UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-22140.

META FINANCIAL GROUP, INC.

(Name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**42-1406262** (I.R.S. Employer Identification No.)
121 East Fifth Street, Storm Lake, Iowa (Address of principal executive offices)	**50588** (Zip Code)

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

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

Title of Each 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 o NO x

Indicate by check mark if the Registrant is not required to be file reports pursuant Section 13 and Section 15(d) of the Act. YES o NO x

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 x NO o

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 o NO o.

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. o

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 o	Accelerated filer o
Non-accelerated filer o	Smaller Reporting Company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o YES x NO

As of March 31, 2010, the aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked prices of such stock on the NASDAQ System as of such date, was $55.6 million.

As of December 10, 2010, there were outstanding 3,112,463 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 20, 2011.

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Forward-Looking Statements

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

These forward-looking statements include statements with respect to the Company s beliefs, expectations, estimates, and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company s control. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company s balance sheet and income statements; growth and expansion; new products and services, such as those offered by the Bank or Meta Payment Systems® (MPS), a division of the Bank; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company s financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the Federal Reserve , the FRB or the Board), 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-party vendors; the scope of restrictions and compliance requirements and penalties of enforcement actions related to the OTS supervisory directives in August and October of 2010 or any others which may be initiated; the impact of changes in financial services laws and regulations; technological changes, including but not limited to the protection of electronic files or databases; acquisitions; litigation risk in general, including but not limited to those risks involving the MPS division; the growth of the Company s business as well as expenses related thereto; changes in consumer spending and saving habits; and the success of the Company at managing and collecting assets of borrowers in default.

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

Available Information

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

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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. Meta Financial, on September 20, 1993, acquired all of the capital stock of the Bank in connection with its conversion from the mutual to stock form ownership (the Conversion). On September 30, 1996, Meta Financial became a bank holding company for regulatory purposes upon its acquisition of MetaBank West Central (MetaBank WC) until its sale of MetaBank WC in March 2008, at which time Meta Financial became a unitary savings and loan holding company again, all as discussed below. Unless the context otherwise requires, references herein to the Company include Meta Financial and the Bank, and all subsidiaries on a consolidated basis.

After the Conversion, the Company acquired several financial institutions. On March 28, 1994, Meta Financial acquired Brookings Federal Bank in Brookings, South Dakota (Brookings Federal). On December 29, 1995, Meta Financial acquired Iowa Savings Bank, FSB in Des Moines, Iowa (Iowa Savings). Brookings Federal and Iowa Savings were both merged with, and now operate as market areas of, the Bank. On September 30, 1996, Meta Financial completed the acquisition of Central West Bancorporation (CWB), the holding company for MetaBank WC, which upon the merger of CWB into Meta Financial resulted in MetaBank WC becoming a stand-alone commercial bank subsidiary of Meta Financial. On March 28, 2008, the Company sold MetaBank WC and reclassified financial information as discontinued bank operations in the consolidated financial statements and the notes thereto in the Annual Report for fiscal 2007. As such, information in this Annual Report on Form 10-K has been adjusted to eliminate the effect of discontinued bank operations unless otherwise indicated.

The Bank, the only direct, active full service banking subsidiary of Meta Financial, is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves and a payments company that provides services nationwide. The Company provides a full range of financial services. The principal business of the Bank has historically consisted of attracting retail deposits from the general public and investing those funds primarily in one- to four-family residential mortgage loans, commercial and multi-family real estate, agricultural operations and real estate, construction, and consumer and commercial business loans primarily in the Bank s market areas. Due to local economic factors, originations of commercial and multi-family real estate loans and commercial business loans continue to be lower when compared to prior years. The Bank also purchases loan participations from time to time from other financial institutions, but at a lower level compared to prior years, as well as mortgage-backed securities and other investments permissible under applicable regulations. In 2004, the Bank created a division known as MPS, which issues various prepaid cards, consumer credit products, and sponsors ATMs into various debit networks and offers other payment industry products and services. MPS generates fee income and low- and no-cost deposits for the Bank through its activities. As noted in the Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Annual Report on Form 10-K, MPS expanded and played a significant role in the Company s financial performance in fiscal 2010.

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

Meta Financial owned Meta Trust Company (Meta Trust), a South Dakota trust corporation. Meta Trust, established in April 2002 as a South Dakota corporation and a wholly-owned subsidiary of Meta Financial, provided a full range of trust services. On September 30, 2010, the Company sold Meta Trust.

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.

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

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

Market Areas

The Bank has four market areas and the MPS division: Northwest Iowa (NWI), Brookings, Central Iowa (CI), and Sioux Empire (SE). The Bank s headquarters is located at 121 East Fifth Street in Storm Lake, Iowa. NWI operates two offices in Storm Lake, Iowa.Brookings operates one office in Brookings, South Dakota. CI operates a total of six offices in Iowa: Des Moines (3), West Des Moines (2) and Urbandale. SE operates three offices and one administrative office in Sioux Falls, SD. MPS, which offers prepaid cards and other payment industry products and services nationwide, operates out of Sioux Falls, South Dakota and has an administrative office in Omaha, Nebraska. See Meta Payment Systems® Division.

The Company has a total of twelve full-service branch offices, and one non-retail service branch in Memphis, Tennessee.

The Company s primary commercial banking market area includes the Iowa counties of Buena Vista, Dallas and Polk, and the South Dakota counties of Brookings, Lincoln, Minnehaha and Moody. Iowa ranks 13th and South Dakota 17th in The Best States for Business and Careers (Forbes.com, 2010). 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.

Storm Lake is located in Iowa s Buena Vista County approximately 150 miles northwest of Des Moines and 200 miles southwest of Minneapolis. Like much of the state of Iowa, Storm Lake and the surrounding market area are highly dependent upon farming and agricultural markets. Major employers in the area include Buena Vista Regional Medical Center, Tyson Foods, Sara Lee Foods, and Buena Vista University. The Northwest Iowa market operates two offices in Storm Lake.

Brookings is located in Brookings County, South Dakota, approximately 50 miles north of Sioux Falls and 200 miles west of Minneapolis. The Bank s market area encompasses approximately a 30-mile radius of Brookings. The area is generally rural, and agriculture is a significant industry in the community. South Dakota State University is the largest employer in Brookings. The community also has several manufacturing companies, including 3M, Larson Manufacturing, Daktronics, Falcon Plastics, Twin City Fan, and Rainbow Play Systems, Inc. The Brookings market operates from an office located in downtown Brookings.

Des Moines, Iowa s capital is located in central Iowa. The Des Moines market area encompasses Polk County and surrounding counties. The Bank s Central Iowa main office is located in the heart of downtown Des Moines. The Urbandale office is in a high growth area just off I-80 at the intersection of two major streets. The West Des Moines office operates near a high-traffic intersection, across from a major shopping mall. The Ingersoll office is located near the heart of Des Moines, on a major thoroughfare, in a densely populated area. The Highland Park facility is located in a historical district approximately five minutes north of downtown Des Moines. The Jordan Creek office is located near Jordan Creek

Town Center in West Des Moines, one of the fastest growing communities in the State of Iowa and the Greater Des Moines area. The Des Moines metro area is one of the top three insurance centers in the world, with sixty-seven insurance company headquarters and over one hundred regional insurance offices. Des Moines ranks 1st as one of The 20 Best Places for Business and Careers (Forbes.com, 2010). Major employers include Principal Life Insurance Company, Iowa Health Des Moines, Mercy Hospital Medical Center, Hy-Vee Food Stores, Inc., City of Des Moines, United Parcel Service, Nationwide Mutual Insurance Co., Pioneer Hi Bred International Inc., and Wells Fargo Financial and Home Mortgage. Universities and colleges in the area include Des Moines Area Community College, Drake University, Simpson College, Des Moines University Osteopathic Medical Center, Grand View College, AIB College of Business, and Upper Iowa University. The unemployment rate in the Des Moines metro area was 6.3% as of September 2010.

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Sioux Falls is located at the crossroads of Interstates 29 and 90 in southeast South Dakota, 270 miles southwest of Minneapolis. The Sioux Falls market area encompasses Minnehaha and Lincoln counties. The main branch is located at the high growth area of 57th and Western. Other branches are located at 33rd and Minnesota and the intersection of 12th and Elmwood. Sioux Falls was rated one of America s Best Places to Live by CNN Money Magazine in July 2010. Major employers in the area include Sanford Health, Avera McKennan Hospital, John Morrell & Company, Citibank (South Dakota) NA, and Hy-Vee Food Stores. Sioux Falls is home to Augustana College and The University of Sioux Falls. The unemployment rate in Sioux Falls was 4.1% as of September 2010.

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. Presently, economic conditions in the agricultural sector of the Company s market area are stronger than they have been for several years. Abnormally heavy precipitation during the year ended September 30, 2010 that lowered yields in some areas has been offset by significantly higher crop prices. Livestock prices have improved significantly in the past twenty-four months returning the sector to profitability and off-setting the higher feed cost. Farmland prices are increasing in value in all of the Company s market areas. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problems. Although there has been minimal effect observed to date, an extended period of low commodity prices, higher input costs or poor weather conditions could result in reduced profit margins in the agricultural sector, thus reducing demand for goods and services provided by agriculture-related businesses. This could also affect other businesses in the Company s market area.

Lending Activities

General. Historically, the Company originated fixed-rate, one- to four-family mortgage loans. In the early 1980s, the Company began to focus on the origination of adjustable-rate mortgage (ARM) loans and short-term loans for retention in its portfolio in order to increase the percentage of loans in its portfolio with more frequent repricing or shorter maturities, and in some cases higher yields, than fixed-rate residential mortgage loans. The Company, however, has digressed from ARM loans and pursued fixed-rate residential mortgage loan originations in response to consumer demand, although most such loans are generally sold in the secondary market. See Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Item 7 of this Annual Report on Form 10-K for further information on Asset/Liability Management.

More recently, the Company has focused its lending activities on the origination of commercial and multi-family real estate loans and, to a lesser extent, commercial business loans. The Company also continues to originate one-to-four family mortgage loans, consumer loans and agriculturally related loans. The Company originates most of its loans in its primary market area. At September 30, 2010, the Company s net loan portfolio totaled $366.0 million, or 35.6% of the Company s total assets.

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

At September 30, 2010, the Company s largest lending relationship to a single borrower or group of related borrowers totaled $13.5 million but a portion of that is sold to other banks. The Company had 24 other lending relationships in excess of $3.5 million as of September 30, 2010. At September 30, 2010, two of these loans totaling $4.7 million were classified as substandard. See Non-Performing Assets, Other Loans of Concern, and Classified Assets.

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Loan Portfolio Composition. The following table provides information about the composition of the Company s loan portfolio in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowances for losses) as of the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	At September 30,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real Estate Loans:										
1-4 Family	$ 40,936	11.0%	$ 48,770	12.2%	$ 56,362	13.0%	$ 45,407	12.6%	$ 58,165	15.4%
Commercial & Multi Family	204,820	55.1%	232,750	58.4%	222,651	51.2%	169,877	47.1%	159,107	42.2%
Agricultural	25,895	7.0%	26,755	6.7%	30,046	6.9%	16,582	4.6%	14,098	3.7%
Total Real Estate Loans	271,651	73.1%	308,275	77.3%	309,059	71.1%	231,866	64.3%	231,370	61.3%
Other Loans:										
Consumer Loans:										
Home Equity	16,897	4.5%	18,555	4.7%	21,353	4.9%	23,832	6.6%	24,559	6.5%
Automobile	737	0.2%	928	0.2%	922	0.2%	1,241	0.4%	1,708	0.5%
Other (1)	30,479	8.2%	16,516	4.1%	27,054	6.3%	11,690	3.2%	3,800	1.0%
Total Consumer Loans	48,113	12.9%	35,999	9.0%	49,329	11.4%	36,763	10.2%	30,067	8.0%
Agricultural Operating	32,528	8.7%	27,889	7.0%	31,153	7.2%	33,143	9.2%	28,661	7.6%
Commercial Business	19,709	5.3%	26,869	6.7%	44,972	10.3%	58,705	16.3%	87,202	23.1%
Total Other Loans	100,350	26.9%	90,757	22.7%	125,454	28.9%	128,611	35.7%	145,930	38.7%
Total Loans	372,001	100.0%	399,032	100.0%	434,513	100.0%	360,477	100.0%	377,300	100.0%
Less:										
Loans in Process	482		264		693		254		1,773	
Deferred Fees and Discounts	240		166		160		117		177	
Allowance for Losses	5,234		6,993		5,732		4,493		6,391	
Total Loans Receivable, Net	$ 366,045		$ 391,609		$ 427,928		$ 355,612		$ 368,959	

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

	September 30,									
	2010		2009		2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Fixed Rate Loans:										
Real Estate:										
1-4 Family	$ 34,513	9.3%	$ 42,310	10.6%	$ 42,952	9.9%	$ 34,157	9.5%	$ 45,593	11.8%
Commercial & Multi Family	163,843	44.0%	180,891	45.3%	171,114	39.4%	128,495	35.6%	113,072	29.1%
Agricultural	16,937	4.6%	17,317	4.4%	20,262	4.6%	11,610	3.2%	8,229	2.4%
Total Fixed-Rate Real Estate Loans	215,293	57.9%	240,518	60.3%	234,328	53.9%	174,262	48.3%	166,894	43.3%
Consumer	19,066	5.1%	17,398	4.4%	42,192	9.7%	21,470	6.0%	21,128	5.6%
Agricultural Operating	22,490	6.0%	15,752	3.9%	16,840	3.9%	16,519	4.6%	15,145	4.1%
Commercial Business	11,147	3.1%	15,576	3.9%	25,224	5.8%	31,386	8.7%	36,701	9.6%
Total Fixed-Rate Loans	267,996	72.1%	289,244	72.5%	318,584	73.3%	243,637	67.6%	239,868	62.6%
Adjustable Rate Loans:										
Real Estate:										
1-4 Family	6,423	1.7%	6,460	1.6%	13,410	3.1%	11,250	3.1%	12,572	3.2%
Commercial & Multi Family	40,977	11.0%	51,859	13.0%	51,537	11.9%	41,382	11.5%	46,035	13.1%
Agricultural	8,958	2.4%	9,438	2.4%	9,784	2.2%	4,972	1.4%	5,869	1.7%
Total Adjustable Real Estate Loans	56,358	15.1%	67,757	17.0%	74,731	17.2%	57,604	16.0%	64,476	18.0%
Consumer	29,047	7.8%	18,601	4.7%	7,137	1.6%	15,293	4.2%	8,939	2.3%
Agricultural Operating	10,038	2.7%	12,137	3.0%	14,313	3.3%	16,624	4.6%	13,516	3.5%
Commercial Business	8,562	2.3%	11,293	2.8%	19,748	4.6%	27,319	7.6%	50,500	13.6%
Total Adjustable Loans	104,005	27.9%	109,788	27.5%	115,929	26.7%	116,840	32.4%	137,431	37.4%
Total Loans	372,001	100.0%	399,032	100.0%	434,513	100.0%	360,477	100.0%	377,300	100.0%
Less:										
Loans in Process	482		264		693		254		1,773	
Deferred Fees and Discounts	240		166		160		117		177	
Allowance for Losses	5,234		6,993		5,732		4,493		6,391	
Total Loans Receivable, Net	$ 366,045		$ 391,609		$ 427,928		$ 355,612		$ 368,959	

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The following table illustrates the interest rate sensitivity of the Company s loan portfolio at September 30, 2010. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract reprices. The table reflects management s estimate of the effects of loan prepayments or curtailments based on data from the Company s historical experiences and other third party sources. Balances related to discontinued bank operations have been eliminated for all periods presented.

Due During Years Ending September 30,	Real Estate (1) Amount	Real Estate (1) Weighted Average Rate	Consumer Amount	Consumer Weighted Average Rate	Commercial Business Amount	Commercial Business Weighted Average Rate	Agricultural Operating Amount	Agricultural Operating Weighted Average Rate	Total Amount	Total Weighted Average Rate
	(Dollars in Thousands)									
2011 (2)	$ 24,608	5.23%	$ 9,538	6.96%	$ 6,092	4.59%	$ 23,492	5.06%	$ 63,730	5.37%
2012-2013	59,774	5.87%	5,293	6.50%	6,910	5.24%	4,300	6.36%	76,277	5.89%
2014 and following	187,269	6.13%	33,282	8.39%	6,707	6.31%	4,736	6.06%	231,994	6.46%
Total	$ 271,651		$ 48,113		$ 19,709		$ 32,528		$ 372,001	

(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.

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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, 2010, the Company s one- to four-family residential mortgage loan portfolio totaled $40.9 million, or 11% of the Company s total gross loan portfolio. See Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities. At September 30, 2010, the average outstanding principal balance of a one- to four-family residential mortgage loan was approximately $64,000.

The Company offers fixed-rate and ARM loans for both permanent structures and those under construction. During the year ended September 30, 2010, the Company originated $4.3 million of adjustable-rate loans and $28.0 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 one, three, five, seven and ten year ARM loans. These loans have a fixed-rate for the stated period and, thereafter, such loans adjust annually. These loans generally provide for an annual cap of up to a 200 basis points and a lifetime cap of 600 basis points over the initial rate. As a consequence of using an initial fixed-rate and caps, the interest rates on these loans may not be as rate sensitive as is the Company s cost of funds. The Company s ARMs do not permit negative amortization of principal and are not convertible into a fixed rate loan. The Company s delinquency experience on its ARM loans has generally been similar to its experience on fixed rate residential loans. Current market conditions make ARM loans unattractive and very few are 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. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions. The Company currently sells most, but not all, of its fixed-rate loans with terms greater than 15 years.

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

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and has purchased whole loan and participation interests in loans from other financial institutions. At September 30, 2010, the Company s commercial and multi-family real estate loan portfolio totaled $204.8 million, or 55% of the Company s total gross loan portfolio. The purchased loans and loan participation interests are generally secured by properties located in the Midwest and West. See Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities. The Company, in order to supplement its loan portfolio, purchased $4.8 million, $41.7 million, and $39.8 million, of such loans during fiscal 2010, 2009 and 2008, respectively. At September 30, 2010, $4.1 million, or 2.0%, of the Company s commercial and multi-family real estate loans was non-performing. See Non-Performing

Assets, Other Loans of Concern and Classified Assets.

The Company s commercial and multi-family real estate loan portfolio is secured primarily by apartment buildings, office buildings, and hotels. Commercial and multi-family real estate loans generally have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the security property, and are

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typically secured by personal guarantees of the borrowers. The Company has a variety of rate adjustment features and other terms in its commercial and multi-family real estate loan portfolio. Commercial and multi-family real estate loans provide for a margin over a number of different indices. In underwriting these loans, the Company currently analyzes the financial condition of the borrower, the borrower s credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

At September 30, 2010, the Company s largest commercial and multi-family real estate loan was a $7.8 million loan secured by real estate. At September 30, 2010, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately $686,000.

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. At September 30, 2010, the Bank s nonresidential real estate loans totaled 227% of risk-based capital.

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and other farm related products. At September 30, 2010, the Company had agricultural real estate loans secured by farmland of $25.9 million or 7% of the Company s gross loan portfolio. At the same date, $32.5 million, or 9% of the Company s gross loan portfolio, consisted of secured loans related to agricultural operations.

Agricultural operating loans are originated at either an adjustable or fixed rate of interest for up to a one year term or, in the case of livestock, upon sale. Most agricultural operating loans have terms of one year or less. Such loans provide for payments of principal and interest at least annually or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years. At September 30, 2010, the average outstanding principal balance of an agricultural operating loan held by the Company was $140,000. At September 30, 2010, $0.4 million, or 1.2%, of the Company s agricultural operating loans was non-performing.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first one to five years, which then balloon or adjust annually thereafter. In addition, such loans generally amortize over a period of ten to 20 years. Adjustable-rate agricultural real estate loans provide for a margin over the yields on the corresponding U.S. Treasury security or prime rate. Fixed-rate agricultural real estate loans generally have terms up to five years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan. At September 30, 2010, $2.7 million, or 10.2%, of the Company s agricultural real estate portfolio was non-performing.

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

Weather presents one of the greatest risks as hail, drought, floods, or other conditions, can severely limit crop yields and thus impair loan repayments and the value of the underlying collateral. This risk can be reduced by the farmer with a variety of insurance coverages which can help to ensure loan repayment. Government support programs and the Company generally require that farmers procure crop insurance coverage. Grain and livestock prices also present a risk as prices may decline prior to sale resulting in a failure to cover production costs. These risks may be reduced by the farmer with the use of futures contracts or options to mitigate price risk. The Company

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frequently requires borrowers to use future contracts or options to reduce price risk and help ensure loan repayment. Another risk is the uncertainty of government programs and other regulations. During periods of low commodity prices, the income from government programs can be a significant source of cash to make loan payments and if these programs are discontinued or significantly changed, cash flow problems or defaults could result. Finally, many farms are dependent on a limited number of key individuals upon whose injury or death may result in an inability to successfully operate the farm.

Consumer Lending- Retail Bank. The Retail Bank offers 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. The Retail Bank originates consumer loans on both a direct and indirect basis. At September 30, 2010, the Retail Bank s consumer loan portfolio totaled $20.4 million, or 6% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 2010, $13.9 million were short- and intermediate-term, fixed-rate loans, while $6.5 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, typically may be up to 100% of the appraised value of the property securing the loan. Home equity loans and lines of credit generally have maximum terms of five years.

The Retail Bank primarily originates automobile loans on a direct basis, but also originates indirect automobile loans on a very limited basis. Direct loans are loans made when the Retail Bank extends credit directly 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 Retail 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 Company for consumer loans include an application, a determination of the applicant s payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At September 30, 2010, none of the Company s consumer loan portfolio was non-performing.

Consumer Lending - MPS. MPS has a loan committee consisting of members of Executive Management. The MPS Credit Committee (the Committee) 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 Company s Board of Directors. The Board of Directors is ultimately responsible for final approval of any credit program.

