insurance, securities, merchant banking); whether risk management processes for the holding company are consolidated; and whether the holding company has material debt outstanding to the public. As of the date of this filing, the FRB has not advised the Company that it is complex.

Change of Control.

The federal banking laws require that appropriate regulatory approvals must be obtained before an individual or company may take actions to “control” a bank or savings association. The definition of control found in the HOLA is similar to that found in the BHCA for bank holding companies. Both statutes apply a similar three-prong test for determining when a company controls a bank or savings association. Specifically, a company has control over either a bank or savings association if the company:

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- (1) directly or indirectly or acting in concert with one or more persons, owns, controls or has the power to vote 25% or more of the voting securities of a company;
- (2) controls in any manner the election of a majority of the directors (or any individual who performs similar functions in respect of any company, including a trustee under a trust) of the board; or
- (3) directly or indirectly exercises a controlling influence over the management or policies of the bank.

The Federal Reserve adopted an interim final rule that, among other things, implements the HOLA to govern the operations of savings and loan holding companies. The new rule, known as Regulation LL, includes a specific definition of “control” similar to the statutory definition, with certain additional provisions. Additionally, Regulation LL modifies the regulations previously used by the OTS for purposes of determining when a company or natural person acquires control of a savings association or savings and loan holding company under the HOLA or the Change in Bank Control Act (“CBCA”). In light of the similarity between the statutes governing bank holding companies and savings and loan holding companies, the Federal Reserve proposes to use its established rules and processes with respect to control determinations under the HOLA and the CBCA to ensure consistency between equivalent statutes administered by the same agency.

The Federal Reserve stated in the interim final rule that it will review investments and relationships with savings and loan holding companies by companies using the current practices and policies applicable to bank holding companies to the extent possible. Overall, the indicia of control used by the Federal Reserve under the BHCA to determine whether a company has a controlling influence over the management or policies of a banking organization (which, for Federal Reserve purposes, will now include savings associations and savings and loan holding companies) are similar to the control factors found in OTS regulations. However, the OTS rules weighed these factors somewhat differently and used a different review process designed to be more mechanical.

Among the differences highlighted by the Federal Reserve with respect to OTS procedures on determinations of control, the Federal Reserve noted that it does not limit its review of companies with the potential to have a controlling influence to the two largest stockholders. Specifically, the Federal Reserve reviews all investors based on all of the facts and circumstances to determine if a controlling influence is present.

Moreover, unlike the OTS control rules, the Federal Reserve does not have a separate application process for rebutting control under the BHCA and Regulation LL does not include such a process. Under the former OTS rules, investors that triggered a control factor under the rules could submit an application to the OTS requesting a determination that they have successfully rebutted control under the HOLA. This separate application process is not available under Regulation LL. Given that Federal Reserve practice is to consider potential control relationships for all investors in connection with applications submitted under the BHCA, the Federal Reserve will review potential control relationships for all investors in connection with applications submitted to the Federal Reserve under Section 10(e) or 10(o) of the HOLA. As with OTS practice, the Federal Reserve often obtains a series of commitments from investors seeking non-control determinations.

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Federal and State Taxation

Federal and State Taxation. Meta Financial and its subsidiaries file a consolidated federal and various consolidated state income tax returns. Additionally, Meta Financial or its subsidiaries file separate company income tax returns in states where required. All returns are filed on a fiscal year basis using the accrual method of accounting. We monitor relevant tax authorities and change our estimate of accrued income tax due to changes in income or franchise tax laws and their interpretation by the courts and regulatory authorities. In addition to the regular income tax, corporations, including savings banks such as the Bank, 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 stockholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 2015, the Bank's Excess for tax purposes totaled approximately \$6.7 million.

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 MPS division serves customers nationally and also faces strong competition from large commercial banks and specialty providers of electronic payments processing and servicing, including prepaid, debit and credit card issuers, Automated Clearing House ("ACH") processors and ATM network sponsors. Many of these national players are aggressive competitors, leveraging relationships and economies of scale.

It is also expected that the Bank will experience strong competition for its new AFS/IBEX division with respect to financing insurance premiums and for its new Refund Advantage business with respect to tax return processing services.

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Employees

At September 30, 2015, the Company and its subsidiaries had a total of 638 full-time equivalent employees, an increase of 185 employees, or 40.8%%, from September 30, 2014. 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 provided with respect to the executive officers of the Company who are not serving on the Company's Board of Directors. There are no arrangements or understandings between such person named and any persons pursuant to which such officer was selected.