At September 30, 2010, MPS consumer loan portfolio totaled $27.7 million, or 7% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 2010, $5.2 million were short- and intermediate-term, fixed-rate loans, while $22.5 million were adjustable-rate loans.

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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 accomplish these objectives. MPS programs are managed prudently, in accordance with governing rules and regulations, and without unnecessary exposure to the capital base. To this end, management believes that MPS administers its credit programs in conformance with federal and state laws, regulations, guidance, applicable association rules and regulations, as well as all standards and best practices for safe and sound lending. Notwithstanding this belief, our regulator ordered the termination of our nationwide iAdvance lending program; see Regulation Bank Supervision and Regulation OTS Directives and Related Matters.

MPS has strived to offer consumers innovative payment products, including credit products. Most credit products have 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 s sponsorship lending programs are governed by the Policy for Sponsorship Lending which has been approved by the Board of Directors. 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 has indemnified MPS and the Bank 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 are commensurate with the added risk and exposure. Due to supervisory directives issued by our regulator, an MPS lending program - iAdvance was eliminated effective October 13, 2010. In addition, the Bank s tax-related programs, which consisted of pre-season tax-related loans and refund transfer services, are subject to prior approval of our regulator. At this time, we do not anticipate offering these programs in fiscal 2011. Finally, our third party relationship programs have been limited to existing third party relationships, absent prior approval to engage in new relationships. For additional discussion, See Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters.

The Company recognizes that 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 and Credit Card Losses.

The MPS Credit Committee monitors and identifies the credit concentrations 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 of increased capital and/or credit reserves to cover the increased risk caused by the concentration(s).
- A strategy to reduce to acceptable levels those concentration(s) that are determined to create undue risk to the Bank.

Commercial Business Lending. The Company also originates commercial business loans. Most of the Company s commercial business loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. At September 30, 2010, $19.7 million, or 5% of the Company s total gross loan portfolio, was comprised of commercial business loans.

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

The largest commercial business loan outstanding at September 30, 2010 was a $4.1 million loan secured by commercial inventory of the borrower. The next largest commercial business loan outstanding at September 30, 2010 was a $3.9 million loan secured by assets of the borrower. At September 30, 2010, the average outstanding principal balance of a commercial business loan held by the Company was approximately $80,000.

Unlike residential mortgage loans, which generally are made on the basis of the borrower s ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower s ability to make repayment from the cash flow of the borrower s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is likely to be dependent upon the general economic environment). The Company s commercial business loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At September 30, 2010, $0.2 million, or 1.2%, of the Company s commercial business loan portfolio was non-performing. Commercial business loans have been a declining percentage of the Company s loan portfolio since 2005.

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

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

The Company, from time to time, sells whole loans and loan participations, generally without recourse. At September 30, 2010, there were no loans outstanding sold with recourse. When loans are sold, the Company sometimes retains the responsibility for collecting and remitting loan payments, making certain that real estate tax payments are made on behalf of borrowers, and otherwise servicing the loans. The servicing fee is recognized as income over the life of the loans. The Company services loans that it originated and sold totaling $27.1 million at September 30, 2010, of which $15.8 million were sold to Fannie Mae and $11.3 million were sold to others.

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

The following table shows the loan originations (including undisbursed portions of loans in process), purchases, and sales and repayment activities of the Company for the periods indicated. In addition, the table shows mortgage-backed securities purchases, sales and repayment activities. Balances related to discontinued bank operations have been eliminated for all periods presented. By far the largest category of loan originations is Non-Real Estate Consumer loans. Due to the aforementioned OTS Supervisory Directive regarding iAdvance loans, the Non-Real Estate Consumer loan originations will decrease in fiscal 2011. During fiscal 2010, the Company originated $415.2 million of iAdvance loans.

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	September 30, 2010	2009	2008
		(Dollars in Thousands)	
Originations by Type:			
Adjustable Rate:			
Real Estate - 1-4 Family	$ 4,298	$ 5,783	$ 14,068
-Commercial and Multi-Family	18,157	13,168	34,894
-Agricultural Real Estate	3,012	6,847	2,058
Non-Real Estate - Consumer	10,612	60,393	183,643
-Commercial Business	20,020	27,224	60,502
-Agricultural Operating	20,345	22,374	27,674
Total Adjustable Rate	76,444	135,789	322,839
Fixed Rate:			
Real Estate - 1-4 Family	28,007	49,566	38,090
-Commercial and Multi-Family	45,863	43,688	107,296
-Agricultural Real Estate	4,133	3,106	8,978
Non-Real Estate - Consumer	984,415	405,001	180,210
-Commercial Business	7,797	9,471	29,647
-Agricultural Operating	54,760	39,512	39,143
Total Fixed-Rate	1,124,975	550,344	403,364
Total Loans Originated	1,201,419	686,133	726,203
Purchases:			
Real Estate - 1-4 Family		1,116	1,079
-Commercial and Multi-Family	4,795	41,745	39,830
- Agricultural Real Estate	392	7,497	215
Non-Real Estate - Commercial Business	400		7,561
- Agricultural Operating	3,343		6,605
Total Loans	8,930	50,358	55,290
Total Mortgage-Backed Securities	435,788	287,113	102,790
Total Purchased	444,718	337,471	158,080
Sales and Repayments:			
Sales:			
Real Estate - 1-4 Family			6,152
Real Estate - Commercial and Multi-Family			2,296
Non-Real Estate - Consumer	804,171	268,730	257,119
Total Loans	804,171	268,730	265,567
Mortgage-Backed Securities	97,609	32,478	16,990
Total Sales	901,780	301,208	282,557
Repayments:			
Loan Principal Repayments	438,226	511,200	431,372
Mortgage-Backed Securities Repayments	197,841	91,486	34,417
Total Principal Repayments	636,067	602,686	465,789
Total Reductions	1,537,847	903,894	748,346
Increase (decrease) in other items, net	4,259	7,120	(4,682)
Net Increase (Decrease)	$ 112,549	$ 126,830	$ 131,255

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At September 30, 2010, approximately $55.1 million, or 15.0%, of the Company s gross loan portfolio consisted of purchased loans. The Company believes that purchasing loans outside of its market area assists the Company in diversifying its portfolio and may lessen the adverse affects on the Company s business or operations which could result in the event of a downturn or weakening of the local economy in which the Company conducts its primary operations. However, additional risks are associated with purchasing loans outside of the Company s market area, including the lack of knowledge of the local market and difficulty in monitoring and inspecting the property securing the loans.

At September 30, 2010, the Company s purchased loans were secured by properties located, as a percentage of total loans, as follows: 6% in Oregon, 3% in Iowa, 1% each in Washington, Florida, Minnesota, Missouri, and California and the remaining 1% in seven other states.

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

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

The following table sets forth the Company s loan delinquencies by type, before allowance for loan losses, by amount and by percentage of type at September 30, 2010.

	Loans Delinquent For:								
	30-59 Days			60-89 Days			90 Days and Over		
	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
	(Dollars in Thousands)								
Real Estate:									
1-4 Family	6	$ 192	4.0%	1	$ 10	1.0%	3	$ 442	5.7%
Commercial & Multi-Family	1	3,900	82.1%	1	746	76.1%	10	4,394	56.6%
Agricultural Real Estate			0.0%			0.0%	3	2,197	28.3%
Consumer	7	330	7.0%	5	225	22.9%	3	124	1.6%
Agricultural Operating			0.0%			0.0%	1	400	5.2%
Commercial Business	4	329	6.9%			0.0%	4	202	2.6%
Total	18	$ 4,751	100.0%	7	$ 981	100.0%	24	$ 7,759	100.0%

Delinquencies 90 days and over constituted 2.1% of total gross loans and 0.7% of total assets.

Generally, when a loan becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result, previously accrued interest income on the loan is taken out of current income. The loan will remain on a non-accrual status until the loan becomes current. Loans, with some exceptions, are typically placed on non-accrual status when the loan becomes 90 days or more delinquent or when the collection of principal and/or interest becomes doubtful. For all years presented, the Company s troubled debt restructurings (which involved forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates) are included in the table and were performing as agreed. Balances related to discontinued bank operations have been eliminated for all periods presented. The table below sets forth the amounts and categories of non-performing assets in the Company s loan portfolio.

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	At September 30, 2010	2009	2008 (Dollars in Thousands)	2007	2006
Non-Performing Loans					
Non-Accruing Loans:					
1-4 Family	$ 39	$ 266	$ 942	$ 243	$ 22
Commercial & Multi Family	4,137	11,512	1,302		
Agricultural Real Estate	2,650		12	13	
Consumer			1	5	
Agricultural Operating	400				182
Commercial Business	241	871	538	1,867	5,076
Total	7,467	12,649	2,795	2,128	5,280
Accruing Loans Delinquent 90 Days or More:					
1-4 Family	404				
Commercial & Multi Family	257				
Consumer	124				
Commercial Business			4,600		
Total	785		4,600		
Restructured Loans:					
Agricultural Operating			121	150	
Commercial Business				15	
Total			121	165	
Total Non-Performing Loans	8,252	12,649	7,516	2,293	5,280
Other Assets					
Non-Accruing Investments:					
Trust Preferred Securities	150				
Total	150				
Foreclosed Assets:					
1-4 Family	143				15
Commercial & Multi Family	606	957		229	35
Consumer				24	
Commercial Business	546	1,096		65	
Total	1,295	2,053		318	50
Total Other Assets	1,445	2,053		318	50
Total Non-Performing Assets	$ 9,697	$ 14,702	$ 7,516	$ 2,611	$ 5,330
Total as a Percentage of Total Assets	0.94%	1.76%	1.06%	0.38%	0.72%

For the year ended September 30, 2010, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately $656,000, of which none was included in interest income.

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Non-Accruing Loans. At September 30, 2010, the Company had $7.5 million in non-accruing loans, which constituted 2.0% of the Company s gross loan portfolio. This represents an improvement from September 30, 2009, when the Company had $12.6 million in non-accruing loans or 3.2% of its gross loan portfolio. The fiscal 2010 decrease in non-performing loans relates to a decreased in non-accruing loans in the commercial and multifamily category from $11.5 million to $4.1 million. There are 8 commercial and multi-family loans in non-accrual status at September 30, 2010.

Accruing Loans Delinquent 90 Days or More. At September 30, 2010, the Company had $0.8 million in accruing loans delinquent 90 days or more.

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

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

On the basis of management s review of its assets, at September 30, 2010, the Company had classified a total of $33.1 million of its assets as substandard, $2.1 million as doubtful and none as loss. There were $1.3 million real estate owned or other foreclosed assets at September 30, 2010.

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

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime mortgage loans, management recognizes that the current recessionary environment may strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Concerns regarding the economic slowdown, has led management to the conclusion that future losses in its commercial and multi-family and commercial business portfolio may be somewhat higher than historical experience. On the other hand, current trends in agricultural markets remain reasonable. Reasonable commodity prices as well as above average yields created positive economic conditions for most farmers in our markets in 2010. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the aforementioned recession may also negatively impact consumers repayment capacities. Additionally, a sizable portion of the Company s consumer loan portfolio is secured by residential real estate, as discussed above, which is an area to be closely monitored by management in view of its stated concerns.

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The allowance for loan losses established by MPS results from an estimation process that evaluates relevant characteristics of its credit portfolio(s). 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. Due to the varied and unknown nature and structures of future credit programs, the exact methodology to determine the ALL for each program will not be identical. Each program may have differing attributes including such factors as levels of risk, definitions of delinquency and loss, inclusion/exclusion of credit bureau criteria, roll rate migration dynamics, and other factors. Similarly, the additional capital required to offset the increased risk in subprime lending activities may vary by credit program. Each program will need to be evaluated separately and with potentially different methodologies. The increased charge-offs for MPS credit resulted primarily from borrowers in a pre-season tax-related program that peaked in January 2010. Management pro-actively established a provision for loan losses for these loans during the tax pre-season offering period. The majority of the charge-offs for these pre-season tax loans were recorded against the allowance for loan losses in the third quarter of fiscal 2010. The charge-offs were in accordance with management s expectations of the pre-season tax loan program.

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, 2010 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company s determination of the allowance for loan losses is subject to review by its bank regulator, which can require the establishment of additional general or specific allowances.

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

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

	September 30, 2010	2009	2008 (Dollars in Thousands)	2007	2006
Balance at Beginning of Period	$ 6,993	$ 5,732	$ 4,493	$ 6,391	$ 6,793
Charge Offs:					
1-4 Family	(185)	(28)	(2)		
Commercial & Multi Family	(6,979)	(2,052)		(1,762)	
Consumer	(12,139)	(8,168)	(5)	(50)	(6)
Commercial Business	(102)	(7,685)	(1,542)	(3,803)	(1,036)
Agricultural Operating		(151)			
Total Charge Offs	(19,405)	(18,084)	(1,549)	(5,615)	(1,042)
Recoveries:					
1-4 Family	1	465	7		
Consumer	1,242	90	12	3	5
Commercial Business	402	39	38	546	324
Agricultural Operating	210	38	16		
Total Recoveries	1,855	632	73	549	329
Net (Charge Offs) Recoveries	(17,550)	(17,452)	(1,476)	(5,066)	(713)
Additions Charged to Operations	15,791	18,713	2,715	3,168	311
Balance at End of Period	$ 5,234	$ 6,993	$ 5,732	$ 4,493	$ 6,391
Ratio of Net Charge Offs During the Period to Average Loans Outstanding During the Period	4.36%	4.12%	0.36%	1.43%	0.18%
Ratio of Net Charge Offs During the Period to Non-Performing Assets at Year End	180.98%	118.70%	19.64%	194.03%	13.38%

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:

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	At September 30,									
	2010		2009		2008		2007		2006	
	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans	Amount	Percent of Loans in Each Category of Total Loans
	(Dollars in Thousands)									
One-to-Four Family	$ 50	11.00%	$ 59	12.21%	$ 98	12.96%	$ 111	12.59%	$ 120	15.41%
Commercial & Multi Family Real Estate	3,053	55.06%	4,231	58.33%	3,236	51.24%	1,246	47.13%	1,403	42.17%
Agricultural Real Estate	111	6.97%	111	6.70%	94	6.91%	70	4.60%	101	3.74%
Consumer	738	12.93%	243	9.03%	207	11.36%	153	10.20%	116	7.97%
Agricultural Operating	125	8.74%	569	7.00%	1,645	7.18%	178	9.19%	205	7.60%
Commercial Business	131	5.30%	792	6.73%	148	10.35%	2,404	16.29%	4,140	23.11%
Unallocated	1,026	0.00%	988		304		331		306	
Total	$ 5,234	100.00%	$ 6,993	100.00%	$ 5,732	100.00%	$ 4,493	100.00%	$ 6,391	100.00%

Investment Activities

General. The investment policy of the Company generally is to invest funds among various categories of investments and maturities based upon the Company s need for liquidity, to achieve the proper balance between its desire to minimize risk and maximize yield, to provide collateral for borrowings, and to fulfill the Company s asset/liability management policies. The Company s investment and mortgage-backed securities portfolios are managed in accordance with a written investment policy adopted by the Board of Directors, which is implemented by members of the Company s Investment Committee. As a result, the Company closely monitors balances in these accounts, and maintains a portfolio of highly liquid assets to fund potential deposit outflows. To date, the Company has not experienced any significant outflows related to MPS over the past six years, though no assurance can be given that this will continue to be the case.

As of September 30, 2010, the Company s entire investment and mortgage-backed securities portfolios were classified as available for sale. For additional information regarding the Company s investment and mortgage-backed securities portfolios, see Notes 1 and 4 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

As of September 30, 2010, investment and mortgage-backed securities with fair values of approximately $198.3 million were pledged as collateral for the Bank s Federal Home Loan Bank of Des Moines (FHLB) advances and reverse repurchase agreements. For additional information regarding the Company s collateralization of borrowings, see Notes 9 and 10 to the Notes to Consolidated Financial Statement, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

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

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

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	At September 30, 2010		2009 (Dollars in Thousands)		2008
Investment Securities					
Trust Preferred & Corporate Securities (1)	$	17,551	$	15,201	$ 18,174
Municipal Bonds		3,916		2,365	1,537
Subtotal		21,467		17,566	19,711
FHLB Stock		5,283		7,050	8,092
Total Investment Securities and FHLB Stock	$	26,750	$	24,616	$ 27,803
Other Interest-Earning Assets:					
Interest bearing deposits in other financial institutions and					
Federal Funds Sold (2)	$	80,811	$	1,198	$ 5,188

(1) Within the trust preferred securities presented above, there are no securities from individual issuers that exceed 10% of the Company s total equity. The name and the aggregate market value of securities of each individual issuer as of September 30, 2010 are as follows: Key Corp Capital I, $3.2 million; Bank Boston Capital Trust IV, $3.5 million; BankAmerica Capital III, $3.5 million; PNC Capital Trust, $3.8 million; Huntington Capital Trust II, $2.8 million; CNB, $507,500; Cascade, $150,000.

(2) The Company at times maintains balances in excess of insured limits at various financial institutions including the FHLB, the FRB, and other private institutions. At September 30, 2010, the Company had no interest bearing deposits held at the FHLB and $80.8 million in interest bearing deposits held at the FRB, respectively. At September 30, 2010, the Company had no federal funds sold at any private institution.

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

	September 30, 2010											
	1 Year or Less Carrying Value		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		Total Investment Securities Fair Value	
	(Dollars in Thousands)											
Trust Preferred & Corporate Securities	$		$		$		$	17,551	$	25,467	$	17,551
Municipal Bonds		101		1,820		1,582		413		3,769		3,916
Total Investment Securities	$	101	$	1,820	$	1,582	$	17,964	$	29,236	$	21,467
Weighted Average Yield (1)		5.53%		4.57%		3.88%		1.14%		1.48%		1.65%

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

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

At September 30, 2010, the Company had mortgage-backed securities with an amortized cost of $418.0 million, representing 83% of the total portfolio, which had fixed rates of interest and $57 million, representing 11% of the total portfolio, which had adjustable rates of interest.

Mortgage-backed securities generally increase the quality of the Company s assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. At September 30, 2010, $276.9 million or 57% of the Company s mortgage-backed securities were pledged to secure various obligations of the Company.

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

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The following table sets forth the carrying value of the Company s mortgage-backed securities at the dates indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	At September 30, 2010	At September 30, 2009	At September 30, 2008
	(Dollars in Thousands)		
CMO	$	$	$ 4
Freddie Mac	13,590	53,353	59,479
Fannie Mae	41,015	118,805	124,577
Ginnie Mae	430,780	175,114	
Privately Issued Mortgages Pass-Through Certificates			63
Total	$ 485,385	$ 347,272	$ 184,123

The following table sets forth the contractual maturities of the Company s mortgage-backed securities at September 30, 2010. Not considered in the preparation of the table below is the effect of prepayments, periodic principal repayments and the adjustable-rate nature of these instruments.

	September 30, 2010					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
	(Dollars in Thousands)					
CMO	$	$	$	$	$	$
Freddie Mac	5,815			7,775	13,306	13,590
Fannie Mae			16,241	24,774	38,420	41,015
Ginnie Mae			19,207	411,573	423,300	430,780
Total Investment Securities	$ 5,815	$	$ 35,448	$ 444,122	$ 475,026	$ 485,385
Weighted Average Yield	4.30%	0.00%	3.45%	3.40%	3.41%	3.41%

At September 30, 2010, the contractual maturity of 91.5% of all of the Company s mortgage-backed securities was in excess of ten years. The actual maturity of a mortgage-backed security is typically less than its stated maturity due to scheduled principal payments and prepayments of the underlying mortgages. Prepayments that are different than anticipated will affect the yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with Generally Accepted Accounting Principles (GAAP), premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because, to the extent that the Company s mortgage-backed securities amortize or prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate.

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Management has implemented a process to identify securities that could potentially have a credit impairment that is 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 of the security, 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. In fiscal year 2010, the other-than-temporary impairment losses taken against the trust preferred securities was $350,000.

No other-than-temporary impairments were recorded against earnings during fiscal years 2009 or 2008.

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 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 that are primarily categorized as checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 months. The Company solicits deposits from its primary market area and does not currently use brokers to obtain deposits. The Company relies primarily on competitive pricing policies, advertising and high-quality customer service to attract and retain these deposits. The Company has no brokered deposits.

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

The variety of deposit accounts offered by the Company 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 and regular checking accounts are relatively stable sources of deposits. However, the ability of the Company to attract and maintain certificates of deposit and the rates paid on these deposits has been and will continue to be significantly affected by market conditions and potentially by the restrictions imposed under the supervisory directives.

$655.2 million of the Company s deposit portfolio is attributable to MPS. The majority of these deposits represent un-spent funds on prepaid debit cards and other stored value products. $655.0 million are included with non-interest-bearing checking accounts and $0.2 million are included with money market accounts on the Company s Consolidated Statement of Financial Condition. Generally, these deposits do not earn interest. MPS originates debit card programs through outside sales agents and other financial institutions. As such, these deposits carry a somewhat higher degree of 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. MPS has not experienced any significant outflows thus far related to card programs over the past six years, although the potential for migration is higher now due to the supervisory directives. See Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters. The Company takes this additional risk into account when planning its investment and liquidity strategies. The increase in deposits arising from MPS has also allowed the Bank thus far to reduce its reliance on higher costing certificates of deposits and public funds.

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

	September 30, 2010	September 30, 2009	September 30, 2008
	(Dollars in Thousands)		
Opening Balance	$ 653,747	$ 499,804	$ 522,978
Deposits	112,086,496	91,862,382	42,199,490
Withdrawals	(111,845,663)	(91,713,207)	(42,218,736)
Sale of Deposits			(9,313)
Interest Credited	2,874	4,768	5,385
Ending Balance	$ 897,454	$ 653,747	$ 499,804
Net Increase (Decrease)	$ 243,707	$ 153,943	$ (23,174)
Percent Increase (Decrease)	37.28%	30.80%	-4.43%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs offered by the Company for the periods indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	September 30, 2010		2009		2008	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transactions and Savings Deposits:						
Non-Interest Bearing Demand Accounts	$ 675,163	75.23%	$ 442,158	67.63%	$ 308,852	61.79%
Interest Bearing Demand Accounts	29,976	3.34	15,602	2.39	15,029	3.01
Savings Accounts	10,821	1.20	10,001	1.53	9,394	1.88
Money Market Accounts	35,422	3.95	39,823	6.09	43,038	8.61
Total Non-Certificate	751,382	83.72	507,584	77.64	376,313	75.29
Certificates:						
Variable	380	0.04	524	0.08	779	0.16
0.00 - 1.99%	82,716	9.22	36,523	5.59	7,039	1.41
2.00 - 3.99%	51,852	5.78	78,288	11.98	57,977	11.60
4.00 - 5.99%	11,114	1.24	30,806	4.71	57,686	11.54
6.00 - 7.99%	10	0.00	22	0.00	10	0.00
Total Certificates	146,072	16.28	146,163	22.36	123,491	24.71
Total Deposits	$ 897,454	100.00%	$ 653,747	100.00%	$ 499,804	100.00%

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The following table shows rate and maturity information for the Company s certificates of deposit as of September 30, 2010.

	Variable	0.00- 1.99%	2.00- 3.99%	4.00- 5.99% (Dollars in Thousands)	6.00- 7.99%	Total	Percent of Total
Certificate accounts maturing in quarter ending:							
December 31, 2010	$ 83	$ 45,767	$ 16,719	$ 1,477	$	$ 64,046	43.8%
March 31, 2011	47	9,862	3,448	969		14,326	9.8
June 30, 2011	42	10,297	3,722	719		14,780	10.1
September 30, 2011	83	4,130	2,531	1,066	10	7,820	5.4
December 31, 2011	45	6,317	2,213	485		9,060	6.2
March 31, 2012	80	1,214	1,393	1,181		3,868	2.6
June 30, 2012		997	1,441	1,005		3,443	2.4
September 30, 2012		1,905	737	800		3,442	2.4
December 31, 2012		1,364	11,121	2,832		15,317	10.5
March 31, 2013		563	1,076	147		1,786	1.2
June 30, 2013		62	1,449	20		1,531	1.0
September 30, 2013		234	506			740	0.5
Thereafter		4	5,496	413		5,913	4.0
Total	$ 380	$ 82,716	$ 51,852	$ 11,114	$ 10	$ 146,072	100.0%
Percent of total	0.2%	56.6%	35.5%	7.6%	0.0%	100.0%	

The following table indicates the amount of the Company s certificates of deposit and other deposits by time remaining until maturity as of September 30, 2010.

	3 Months or Less	After 3 to 6 Months	Maturity After 6 to 12 Months (Dollars in Thousands)	After 12 Months	Total
Certificates of deposit less than $100,000	$ 26,710	$ 8,325	$ 16,728	$ 32,475	$ 84,238
Certificates of deposit of $100,000 or more	37,336	6,001	5,872	12,625	$ 61,834
Total certificates of deposit	$ 64,046	$ 14,326	$ 22,600	$ 45,100	$ 146,072

At September 30, 2010, there were $31.0 million in deposits from governmental and other public entities included in certificates of deposit.

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

The Company s borrowings historically have consisted primarily of advances from the FHLB 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, 2010, the Bank had $22.0 million of advances from the FHLB and the ability to borrow up to an approximate additional $253.9 million. At September 30, 2010, advances totaling $11.0 million had terms to maturity of one year or less. The remaining $11.0 million had maturities ranging up to 9 years.

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On July 16, 2001, the Company issued all of the 10,000 authorized shares of Company Obligated Mandatorily Redeemable Preferred Securities of First Midwest Financial Capital Trust I (preferred securities of subsidiary trust) holding solely subordinated debt securities. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a variable rate of the London Interbank Offered Rate (LIBOR) plus 3.75%, not to exceed 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions will be paid. The capital securities are required to be redeemed on July 25, 2031; however, the Company has a semi-annual option to shorten the maturity date to a date not earlier than July 25, 2007. The option has not been exercised as of the date of this filing. The redemption price is $1,000 per capital security plus any accrued and unpaid distributions to the date of redemption plus, if redeemed prior to July 25, 2011, a redemption premium as defined in the Indenture Agreement. Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Company s indebtedness and senior to the Company s common stock. The trust preferred securities have been includable in the Company s capital calculations since they were issued.

From time to time, the Company has offered retail repurchase agreements to its customers. These agreements typically range from 14 days to five years in term, and typically have been offered in minimum amounts of $100,000. The proceeds of these transactions are used to meet cash flow needs of the Company. At September 30, 2010, the Company had $8.9 million of retail repurchase agreements outstanding.

Historically, the Company has entered into wholesale repurchase agreements through nationally recognized broker-dealer firms. These agreements are accounted for as borrowings by the Company and are secured by certain of the Company s investment and mortgage-backed securities. The broker-dealer takes possession of the securities during the period that the reverse repurchase agreement is outstanding. The terms of the agreements have usually ranged from 7 days to six months, but on occasion longer term agreements have been entered into. At September 30, 2010, the Company had no wholesale repurchase agreements outstanding.

The Company has a line of credit for $20.0 million with First Tennessee Bank, NA, at September 30, 2010. The Company has pledged various securities as collateral on the line of credit. There were no outstanding advances at September 30, 2010. See Note 9 of Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K for further detail of the Company s borrowings.

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The following table sets forth the maximum month-end balance and average balance of FHLB advances, retail and reverse repurchase agreements, Subordinated Debentures and under the FRB s Temporary Term Auction Facility (TAF) Program borrowings for the periods indicated. Balances related to discontinued bank operations have been eliminated for all periods presented.

	September 30,		
	2010	**2009**	**2008**
	(Dollars in Thousands)		
Maximum Balance:			
FHLB advances	$ 148,000	$ 100,950	$ 162,525
Repurchase agreements	11,880	24,351	51,439
Subordinated debentures	10,310	10,310	10,310
FRB TAF Borrowings	50,000	25,000	
Overnight Fed Funds Purchased	10,000		
Average Balance:			
FHLB advances	$ 75,067	$ 46,844	$ 103,768
Repurchase agreements	7,479	13,299	9,794
Subordinated debentures	10,310	10,310	10,310
FRB TAF Borrowings	6,113	2,123	
Overnight Fed Funds Purchased	1,689		

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

	September 30,		
	2010	**2009**	**2008**
	(Dollars in Thousands)		
FHLB advances	$ 22,000	$ 74,800	$ 132,025
Repurchase agreements	8,904	6,686	5,348
Subordinated debentures	10,310	10,310	10,310
FRB TAF Borrowings		25,000	
Total borrowings	$ 41,214	$ 116,796	$ 147,683
Weighted average interest rate of FHLB advances	5.10%	3.26%	4.28%
Weighted average interest rate of repurchase agreements	0.50%	0.49%	3.00%
Weighted average interest rate of subordinated debentures	4.21%	4.38%	7.83%
Weighted average interest rate of FRB TAF Borrowings	0.25%	0.25%	0.00%

Subsidiary Activities

The subsidiaries of the Company are the Bank, Meta Trust and First Midwest Financial Capital Trust I. The Bank has one service corporation subsidiary, First Services Financial Limited (First Services). At September

30, 2010, the net book value of the Bank s investment in First Services was approximately $115,000. The Bank organized First Services, its sole service corporation, in 1983. First Services currently has no active operations. Meta Trust was sold to a third party on September 30, 2010. The impact to the financial results of the Company is nominal.

Meta Payment Systems® Division

Meta Financial, through the MPS division of its bank subsidiary, 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, some of which were previously deposited at the Bank. MPS offers specific product solutions in the following areas: (i) prepaid cards, (ii) consumer credit products, and (iii) ATM sponsorship. MPS products and services generally target banks, card processors and third parties who market and distribute the cards.

Each segment of MPS business is discussed generally below. With respect to the segments, there can be a significant amount of cross-selling and cross-utilization of personnel and resources (*e.g.,* a client asks MPS to develop products for both prepaid and consumer credit needs). As described elsewhere herein, the Bank is subject to restrictions set forth in the supervisory directives issued by the OTS. For further discussion see Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters.

Prepaid Cards. Prepaid cards take the form of credit card-sized plastics embedded with a magnetic stripe which encodes relevant card data (which may or may not include information about the user and/or purchaser of such card). When the holder of such a card attempts a permitted transaction, necessary information, including the authorization for such transaction, is shared between the point of use or point of sale and authorization systems maintaining the account of record.

The funds associated with such cards are 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. 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. We are under restriction, by order of OTS, not to enter into new third party relationships or amend same absent prior approval. For further information, see Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters. Government benefits are another growing application for prepaid cards; however, MPS has not focused on this category to date.

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

*Non-Reloadable Cards***.** Non-reloadable prepaid cards are sometimes referred to as disposable and may only be used until the relevant funds initially loaded to the card have been exhausted. These include gift cards, rebate cards, and promotional or incentive cards. These cards may be closed loop or open loop but are generally not available to obtain cash. Under certain conditions, these cards may be anonymous, whereby no customer

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relationship is created and the identity of the cardholder is unknown. Except for gift cards, many non-reloadable card programs are funded by a corporation as a marketing expense rather than from consumer funds.

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

Consumer Credit Products. 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. One such program iAdvance was eliminated at the direction of the OTS effective October 13, 2010. Further, we may not offer tax-related programs, such as pre-season or refund anticipation loans or refund transfer services in fiscal 2011 unless we receive prior approval from OTS. As described elsewhere herein and in our Form 8-K filed on December 2, 2010, we do not anticipate offering tax loan or refund transfer programs in 2011. For further information, see Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters.

MPS strives to offer consumers innovative payment products, including credit products. Most credit products will fall 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. In portfolio lending, 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 indemnifies MPS and the Bank 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. Under such programs, MPS typically utilizes vendors to market and service the loans.

*ATM Sponsorship***.** MPS sponsors financial institutions into various networks to enable them to issue network-branded debit cards and accept cards issued by other financial institutions at their ATM terminals. The division also sponsors ATM independent sales organizations (ISOs) into various networks and provides associated sponsorships of encryption support organizations and third party processors in support of the financial institutions and the ATM ISO sponsorships. Sponsorship consists of the review and oversight of entities participating in debit and credit networks. In certain instances, MPS also has certain leasehold interests in certain ATMs which require bank ownership and registration for compliance with applicable state law.

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

The same restrictions applicable to third-party relationships as described above also apply to our ATM Sponsorship business; See Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters.

Regulation

The recent financial crisis has generated numerous legislative proposals now under consideration by Congress and the various federal banking agencies. Some of these proposals would dramatically alter the financial landscape, from both operational and regulatory points of view, and could materially impact financial institutions, including the Bank. At this time, no prediction can be made when, whether, or to what extent these proposals will be adopted into law or regulatory policy. See Risk Factors which is included in Item 1A of this Annual Report on Form 10-K.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). In response to the current national and international economic recession and to strengthen supervision of financial institutions and systemically important nonbank financial institutions, Congress and the U.S. government have taken 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 mandates changes in several key areas: regulation and compliance (both with respect to financial institutions and systemically important nonbank 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 abolishes the OTS on July 21, 2011, and transfers rulemaking authority and regulatory oversight to the Office of the Comptroller of the Currency (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 will most significantly have a major impact on large institutions, even relatively small institutions such as ours will be affected.

Pursuant to the Dodd-Frank Act, the Bank will be subject to regulations promulgated by a new consumer protection bureau housed within the Federal Reserve, known as the Bureau of Consumer Financial Protection (the Bureau or BCFP). The Bureau will consolidate rules and orders with respect to consumer financial products and services and will have 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 its size, enforcement authority will remain with the Bank s primary federal regulator although the Bank may be required to submit reports or other materials to the Bureau upon its request. The date upon which the Bureau will begin to exercise its authority has been designated by the Secretary of the Treasury as July 21, 2011.

With respect to MPS, the Dodd-Frank Act also contains a provision that requires the Federal Reserve to adopt regulations setting standards to determine whether an interchange fee charged by a larger bank (i.e., one with assets of more than $10 billion) for debit card transactions is reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Given the synergies and interconnectivity between all parties in payment systems processing in the United States, this requirement may mean that the Federal Reserve s limitations will apply to all participants in the card market because the networks may determine to pay the same interchange to all issuers, regardless of asset size.

The Dodd-Frank Act also included a provision that supplements the Federal Trade Commission Act s (the FTC Act) prohibitions against practices that are unfair or deceptive by also prohibiting practices that are abusive. This term has not yet been defined by implementing regulations but, once it is defined, the Bank will be required to evaluate all of its consumer financial products and services to ensure they are in compliance with this provision.

In addition, and among other legislative changes that we and the Bank will need to assess, the Dodd-Frank Act requires us to: (1) be subject to a new assessment model from the FDIC based upon assets, not deposits (as described herein); (2) be subject to enhanced executive compensation and corporate governance requirements; and (3) evaluate our capital compliance at the holding company level due to our issuance of trust preferred securities.

The extent to which the new legislation and existing and planned governmental initiatives thereunder will succeed in ameliorating tight credit conditions or otherwise result in an improvement in the national economy is uncertain. In addition, because most of the component parts of the Dodd-Frank Act will be subject to intensive agency rulemaking and subsequent public comment over the next several months, 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.

Emergency Economic Stabilization Act of 2008. On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (EESA), giving the US Treasury authority to take certain actions to restore liquidity and stability to the U.S. banking markets.

Based upon its authority in the EESA, a number of programs to implement the EESA have been announced. Those programs include the following:

- Capital Purchase Program (CPP). Pursuant to this program, the US Treasury, on behalf of the US government, purchased up to $250 billion of preferred stock, along with warrants to purchase common stock, from certain financial institutions, including bank holding companies, savings and loan holding

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companies and banks or savings associations not controlled by a holding company. The investment had a dividend rate of 5% per year, until the fifth anniversary of the US Treasury s investment and a dividend of 9% thereafter. The program was terminated and no new investments could be made after October 3, 2010. Neither the Bank nor the Company participated in this program.

• Temporary Liquidity Guarantee Program. That program contained both a debt guarantee component, whereby the Federal Deposit Insurance Corporation (FDIC) guaranteed certain senior unsecured debt issued by eligible financial institutions, and a transaction account guarantee component, whereby the FDIC insured 100% of non-interest bearing deposit transaction accounts held at eligible financial institutions, such as payment processing accounts, payroll accounts and working capital accounts through June 30, 2010. The Bank opted out of both components of this program. Importantly, however, the Dodd-Frank Act requires all insured financial institutions, such as the Bank, to provide such products with FDIC insurance from December 31, 2010 until December 31, 2012. This protection will not apply to interest-bearing NOW accounts or Interest on Lawyers Trust Accounts, however. The FDIC has not stated that deposit insurance premiums will increase because of the provision.

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

S.A.F.E. Act Requirements. On July 28, 2010, the OTS issued final rules requiring residential mortgage loan originators who are employees of federal savings banks to meet the registration requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (the S.A.F.E. Act). The S.A.F.E. Act requires residential mortgage loan originators who are employees of regulated financial institutions to be registered with the Nationwide Mortgage Licensing System and Registry, a database created by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to support the licensing of mortgage loan originators by the states (the Registry). Employees of regulated financial institutions are generally prohibited from originating residential mortgage loans unless they are registered. According to the final rule, due to various system modifications and enhancements required to make the existing system capable to accept Federal Registrants, the system is not expected to be available to accept Federal Registrants before January 2011. Individuals and Institutions will be directed on how to proceed by the appropriate agency.

Incentive Compensation Regulation. The OTS issued on June 21, 2010 final guidance to ensure that incentive compensation arrangements at federal savings banks take into account risk and are consistent with safe and sound banking practices. The guidance was designed to ensure that incentive compensation arrangements appropriately tie rewards to longer-term performance and do not undermine the safety and soundness of the entity or create undue risks to the financial system. As a result of this guidance, the Company and the Bank will incorporate the risks related to incentive compensation into their broader risk-management framework.

The Public-Private Partnership Investment Program for Legacy Assets. Announced by the FRB and the FDIC on March 23, 2009, this program consists of two plans (the Legacy Loan Program and the Legacy Securities Program) designed to assist insured depository institutions in the sale of certain assets. MetaBank will not participate in either program.

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

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requires banking regulators to consider a holding company s effectiveness in combating money laundering when ruling on certain merger or acquisition applications.

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

Pursuant to Section 302 of the SOA, Meta Financial s Chief Executive Officer and Chief Financial Officer are required to certify that the Company s quarterly and annual reports filed with the SEC fairly present, in all material respects, the operations and conditions of Meta Financial. In addition, as required by Section 404 of the SOA, management must make an assessment regarding the effect of internal controls on financial reporting. Management s assessment of the effectiveness of its internal control over financial reporting is included in Item 9A. This Annual Report does not include an attestation report of the Company s independent registered public accounting firm regarding internal control over financial reporting. Management s report is not subject to attestation by the Company s independent registered public accounting firm pursuant to the permanent exemption provided to issuers that are not large accelerated filers or accelerated filers under the Dodd-Frank Act.

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

Credit Card Regulation. The Credit Card Accountability Responsibility and Disclosure Act was signed into law on May 22, 2009 (the Credit Card Act). The Credit Card Act bans retroactive rate increases, requires that bills be due no less than 21 days from the time of mailing, requires that credit card contracts be accessable on the Internet, and allows consumers to opt-in if they choose to use a card issuer s over-limit protection. While certain open-end credit programs of the Bank will be impacted by the Credit Card Act, the operational and financial impact to the Bank will be immaterial. The Bank does not anticipate that any of its open-end line of credit programs will be discontinued or extensively modified as a result of the Credit Card Act. Two of the Bank s credit card programs will have significant changes to the terms and conditions as a result of the Credit Card Act. However, the account portfolio for these programs is relatively small, so any financial impact to the Bank due to any modifications to these programs will be minimal.

Gift card provisions in the Credit Card Act took effect on August 22, 2010. These provisions impose new restrictions on the use of expiration dates and fees on gift cards, including both open-loop and closed-loop cards. Certain provisions can also apply to general purpose reloadable and promotional cards (i.e., reloadable cards that are not marketed or labeled as gift cards, cards not marketed to the general public and cards that are loyalty or award cards are not subject to the fee and expiration restrictions). If a card is subject to the Credit Card Act s fee restrictions, then (1) fees cannot be imposed within a year after the card was issued or within a year after the cardholder s last use, (2) only one fee is permitted in any month, and (3) certain disclosures related to the fees and the timing of their imposition must be clearly and conspicuously disclosed. If a card is subject to the Credit Card Act s expiration provisions, then the card must give consumers a reasonable opportunity to purchase the card with at least five years remaining until the card expiration date and the funds loaded onto such card must not expire before the later of five years after the date on which the card was issued or the card expiration date (if any). As a result of these changes, we expect there will be a reduction in the Company s revenue of approximately $2.0 million in fiscal 2011.

The Homeowners Affordability and Stability Plan (HASP). Announced in February 2009, the HASP is a $75.0 billion dollar federal program providing for loan modifications targeted at borrowers who are at risk of foreclosure because their incomes are not sufficient to meet their mortgage payments. It is anticipated that this program will have minimal impact on the Company.

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

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

Bank Supervision & Regulation

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

The Bank is also a member of the FHLB System and is subject to certain limited regulation by the FRB.

Meta Financial currently has two wholly-owned subsidiaries: the Bank, a federally chartered thrift institution; and First Midwest Financial Capital Trust I, a statutory business trust organized under the Delaware Business Trust Act.

Regulatory authorities have been granted extensive discretion in connection with their supervisory and enforcement activities which are intended to strengthen the financial condition of the banking industry, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution, and the adequacy of an institution s allowance for loan losses. Typically, these actions are undertaken due to violations of laws or regulations or conduct of operations in an unsafe or unsound manner.

Any change in the nature of such regulation and oversight, whether by the OTS, the FDIC, the FRB or legislatively by Congress, could have a material impact on Meta Financial or 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. Federal law and regulation, including but not limited to the Home Owners Loan Act and the related regulations issued by the OTS, govern the activities of all federal savings associations, including the Bank. For example, as discussed in further detail below, certain lending authority for federal savings associations (such as commercial, nonresidential real property and consumer loans) is limited to a specified percentage of the association s capital or assets.

The OTS has extensive supervisory and regulatory authority over the operations of savings associations. As part of this authority, the Bank is required to file periodic reports with the OTS and is subject to periodic examination by the OTS, as discussed above. The last regular examination of the Bank was conducted in late 2010.

OTS also has extensive enforcement authority over its regulated institutions. This enforcement authority includes, among other things, the power to compel higher reserves, the ability to assess civil money penalties, the ability to issue cease-and-desist or removal orders and the ability to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports. The federal banking agencies have adopted guidelines establishing safety and soundness standards on such matters as

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loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Generally, any institution which fails to comply with these standards must submit a compliance plan. For further discussion, see Standards for Safety and Soundness and OTS Supervisory Directives and Related Matters, herein.

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

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, 2010, the Bank s lending limit under these restrictions was $12.0 million. The Bank is in compliance with this lending limit.

OTS Supervisory Directive and Related Matters. The Company has previously disclosed in a Form 8-K that it had received on October 6, 2010 a Supervisory Directive that clarified and supplemented an initial Supervisory Directive dated August 31, 2010, which was followed by communications and meetings between the OTS and senior management of the Bank. The OTS supervisory directives arose from a comprehensive examination of the Bank. The OTS has not yet presented its final report of examination to the Bank.

The OTS Directives, based on OTS assessment of the Bank s third-party relationship risk, enterprise risk management, and rapid growth (in the MPS segment), require the Bank to obtain the prior written approval of the OTS Regional Director to:

- enter into any new third party relationship agreements concerning any credit product, deposit product (including prepaid access), or automatic teller machine or materially amend any such existing agreements (except for amendments to achieve compliance with applicable laws and regulations) or publicly announce any new third party relationship agreements or material amendments to existing agreements;

- originate, directly or through any third party, income tax refund anticipation loans or other loans where the expected source of repayment is a tax refund; and

- offer an income tax refund transfer processing service directly or through any third party during the 2011 tax season.