Mr. Glen W. Herrick, age 53, is Executive Vice President and Chief Financial Officer of the Company after being appointed to the position effective October 1, 2013. Additionally, Mr. Herrick is a member of the Executive Committees for both the Company and the Bank. Mr. Herrick previously served as SVP of Finance and Investment Management of the Company. Mr. Herrick joined the Company in March 2013 following 19 years of various finance, accounting and risk management roles at Wells Fargo & Company, including serving as CFO of Wells Fargo's student loan division. Before joining Wells Fargo, Mr. Herrick worked at Ingersoll-Rand Company after serving as a Captain in the United States Army. Mr. Herrick has a B.S. in Engineering Management from the United States Military Academy at West Point and an MBA from the University of South Dakota. In addition, he is a graduate of the Stonier Graduate School of Banking.

Mr. Ira D. Frericks, age 54, is Executive Vice President and Chief Operating Officer of the Company after being appointed to the position effective October 1, 2013. Additionally, Mr. Frericks is a member of the Executive Committees for both the Company and the Bank. Mr. Frericks previously served as Senior Vice President and Chief Accounting Officer of the Company. Mr. Frericks joined the Company in 2008 as Chief Accounting Officer and has over 25 years of accounting and banking operations experience. He is a Certified Public Accountant (CPA).and has a B.S. in Business Administration from the University of South Dakota. Mr. Frericks is also a graduate of the Graduate School of Banking at the University of Wisconsin.

Ms. Sonja A. Theisen, age 34, is Senior Vice President and Chief Accounting Officer of the Company after being appointed to the position effective August 3, 2015. Ms. Theisen previously served as Senior Vice President and Controller of the Company and MetaBank, positions Ms. Theisen held since December 2013. Prior to joining the Company in December 2013, Ms. Theisen served as the Senior Vice President and Head of Finance Operations for Great Western Bancorp Inc., a bank holding company for Great Western Bank, from November 2010 to December 2013, and as Audit Manager for Eide Bailly LLP, a certified public accounting and business advisory firm, from May 2010 to November 2010 and for KPMG LLP, an audit, tax and advisory firm, from January 2004 to May 2010. Ms. Theisen has a B.A. degree in Accounting and a Master of Professional Accountancy (MPA) from the University of South Dakota and is a CPA.

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 these risks, as well as other risks that we have not identified. 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.

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Risks Related to Our Industry and Business

Failure to generate sufficient capital to support our anticipated growth could adversely affect our earnings and prospects.

The Company has recently experienced considerable growth, having increased its assets from \$1.7 billion at September 30, 2013 to \$2.5 billion at September 30, 2015. Funded primarily by growth of low-interest-bearing deposits, the proceeds thereof have been invested primarily in loans, municipal bonds, mortgage-backed securities (“MBS”) and investment securities available for sale. The Company’s asset growth, if continued as expected, will generate a need for higher levels of capital which management believes may not be met through earnings retention alone. In that respect, in March 2015, the Company announced the successful completion of the sale of 740,654 common shares under the “at-the-market” equity offering announced on December 17, 2014, and in September 2015, the Company privately placed 535,000 shares of common stock to several institutional investors. All of these stock sales qualify as Tier 1 capital for regulatory purposes. There can be no assurance, however, that the Company will be able to continue to access sources of capital, private or public. Failure to remain well-capitalized, or to attain potentially even higher levels of capitalization that are or will be required in the future under regulatory initiatives mandated by Congress, our regulatory agencies or under the Basel accords, could adversely affect the Company’s earnings and prospects.

We may have difficulty managing our growth which may divert resources and limit our ability to expand our operations successfully.

As described above, we have experienced significant growth in the amount of our assets; this is also the case with the level of our deposits. Our future profitability will depend in part on our continued ability to grow in both these categories; however, we may not be able to sustain our historical growth rate or be able to grow at all. In addition, our future success will depend on competitive factors and on the ability of our senior management to continue to maintain a robust system of internal controls and procedures and manage a growing number of customer relationships. We may not be able to implement changes or improvements to these internal controls and procedures in an efficient or timely manner and may discover deficiencies in existing systems and controls. Consequently, continued growth, if achieved, may place a strain on our operational infrastructure, which could have a material adverse effect on our financial condition and results of operations.