Further, the Form 8-K stated that the OTS advised us on October 6 that it has determined that the Bank engaged in unfair or deceptive acts or practices in violation of Section 5 of the Federal trade Commission Act and the OTS Advertising Regulation in connection with the Bank s operation of the iAdvance program, and required the Bank to discontinue all iAdvance line of credit origination activity by October 13, 2010. The Form 8-K also indicated the OTS will address in the future its expectations with respect to reimbursement of borrowers under the iAdvance program. The OTS has not yet informed us of its expectations regarding such reimbursement.

The Bank is contesting the OTS findings with respect to the alleged unfair or deceptive alleged acts or practices. We cannot predict at this time the outcome, whether any reimbursement or fine will be imposed on the Bank, or if imposed what the amount of such reimbursement fine would be.

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It is customary, following the OTS examination of a bank, for the OTS to issue a report of examination which requires the bank to correct any deficiencies noted during the course of the examination. Bank regulatory agencies such as the OTS, which have broad discretionary powers to enforce banking laws and regulations, may also seek to take formal supervisory enforcement action if such actions are necessary or required. Under applicable laws, the OTS has the ability to impose substantial sanctions, restrictions, and requirements on the Bank if it determines, upon examination or otherwise, that violations of laws with which a bank must comply have occurred, or weaknesses or failures exist with respect to general standards of safety and soundness. Applicable law prohibits disclosure by the institution of specific OTS examination findings, although formal enforcement actions are routinely disclosed by the regulatory authorities. If a bank regulatory agency such as the OTS issues a formal order it may require corrective steps, impose limits on activities, fines, prescribe lending parameters or impose reporting requirements, and could conceivably require additional capital to be raised. Often, corrective steps result in increased compliance costs for internal and external resources. In many cases, policies and procedures must be revised by the institution and submitted to the regulatory authority for approval within time frames prescribed by the regulatory authorities. Failure to adhere to the requirements of the actions, once issued, can result in more severe restrictions. Generally, these enforcement actions can be lifted only after subsequent examinations substantiate correction of the underlying deficiencies. Such deficiencies may encompass any number of subjects, including risk management policies and procedures, compliance with the Bank Secrecy Act, other compliance rules, as well as other bank regulatory requirements. The OTS will typically seek to have a bank take corrective actions with respect to any deficiencies identified in the report of examination. With respect to our exam, we cannot predict with certainty the subjects that will be addressed and the means used to achieve these corrections. See Item 1A. Risk Factors Risks Related to Our Industry and Business difficult economic and market conditions have adversely affected our industry and Risks Related to the Company s Business We cannot predict the possibility of future regulatory action.

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. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. The FDIC also has authority to initiate enforcement actions against any FDIC-insured institution after giving its primary federal regulator the opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC imposes an assessment against all depository institutions for deposit insurance. This assessment is based on the risk category of the institution and, prior to 2009, ranged from five to 43 basis points of the institution s deposits. The FDIC issued a final rule on December 22, 2008, that raised the current deposit insurance assessment rates uniformly by seven basis points (to a range from 12 to 50 basis points) effective for the first quarter 2009. On February 27, 2009, the FDIC issued a final rule that changed the calculation of FDIC insurance rates beginning in the second quarter of 2009. Under this rule, the FDIC first establishes an institution s initial base assessment rate. This initial base assessment rate ranges, depending on the risk category of the institution, from 12 to 45 basis points. The FDIC then adjusts the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustment to the initial base assessment rate is based upon an institution s levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate currently ranges from seven to 77.5 basis points of the institution s deposits.

Adequately capitalized banks cannot normally pay dividends or make any capital contributions that would leave it undercapitalized; they cannot pay a management fee to a controlling person if, after paying the fee, it would be undercapitalized; and they cannot accept, renew or roll over any brokered deposit unless the bank has applied for and been granted a waiver by the FDIC. Under a new interest rate restriction rule that became effective in January 2010, 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.

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. In addition, as part of a capital restoration plan, the 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 that all FDIC insured institutions are assigned an assessment risk. In general, weaker banks (those with a higher assessment risk) 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 now well-capitalized changes as a result of future operations or regulatory order, the company s financial condition or result of operations could be adversely affected. See OTS Supervisory Directives and Related Matters.

The FDIC announced on November 12, 2009, that insured depository institutions were required to prepay three years of deposit insurance premiums on December 30, 2009. Under the rule, the prepaid amount was based on an estimate of the institution s assessment rate in effect on September 30, 2009, its third quarter 2009 assessment base, and an estimated rate of increase in that assessment base. MetaBank was assessed $4.1 million. At September 30, 2010, the Bank s risk category assignment required a payment of 14.36 cents per $100 of assessable deposits.

Under the Dodd-Frank Act, a permanent increase in deposit insurance was authorized to $250,000 (insurance coverage had previously been temporarily raised to that level until December 13, 2013). 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 addition, the Dodd-Frank Act will have a significant impact on the calculation of deposit insurance assessment premiums going forward. Specifically, the Dodd-Frank Act generally requires the FDIC to define the deposit insurance assessment base for an insured depository institution as an amount equal to the institution s average consolidated total assets during the assessment period minus average tangible equity. The FDIC has issued a proposed rulemaking that implements this change to the assessment calculation but has said that the new assessment rate schedule should result in the collection of assessment revenue that is approximately revenue neutral even though the new assessment base under Dodd-Frank Act is larger than the current assessment base. Because of this change, the new proposed assessment rates are lower than current rates and range generally from 2.5 basis points to 45 basis points. Notably, there is a separate insurance assessment rate schedule that has been proposed for larger institutions (i.e., institutions with at least $10 billion in assets).

The proposed FDIC rules also provide the FDIC s board with 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.

DIF-insured institutions pay a Financing Corporation (FICO) assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the fourth quarter of 2010, the FICO assessment was equal to 1.04 basis points for each $100 in domestic deposits. These assessments will continue until the bonds mature in 2019.

Under the Federal Deposit Insurance Act (FDIA), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. Management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

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

Regulatory Capital Requirements. Federally insured financial institutions, such as the Bank, are required to maintain a minimum level of regulatory capital. These capital requirements mandate that an institution maintain at least the following ratios: (1) a core (or Tier 1) capital to adjusted total assets ratio of 4% (which can be reduced to 3% for highly rated institutions); (2) a Tier 1 capital to risk-weighted assets ratio of 4%; and (3) a risk-based capital to risk-weighted assets ratio of 8%. Core (Tier 1) capital is defined as common stockholders equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority investments in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. Supplementary capital is currently defined to include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

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

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

As of September 30, 2010, the Bank exceeded all of its regulatory capital requirements with core, tangible and risk-based capital ratios of 7.29%, 7.29% and 18.80% respectively, and was designated as well-capitalized under federal guidelines. See Note 15 of the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Prompt Corrective Action. Federal banking regulators are authorized and, under certain circumstances, required to take certain actions against banks that fail to meet their capital requirements. Effective December 19, 1992, the federal banking agencies were given additional enforcement authority with respect to undercapitalized depository institutions. Under the regulations, an institution is deemed to be (a) well capitalized if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure; (b) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized; (c) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (d) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%; and (e) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. In certain situations, a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized or undercapitalized institution to comply with supervisory actions as if the institution were in the next lower category.

The federal banking agencies are generally required to take action to restrict the activities of an undercapitalized, significantly undercapitalized or critically undercapitalized bank. Any such bank must submit a capital restoration plan that is guaranteed by the parent holding company. Until such plan is approved, it may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The banking regulators are authorized to impose additional restrictions, discussed below, that are applicable to significantly undercapitalized institutions.

Any institution that fails to comply with its capital plan or is significantly undercapitalized (*ie,* Tier 1 risk-based or core capital ratios of less than 3% or a risk-based capital ratio of less than 6%) must be made subject to one or more of additional specified actions and operating restrictions mandated by 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 OTS deems appropriate. An institution that becomes critically undercapitalized is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized associations. In addition, the appropriate banking regulator must appoint a receiver (or conservator with the FDIC s concurrence) for an institution, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized institution is also subject to other possible enforcement actions, including the appointment of a receiver or conservator. The appropriate regulator is also generally authorized to reclassify an institution into a lower capital category and impose restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Institutions must file a capital restoration plan with the OTS within 45 days of the date it receives a notice from the OTS that it is undercapitalized, significantly undercapitalized, or critically undercapitalized. Compliance with a capital restoration plan must be guaranteed by a parent holding company. In addition, the OTS is permitted to take any one of a number of discretionary supervisory actions, including but not limited to the issuance of a capital directive and the replacement of senior executive officers and directors.

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 shareholders do not have preemptive rights and, therefore, if Meta Financial is directed by the OTS or the FDIC to issue additional shares of Common Stock, such issuance may result in the dilution in shareholders percentage of ownership of Meta Financial.

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 in troubled condition must give 30 days written notice before appointing a Director or Senior Executive Officer, pursuant to Section 32 of the FDIA.

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

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

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

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results of such action, the regulatory capital of the association would be reduced below the amount required to be maintained for the liquidation account established in connection with the Bank s mutual to stock conversion.

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

The OTS has the authority, however, to prohibit a proposed capital distribution that would otherwise be permitted by regulation if it determines that such distribution would be an unsafe or unsound activity. The Bank is also subject to certain restrictions on dividends as a result of its conversion from the mutual form of ownership.

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, 2010, the Bank met the test and always has since its effectiveness.

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

Community Reinvestment Act. Under the Community Reinvestment Act (CRA), every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to a particular community. The CRA requires the OTS, in connection with the examination of the Bank, to assess the institution s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch by the institution. An unsatisfactory rating may be used as the basis for the denial of such an application. The Bank was examined for CRA compliance in October 2007 and received a satisfactory rating.

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

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

Transactions with Affiliates. 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 nonaffiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the institutions capital (*e.g.,* the aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the institution; the aggregate amount of covered transactions with all affiliates is limited to 20% of the institution s capital and surplus). In addition, a savings and loan holding company may not lend to any affiliate engaged in activities not permissible for a savings and loan holding company or acquire the securities of most affiliates. The OTS has the discretion to treat subsidiaries of savings institutions as affiliates on a case-by-case basis.

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

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 percent 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.

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, one of 12 regional FHLBs that administers the home financing credit function of savings associations that is subject to supervision and regulation by the Federal Housing Finance Agency. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances must be used for residential home financing.

As members of the FHLB System, the Bank is required to purchase and maintain activity-based capital stock in the FHLB in the amount of 4.45% to support outstanding advances and mortgage loans. At September 30, 2010, the Bank had in the aggregate $5.3 million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 2010, dividends paid by the FHLB to the Bank totaled

$138,000.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to low- and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in

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value of the Bank s FHLB stock may result in a corresponding reduction in the Bank s capital. In addition, the federal agency that regulates the FHLBs has required each FHLB to register its stock with the SEC, which will increase the costs of each FHLB and may have other effects that are not possible to predict at this time.

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

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

Holding Company Supervision & Regulation

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

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

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

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

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

Pursuant to the Dodd-Frank Act, as described previously, it is expected that the Federal Reserve will have jurisdiction over the Company (and that the OCC will have jurisdiction over the Bank) upon the merger of OTS into the OCC.

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Federal and State Taxation

Federal Taxation. Meta Financial and its subsidiaries file consolidated federal income tax returns on a fiscal year basis using the accrual method of accounting. In addition to the regular income tax, corporations, including savings banks such as 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 shareholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 2010, the Bank s Excess for tax purposes totaled approximately $6.7 million.

Iowa Taxation. The Bank files Iowa franchise tax returns. Meta Financial and First Services Financial, a subsidiary of the Bank file a consolidated Iowa corporation tax return on a fiscal year-end basis.

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

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

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

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

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

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

Employees

At September 30, 2010, the Company and its subsidiaries had a total of 415 full-time equivalent employees. The Company s employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

Executive Officers of the Company Who Are Not Directors

The following information as to the business experience during the past five years is supplied with respect to the executive officers of the Company who do not serve on the Company s Board of Directors. There are no arrangements or understandings between such persons named and any persons pursuant to which such officers were selected.

Mr. Troy Moore III, age 42, is Executive Vice President and Chief Operating Officer of the Company and the Bank after being appointed to the position on June 27, 2005. In addition, Mr. Moore is a member of the Executive Committees for both the Company and the Bank. Mr. Moore had been the president of the Central Iowa Market of the Bank, a position he had held since 1998. He joined the Bank in 1997 as a Vice President in the Central Iowa Market. Previously, Mr. Moore served as District Representative and District Manager for Maytag for 7 years. Mr. Moore received a Bachelor of Business Administration degree from Iowa State University, Ames, Iowa. Mr. Moore is the son-in-law of James S. Haahr, the Company s Chairman of the Board, and the brother-in-law of J. Tyler Haahr, the Company s President and Chief Executive Officer.

Mr. David W. Leedom, age 56, is Executive Vice President, Secretary, Treasurer, and Chief Financial Officer of the Company after being appointed to the position on January 28, 2008. Additionally, Mr. Leedom is a member of the Executive Committees for both the Company and the Bank. Mr. Leedom has over 25 years of experience in the banking and financial services industry to the company. Mr. Leedom previously served as Senior Vice President of Portfolio Credit and Business Analytics at the Bank from January 2007 to October 2007 when he was appointed Acting Chief Financial Officer. He previously served as a Senior and as an Executive Vice President for BankFirst for 11 years prior to joining Meta in January 2007; his experience at BankFirst included his positions as EVP of Accounting and Finance and Credit Portfolio Management. Mr. Leedom s experience also includes 11 years at Citibank. Mr. Leedom received a Bachelor of Business Administration in Accounting degree from the University of Iowa.

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Item 1A. Risk Factors

Factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results include those described below as well as other risks and factors identified from time to time in our SEC filings. The Company s business could be harmed by any of the risks noted below. The trading price of the Company s common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this annual report on Form 10-K, including the Company s financial statements and related notes.

Risks Related to Our Industry and Business

Difficult economic and market conditions have adversely affected our industry.

Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions across the United States. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Financial institutions have experienced decreased access to deposits and borrowings. 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 how these 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;

• The value of the portfolio of investment securities that we hold, including our trust preferred securities, may be adversely affected; and

• If, due to financial setbacks or as a result of any OTS-ordered reimbursement, fine, or order our FDIC risk assessment category changes, we may be required to pay significantly higher FDIC insurance premiums in the future. See Regulation.

The full impact of the recently enacted Dodd-Frank Act is currently unknown given that much of the details and substance of the new laws will be determined through agency rulemaking.

The compliance burden and impact on our operations and profitability with respect to the Dodd-Frank Act are currently unknown, as the Dodd-Frank Act delegates to various federal agencies the task of implementing its many provisions through regulation. Hundreds of new federal regulations, studies and reports addressing all of the major areas of the new law, including the regulation of federal savings associations and their holding companies, will be required, ensuring that federal rules and policies in this area will be further developing for months and years to come. Based on the provisions of the Dodd-Frank Act and anticipated implementing regulations, it is highly likely

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that banks and thrifts as well as their holding companies will be subject to significantly increased regulation and compliance obligations that expose us to noncompliance risk and consequences.

The elimination of the OTS and transfer of the OTS s supervisory and rulemaking functions to various federal banking agencies will change the way that we are regulated.

As the OTS is due to be abolished 90 days after transferring its supervisory and rulemaking functions to various federal agencies, both the Bank and Company will be transitioning to the jurisdiction of new primary federal regulators, which will change the way that we are regulated. Specifically, the OTS s supervisory and rulemaking functions (except for consumer protection) relating to all federal savings associations will be transferred to the OCC, while the OTS s supervisory and rulemaking functions relating to savings and loan holding companies and their non-depository institution subsidiaries will be transferred to the FRB. While the OCC and FRB are directed to implement existing OTS regulations, orders, resolutions, determinations and agreements for thrifts and their holding companies under the HOLA, the transition of supervisory functions from the OTS to these agencies could alter the operations of the Bank and Company so as to be more closely aligned with the OCC s and FRB s respective supervision of national banks and bank holding companies. While the functions of the OTS will formally be transferred to the OCC and FRB in July 2011 (or else by January 2012 if a six-month extension is required), we may see changes in the way we are supervised and examined sooner, and may experience operational challenges in the course of transition to our new regulators.

The BCFP may reshape the consumer financial laws through rulemaking and enforcement of 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 BCFP has broad rulemaking authority to administer and carry 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 BCFP 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 (UDAP authority). The full reach and impact of the BCFP s broad new rulemaking powers and UDAP authority on the operations of financial institutions offering consumer financial products or services is currently unknown. Notwithstanding, insured depository institutions with assets of $10 billion or less will continue to be supervised and examined by their primary federal regulators, rather than the BCFP, with respect to compliance with the federal consumer protection laws.

Legislative and regulatory initiatives taken to date may not achieve their intended objectives; proposed and future initiatives may substantially increase compliance burdens and further impact our financial condition or results of operations.

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. Furthermore, the Basel Committee on Banking Supervision and other international bodies comprised of banking regulators have committed to raise capital standards and liquidity buffers within the banking system by imposing new requirements, for example a requirement that all regulatory capital instruments issued by depository institutions must include contractual terms that allow regulators to write them off or convert them to common shares in the event of the institution s failure. Such proposals may impose more stringent standards than currently applicable or anticipated with respect to capital and liquidity requirements for depository institutions. We cannot predict whether such proposals will ultimately be adopted, or the impact that such proposals, if adopted, would have upon our financial condition or results of operations.

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

As of September 30, 2010 approximately 47.1% of the Bank s assets were invested in mortgage-backed securities.

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

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.

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

We recorded other-than-temporary impairment (OTTI) charges in our trust preferred securities (TRUPS) portfolio in the fourth quarter of fiscal 2010, 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.

During fiscal 2010, we determined that one debt security TRUPS exhibited OTTI. The aggregate OTTI loss recorded for the security was $350,000 which was recognized through earnings.

The valuation of our TRUPS will continue to be influenced by external market and other factors, including implementation of Securities and Exchange Commission 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 an adverse impact to our capital position.

Under the recently enacted Dodd-Frank Act, TRUPS issued on or after May 19, 2010 are no longer eligible for inclusion in Tier 1 capital. For trust preferred securities issued before May 19, 2010, regulatory capital deductions will generally be required during a phase in period from January 1, 2013 to January 1, 2016; however, depository institution holding companies with assets of less than $15 billion as of year-end 2009 enjoy a permanent grandfather right with respect to such securities for purposes of calculating regulatory capital.

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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, including as a result of negative publicity associated with the supervisory directives, could impact our ability to attract new and maintain existing loan and deposit customers, employees and business relationships.

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

There have been a number of publicized cases involving 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. See Item 3. Legal Proceedings.

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 exceeds 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. Identity theft and successful unauthorized intrusions 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 Operation Recent Developments.

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

The Company s success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond the Company s control may adversely affect the Company s asset quality, deposit levels and loan demand and, therefore, the Company s earnings. Because the Company has a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Among other things, adverse changes in the economy, including but not limited to the current economic downturn, may also have a negative effect on the ability of the Company s borrowers to make timely repayments of their loans, which would have an adverse impact on the Company s earnings. In addition, the vast majority of the Company s loans are to individuals and businesses in the Company s market area. Consequently, any economic decline in the Company s market area could have an adverse impact on the Company s earnings.

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

The national and global economic downturn has recently resulted in extreme levels of market volatility locally, nationally and internationally. This downturn has depressed the overall market value of financial institutions, and may limit or impede industry access to capital, or have a material adverse effect on the financial condition or results of operations of banking companies in general, including the Company, with respect to, for example, the establishment of reserves should conditions deteriorate further.

In this respect, while the duration and severity of the adverse economic cycle appears to be lessening at the moment, and although the U.S. Department of the Treasury and the FDIC, among others, have implemented

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programs in an effort to stabilize the national economy, the ultimate effectiveness of these programs remains uncertain at this time.

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

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

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

The Company operates in a highly regulated environment and are subject to extensive regulation, supervision and examination by the OTS and the FDIC. As described above, beginning with the fourth quarter of fiscal 2011, we will be supervised by the Federal Reserve and the Bank will be supervised by the OCC and the FDIC. See Business Regulation herein. Applicable laws and regulations may change, and there is no assurance that such changes will not adversely affect the Company s business. In this respect, potentially landscape-changing legislative proposals have been introduced in Congress, and by regulatory agencies with respect to their respective regulatory powers. Such regulation and supervision govern the activities in which an institution may engage, including the activities of MPS, and are intended primarily for the protection of the Bank, its depositors and the FDIC. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution s allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing savings banks, could have a material impact on the Company s operations. It is unknown at this time to what extent legislation will be passed into law or regulatory proposals will be adopted, or the effect that such passage or adoption will have on the banking industry or the Company.

Changes in technology could be costly.

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

The recently enacted Dodd-Frank Act may have unpredictable effects on the Company and adversely impact the Company s results of operations, financial condition or liquidity.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States and, among many other things, eliminates the Company s bank regulator (the OTS, the duties of which will be taken over by the OCC and the Federal Reserve as the new regulators of the Bank and the Company, respectively), establishes the new federal BCFP, requires the BCFP and other federal agencies to implement over the next six to eighteen months many new and significant rules and regulations. At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will impact the Company s and the Bank s business. Compliance with the new law and regulations will, however, likely result in additional costs, which could be significant, and could adversely impact the Company s results of operations, financial condition or liquidity.

Risks Related to the Company s Business

We cannot predict the possibility of future regulatory action.

As has been described in this Annual Report, the OTS issued supervisory directives requiring the Bank to take certain actions and to refrain from taking certain actions. In addition, during 2010 the Bank was examined by OTS, but we have not yet received a report of examination. While we believe it is likely that OTS will seek to have the Bank take corrective actions in connection with deficiencies identified in the report of examination, we cannot predict with certainty the subjects that will be addressed and the means used to achieve such corrections. Bank regulatory agencies such as the OTS, which have broad discretionary powers to enforce banking laws and regulations, may seek to take formal supervisory action if such actions are necessary or required. Corrective steps could result in increased compliance costs for internal and external resources. See Item 1. Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters.

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

The Company encounters significant competition in the Company s market area from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial intermediaries. Many of the Company s competitors have substantially greater resources and lending limits and may offer services that the Company does not or cannot provide. The Company s profitability depends upon the Company s continued ability to compete successfully in the Company s market area. MPS operates on a national scale against competitors with substantially greater resources and limited barriers to entry. The success of MPS depends upon its ability to compete in such an environment.

Existing insurance policies may not adequately protect the Company and its subsidiaries.

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

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

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

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

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

- *Commercial Mortgage Loans.* Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.

- *Commercial Loans.* Repayment is dependent upon the successful operation of the borrower s business.

- *Consumer Loans.* Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

• *Agricultural Loans.* Repayment is dependent upon the successful operation of the business, which is greatly dependent on many things outside the control of either the Bank or the borrowers. These factors include weather, commodity prices, and interest rates, among others.

• *MPS Program Loans.* MPS previously originated consumer loans, in some cases related to anticipated tax refunds that are funded to prepaid cards. For certain of these loans, repayment is based on the customer filing a tax return and the Internal Revenue Service funding the tax refund. If either or both do not occur, losses could result. MPS has loss protection agreements in place with certain business partners in which they will absorb some or all of such losses in the event they were to exceed certain levels. We do not anticipate offering tax loan or refund transfer programs in fiscal 2011.

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

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

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

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

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

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

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impossible to sell the affected properties. These events could have a material adverse effect on the Company s business, financial condition and operating results.

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

In recent years, the Company has been required to include in its annual reports filed with the SEC a report of the Company s management regarding internal control over financial reporting. We have documented and evaluated the Company s internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and SEC rules and regulations, which require an annual management report on the Company s internal control over financial reporting, including, among other matters, management s assessment of the effectiveness of internal control over financial reporting. In order to comply with this requirement, management retained outside consultants to assist the Company in (i) assessing and documenting the adequacy of the Company s internal control over financial reporting, (ii) improving control processes, where appropriate, and (iii) verifying through testing or other means that controls are functioning as documented. Management s Annual Report on Internal Control over Financial Reporting is contained in Item 9A below. If the Company fails to identify and correct any significant deficiencies in the design or operating effectiveness of the Company s internal control over financial reporting or fails to prevent fraud, current and potential stockholders and depositors could lose confidence in the Company s financial reporting, which could adversely affect the Company s business, financial condition and results of operations, the trading price of the Company s stock, and the Company s ability to attract additional deposits.

No material weaknesses have been identified in connection with the Company s fiscal year 2010 audit. If material weaknesses are identified in the future, such weaknesses could have a material impact on the profitability and performance of the Company.

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

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

Risks Related to the Company s Stock

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

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

- announcements of developments related to the Company s business,
- fluctuations in the Company s results of operations,
- sales of substantial amounts of the Company s securities into the marketplace,
- general conditions in the Company s banking niche or the worldwide economy,
- a shortfall in revenues or earnings compared to securities analysts expectations,

- lack of an active trading market for the common stock,

- changes in analysts recommendations or projections, and

- the Company s announcement of new acquisitions or other projects.

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

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

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

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

Sales of a substantial amount of the Company s capital stock in the public market or the issuance of a significant number of shares could adversely affect the market price for shares of the Company s common stock. As of September 30, 2010, the Company was authorized to issue up to 5,200,000 shares of common stock, of which 3,111,413 shares were outstanding, and 261,586 shares were held as treasury stock. The Company was also authorized to issue up to 800,000 shares of preferred stock, none of which is outstanding or reserved for issuance. Accordingly, without further stockholder approval, the Company may issue up to 2,088,587 additional shares of common stock. This factor may affect the market price for shares of the Company s common stock.

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

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

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

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

Our agricultural loans are subject to factors beyond the Bank s control.

The agricultural community is subject to commodity price fluctuations. Although our agricultural loans are a relatively limited part of our overall portfolio, extended periods of low commodity prices, higher input costs, or poor weather conditions could result in reduced profit margins, reducing demand for goods and services provided by agriculture-related businesses, which in turn, could affect other businesses in the Company s market area.

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Risks Related to Meta Payment Systems®, a division of the Bank

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

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

While some proposed legislation would benefit MPS, it is possible that new legislation or more stringent focus by banking agencies could further restrict MPS current operations or change the regulatory environment in which the division s customers operate.

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

In addition to the relevant legal paradigm set forth above, it should also be noted that there has been concern within the bank regulatory environment over the use of credit and, in particular, prepaid cards as a means by which to illegally launder and move money. We believe such concerns in general will continue for the foreseeable future for the entire banking industry, with a continued emphasis on heightened compliance expectations. See Item 1. Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters.

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

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

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

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

Contracts with third-parties, some of which are material to the Company, may not be renewed, may be renegotiated on terms that are not as favorable to MPS, may not be fulfilled or could be subject to cancellation by regulatory authorities.

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

Similarly, were one of these parties unable to meet their obligations to us for any reason (including but not limited to bankruptcy, computer or other technological interruptions or failures, personnel loss or Acts of God), we may need to seek alternative service providers and the terms with such alternate providers may not be as favorable as those currently in place. In addition, were such failures to cause a material disruption in our ability to service our customers, it is possible that our customer base would shrink. Moreover, were the disruptions in our ability to provide services significant, this could negatively affect the perception of our business in the card industry.

In addition, as described earlier, in the supervisory directive our regulator noted deficiencies with respect to our third party relationships. As a result, we may seek modifications to certain of our contracts with third-parties, and we cannot offer any assurance that we will be able to achieve such modifications. If we are unsuccessful, it is possible that OTS could order us to abrogate certain contracts, which could have an adverse impact on our financial condition or results of operations. See Regulation Bank Supervision and Regulation- OTS Supervisory Directives and Related Matters.

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

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

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

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

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

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

Our business model, to some degree, depends upon the use of sales agents who are not our employees. These agents sell the products and services of many different processors to merchants and other parties in need of a card services. Failure to maintain good relations with such sales agents could have a negative impact on our business. In addition, new third party relationships have been restricted absent prior approval of OTS. See Item 1. Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters.

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

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

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

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

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

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

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

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

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

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

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

Data encryption technology has not been perfected and vigilance in MPS information technology systems is costly.

MPS holds sensitive business and personal information with respect to the products and services it offers. This information, which is generally digitally encrypted, is passed along various technology channels, including the Internet. Although MPS encrypts its customer and other sensitive information and expends significant financial and personnel resources to maintain the integrity of its technology networks and the confidentiality of nonpublic customer information, because such information may travel on public technology and other non-secure channels, the

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confidential information is susceptible to hacking and other illegal intrusions. Were such a security breach to occur, the provision of products and services to customers of MPS would be impaired and could incur significant fines from the electronic funds associations involved, significant regulatory fines imposed by federal and/or state regulators and other prohibitions, as well as extensive litigation from commercial parties and consumers affected by such breach.

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

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

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

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

MPS Revenue Concentration.

MPS works with a large number of business partners to derive its revenue. The Company believes two of its partners have reached a size that, should these partners business with the Company end, the earnings attributable to them would have a material effect on the financial results of the Company.

Item 1B. **Unresolved Staff Comments**

Not Applicable.

Item 2. **Properties**

The Company conducts its business at its main office and branch office in Storm Lake, Iowa. The Company operates six offices in metro Des Moines, Iowa. The Company also operates one office in Brookings, South Dakota and three offices in Sioux Falls, South Dakota. In addition, the

Company has space at another facility in Sioux Falls, South Dakota, which houses general corporate and MPS functions, in Omaha, Nebraska, which houses certain MPS functions and a non-retail service branch in Memphis, Tennessee.

The Company owns all of its offices, except for the branch offices located in Storm Lake Plaza, Storm Lake, Iowa, on Westown Parkway, West Des Moines, Iowa, on North Minnesota Avenue, Sioux Falls, South Dakota, on South Western Avenue, Sioux Falls, South Dakota, on West 12th Street, Sioux Falls, South Dakota, the administrative and MPS offices located on Broadband Lane in Sioux Falls, Omaha and the non-retail service branch in Memphis, Tennessee. In regard to the South Western and West 12th Street locations in Sioux Falls, South Dakota, the land on which the buildings were constructed is leased. The total net book value of the Company s premises and equipment (including land, building and leasehold improvements and furniture, fixtures and equipment) at September 30, 2010 was $19.4 million. See Note 7 to the Notes to Consolidated Financial Statements which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

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The Company has experienced rapid growth, particularly as a result of growth of MPS. Management believes current facilities are adequate to meet its present needs.

The Bank maintains an on-line data base with a service bureau, whose primary business is providing such services to financial institutions. The net book value of the data processing and computer equipment utilized by the Company at September 30, 2010 was approximately $3.0 million.

Item 3. Legal Proceedings

Lawsuits against MetaBank involving the sale of purported MetaBank certificates of deposit continue to be addressed. Since its filing of Form 10-K for the year ended September 30, 2009, three such lawsuits have been settled for a payment and dismissed with prejudice: (i) the matter of Methodist Hospitals of Dallas v. MetaBank and Meta Financial Group, Inc., filed in the 95th Judicial District Court of Dallas County, TX, Cause No. 08-06994: (ii) the matter of St. Paul Mercury Insurance Co., as assignee and subrogate of Lemont National Bank, v. Metabank, filed in the United States District Court for the Northern District of Illinois, Case No. 1:09-cv-01031; and (iii) Coreplus Federal Credit Union and Waterbury CT Teachers Federal Credit Union, v. MetaBank and Meta Financial Group, filed in the United States District Court for the District of South Dakota, Southern Division, Case No. 09-cv-4130. In all, nine cases have been filed to date, and of those nine, three have been dismissed, and four have been settled for payments that the Company deemed reasonable under the circumstances, including the costs of litigation. Of the two remaining cases, one is a class action case. On May 5, 2010, in that class action, Guardian Angel Credit Union v. MetaBank et al., Case No. 08-cv-261-PB (USDC, District of NH), the court granted the plaintiff s motion to certify the class. Additionally, a lawsuit relating to this matter has been filed by Airline Pilots Assoc Federal Credit Union in the Iowa District court for Polk County, Case number CL-118792. The underlying matter was first disclosed in the Company s quarterly report for the period ended December 31, 2007, which stated that an employee of the Bank had sold fraudulent CDs for her own benefit. The unauthorized and illegal actions of the employee have since prompted a number of demands and lawsuits seeking recovery on the fraudulent CDs to be filed against the Bank, which have been disclosed in subsequent filings. The employee was prosecuted, convicted and, on June 2, 2010, sentenced to more than seven years in federal prison and ordered to pay more than $4 million in restitution. Notwithstanding the nature of her crimes, which were unknown by the Bank and its management, plaintiffs in the two remaining cases seek to impose liability on the Bank under a number of legal theories with respect to the remaining $3.6 million of fraudulent CDs that were issued by the former employee. The Bank and its insurer, which has assumed defense of the action and which is advancing defense costs subject to a reservation of rights, continue to vigorously contest liability in the remaining actions.

Cedar Rapids Bank & Trust Company v MetaBank, Case No. LACV007196. In a separate matter, on November 3, 2009, Cedar Rapids Bank & Trust Company (CRBT) filed a Petition against MetaBank in the Iowa District Court in and for Linn County claiming an unspecified amount of money damages against MetaBank arising from CRBT s participation in loans originated by MetaBank to companies owned or controlled by Dan Nelson. The complaint states that the Nelson companies eventually filed for bankruptcy and the loans, including CRBT s portion, were not fully repaid. Under a variety of theories, CRBT claims that MetaBank had material negative information about Dan Nelson, his companies and the loans that it did not share with CRBT prior to CRBT taking a participation interest**.** MetaBank believes that CRBT s loss of principal was limited to approximately $200,000, and in any event intends to vigorously defend the case.

Thirumalesh Bhat v. Meta Financial Group, Inc., J. Tyler Haahr, David W. Leedom, Bradley C. Hanson and Troy Moore; Case No. 5:10-cv-04099-DEO, and Alaa M. Elgaouni v. Meta Financial Group, Inc., J. Tyler Haahr, David W. Leedom; Case No. C10-4108MWB. The Company has been informed that two former stockholders, Thirumalesh Bhat and Alaa M. Elgaouni, have separately filed purported class action lawsuits against the Company and certain of its officers alleging violations of certain federal securities laws. The cases were filed on October 22, 2010 and November 5, 2010 in the United States District Court for the Northern District of Iowa purportedly on behalf of those who purchased the Company s stock between May 14, 2009 and October 15, 2010. The complaints allege that the named officers violated Sections 10(b) and 20(a) of the Securities Exchange Act and SEC Rule 10b-5 in connection with certain allegedly false and misleading public statements made during this period by the Company and its officers. The complaints do not specify an amount of damages sought. The Company denies the allegations in the complaints and intends to vigorously pursue its defense.

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Supervisory Action. In its Supervisory Directive of October 6, 2010 (Supervisory Directive) ordering the Bank to discontinue its iAdvance loan product, the Regional Director of the OTS informed the Bank of its determination that the Bank had committed unfair or deceptive acts and practices with respect to its iAdvance lending program. OTS also informed the Bank in the Supervisory Directive that it will address in the future its reimbursement expectations regarding iAdvance borrowers. The OTS has not yet informed us of its expectations with respect to reimbursement of borrowers under the iAdvance program. If the OTS decides to impose on the Bank, pursuant to its enforcement authority, a monetary component of corrective action in connection with its findings in respect of the iAdvance program, such measures could include reimbursement of consumers as well as a potential fine. We cannot predict whether any reimbursement will be sought or fine will be imposed, or if sought or imposed, what the amount of such reimbursement or fine would be. The Bank is contesting the OTS findings with respect to its iAdvance lending program.

See Item 1. Business Bank Supervision and Regulation OTS Supervisory Directives and Related Matters for a discussion of existing OTS enforcement matters and potential future corrective actions.

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

Item 4. **Removed and Reserved**

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PART II

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

The Company s common stock trades on the NASDAQ Global Market® under the symbol CASH. Quarterly dividends for 2010 and 2009 were $0.13. The price range of the common stock, as reported on the NASDAQ System, was as follows:

	Fiscal Year 2010		Fiscal Year 2009	
	Low	High	Low	High
First Quarter	$ 20.45	$ 23.76	$ 6.75	$ 16.94
Second Quarter	17.40	25.25	6.59	12.28
Third Quarter	24.97	32.67	8.50	21.52
Fourth Quarter	29.28	36.72	19.27	24.05

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

Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations, and regulatory restrictions.

As of September 30, 2010, the Company had 3,111,413 shares of common stock outstanding, which were held by 206 shareholders of record, and 490,993 shares subject to outstanding options. The shareholders of record number does not reflect approximately 1000 persons or entities that hold their stock in nominee or street name.

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

There have been no purchases by the Company during the quarter ended September 30, 2010 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

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Item 6. **Selected Financial Data**

SEPTEMBER 30,	2010	2009	2008	2007	2006
SELECTED FINANCIAL CONDITION DATA (Dollars in Thousands)					
Total assets	$ 1,029,766	$ 834,777	$ 710,236	$ 686,080	$ 740,921
Loans receivable, net	366,045	391,609	427,928	355,612	368,959
Securities available for sale	506,852	364,838	203,834	158,701	172,444
Goodwill and intangible assets	2,663	2,215	2,206	1,508	1,508
Deposits	897,454	653,747	499,804	522,978	538,169
Total borrowings	41,214	116,796	147,683	78,534	114,789
Shareholders equity	72,044	47,345	45,733	48,098	45,099

YEAR ENDED SEPTEMBER 30,	2010	2009	2008	2007	2006
SELECTED OPERATIONS DATA (Dollars in Thousands, Except Per Share Data)					
Total interest income	$ 39,083	$ 36,726	$ 37,418	$ 37,774	$ 38,112
Total interest expense	5,993	8,907	13,415	16,967	19,611
Net interest income	33,090	27,819	24,003	20,807	18,501
Provision for loan losses	15,791	18,713	2,715	3,168	310
Net interest income after provision for loan losses	17,299	9,106	21,288	17,639	18,191
Total non-interest income	97,444	79,969	37,696	21,858	13,495
Total non-interest expense	94,930	91,081	61,820	36,958	26,641
Income (loss) from continuing operations before income tax expense (benefit)	19,813	(2,006)	(2,836)	2,539	5,045
Income tax expense (benefit)	7,420	(543)	(1,002)	1,227	1,666
Income (loss) from continuing operations	12,393	(1,463)	(1,834)	1,312	3,379
Income (loss) from discontinued operations, net of tax			811	(141)	309
Net income (loss)	12,393	(1,463)	(1,023)	1,171	3,688
Basic earnings (loss) per common share:					
Income (loss) from continuing operations	$ 4.23	$ (0.56)	$ (0.71)	$ 0.52	$ 1.36
Income (loss) from discontinued operations			0.31	(0.06)	0.12
Net income (loss)	$ 4.23	$ (0.56)	$ (0.40)	$ 0.46	$ 1.48
Diluted earnings (loss) per common share:					
Income (loss) from continuing operations	$ 4.11	$ (0.56)	$ (0.69)	$ 0.50	$ 1.34
Income (loss) from discontinued operations			0.31	(0.05)	0.12
Net income (loss)	$ 4.11	$ (0.56)	$ (0.38)	$ 0.45	$ 1.46

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YEAR ENDED SEPTEMBER 30,	2010	2009	2008	2007	2006
SELECTED FINANCIAL RATIOS AND OTHER DATA					
PERFORMANCE RATIOS					
Return on average assets	1.22%	-0.20%	-0.14%	-0.14%	0.17%
Return on average assets-continuing operations	1.22%	-0.20%	-0.24%	-0.24%	0.19%
Return on average equity	20.59%	-3.13%	-2.27%	2.69%	8.55%
Return on average equity-continuing operations	20.59%	-3.13%	-4.07%	3.01%	7.83%
Net interest margin-continuing operations	3.43%	3.50%	3.51%	3.38%	2.85%
Operating expense to average assets-continuing operations	9.36%	10.55%	8.25%	5.26%	3.55%
QUALITY RATIOS-Continuing Operations					
Non-performing assets to total assets at end of year	0.94%	1.76%	1.06%	0.38%	0.72%
Allowance for loan losses to non-performing loans	63%	55%	76%	196%	121%
CAPITAL RATIOS					
Shareholders equity to total assets at end of period	7.00%	5.67%	6.44%	7.01%	6.09%
Average shareholders equity to average assets	5.93%	5.42%	6.01%	6.20%	5.76%
OTHER DATA					
Book value per common share outstanding	$ 23.15	$ 17.97	$ 17.58	$ 18.57	$ 17.79
Dividends declared per share	0.52	0.52	0.52	0.52	0.52
Number of full-service offices	12	12	13	17	19

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

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

General

The Company is a unitary savings and loan holding company whose primary subsidiary is the Bank. The Company focuses on two core businesses, its regional retail banking business and a national payments business, conducted through its MPS division. The Company s retail bank business is focused on establishing and maintaining long-term relationships with customers, and is committed to serving the financial service needs of the communities in its market area. The retail bank s primary market area includes the following counties: Buena Vista, Dallas and Polk located in central and northwestern Iowa, and Brookings, Lincoln, and Minnehaha located in east central South Dakota. The traditional retail bank segment attracts retail deposits from the general public and uses those deposits, together with other borrowed funds, to originate and purchase residential and commercial mortgage loans, and to originate consumer, agricultural and other commercial loans and to purchase various investment and mortgage-backed securities.

MPS, a division of the Bank, is an industry leader in the issuance of prepaid debit cards and is also a provider of a wide range of payment-related products and services, including prepaid debit cards such as those related to gift, tax refunds, rebate, travel and payroll, ATMs, and consumer credit products. MPS pursues a strategy of working with industry-leading companies in a variety of businesses to help them introduce new payment products to their customers. In addition, MPS partners with emerging companies to develop and introduce new payment products. MPS earns revenues from fees as well as being a significant provider of low- and no-cost demand deposits related to its prepaid card business. Certain MPS activities have been significantly curtailed as a result of supervisory directives issued by the OTS. For a description of the directives, see Item 1. Regulation Bank Supervision and Regulation OTS Supervisory Directives and Related Matters. It is expected, as described below, that the directives will have a significant impact on revenues, profitability, and growth of the MPS division and the Company as a whole.

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Overview of Corporate Developments

In fiscal 2010, the MPS division continued to demonstrate significant growth on a year-over-year basis. Fiscal 2010 MPS-related card fee income grew 20% as compared to fiscal 2009. In fiscal 2010, MPS continued to expand its tax-related, rebate, and consumer credit business lines. During fiscal 2010, the Bank participated in a pre-season tax-related loan program with a major tax preparation firm as it did in the prior fiscal year. The Company managed the funding and credit risks and realized its expected return on the program. In addition, MPS provided a prepaid debit card for refunds with the same tax preparation company in fiscal 2010 and 2009. As mentioned earlier in this Annual Report, the Bank does not anticipate offering its tax-related programs in fiscal 2011. Moreover, the Bank was ordered to discontinue its iAdvance lending program and complied with that order on October 13, 2010. iAdvance represented 13% and our tax-related loan and refund transfer programs represented 16% of our fiscal 2010 MPS gross profit. It was expected that these programs would contribute approximately the same level to earnings in fiscal 2011 as they did in fiscal 2010. The Bank may not enter into new third party relationship agreements or amend existing agreements (except to comply with law), absent regulatory permission. These relationships include, in addition to those discussed above, card agreements, including our Simplexus platform that allows small banks to issue cards, and our ATM sponsorship programs. As a result, third party entities may decide to migrate their business to other banks that are not similarly restricted. One such party has already announced its intent to decrease its reliance on MetaBank. As a result, it is possible that revenues, low and no-cost deposits, and profits generated by these lines will decrease in fiscal 2011. See Item 1. Business Bank Supervision and Regulation OTS Supervisory Directives and Related Matters.