Our loan portfolio has grown substantially, and our underwriting practices may not prevent future losses in our loan portfolio.

Over the last fiscal year, our loan portfolio has grown substantially with new loan originations. Our underwriting practices are designed to mitigate risk by adhering to specific loan parameters. Components of our underwriting program include an analysis of the borrower and their creditworthiness, a financial statement review, and, if applicable, cash flow projections and a valuation of collateral. While the Company believes its asset quality to be good in comparison to most banking institutions, we may incur losses in our loan portfolio, especially the new portions thereof, if our underwriting criteria fail to identify credit risks. It is also possible that losses will exceed the amounts the Bank has set aside for loss reserves and result in reduced interest income and increased provision for loan losses, which could have an adverse effect on our financial condition and results of operations.

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Our lending operations are concentrated in Iowa and South Dakota.

Our lending activities are largely based in Iowa and South Dakota. As a result, our financial performance depends to a great degree on the economic conditions in these areas. If local economic conditions worsen it could cause us to experience an increase in the number of borrowers who default on their loans along with a reduction in the value of the collateral securing such loans, which could have an adverse effect on our financial condition and results of operations.

Economic and market conditions have adversely affected our industry and regulatory costs have increased.

Although economic trends have improved over the last few fiscal years, general economic trends, low growth and reduced availability of commercial credit have negatively impacted the credit performance of commercial and consumer credit in general. While the situation has improved somewhat over the last two fiscal years, this has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

We face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities;

Customer demand for loans secured by real estate could be reduced due to weaker economic conditions, an increase in unemployment, a decrease in real estate values or an increase in interest rates;

The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions, and whether economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process. Further, a new method of determining loan loss allowances, expected to be implemented in the future, could decrease our profitability.

The value of the portfolio of investment securities that we hold, and which constitute a large percentage of our assets, may be adversely affected; and

If we experience financial setbacks or other regulatory action in the future, we may be required to pay significantly higher FDIC insurance premiums than we currently pay due, in part, to our significant level of brokered deposits. See “– Regulation.”

The full impact of the Dodd-Frank Act is still unknown.

While regulatory agencies have made considerable progress in implementing the Dodd-Frank Act, the full compliance burden and impact on our operations and profitability are still not fully known. Hundreds of new federal regulations, studies and reports were required under the Dodd-Frank Act and not all of them have been finalized; some rules and policies will be further developing for months and years to come. Based on the provisions of the Dodd-Frank Act that have already been implemented as well as anticipated regulations, it is highly likely that banks and thrifts as well as their holding companies will be subject to significantly increased regulation and compliance obligations that expose us to higher costs as well as noncompliance risk and consequences.

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The Consumer Financial Protection Bureau is reshaping the consumer financial laws through rulemaking and enforcement of prohibitions against unfair, deceptive or abusive practices, which may directly impact the business operations of depository institutions offering consumer financial products or services, including the Bank.

The Bureau has broad rulemaking authority to administer and carry out the purposes and objectives of “federal consumer financial laws, and to prevent evasions thereof” with respect to all financial institutions that offer financial products and services to consumers. The Bureau is also authorized to prescribe rules, applicable to any covered person or service provider, identifying and prohibiting acts or practices that are “unfair, deceptive, or abusive” in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service (“UDAAP authority”). The term “abusive” is new and developing and because Bureau officials have indicated that compliance will be achieved through enforcement actions rather than the issuance of regulations, we cannot predict to what extent the Bureau’s future actions will have on the banking industry or the Company. Notwithstanding that insured depository institutions with assets of \$10 billion or less (such as the Bank) will continue to be supervised and examined by their primary federal regulators, the full reach and impact of the Bureau’s broad new rulemaking powers and UDAAP authority on the operations of financial institutions offering consumer financial products or services are currently unknown.