Also, we disclosed in our Form 8-K filings of October 12, 2010 and October 18, 2010 that we anticipated the discontinuance of the iAdvance loan program may result in elevated rates of nonpayment on outstanding iAdvance loans. We further disclosed in our Form 8-K filed on December 2, 2010 our estimate that the elevated losses caused by the sudden discontinuation of the iAdvance loan program in mid-October 2010 will result in the recognition of an immaterial amount of related loan loss provision expense of approximately $50,000 or less, for the three months ending December 31, 2010, and we reaffirm that estimation.

We also disclosed in our Form 8-K filed on December 2, 2010 that following these Supervisory Directives, management of MPS has been in discussions with various third parties regarding the structure and fees of tax-related programs which could be submitted to the OTS for approval, and that in light of requirements imposed on MPS for any proposed programs to be submitted for OTS approval and the timeline for expected OTS review, MPS had concluded that it was unlikely to offer these tax-related programs during the upcoming 2011tax season. Finally, we disclosed that MPS has been in discussions with one of its primary program managers of the tax-related programs regarding a mutual agreement to terminate the program agreement for the 2011 tax season. During the pendency of those discussions, that program manager provided MPS its notice of termination on November 30, 2010.

The traditional bank segment is continuing to build its customer base from its previous expansion in the growing metropolitan areas of Sioux Falls, South Dakota and Des Moines, Iowa. The Bank has added six branches in approximately the past nine years in these markets. The Bank focuses primarily on establishing lending and deposit relationships with commercial businesses and commercial real estate owners or developers in these communities. During the second quarter of fiscal 2008, the Company sold its commercial banking subsidiary, MetaBank WC, which included three branches in rural West-Central Iowa. The transaction closed March 28, 2008. The Company is now a unitary savings and loan holding company, not a bank holding company, and is subject to the jurisdiction of the OTS. This transaction allows the Company to increase its focus on higher growth markets and business lines. The Bank now operates 12 retail banking branches: in Brookings (1) and Sioux Falls (3), South Dakota, in Des Moines (6) and Storm Lake (2), Iowa and maintains a non-retail service branch in Memphis, Tennessee.

On September 30, 2010, the Company sold Meta Trust.

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Financial Condition

The following discussion of the Company s consolidated financial condition should be read in conjunction with the Selected Consolidated Financial Information and Consolidated Financial Statements and the related notes included in this Annual Report on Form 10-K.

As of September 30, 2010, the Company s assets grew by $195.0 million, or 23.4%, to $1.0 billion compared to $834.8 million at September 30, 2009. The increase in assets was reflected primarily in increases in the Company s mortgage-backed securities and to a lesser extent the Company s cash and cash equivalents, offset in part by decreases in the Company s portfolio of net loans.

Total cash and cash equivalents and federal funds sold were $87.5 million at September 30, 2010, an increase of $81.3 million from $6.2 million at September 30, 2009. The growth primarily was the result of the Company s increased liquidity from an increase in deposits, primarily due to deposits generated by MPS. In general, the Company maintains its cash investments in interest-bearing overnight deposits with the FHLB and the FRB. Federal funds sold deposits may be maintained at the FHLB. At September 30, 2010 the Company had no federal funds sold.

The total of mortgage-backed securities and investment securities available for sale increased $142.0 million, or 38.9%, to $506.8 million at September 30, 2010, as investment purchases exceeded related maturities, sales, and principal pay downs. The Company s portfolio of investment securities available for sale consists primarily of mortgage-backed securities, which have relatively short expected lives. During fiscal year 2010, the Company purchased $435.8 million of mortgage-backed securities with average lives of five years or less or stated finals of approximately 30 years or less and sold mortgage-backed securities in the amount of $97.6 million. See Note 4 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The Company s portfolio of net loans receivable decreased by $25.6 million, or 6.5%, to $366.0 million at September 30, 2010 from $391.6 million at September 30, 2009. This decrease primarily relates to a decrease of $27.9 million in commercial and multi-family real estate loans. One- to four-family residential loans also decreased by $7.8 million from the prior fiscal year due to sales and repayments exceeding originations. Offsetting the above was an increase in consumer loans of $12.1 million. See Note 5 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The Company owns stock in the FHLB due to its membership and participation in this banking system. The Company s investment in such stock decreased $1.8 million, or 25.1%, to $5.3 million at September 30, 2010 from $7.1 million at September 30, 2009. The decrease was due to a decrease in the level of borrowings from the FHLB, which require a calculated level of stock investment based on a formula determined by the FHLB.

Bond insurance receivable decreased $0.4 million at September 30, 2010 as management revised the expected receipt of insurance proceeds related to the purported MetaBank certificate of deposits matter disclosed in Item 3. Legal Proceedings

Foreclosed real estate and repossessed assets decreased to $1.3 million as compared to $2.1 million at September 30, 2009 due to sales and write offs exceeding the foreclosure of assets and loan collateral related to previously reported non-performing loans.

Total deposits increased by $243.7 million, or 37.3%, to $897.4 million at September 30, 2010 from $653.7 million at September 30, 2009. During fiscal 2010, the Company continued to grow its low- and no-cost deposit portfolio. Deposits attributable to MPS were up $233.1 million, or 55.2%, at September 30, 2010, as compared to September 30, 2009. This increase results from growth in prepaid card programs. As mentioned previously, it is unclear what the level of MPS-generated deposits will be in fiscal 2011.

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The Company s total borrowings decreased $75.6 million, or 64.7%, from $116.8 million at September 30, 2009 to $41.2 million at September 30, 2010 and is primarily due to the growth of deposits. See Notes 9, 10, and 11 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

At September 30, 2010, the Company s shareholders equity totaled $72.0 million, up $24.7 million from $47.3 million at September 30, 2009. The increase was related to the issuance of common shares of $8.6 million, a favorable change in the accumulated other comprehensive loss on the Company s available for sale portfolio, an increase in fiscal net income as compared to the prior fiscal year and offset in part by the payment of cash dividends on the Company s common stock. At September 30, 2010, the Bank continues to meet regulatory requirements for classification as a well-capitalized institution. See Note 15 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Results of Operations

The following discussion of the Company s Results of Operations should be read in conjunction with the Selected Consolidated Financial Information and Consolidated Financial Statements and the related notes included in this Annual Report on Form 10-K.

The Company s Results of Operations are dependent on net interest income, non-interest income, non-interest expense, and income tax expense. Net interest income is the difference, or spread, between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand, and deposit flows. The Company, like other financial institutions, is subject to interest rate risk to the extent that its interest-earning assets mature or reprice at different times, or on a different basis, than its interest-bearing liabilities. The Company s non-interest income improved significantly in fiscal 2010 as compared to fiscal 2009, and in fiscal 2009 as compared to fiscal 2008. Non-interest expense also increased in proportion to net interest income and non-interest income as compared to the prior fiscal year. A more detailed explanation of the factors responsible for results of operations of the Company is presented below.

The Company s non-interest income is derived primarily from prepaid card, credit products, and ATM fees attributable to MPS and fees charged on bank loans and transaction accounts. This income is offset, in part, by expenses, such as compensation and occupancy expenses associated with additional personnel and office locations as well as card processing expenses attributable to MPS. To a lesser extent, non-interest income is derived from gains or losses on the sale of securities available for sale as well as the Company s holdings of bank owned life insurance. Non-interest expense is also impacted by occupancy and equipment expenses, regulatory expenses, and legal and consulting expenses.

Comparison of Operating Results for the Years Ended September 30, 2010 and September 30, 2009

General. The Company recorded net income from continuing operations of $12.4 million, or $4.11 per diluted share, for the year ended September 30, 2010 compared to a loss of $1.5 million, or $0.56 per diluted share, for the year ended September 30, 2009. The increase in net income in the current period was primarily caused by an increase in non-interest income and a reduction in the provision for loan losses which were partially offset by an increase in non-interest expense. In addition, net interest income increased $5.3 million as compared to the prior fiscal year.

Net Interest Income. Net interest income from continuing operations for fiscal 2010 increased by $5.3 million, or 18.9%, to $33.1 million from $27.8 million for the prior fiscal year. Net interest margin decreased slightly to 3.43% in fiscal year 2010 as compared to 3.50% in fiscal year 2009.

The Company s average earning assets increased $169.5 million, or 21.3%, to $964.6 million during fiscal year 2010 from $795.1 million during fiscal year 2009. The increase is primarily the result of the increase in the Company s mortgage-backed securities portfolio. Overall, asset yields declined by 57 basis points due to lower

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average rates. The increase in average earning assets was offset by a change in the mix of earning assets, to more investment securities and fewer loans, and a decrease in yields in mortgage-backed securities and other investments.

The Company s average total deposits and interest-bearing liabilities increased $135.2 million, or 16.9%, to $935.3 million during fiscal year 2010 from $800.1 million during fiscal year 2009. The increase resulted mainly from an increase in the Company s non-interest-bearing deposits. The Company s cost of total deposits and interest-bearing liabilities declined 47 basis points to 0.64% during fiscal year 2010 from 1.11% during fiscal year 2009 primarily due to continued migration to low and no-cost deposits provided by MPS.

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Average Balances, Interest Rates, and Yields

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

Year Ended September 30, (Dollars in Thousands)	2010 Average Outstanding Balance	2010 Interest Earned / Paid	2010 Yield / Rate	2009 Average Outstanding Balance	2009 Interest Earned / Paid	2009 Yield / Rate	2008 Average Outstanding Balance	2008 Interest Earned / Paid	2008 Yield / Rate
Interest-earning assets:									
Loans receivable	$ 402,750	$ 24,944	6.19%	$ 423,915	$ 25,561	6.03%	$ 413,866	$ 25,909	6.26%
Mortgage-backed securities	422,904	13,370	3.16%	259,265	10,230	3.95%	194,785	8,484	4.36%
Other investments	138,915	769	0.55%	111,910	935	0.84%	74,809	3,025	4.04%
Total interest-earning assets	**964,569**	**$ 39,083**	**4.05%**	**795,090**	**$ 36,726**	**4.62%**	**683,460**	**$ 37,418**	**5.47%**
Non-interest-earning assets	49,739			68,187			65,536		
Total assets	**$ 1,014,308**			**$ 863,277**			**$ 748,996**		
Non-interest bearing deposits	$ 633,246	$	0.00%	$ 490,651	$	0.00%	$ 341,624	$	0.00%
Interest-bearing liabilities:									
Interest-bearing checking	21,169	258	1.22%	15,795	39	0.25%	15,075	104	0.69%
Savings	10,431	34	0.33%	9,734	38	0.39%	10,072	105	1.04%
Money markets	34,713	292	0.84%	38,559	415	1.08%	61,592	1,478	2.40%
Time deposits	136,409	3,324	2.44%	146,647	4,849	3.31%	139,868	6,071	4.34%
FHLB advances	76,312	1,558	2.04%	66,272	2,627	3.96%	103,768	3,960	3.82%
Other borrowings	23,023	527	2.29%	32,477	939	2.89%	20,965	1,697	8.09%
Total interest-bearing liabilities	**302,057**	**5,993**	**1.98%**	**309,484**	**8,907**	**2.88%**	**351,340**	**13,415**	**3.82%**
Total deposits and interest-bearing liabilities	**935,303**	**$ 5,993**	**0.64%**	**800,135**	**$ 8,907**	**1.11%**	**692,964**	**$ 13,415**	**1.94%**
Other non-interest bearing liabilities	18,815			16,383			11,000		
Total liabilities	**954,118**			**816,518**			**703,964**		
Shareholders equity	60,190			46,759			45,032		
Total liabilities and shareholders equity	**$ 1,014,308**			**$ 863,277**			**$ 748,996**		
Net interest income and net interest rate spread including non-interest bearing deposits		**$ 33,090**	**3.41%**		**$ 27,819**	**3.51%**		**$ 24,003**	**3.54%**
Net interest margin			**3.43%**			**3.50%**			**3.51%**

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Rate / Volume Analysis

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

Rate / Volume Year Ended September 30, (Dollars in Thousands)	2010 vs. 2009 Increase / (Decrease) Due to Volume	Increase / (Decrease) Due to Rate	Total Increase / (Decrease)	2009 vs. 2008 Increase / (Decrease) Due to Volume	Increase / (Decrease) Due to Rate	Total Increase / (Decrease)
Interest-earning assets						
Loans receivable	$ (1,317)	$ 700	$ (617)	$ 676	$ (1,024)	$ (348)
Mortgage-backed securities	4,597	(1,457)	3,140	2,429	(683)	1,746
Other investments	385	(551)	(166)	3,498	(5,588)	(2,090)
Total interest-earning assets	**$ 3,665**	**$ (1,308)**	**$ 2,357**	**$ 6,603**	**$ (7,295)**	**$ (692)**
Interest-bearing liabilities						
Interest-bearing checking	$ 18	$ 202	$ 220	$ 5	$ (70)	$ (65)
Savings	3	(7)	(4)	(4)	(63)	(67)
Money markets	(38)	(85)	(123)	(430)	(633)	(1,063)
Time deposits	(320)	(1,205)	(1,525)	313	(1,535)	(1,222)
FHLB advances	486	(1,555)	(1,069)	(1,488)	155	(1,333)
Other borrowings	(241)	(172)	(413)	4,435	(5,193)	(758)
Total interest-bearing liabilities	**$ (92)**	**$ (2,822)**	**$ (2,914)**	**$ 2,831**	**$ (7,339)**	**$ (4,508)**
Net effect on net interest income	**$ 3,757**	**$ 1,514**	**$ 5,271**	**$ 3,772**	**$ 44**	**$ 3,816**

Provision for Loan Losses. In fiscal 2010, the Company recorded a provision for loan losses of $15.8 million, compared to $18.7 million for fiscal 2009. $11.4 million of the fiscal 2010 provision related to MPS, of which $9.9 million relates to the completion of a loan program offered in collaboration with MPS s tax preparation partner with all appropriate accounts now charged-off, consistent with our policy. There are no loan balances or allowance remaining for this program as of September 30, 2010.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime mortgage loans, management believes the current recessionary environment may strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Concerns regarding the economic slowdown, has led management to the conclusion that future losses in its commercial and multi-family and commercial business portfolio may be somewhat higher than historical experience. On the other hand, current trends in agricultural markets remain reasonable. Higher commodity prices as well as average to above average yields created positive economic conditions for most farmers in our markets in 2009. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the aforementioned recession may also negatively impact consumers repayment capacities. Additionally, a sizable portion of the Company s consumer loan portfolio is secured by residential real estate, as discussed above, which is an area to be closely monitored by management in view of its stated concerns.

The allowance for loan losses established in connection with MPS operations results from an estimation process that evaluates relevant characteristics of its credit portfolio(s). MPS 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. Due to the varied and unknown nature and structures of future credit programs, the exact methodology to determine the ALL for each program will not be identical. Each program may have differing levels of risk, definitions of delinquency and loss, inclusion/exclusion of credit bureau criteria, roll rate migration dynamics, etc. Similarly, the additional capital required to offset the increased risk in subprime lending activities may vary by credit program. Each program will need to be evaluated separately and with potentially different methodologies. The increased charge-offs for MPS credit resulted primarily from pre-season tax loans to sub-prime borrowers that peaked in January 2010. Management was pro-active and established a provision for loan losses for these loans during the tax pre-season offering period. The majority of the charge-offs for these pre-season tax loans were recorded against the allowance for loan losses in the third quarter of fiscal 2010. The charge-offs were in accordance with management s expectations of the pre-season tax program.

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, 2010 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company s determination of the allowance for loan losses is subject to review by its regulatory agencies, which can require the establishment of additional general or specific allowances.

Non-Interest Income. Non-interest income increased by $17.5 million, or 21.9%, to $97.5 million for fiscal 2010 from $80.0 million for fiscal 2009. Fees earned on prepaid debit cards, credit products and other payment systems products and services were $93.2 million for fiscal 2010 as compared to $77.5 million for fiscal 2009.

In addition, the Bank recorded a gain on sale of securities available for sale of $2.1 million in fiscal 2010 as compared to gain on sale of $0.8 million in the prior fiscal year.

Non-Interest Expense. Non-interest expense increased by $3.8 million, or 4.2%, to $94.9 million for fiscal 2010 from $91.1 million for the same period in fiscal year 2009.

Compensation expense totaled $32.5 million for fiscal 2010 as compared to $32.7 million for fiscal 2009. In January 2010, the Company eliminated 47 positions in MPS. The reduction in compensation expense is expected to amount to nearly $5.0 million, on an annualized basis, as a result of this action.

Costs associated with the operational support of card-related products at MPS also increased. Card processing expenses totaled $38.2 million for fiscal 2010 as compared to $33.5 million for fiscal 2009. These expenses primarily stem from prepaid card and credit-related programs managed by MPS. Other card processing expense increases are attributable to settlement functions for value loading, card sales and anticipated growth of existing products.

The Company s occupancy and equipment expense totaled $8.2 million for fiscal 2010 as compared to $8.0 million for fiscal 2009. The increase was due to supporting new product lines and increasing market penetration of MPS products and services.

Income Tax Expense (Benefit). Income tax expense from continuing operations for fiscal 2010 was $7.4 million, or an effective tax rate of 37.4%, compared to a tax benefit of $0.5 million, or an effective tax rate of 27.1%, in fiscal 2009. The change in tax expense is primarily due to the change in net income from continuing operations before income tax expense. The Company s recorded income tax expense was also impacted primarily by permanent differences between book and taxable income.

Comparison of Operating Results for the Years Ended September 30, 2009 and September 30, 2008

General. The Company recorded a loss from continuing operations of $1.5 million, or $0.56 per diluted share, for the year ended September 30, 2009 compared to a loss of $1.8 million, or $0.69 per diluted share, for the year ended September 30, 2008. Net loss in the current period was primarily caused by an increased provision for loan losses in connection with various commercial borrowers. In addition, net interest income increased $3.8 million as compared to the prior fiscal year. Including discontinued operations, net loss was $1.5 million, or $0.56 per diluted share, for the year ended September 30, 2009 compared to a net loss of $1.0 million, or $0.38 per diluted share, for the year ended September 30, 2008. Net earnings in the prior fiscal year 2008 were impacted by an after-tax gain of $735,000 resulting from the sale of the Company s commercial banking subsidiary, MetaBank WC. See Note 2 of the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K for further information on discontinued operations.

Net Interest Income. Net interest income from continuing operations for fiscal 2009 increased by $3.8 million, or 15.9%, to $27.8 million from $24.0 million for the prior fiscal year. Net interest margin remained stable at 3.50% in fiscal year 2009 as compared to 3.51% in fiscal year 2008.

The Company s average earning assets increased $111.6 million, or 16.3%, to $795.1 million during fiscal year 2009 from $683.5 million during fiscal year 2008. The increase is primarily the result of the increase in the Company s mortgage-backed securities portfolio. Overall, asset yields declined by 85 basis points due to lower average rates. The increase in average earning assets was offset by a change in the mix of earning assets and a decrease in yields in all categories.

The Company s average total deposits and interest-bearing liabilities increased $107.1 million, or 15.5%, to $800.1 million during fiscal year 2009 from $693.0 million during fiscal year 2008. The increase resulted mainly from an increase in the Company s non-interest-bearing deposits. The Company s cost of total deposits and interest-bearing liabilities declined 83 basis points to 1.11% during fiscal year 2009 from 1.94% during fiscal year 2008 primarily due to continued migration to low and no-cost deposits provided by MPS.

Provision for Loan Losses. In fiscal 2009, the Company recorded a provision for loan losses of $18.7 million, compared to $2.7 million for fiscal 2008. $8.1 million of the fiscal 2009 provision related to MPS, of which $7.9 million relates to the completion of a loan program offered in collaboration with MPS s tax preparation partner with all appropriate accounts now charged-off, consistent with our policy. There are no loan balances or allowance remaining for this program as of September 30, 2009. During fiscal 2009, the Company also recorded a provision for loan losses in the amount of $10.5 million primarily due to the failure of five commercial borrowers to repay their respective loans, one of which the Company believes committed fraud. As disclosed in the Company s current report on Form 8-K filing of October 8, 2008, a borrower of the Bank has likely participated in a fraud on the Bank and other banks. Based on the Bank s investigation at the time, it concluded that, as of September 30, 2008, it was appropriate to establish an allowance for loan losses of $1.8 million. After subsequent reviews during fiscal 2009, the Bank concluded that a $3.1 million increase to the loan loss was warranted. The increases were attributable to lower collateral values caused in large part by weaker economic conditions and a deterioration in the commercial real estate market. Potential losses range from $2.1 million to $6.0 million with an expected loss of $5.0 million. Of the $4.9 million provided for since October 2008, a net of $5.0 million has already been charged-off. See Non-performing Assets, Other Loans of Concern, and Classified Assets herein.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the adequacy of its allowance for loan losses. While the Company has no direct exposure to sub-prime mortgage loans, management believes the current recessionary environment may strain the financial condition of some borrowers. Management therefore believes that future losses in the residential portfolio may be somewhat higher than historical experience. Over the past six years, loss rates in the commercial and multi-family real estate market, and commercial business market, have remained moderate. Management recognizes that low charge-off rates over the past several years reflect the formerly strong economic environment and are not indicative of likely losses over a full business cycle. This observation, as well as the aforementioned concerns regarding the economic slowdown, has led management to the conclusion that future losses in this portfolio may be somewhat higher than recent historical experience, excluding loan losses related to fraud by borrowers. On the other hand, current trends in agricultural markets remain reasonable. Higher commodity prices as well as average to above average yields created positive economic conditions for most farmers in our markets in 2009. Nonetheless, management still expects that future losses in this portfolio, which have been very low, could be higher than recent historical experience. Management believes that the aforementioned recession may also negatively impact consumers repayment capacities. Additionally, a sizable portion of the Company s consumer loan portfolio is

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secured by residential real estate, as discussed above, which is an area to be closely monitored by management in view of its stated concerns.