In addition to taking many enforcement actions and promulgating a proposed regulation covering prepaid payments, described below, the Bureau finalized its ability to repay (“ATR”) rule as well as its qualified mortgage rule in January 2013. The ATR rule applies to residential mortgage loan applications received after January 10, 2014. The scope of the rule specifically applies to loans securing one-to-four unit dwellings and includes purchases, refinances and home equity loans for principal or second homes. Under the ATR rules, a lender may not make a residential mortgage loan unless the lender makes a reasonable and good faith determination that is based on verified, documented information at or before consummation that the borrower has a reasonable ability to repay. The eight underwriting factors that must be considered and verified include the following: (1) income and assets; (2) employment status; (3) monthly payment of loan; (4) monthly payment of any simultaneous loan secured by the same property; (5) monthly payment for other mortgage-related obligations like property taxes and insurance; (6) current debt obligations; (7) monthly debt to income ratio; and (8) credit history (although eight factors are delineated, the ATR rule does not dictate that a lender follow a particular underwriting model). Liability for violations of the ATR rule include actual damages, statutory damages, court costs and attorneys’ fees.

Additionally, the Bureau published regulations required by the Dodd-Frank Act related to “qualified mortgages,” which are mortgages for which there is a presumption that the lender has satisfied the ATR rules. Pursuant to Dodd-Frank, qualified mortgages (“QMs”) must have certain product-feature prerequisites and affordability underwriting requirements. Generally, to meet the QM test, the lender must calculate the monthly payments based on the highest payment that will apply in the first five years and the consumer must have a total debt-to-income ratio that is less than or equal to 43%. The QM rule provides a safe harbor for lenders that make loans that satisfy the definition of a QM and are not higher priced. With respect to higher-priced mortgage loans, there is a rebuttable presumption of compliance available to the lender with respect to compliance with the ATR rule.

With respect to final regulations that affect insured depository institutions such as the Bank, the Bureau also issued a final rule related to international remittances, which covers entities that provide at least 100 remittance transfers per calendar year. As such, the Bank became subject to the rule. The Bank has implemented a compliance solution.

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Our most recent CRA rating was “Satisfactory.” A less than “Satisfactory” CRA rating could have a negative effect on the OCC’s review of certain banking applications.

Under the CRA, the Bank is evaluated periodically by its primary federal banking regulator to determine if it is meeting its continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. In the Bank’s most recent CRA examination dated October 16, 2013, the Bank received an overall rating of “Satisfactory.” If the Bank were to receive a future CRA rating of less than “Satisfactory,” the CRA requires the OCC to take such rating into account in considering an application for any of the following: (i) the establishment of a domestic branch; (ii) the relocation of its main office or of a branch; (iii) the merger or consolidation with or acquisition of assets or assumption of liabilities of an insured depository institution; or (iv) the conversion of the Bank to a national charter.

Legislative and regulatory initiatives taken to date may not achieve their intended objective; Capital ratios.

Legislative and regulatory initiatives taken to date by Congress and the federal banking regulators to address financial regulatory reform may not achieve their intended objectives, thereby requiring additional legislation or regulation of the financial services industry.

Under the Basel III Capital Rule, minimum requirements have increased for both the quantity and quality of capital held by banking organizations. The Basel III Capital Rule includes a new minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of 4.5% and a Common Equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The rule also imposes a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and includes a minimum leverage ratio of 4% for all banking organizations. The rule also emphasizes Common Equity Tier 1 capital and implements strict eligibility criteria for regulatory capital instruments. The total capital ratio remains at 8% and the general PCA framework remains but incorporates these increased minimum requirements. The Basel III phase-in period for smaller, less complex banking organizations like the Company and the Bank began in January 2015. The phase-in will gradually increase capital requirements for the Company and the Bank, making compliance and future growth more difficult to achieve. Should the Company or the Bank not meet the requirements of the Basel III Capital Rules, the Company and the Bank would be subject to adverse regulatory action by our regulators, which action could result in material adverse consequences for us, the Bank, and our shareholders.

We have a concentration of our assets in mortgage-backed securities and municipal securities.

As of September 30, 2015, approximately 25.4% of the Bank’s assets were invested in mortgage backed securities, compared to 35.4% at September 30, 2014. The Company’s mortgage-backed and related securities portfolio consists primarily of securities issued by U.S. Government instrumentalities, including those of Fannie Mae and Freddie Mac which are in conservatorship. The 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 U.S. Government instrumentalities. Fannie Mae and Freddie Mac generally provide the certificate holder a guarantee of timely payments of interest, whether or not collected. 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.

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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.

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. Nonetheless, while mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to some credit risk, and to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, as well as other risks, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities.