The allowance for loan losses established in connection with MPS operations results from an estimation process that evaluates relevant characteristics of its credit portfolio(s). MPS 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. Due to the varied and unknown nature and structures of future credit programs, the exact methodology to determine the ALL for each program will not be identical. Each program may have differing levels of risk, definitions of delinquency and loss, inclusion/exclusion of credit bureau criteria, roll rate migration dynamics, etc. Similarly, the additional capital required to offset the increased risk in subprime lending activities may vary by credit program. Each program will need to be evaluated separately and with potentially different methodologies. The increased charge-offs for MPS credit resulted primarily from tax refund anticipation loans (RAL) to sub-prime borrowers that peaked in March of 2009. Management was pro-active and established a provision for loan losses for these loans during the tax season offering period. The majority of the charge-offs for these RAL loans were recorded against the allowance for loan losses in the third quarter of fiscal 2009. The charge-offs were in accordance with management s expectations of the RAL program.

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, 2009 reflects an adequate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level that it considers to be adequate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company s determination of the allowance for loan losses is subject to review by its regulatory agencies, which can require the establishment of additional general or specific allowances.

Non-Interest Income. Non-interest income increased by $42.3 million, or 112.1%, to $80.0 million for fiscal 2009 from $37.7 million for fiscal 2008. Fees earned on prepaid debit cards, credit products and other payment systems products and services were $77.5 million for fiscal 2009 as compared to $34.6 million for fiscal 2008.

In addition, the Bank recorded a gain on sale of securities available for sale of $761,000 in fiscal 2009 as compared to gain on sale of $24,000 in the prior fiscal year. Offsetting the above increases was a recorded loss on the sale of foreclosed property and real estate owned of $1.0 million. The Bank sold a portion of assets acquired due to fraud of a commercial borrower previously disclosed.

Non-Interest Expense. Non-interest expense increased by $29.3 million, or 47.3%, to $91.1 million for fiscal 2009 from $61.8 million for the same period in fiscal year 2008.

Compensation expense totaled $32.7 million for fiscal 2009 as compared to $25.7 million for fiscal 2008. The increase represents the addition of client relations, compliance and operations support staff within MPS, as well as software developers, Information Technology (IT) support staff, and other administrative support within the Company. Most of the new employees are focused on supporting new business growth and the expansion of existing MPS products and services.

Costs associated with the operational support of card-related products at MPS also increased. Card processing expenses totaled $33.5 million for fiscal 2009 as compared to $15.6 million for fiscal 2008. These expenses primarily stem from prepaid card and credit-related programs managed by MPS. Other card processing expense increases are attributable to settlement functions for value loading, card sales and anticipated growth of existing products. Management expects that these costs will continue to increase as MPS issues more cards and offers new and expanded products and services.

The Company s occupancy and equipment expense totaled $8.0 million for fiscal 2009 as compared to $6.6 million for fiscal 2008. The increase was due to supporting new product lines and increasing market penetration of MPS products and services. Management expects that occupancy and equipment costs will gradually increase as MPS issues more cards and offers new and expanded products and services.

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Income Tax Benefit. Income tax benefit from continuing operations for fiscal 2009 was $543,000, or an effective tax rate of 27.1%, compared to a tax benefit of $1.0 million, or an effective tax rate of 35.3%, in fiscal 2008. The change in tax benefit is primarily due to the change in loss from continuing operations before income tax benefit. The Company s recorded income tax benefit was also impacted primarily by permanent differences between book and taxable income.

Discontinued Operations. The Company reported no income or loss from discontinued operations for fiscal 2009 compared to income of $811,000 for fiscal 2008. The prior year was impacted by a $735,000 after-tax gain on the sale of MetaBank WC. See Note 2 of the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K for further discussion on discontinued operations.

Critical Accounting Policies

The Company s financial statements are prepared in accordance with GAAP. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that: (i) involve the most complex and subjective decisions and assessments which may be uncertain at the time the estimate was made, and (ii) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements, management has identified the policies described below as Critical Accounting Policies. This discussion and analysis should be read in conjunction with the Company s financial statements and the accompanying notes presented in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of its Annual Report on Form 10-K/A for the year ended September 30, 2008 and contained herein.

Allowance for Loan Losses. The Company s allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company s historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company s markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies, and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio, it will enhance its methodology accordingly. Management may have reported a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. Although management believes the levels of the allowance as of both September 30, 2010 and September 30, 2009 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions or other factors could result in increasing losses.

Goodwill and Intangible Assets. Goodwill represents the excess of acquisition costs over the fair value of the net assets acquired in a purchase acquisition. Intangible assets include patents filed by the MPS Division. Goodwill and intangible assets are tested annually for impairment or more often if conditions indicate a possible impairment. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate future cash flows, risk-adjusted discount rates, future economic and market conditions, comparison of the Company s market value to book value and determination of appropriate market comparables. Actual future results may differ from those estimates.

Each quarter the Company evaluates the estimated useful lives of intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with Codification of Accounting Standards (ASC) 350 (Financial Accounting Standards Board (FASB) Statement No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is

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expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Assumptions and estimates about future values and remaining useful lives of the Company s intangible and other long-lived assets are complex and subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Company s business strategy and internal forecasts. Although the Company believes the historical assumptions and estimates used are reasonable and appropriate, different assumptions and estimates could materially impact the reported financial results.

Self-Insurance. The Company has a self-insured healthcare plan for its employees up to certain limits. To mitigate a portion of these risks, the Company has a stop-loss insurance policy through a commercial insurance carrier for coverage in excess of $55,000 per individual occurrence with a maximum aggregate limit for each employee of $2.0 million. The estimate of self-insurance liability is based upon known claims and an estimate of incurred, but not reported (IBNR) claims. IBNR claims are estimated using historical claims lag information received by a third party claims administrator. Due to the uncertainty of health claims, the approach includes a process which may differ significantly from other methodologies and still produce an estimate in accordance with GAAP. Although management believes it uses the best information available to determine the accrual, unforeseen health claims could result in adjustments to the accrual.

Deferred Tax Assets. The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to income for the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized subject to management s judgment that realization is more-likely-than-not. An estimate of probable income tax benefits that will not be realized in future years is required in determining the necessity for a valuation allowance. There was no deferred tax valuation allowance at September 30, 2010 and 2009.

Security Impairment. Management continually monitors the investment security portfolio for impairment on a security by security basis. Management has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves 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 of the security, cash flow projections, and the Company s intent to sell a security or whether it is more likely than not the Company 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. If the Company intends to sell a security or it is more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, the Company recognizes an other-than-temporary impairment in earnings for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that the Company would be required to sell a security before the recovery of it amortized cost, less any current period credit loss, the recognition of the other-than-temporary impairment is bifurcated. For those securities, the Company separates the total impairment into a credit loss component recognized in earnings, and the amount of the loss related to other factors is recognized in other comprehensive income net of taxes.

The amount of the credit loss component of a debt security impairment is estimated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset- backed or floating rate security. Cash flow estimates for trust preferred securities are derived from scenario-based outcomes of forecasted default rates, loss severity, prepayment speeds and structural support.

In fiscal year 2010, the other than temporary impairment losses recognized in earnings was $350,000. There were no other than temporary impairment losses in fiscal 2009 and fiscal 2008.

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Level 3 Fair Value Measurement. GAAP requires the Company to measure the fair value of financial instruments under a standard which describes three levels of inputs that may be used to measure fair value. Level 3 measurement includes significant unobservable inputs that reflect the Company s own assumptions about the assumptions that market participants would use in pricing an asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Although management believes that it uses a best estimate of information available to determine fair value, due to the uncertainty of future events, the approach includes a process that may differ significantly from other methodologies and still produce an estimate that is in accordance with GAAP.

Net Portfolio Value.

Asset/Liability and Risk Management. Interest rate risk is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Company s business activities. The Bank, like other financial institutions, is subject to interest rate risk to the extent that its interest-bearing liabilities with short- and medium-term maturities mature or reprice more rapidly than its interest-earning assets. The Company does not currently engage in trading activities to control interest rate risk although it may in the future, if necessary, to manage interest rate risk.

As a continuing part of its financial strategy, the Bank considers methods of managing this asset/liability mismatch consistent with maintaining acceptable levels of net interest income. In order to properly monitor interest rate risk, the Board of Directors has created an Investment Committee whose principal responsibilities are to assess the Bank s asset/liability mix and implement strategies that will enhance income while managing the Bank s vulnerability to changes in interest rates. In managing market risk and the asset/liability mix, the Bank has placed its emphasis on developing a portfolio in which, to the extent practicable, assets and liabilities reprice within similar periods. The goal of this policy is to provide a relatively consistent level of net interest income in varying interest rate cycles and to minimize the potential for significant fluctuations from period to period. One approach used to quantify interest rate risk is the Bank s net portfolio value (NPV) analysis. In essence, this analysis calculates the difference between the present value of the liabilities and the present value of expected cash flows from assets and off-balance sheet contracts.

Even if interest rates change in the designated amounts, there can be no assurance that the Company s assets and liabilities would perform as set forth below. In addition, a change in U.S. Treasury rates in the designated amounts accompanied by a change in the shape of the Treasury yield curve would cause significantly different changes to the NPV than indicated below.

Presented below, as of September 30, 2010 and 2009, is an analysis of the Company s interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. Down 100 basis points and down 200 basis points are not presented for September 30, 2010 and 2009 due to the extremely low rate environment. At both September 30, 2010 and 2009, the Company s interest rate risk profile was within the interest sensitivity limits set by the Board of Directors as listed below. As of September 30, 2010, the Bank s interest rate risk profile was within the limits set forth by the OTS.

	September 30, 2010		
	Estimated	**Estimated Increase**	
Change in	**NPV**	**(Decrease) in NPV**	
Interest Rates	**Amount**	**Amount**	**Percent**
		(Dollars in Thousands)	

Basis Points			
+200 bp	79,622	7,624	10.59%
+100 bp	83,851	11,853	16.46%
	71,998		

	September 30, 2009		
Change in Interest Rates	**Estimated NPV Amount**	**Estimated Increase (Decrease) in NPV Amount**	**Percent**
		(Dollars in Thousands)	
Basis Points			
+200 bp	59,931	(9,543)	-1.74%
+100 bp	68,969	(505)	-0.73%
	69,474		

Certain shortcomings are inherent in the method of analysis presented in the table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market

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rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Furthermore, although management has estimated changes in the levels of prepayments and early withdrawal in these rate environments, such levels would likely deviate from those assumed in calculating the table. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase.

Asset Quality

It is management s belief, based on information available at fiscal year end, that the Company s current asset quality is satisfactory. At September 30, 2010, non-performing assets, consisting of impaired/non-accruing loans, accruing loans delinquent 90 days or more, restructured loans, foreclosed real estate, and repossessed consumer property, totaled $9.7 million, or 0.9% of total assets, compared to $14.7 million, or 1.8% of total assets, at September 30, 2009.

Impaired/non-accruing and restructured loans at September 30, 2010 totaled $8.2 million. There were $1.3 million in foreclosed real estate and repossessed assets at September 30, 2010.

The Company maintains an allowance for loan losses because of the potential that some loans may not be repaid in full. See Note 1 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K. At September 30, 2010, the Company had an allowance for loan losses in the amount of $5.2 million as compared to $7.0 million at September 30, 2009. Management s periodic review of the adequacy of the allowance for loan losses is based on various subjective and objective factors including the Company s past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management may allocate portions of the allowance for specifically identified problem loan situations, the majority of the allowance is based on judgmental factors related to the overall loan portfolio and is available for any loan charge-offs that may occur. As stated previously, there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company s bank is subject to review by the OTS, which has the authority to require management to make changes to the allowance for loan losses.

In determining the allowance for loan losses, the Company specifically identifies loans that it considers to have potential collectibility problems. Based on criteria established by ASC 310 (Statement of Financial Accounting Standards (SFAS) No. 114), some of these loans are considered to be impaired while others are not considered to be impaired, but possess weaknesses that the Company believes merit additional analysis in establishing the allowance for loan losses. All other loans are evaluated by applying estimated loss ratios to various pools of loans. The Company then analyzes other factors (such as economic conditions) in determining the aggregate amount of the allowance needed.

At September 30, 2010, $1.3 million of the allowance for loan losses was allocated to impaired loans, representing 9.7% of the related loan balances. See Note 5 of the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K. $606,000 of the allowance was allocated to other identified problem loan situations, representing 2.3% of the related loan balances, and $3.3 million, representing 1.0% of the related loan balances, was allocated to the remaining overall loan portfolio based on historical loss experience and general economic conditions. At September 30, 2009, $5.1 million of the allowance for loan losses was allocated to impaired loans, representing 26.1% of the related loan balances. $0.3 million was allocated to other identified problem loan situations, and $1.6 million was allocated against losses from the overall loan portfolio based on historical loss experience and general economic conditions.

Liquidity and Capital Resources

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

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The Company relies on advertising, quality customer service, convenient locations, and competitive pricing to attract and retain its deposits and only solicits these deposits from its primary market area. Based on its experience, the Company believes that its consumer checking, savings, and money market accounts are relatively stable sources of deposits. The Company s ability to attract and retain time deposits has been, and will continue to be, affected by market conditions. However, the Company does not foresee any significant retail funding issues resulting from the sensitivity of time deposits to such market factors.

The Company is aware that, due to higher levels of concentration risk, the low- and no-cost checking deposits generated through MPS may carry a greater degree of concentration risk than traditional consumer checking deposits. To date, the Company has not experienced any significant outflows related to MPS over the past six years, though no assurance can be given that this will continue to be the case. As a result of the OTS directives, it is possible that the Bank may experience migration of third-parties with which it does business to other banks that are able to operate without restrictions. One such third party has announced its intention to diversify its business, although it continues to maintain a strong business relationship with the Bank. We cannot predict the extent to which third-parties with whom we do business will migrate their business to other banks, or the extent to which such migration will reduce our low and no-cost deposits. If such reductions occur in a material amount, the Company s financial condition and results of operations could be adversely affected.

The Bank is required by regulation to maintain sufficient liquidity to assure its safe and sound operation. In the opinion of management, the Bank is in compliance with this requirement.

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

The primary investing activities of the Company are the origination and purchase of loans and the purchase of securities. During the years ended September 30, 2010, 2009 and 2008, the Company originated loans totaling $1.2 billion, $686.1 million, and $726.2 million, respectively. Purchases of loans totaled $8.9 million, $50.4 million, and $55.3 million during the years ended September 30, 2010, 2009 and 2008, respectively. During the years ended September 30, 2010, 2009 and 2008, the Company purchased mortgage-backed securities and other securities available for sale in the amount of $437.3 million, $287.1 million and $102.8 million, respectively.

At September 30, 2010, the Company had unfunded loan commitments of $37.8 million. See Note 16 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K. Certificates of deposit scheduled to mature in one year or less from September 30, 2010 totaled $101.0 million. Based on its historical experience, management believes that a significant portion of such deposits will remain with the Company; however, there can be no assurance that the Company can retain all such deposits. Management believes that loan repayment and other sources of funds will be adequate to meet the Company s foreseeable short- and long-term liquidity needs.

The following table summarizes the Company s significant contractual obligations at September 30, 2010 (Dollars in Thousands):

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Contractual Obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
Time deposits	$ 146,072	$ 100,972	$ 39,187	$ 5,913	$
Long-term debt	30,904	19,904	2,500	1,500	7,000
Operating leases	9,512	1,582	2,897	2,214	2,819
Subordinate debentures Issued to capital trust	10,310				10,310
Data processing services	3,756	1,352	2,404		
Total	$ 200,554	$ 123,810	$ 46,988	$ 9,627	$ 20,129

During July 2001, the Company s unconsolidated trust subsidiary, First Midwest Financial Capital Trust I, sold $10.0 million in floating rate cumulative preferred securities. Proceeds from the sale were used to purchase subordinated debentures of the Company, which mature in the year 2031, and are redeemable at any time after five years. The capital securities are required to be redeemed on July 25, 2031; however, the Company has the option to shorten the maturity date to a date not earlier than July 25, 2007. The Company used the proceeds for general corporate purposes. See Note 11 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The Company and its banking subsidiary, the Bank, met regulatory requirements for classification as well capitalized institutions. See Note 15 to the Notes to Consolidated Financial Statements, which is included in Part II, Item 8 Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K. At this time, the Company does not anticipate any significant changes to its capital structure.

On August 23, 2004, the Company announced that the Board of Directors had authorized the Company s ESOP to purchase up to 40,000 shares of the Company s stock through open market and privately negotiated transactions. The ESOP stock purchase was completed on April 18, 2005 at a total cost of $897,000. At September 30, 2010 and 2009, the ESOP held no unallocated shares.

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

At the Bank level, the Board of Directors has approved a goal of an 8% Tier 1 capital to adjusted total assets ratio during fiscal 2011. At September 30, 2010, the Bank s Tier 1 capital to adjusted total assets ratio was 7.29%, well in excess of the five percent minimum to attain well-capitalized status. No assurance can be provided that the Board of Directors goal will be achieved.

Off-Balance Sheet Financing Arrangements

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

Other Matters

The Bank utilizes various third parties for, among other things, its processing needs, both with respect to standard bank operations and with respect to its MPS division. MPS was notified in April 2008 by one of the processors that the processor s computer system had been breached, which led to the unauthorized load and spending of funds from Bank-issued cards. The Bank believes the amount in question to be approximately $2.0 million. The processor and program manager both have agreements with the Bank to indemnify it for any losses as a result of such unauthorized activity, and the matter is reflected as such in its financial statements. In addition, the Bank has given notice to its own insurer. The Bank has been notified by the processor that its insurer has denied the claim filed. The Bank made demand for payment and filed a demand for arbitration to recover the unauthorized loading and spending amounts and certain damages. The Bank has settled its claim with the program manager, and has received an arbitration award against the processor and is attempting to collect on the arbitration award.

Certain corporate clients of an unrelated company named Springbok Services, Inc. have requested through counsel a mediation or negotiation as a means of reaching a settlement in lieu of commencing litigation against MetaBank. These claimants purchased MetaBank prepaid reward cards from Springbok, prior to Springbok s bankruptcy. As a result of Springbok s bankruptcy and cessation of business, some of the rewards cards which had been purchased were never activated or funded. Counsel for these companies have indicated that they are prepared to assert claims totaling approximately $1.0 million against MetaBank based on principal/agency or failure to supervise theories. The Company denies liability with respect to these claims.

Recent Developments

On December 9, 2010, the Bank discovered that two wire transfers in the amount of approximately $1.1 million had been fraudulently authorized several days before through identify theft. The Bank is actively investigating the fraud, and is cooperating with law enforcement officials in this respect. Due to the very recent nature of these events, the Bank has not yet made a determination on liability, and depending on the results of its investigation, will consider submitting a claim for reimbursement with its insurer.

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Impact of Inflation and Changing Prices

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

Impact of New Accounting Standards

Effective for interim and annual periods ending after September 15, 2009, the FASB Accounting Standards Codification (Codification or ASC) is the single source of authoritative literature recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all of the authoritative literature related to a particular topic in one place. The Codification supersedes all pre-existing accounting and reporting standards, excluding separate rules and other interpretive guidance released by the SEC. New accounting guidance is now issued in the form of Accounting Standards Updates, which update the Codification. All guidance contained in the Codification carries an equal level of authority. The Company has adopted the Codification in the period ending September 30, 2009 and the principal impact on the Company s consolidated financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification. In order to ease the transition to the Codification, the Codification cross-reference is provided alongside the references to the standards issued and adopted prior to the adoption of the Codification.

In March 2008, the FASB issued ASC 815 (FASB Statement No. 161), *Disclosures about Derivative Instruments and Hedging Activities*. ASC 815 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. The Company adopted ASC 815 effective January 1, 2009. The adoption of ASC 815 did not have a significant effect on the Company s consolidated financial statements.

In April 2009, the FASB issued ASC 820 (FASB Staff Position FAS 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. ASC 820 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. ASC 820 also provides guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820 is effective for financial statements issued after June 15, 2009. The adoption of ASC 820 did not have a significant effect on the Company s consolidated financial statements.

In April 2009, the FASB issued ASC 320 (FASB Staff Position FAS 115-2 and FAS 124-2), *Recognition and Presentation of Other-Than-Temporary Impairments*. ASC 320 amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. ASC 320 does not amend existing recognition and measurement guidance related to other-than-temporary impairment of equity securities. ASC 320 is effective for financial statements issued after June 15, 2009. The adoption of ASC 320 did not have a significant effect on the Company s consolidated financial statements.

In April 2009, the FASB issued ASC 820 (FASB Staff Position FAS 107-1 and APB 28-1), *Interim Disclosures about Fair Value of Financial Instruments*. ASC 820 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. ASC 820 also requires those disclosures in summarized financial information at interim reporting periods. ASC 820 is effective for financial statements issued after June 15, 2009. The Company adopted ASC 820 beginning June 30, 2009 with no material impact on the Company s financial position, results of operation or cash flows.

In April 2010, FASB issued ASU No. 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*. As a result of this update, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU No. 2010-18 is effective for the Company in the first interim period of fiscal 2011 (December 31, 2010) and the annual reporting period beginning September 30, 2011. Management is currently evaluating the impact of adopting this update on the Company s consolidated financial condition, results of operations and cash flow.

In July 2010, FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASC Topic 310). This guidance will expand disclosures by requiring additional disaggregated information. It will also require additional disclosures to provide information based on credit quality, past due aging information, trouble debt restructuring information, and significant purchases and sales of financing receivables. ASU 2010-20 is effective for the Company for interim and annual reporting periods ending after December 15, 2010 and the Company does not expect the adoption to have a material effect on the Company s consolidated financial condition, results of operations or cash flow.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

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

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

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

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

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

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

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

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

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KPMG LLP

2500 Ruan Center

666 Grand Avenue

Des Moines, IA 50309

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Meta Financial Group, Inc.:

We have audited the accompanying consolidated statements of financial condition of Meta Financial Group, Inc. and subsidiaries (the Company) as of September 30, 2010 and 2009, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders equity, and cash flows for each of the years in the three-year period ended September 30, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meta Financial Group, Inc. and subsidiaries as September 30, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2010, in conformity with U.S. generally accepted accounting principles.