As of September 30, 2015, approximately 35.1% of the Bank's assets were invested in municipal securities, compared to approximately 28.3% at September 30, 2014. As of September 30, 2015, over 34% of the 35.1% of the Bank's assets invested in municipal securities were non-bank qualified obligations. These bonds are issued in larger denominations than bank qualified obligations, which allows for the purchase of larger blocks. These larger blocks of municipal bonds are typically issued in larger denominations by well-known issuers with reputable reporting and in turn, tend to be more liquid, which helps reduce price risk. Furthermore, approximately 2% of these municipal securities are backed by and convertible into Ginnie Mae mortgage backed security pools upon the Company's request. Lastly, the largest exposure to any one direct municipality, when excluding municipal bonds convertible to Ginnie Mae mortgage backed securities, represented approximately 0.3% of the Bank's assets as of September 30, 2015.

The Company believes these municipal securities generally increase the quality of the Bank's assets by virtue of the high credit quality of the Bank's municipal holdings and the low historical loss rates and elevated recovery rates associated with these types of securities with corresponding credit quality. Nonetheless, while these municipal securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment may alter the value of the securities.

We recorded other-than-temporary impairment ("OTTI") charges in our trust preferred securities ("TRUPS") portfolio in the past, and we could record additional losses in the future.

We determine the fair value of our investment securities based on GAAP and three levels of informational inputs that may be used to measure fair value. The price at which a security may be sold in a market transaction could be significantly lower than the quoted market price for the security, particularly if the quoted market price is based on infrequent trading history, the market for the security is illiquid or a significant amount of securities are being sold. In fiscal 2015, 2014 and 2013, there were no other than-temporary impairments recorded.

The valuation of our TRUPS, the total of which was \$12.7 million at September 30, 2015, will continue to be influenced by external market and other factors, including implementation of SEC and Financial Accounting Standards Board guidance on fair value accounting, the financial condition of specific issuers' deferral and default rates of specific issuer financial institutions, rating agency actions and the prices at which observable market transactions occur. If we are required to record additional OTTI charges on our TRUPS portfolio, we could experience potentially significant earnings losses as well as a material adverse impact on our capital position.

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Risks Related to the Banking Industry

Our reputation and business could be damaged by negative publicity.

Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. Negative publicity can result from actual or alleged conduct in a number of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, inadequate protection of customer data, ethical behavior of our employees and from actions taken by regulators and others as a result of that conduct. Damage to our reputation could impact our ability to attract new and maintain existing loan and deposit customers, employees and business relationships, and, particularly with respect to our MPS division, could result in the imposition of new regulatory requirements, operational restrictions, enhanced supervision and/or civil money penalties. Such damage could also adversely affect our ability to raise additional capital. If any of these measures should be imposed in the future, they could have a material adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, data processing system failures, errors, breaches and customer or employee fraud.

There have been a number of publicized cases involving errors, fraud or other misconduct by employees of financial services firms in recent years. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. Employee fraud, errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to civil claims for negligence.

Although we maintain a system of internal controls and procedures designed to reduce the risk of loss from employee or customer fraud or misconduct and employee errors as well as insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud, these internal controls may fail to prevent or detect such an occurrence, or such an occurrence may not be insured or exceed applicable insurance limits.

In addition, there have also been a number of cases where financial institutions have been the victim of fraud related to unauthorized wire and automated clearinghouse transactions. The facts and circumstances of each case vary but generally involve criminals posing as customers (i.e., stealing bank customers' identities) to transfer funds out of the institution quickly in an effort to place the funds beyond recovery prior to detection. Although we have policies and procedures in place to verify the authenticity of our customers and prevent identity theft, we can provide no assurances that these policies and procedures will prevent all fraudulent transfers. In addition, although we have safeguards in place, it is possible that our computer systems could be infiltrated by hackers or other intruders. We can provide no assurances that these safeguards will prevent all unauthorized infiltrations or breaches. Identity theft, successful unauthorized intrusions and similar unauthorized conduct could result in reputational damage and financial losses to the Company. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

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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, products 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 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.

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, especially at our Retail Bank, 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. Although the Bank continues to monitor its interest rate risk exposure and has undertaken additional analyses and implemented additional controls to improve its core earnings from interest income, the Bank can provide no assurance that its efforts will appropriately protect the Bank in the future from interest rate risk exposure. For additional information, see Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

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.

The Company and the Bank operate in a highly regulated environment and are