Des Moines, Iowa
December 13, 2010

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in Thousands, Except Share and Per Share Data)

	September 30, 2010	September 30, 2009
ASSETS		
Cash and cash equivalents	$ 87,503	$ 6,168
Federal funds sold		9
Investment securities available for sale	21,467	17,566
Mortgage-backed securities available for sale	485,385	347,272
Loans receivable - net of allowance for loan losses of $5,234 at September 30, 2010 and $6,993 at September 30, 2009	366,045	391,609
Federal Home Loan Bank stock, at cost	5,283	7,050
Accrued interest receivable	4,759	4,344
Bond insurance receivable	3,683	4,118
Premises, furniture, and equipment, net	19,377	21,989
Bank-owned life insurance	13,796	13,270
Foreclosed real estate and repossessed assets	1,295	2,053
Goodwill and intangible assets	2,663	2,215
MPS accounts receivable	8,085	5,381
Other assets	10,425	11,733
Total assets	$ 1,029,766	$ 834,777
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Non-interest-bearing checking	$ 675,163	$ 442,158
Interest-bearing checking	29,976	15,602
Savings deposits	10,821	10,001
Money market deposits	35,422	39,823
Time certificates of deposit	146,072	146,163
Total deposits	897,454	653,747
Advances from Federal Home Loan Bank	22,000	74,800
Other borrowings from Federal Reserve Bank		25,000
Securities sold under agreements to repurchase	8,904	6,686
Subordinated debentures	10,310	10,310
Accrued interest payable	392	447
Contingent liability	3,983	4,268
Accrued expenses and other liabilities	14,679	12,174
Total liabilities	957,722	787,432
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value; 5,200,000 shares authorized, 3,372,999 shares issued, 3,111,413 and 2,634,215 shares outstanding at September 30, 2010 and	34	30

September 30, 2009, respectively				
Additional paid-in capital		32,381		23,551
Retained earnings - substantially restricted		42,475		31,626
Accumulated other comprehensive income (loss)		1,599		(1,838)
Treasury stock, 261,586 and 323,784 common shares, at cost, at September 30, 2010 and September 30, 2009, respectively		(4,445)		(6,024)
Total shareholders equity		72,044		47,345
Total liabilities and shareholders equity	$	1,029,766	$	834,777

See Notes to Consolidated Financial Statements.

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META FINANCIAL GROUP, INC

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in Thousands, Except Share and Per Share Data)

	For the Years Ended September 30, 2010	2009	2008
Interest and dividend income:			
Loans receivable, including fees	$ 24,944	$ 25,561	$ 25,909
Mortgage-backed securities	13,370	10,230	8,484
Other investments	769	935	3,025
	39,083	36,726	37,418
Interest expense:			
Deposits	3,908	5,341	7,758
FHLB advances and other borrowings	2,085	3,566	5,657
	5,993	8,907	13,415
Net interest income	33,090	27,819	24,003
Provision for loan losses	15,791	18,713	2,715
Net interest income after provision for loan losses	17,299	9,106	21,288
Non-interest income:			
Card fees	93,206	77,502	34,634
Gain on sale of securities available for sale, net	2,140	761	24
Deposit fees	766	749	833
Bank-owned life insurance income	526	512	498
Loan fees	359	660	777
Gain on sale of membership equity interests, net		515	543
Loss on REO	(105)	(1,015)	
Other income	552	285	387
	97,444	79,969	37,696
Non-interest expense:			
Card processing expense	38,242	33,540	15,630
Compensation and benefits	32,529	32,743	25,731
Occupancy and equipment expense	8,162	7,978	6,619
Legal and consulting expense	3,464	3,745	3,386
Marketing	2,109	1,822	1,250
Data processing expense	1,273	2,181	1,248
Other expense	9,151	9,072	7,956
	94,930	91,081	61,820
Income (loss) from continuing operations before income tax expense (benefit)	19,813	(2,006)	(2,836)
Income tax expense (benefit) from continuing operations	7,420	(543)	(1,002)
Income (loss) from continuing operations	12,393	(1,463)	(1,834)
Gain on sale from discontinued operations before taxes			2,309
Income from discontinued operations before taxes			76
Income tax expense from discontinued operations			1,574
Income from discontinued operations			811
Net income (loss)	$ 12,393	$ (1,463)	$ (1,023)

Basic earnings (loss) per common share:						
Income (loss) from continuing operations	$	4.23	$	(0.56)	$	(0.71)
Income from discontinued operations						0.31
Net income (loss)	$	4.23	$	(0.56)	$	(0.40)
Diluted earnings (loss) per common share:						
Income (loss) from continuing operations	$	4.11	$	(0.56)	$	(0.69)
Income from discontinued operations						0.31
Net income (loss)	$	4.11	$	(0.56)	$	(0.38)
Dividends declared per common share:	$	0.52	$	0.52	$	0.52

See Notes to Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in Thousands)

	Year Ended September 30, 2010	2009	2008
Net income (loss)	$ 12,393	$ (1,463)	$ (1,023)
Other comprehensive income (loss):			
Change in net unrealized gains (losses) on securities available for sale	3,381	4,317	(2,698)
Gains realized in net income	2,140	761	24
	5,521	5,078	(2,674)
Deferred income tax effect	2,084	1,894	(997)
Total other comprehensive income (loss)	3,437	3,184	(1,677)
Total comprehensive income (loss)	$ 15,830	$ 1,721	$ (2,700)

See Notes to Condensed Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders Equity

For the Years Ended September 30, 2008, 2009 and 2010

(Dollars in Thousands, Except Share and Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss), Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders Equity
Balance, September 30, 2007	$ 30	$ 21,958	$ 36,805	$ (3,345)	$ (377)	$ (6,973)	$ 48,098
Cash dividends declared on common stock ($.52 per share)			(1,340)				(1,340)
Issuance of 11,386 common shares from treasury stock due to exercise of stock options		1				198	199
Stock compensation		901					901
16,562 common shares committed to be released under the ESOP		198			377		575
Change in net unrealized losses on securities available for sale, net				(1,677)			(1,677)
Net loss for the year ended September 30, 2008			(1,023)				(1,023)
Balance, September 30, 2008	**$ 30**	**$ 23,058**	**$ 34,442**	**$ (5,022)**	**$**	**$ (6,775)**	**$ 45,733**
Balance, September 30, 2008	$ 30	$ 23,058	$ 34,442	$ (5,022)	$	$ (6,775)	$ 45,733
Cash dividends declared on common stock ($.52 per share)			(1,353)				(1,353)
Issuance of 21,624 common shares from treasury stock due to exercise of stock options		(153)				168	15
Stock compensation		641				148	789
18,446 common shares committed to be released under the ESOP		5				435	440
Change in net unrealized losses on securities available for sale, net				3,184			3,184

Net loss for the year ended September 30, 2009			(1,463)				(1,463)
Balance, September 30, 2009	**$ 30**	**$ 23,551**	**$ 31,626**	**$ (1,838)**	**$**	**$ (6,024)**	**$ 47,345**
Balance, September 30, 2009	$ 30	$ 23,551	$ 31,626	$ (1,838)	$	$ (6,024)	$ 47,345
Cash dividends declared on common stock ($.52 per share)			(1,544)				(1,544)
Issuance of common shares from the sales of equity securities	4	8,563					8,567
Issuance of 41,544 common shares from treasury stock due to exercise of stock options		(249)				1,579	1,330
Stock compensation		516					516
Change in net unrealized losses on securities available for sale, net				3,437			3,437
Net income for the year ended September 30, 2010			12,393				12,393
Balance, September 30, 2010	**$ 34**	**$ 32,381**	**$ 42,475**	**$ 1,599**	**$**	**$ (4,445)**	**$ 72,044**

See Notes to Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	For the Years Ended September 30, 2010	2009	2008
Cash flows from operating activities:			
Net income (loss)	$ 12,393	$ (1,463)	$ (1,023)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Effect of contribution to employee stock ownership plan		440	575
Depreciation, amortization and accretion, net	11,434	5,970	3,204
Provision for loan losses	15,791	18,713	2,715
(Gain) on sale of investments available for sale, net	(2,140)	(761)	(24)
(Gain) on sale of membership equity interests, net		(515)	(543)
Loss (gain) on sale of other	40	948	(81)
Net change in accrued interest receivable	(415)	153	(308)
Net change in other assets	(1,935)	(460)	(24,149)
Net change in accrued interest payable	(55)	(131)	(264)
Net change in accrued expenses and other liabilities	2,220	4	(19,190)
Net cash provided by (used in) operating activities-continuing operations	37,333	22,898	(39,088)
Net cash provided by operating activities-discontinued operations			6,029
Net cash provided by (used in) operating activities	37,333	22,898	(33,059)
Cash flows from investing activities:			
Purchase of securities available for sale	(437,305)	(287,113)	(102,790)
Net change in federal funds sold	9	5,179	69,812
Proceeds from sales of securities available for sale	97,610	32,478	16,990
Proceeds from maturities and principal repayments of securities available for sale	197,346	97,184	37,355
Loans purchased	(8,930)	(50,358)	(55,290)
Net change in loans receivable	18,334	64,005	(19,961)
Proceeds from sales of foreclosed real estate	1,105	958	596
Net change in FHLB stock	1,767	1,042	(4,077)
Proceeds from the sale of premises and equipment	1,154	2	105
Purchase of premises and equipment	(2,347)	(3,683)	(5,195)
Other, net	(1,735)	(1,894)	1,283
Net cash (used in) investing activities-continuing operations	(132,992)	(142,200)	(61,172)
Net cash provided by investing activities-discontinued operations			17,598
Net cash (used in) investing activities	(132,992)	(142,200)	(43,574)
Cash flows from financing activities:			
Net change in checking, savings, and money market deposits	243,798	131,271	56,226
Net change in time deposits	(91)	22,672	(33,232)
Net change in advances from FHLB and other borrowings	(77,800)	(32,225)	64,025
Net change in securities sold under agreements to repurchase	2,218	1,338	5,124
Cash dividends paid	(1,544)	(1,353)	(1,340)

Stock compensation	516	789	901
Proceeds from exercise of stock options	9,897	15	199
Net cash provided by financing activities-continuing operations	176,994	122,507	91,903
Net cash (used in) financing activities-discontinued operations			(33,210)
Net cash provided by financing activities	176,994	122,507	58,693
Net change in cash and cash equivalents	81,335	3,205	(17,940)
Cash and cash equivalents at beginning of year	6,168	2,963	20,903
Cash and cash equivalents at end of year	$ 87,503	$ 6,168	$ 2,963

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Con t.)

(Dollars in Thousands)

	For the Years Ended September 30, 2010	2009	2008
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 6,048	$ 9,038	$ 14,277
Income taxes	3,559	2,607	470
Supplemental schedule of non-cash investing and financing activities:			
Net loans transferred to foreclosed real estate	$ 452	$ 4,026	$ 278
Cash received on sale of commercial bank			8,224

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Meta Financial Group, Inc. (the Company), a unitary savings and loan holding company located in Storm Lake, Iowa, and its wholly owned subsidiaries which include MetaBank (the Bank), a federally chartered savings bank whose primary federal regulator is the Office of Thrift Supervision, First Services Financial Limited and Brookings Service Corporation, which offer noninsured investment products, and Meta Trust, which offered various trust services. Meta Trust was sold on September 30, 2010. The Company also owns 100% of First Midwest Financial Capital Trust I (the Trust), which was formed in July 2001 for the purpose of issuing trust preferred securities. The Trust is not included in the consolidated financial statements of the Company. All significant intercompany balances and transactions have been eliminated. The results of discontinued operations have been reported separately in the consolidated financial statements and the previously reported financial statements have been reclassified.

NATURE OF BUSINESS AND INDUSTRY SEGMENT INFORMATION

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

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

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

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

CASH AND CASH EQUIVALENTS AND FEDERAL FUNDS SOLD

For purposes of reporting cash flows, cash and cash equivalents is defined to include the Company s cash on hand and due from financial institutions and short-term interest-bearing deposits in other financial institutions. The Company reports cash flows net for customer loan transactions, securities purchased under agreement to resell, deposit transactions, securities sold under agreements to repurchase, and FHLB advances with terms less than 90 days. The Bank is required to maintain reserve balances in cash or on deposit with the FRB, based on a percentage of deposits. The total of those reserve balances was $2.3 million and $0.2 million at September 30, 2010 and 2009, respectively. The Company at times maintains balances in excess of insured limits at various financial institutions including the FHLB, the FRB, and other private institutions. At September 30, 2010 the Company had no interest bearing deposits held at the FHLB and $80.8 million in interest bearing deposits held at the FRB. At September 30, 2010 the Company had no federal funds sold at several private institutions. The Company does not believe these carry a significant risk of loss, but cannot provide assurances that no losses could occur if these institutions were to become insolvent.

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SECURITIES

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

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

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

LOANS RECEIVABLE

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

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

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

MORTGAGE SERVICING AND TRANSFERS OF FINANCIAL ASSETS

The Bank regularly sells residential mortgage loans to others on a non-recourse basis. Sold loans are not included in the consolidated financial statements. The Bank generally retains the right to service the sold loans for a fee. At September 30, 2010 and 2009, the Bank was servicing loans for others with aggregate unpaid principal balances of $27.1 million and $26.8 million, respectively.

ALLOWANCE FOR LOAN LOSSES

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

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

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified either as doubtful, substandard, or special mention. For such loans that are also classified

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as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers loans not considered impaired and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

FORECLOSED REAL ESTATE AND REPOSSESSED ASSETS

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

INCOME TAXES

The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Bank adopted ASC 740 (FASB Interpretation No. 48), *Accounting for Uncertainty in Income Taxes*, as of October 1, 2007. The Company recognizes a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

PREMISES, FURNITURE, AND EQUIPMENT

Land is carried at cost. Buildings, furniture, fixtures, leasehold improvements and equipment are carried at cost, less accumulated depreciation and amortization computed principally by using the straight-line method over the estimated useful lives of the assets, which range from 10 to 40 years for buildings, 3 to 15 years for leasehold improvements and 3 to 10 years for furniture, fixtures and equipment. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

TRANSFERS OF FINANCIAL ASSETS

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

BANK-OWNED LIFE INSURANCE

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

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EMPLOYEE STOCK OWNERSHIP PLAN

The cost of shares issued to the ESOP, but not yet allocated to participants, are presented in the consolidated balance sheets as a reduction of shareholders equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. Dividends on unallocated shares are used to reduce the accrued interest and principal amount of the ESOP s loan payable to the Company.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

GOODWILL AND INTANGIBLE ASSETS

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

ASSETS AND LIABILITIES RELATED TO DISCONTINUED OPERATIONS

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

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

REVENUE RECOGNITION

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

EARNINGS PER COMMON SHARE (EPS)

Basic EPS is based on the net income divided by the weighted average number of common shares outstanding during the period. Allocated ESOP shares are considered outstanding for earnings per common share calculations, as they are committed to be released; unallocated ESOP shares are not considered outstanding. Diluted EPS shows the dilutive effect of additional potential common shares issuable under stock option plans. EPS, both basic and diluted, have been computed on a continuing and discontinued operations basis.

COMPREHENSIVE INCOME

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

STOCK COMPENSATION

Compensation expense for share based awards is recorded over the vesting period at the fair value of the award at the time of grant. The recording of such compensation expense began on October 1, 2005 for shares not yet vested as of that date and for all new grants subsequent to that date. Prior years results have not been restated. The exercise price of options or fair value of nonvested shares granted under the Company s incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock based compensation, since actual historical forfeiture rates on its stock based incentive awards has been negligible.

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RECLASSIFICATIONS

Certain reclassifications have been made to prior periods consolidated financial statements to present them on a basis comparable within the current period s consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

Effective for interim and annual periods ending after September 15, 2009, the FASB Accounting Standards Codification (Codification or ASC) is the single source of authoritative literature recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all of the authoritative literature related to a particular topic in one place. The Codification supersedes all pre-existing accounting and reporting standards, excluding separate rules and other interpretive guidance released by the SEC. New accounting guidance is now issued in the form of Accounting Standards Updates, which update the Codification. All guidance contained in the Codification carries an equal level of authority. The Company has adopted the Codification in the period ending September 30, 2009 and the principal impact on the Company s consolidated financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification. In order to ease the transition to the Codification, the Codification cross-reference is provided alongside the references to the standards issued and adopted prior to the adoption of the Codification.

In March 2008, the FASB issued ASC 815 (FASB Statement No. 161), *Disclosures about Derivative Instruments and Hedging Activities*. ASC 815 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. The Company adopted ASC 815 effective January 1, 2009. The adoption of ASC 815 did not have a significant effect on the Company s consolidated financial statements.

In April 2009, the FASB issued ASC 820 (FASB Staff Position FAS 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. ASC 820 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. ASC 820 also provides guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820 is effective for financial statements issued after June 15, 2009. The adoption of ASC 820 did not have a significant effect on the Company s consolidated financial statements.

In April 2009, the FASB issued ASC 320 (FASB Staff Position FAS 115-2 and FAS 124-2), *Recognition and Presentation of Other-Than-Temporary Impairments*. ASC 320 amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. ASC 320 does not amend existing recognition and measurement guidance related to other-than-temporary impairment of equity securities. ASC 320 is effective for financial statements issued after June 15, 2009. The adoption of ASC 320 did not have a significant effect on the Company s consolidated financial statements.

In April 2009, the FASB issued ASC 820 (FASB Staff Position FAS 107-1 and APB 28-1), *Interim Disclosures about Fair Value of Financial Instruments*. ASC 820 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. ASC 820 also requires those disclosures in summarized financial information at interim reporting periods. ASC 820 is effective for financial statements issued after June 15, 2009. The Company adopted ASC 820 beginning June 30, 2009 with no material impact on the Company s financial position, results of operation or cash flows.

In April 2010, FASB issued ASU No. 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*. As a result of this update, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. ASU No. 2010-18 is effective for the Company in the first interim period of fiscal 2011 (December 31, 2010) and the annual reporting period beginning September 30, 2011. Management is currently evaluating the impact of adopting this update on the Company s consolidated financial condition, results of operations and cash flow.

In July 2010, FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASC Topic 310). This guidance will expand disclosures by requiring additional disaggregated information related to the current disclosures. It will also require additional disclosures to provide information based on credit quality, past due aging information, trouble debt restructuring information, and significant purchases and sales of financing receivables. ASU 2010-20 is effective for the Company for interim and annual reporting periods ending after December 15, 2010 and the Company does not expect the adoption to have a material effect on the Company s consolidated financial condition, results of operations or cash flow.

NOTE 2. DISCONTINUED BANK OPERATIONS

Sale of MetaBank West Central

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

Activities related to discontinued bank operations have been recorded separately with current and prior period amounts reclassified as assets and liabilities related to discontinued operations on the consolidated statements of financial condition and as discontinued operations on the consolidated statements of operations and consolidated statement of cash flows. The notes to the consolidated financial statements have also been adjusted to eliminate the effect of discontinued bank operations.

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Presented below are condensed financial statements for MetaBank WC.

CONDENSED STATEMENTS OF FINANCIAL CONDITION - DISCONTINUED OPERATIONS

September 30,	**2010**	**2009**
	(Dollars in Thousands)	
ASSETS		
Cash and cash equivalents	$	$
Investments and mortgage-backed securities, available for sale		
Loans receivable, net		
Other assets		
Total assets related to discontinued operations	**$**	**$**
LIABILITIES		
Deposits	$	$
Other borrowings		
Other liabilities		
Total liabilities related to discontinued operations	**$**	**$**

CONDENSED STATEMENTS OF OPERATIONS FOR DISCONTINUED OPERATIONS

	September 30, 2010	**September 30, 2009**	**March 28, 2008**
		(Dollars in Thousands)	
Interest income	$	$	$ 776
Interest expense			515
Net interest income			**261**
Provision for loan losses			(57)
Net interest income after provision for loan losses			**318**
Non-interest income			2,441
Non-interest expense			374
Net income before income tax expense			**2,385**
Income tax expense			1,574
Net income from discontinued operations	**$**	**$**	**$ 811**

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NOTE 3. EARNINGS PER COMMON SHARE (EPS)

A reconciliation of the income (loss) and common stock share amounts used in the computation of basic and diluted EPS for the fiscal years ended September 30, 2010, 2009 and 2008 is presented below.

	2010	2009	2008
	(Dollars in Thousands, Except Share and Per Share Data)		
Earnings (Loss)			
Income (loss) from continuing operations	$ 12,393	$ (1,463)	$ (1,834)
Discontinued operations, net of tax	$	$	811
Net income (loss)	$ 12,393	$ (1,463)	$ (1,023)
Basic EPS			
Weighted average common shares outstanding	2,936,397	2,606,072	2,595,587
Less weighted average nonvested shares	(3,329)	(4,995)	(6,661)
Weighted average common shares outstanding	2,933,068	2,601,077	2,588,926
Earnings (Loss) Per Common Share			
Income (loss) from continuing operations	$ 4.23	$ (0.56)	$ (0.71)
Discontinued operations, net of tax			0.31
Net income (loss)	$ 4.23	$ (0.56)	$ (0.40)
Diluted EPS			
Weighted average common shares outstanding for basic earnings per common share	2,933,068	2,601,077	2,588,926
Add dilutive effect of assumed exercises of stock options, net of tax benefits	79,733		57,204
Weighted average common and dilutive potential common shares outstanding	3,012,801	2,601,077	2,646,130
Earnings (Loss) Per Common Share			
Income (loss) from continuing operations	$ 4.11	$ (0.56)	$ (0.69)
Discontinued operations, net of tax			0.31
Net income (loss)	$ 4.11	$ (0.56)	$ (0.38)

Stock options totaling 105,288, 490,058, and 127,907 were not considered in computing diluted earnings per common share for the years ended September 30, 2010, 2009, and 2008, respectively, because they were not dilutive.