META FINANCIAL GROUP INC
Form 10-K
November 29, 2017
Table of Contents

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

FORM 10 K

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

For the fiscal year ended September 30, 2017
OR

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

For the transition period from _______ to _______

Commission file number 0 22140.

META FINANCIAL GROUP, INC.
(Name of Registrant as specified in its charter)

Delaware	42 1406262
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5501 South Broadband Lane, Sioux Falls, SD	57108
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (605) 782 1767

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

Title of Class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global Market

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, smaller reporting company, or an emerging growth company. (Check one):
Large accelerated filer Accelerated filer Non accelerated filer Smaller Reporting Company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the Exchange Act.

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

As of March 31, 2017, the aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked prices of such stock on the NASDAQ Global Market as of such date, was $762.6 million.

As of November 24, 2017, there were 9,666,462 shares of the Registrant's Common Stock outstanding.

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 22, 2018 are incorporated by reference into Part III of this report.

Table of Contents

META FINANCIAL GROUP, INC.
FORM 10-K

Table of Contents

		Page No.
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	49
Item 1B.	Unresolved Staff Comments	69
Item 2.	Properties	69
Item 3.	Legal Proceedings	70
Item 4.	Mine Safety Disclosures	70
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	71
Item 6.	Selected Financial Data	73
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	74
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	91
Item 8.	Financial Statements and Supplementary Data	93
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	150
Item 9A.	Controls and Procedures	150
Item 9B.	Other Information	151
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	153
Item 11.	Executive Compensation	153
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	153
Item 13.	Certain Relationships and Related Transactions, and Director Independence	154
Item 14.	Principal Accountant Fees and Services	154
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	154
Item 16.	Form 10-K Summary	155

Table of Contents

Forward-Looking Statements

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

You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue,” “could,” “future,” or the negative of those terms, or other wo similar meaning or similar expressions. You should carefully read statements that contain these words because they discuss our future expectations or state other “forward-looking” information. These forward-looking statements are based on information currently available to us and assumptions about future events, and include statements with respect to the Company’s beliefs, expectations, estimates, and intentions, which are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company’s control. Such risks, uncertainties and other factors may cause our actual growth, results of operations, financial condition, cash flows, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company's statements of financial condition and operations; growth and expansion; new products and services, such as those offered by the Bank or the Company's Payments divisions (which includes Meta Payments Systems (“MPS”), Refund Advantage, EPS Financial (“EPS”) and Specialty Consumer Services (“SCS”)); credit quality and adequacy of reserves; technology; and the Company's employees. The following factors, among others, could cause the Company's financial performance and results of operations to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the risk that we are unable to recoup a significant portion of the lost earnings associated with the non-renewal of the agreement with H&R Block through agreements with new tax partners and expanded relationships with existing tax partners; the risk that loan production levels and other anticipated benefits related to the agreement with Jackson Hewitt Tax Service®, as extended, may not be as much as anticipated; maintaining our executive management team; the strength of the United States' economy, in general, and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), as well as efforts of the U.S. Congress, 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 and economical development of, and acceptance of new products and services offered by the Company, as well as risks (including reputational and litigation) attendant thereto, and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third parties, including, in connection with the Company’s refund advance business, the risk of reduced volume of refund advance loans as a result of reduced customer demand for or acceptance of usage of Meta’s strategic partners’ refund advance products, including as a result of pending tax legislation in the U.S. Congress; any actions which may be initiated by our regulators in the future; the impact of changes in financial services laws and regulations, including, but not limited to, laws and regulations relating to the tax refund industry and the insurance premium finance industry, our relationship with our primary regulators, the Office of the Comptroller of the Currency (“OCC”) and the Federal Reserve, as well as the Federal Deposit Insurance Corporation (“FDIC”), which insures the Bank’s deposit accounts up to applicable limits; technological changes, including, but not limited to, the protection of electronic files or databases; acquisitions; litigation risk, in general, including, but not limited to, those risks involving the Bank's divisions; the growth of the Company’s business, as well as expenses related thereto; continued maintenance by the Bank of its status as a well-capitalized institution, particularly in light of our growing deposit base, a portion of which has been characterized as “brokered”; changes in consumer spending and saving habits; and the success of the Company at maintaining its high

quality asset level and managing and collecting assets of borrowers in default should problem assets increase.

These statements are based on information currently available to us and are subject to various risks, uncertainties, and other factors, including, but not limited to, those discussed herein under the caption “Risk Factors” that could cause our actual growth, results of operations, financial condition, cash flows, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, these statements.

The foregoing list of factors is not exclusive. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Additional discussions of factors affecting the Company’s business and prospects are contained herein, including under the caption “Risk Factors,” and in the Company’s periodic filings with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries.

Table of Contents

PART I
Item 1. Business

General

Meta Financial, a registered unitary savings and loan holding company, was incorporated in Delaware on June 14, 1993, the principal assets of which are all the issued and outstanding shares of the Bank, a federal savings bank, the accounts of which are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC. Unless the context otherwise requires, references herein to the Company include Meta Financial and the Bank, and all subsidiaries of Meta Financial, direct or indirect, on a consolidated basis.

The Bank, a wholly-owned full-service banking subsidiary of Meta Financial, is both a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves and a payments company providing services on a nationwide basis, as further described below. The business of the Bank consists of attracting retail deposits from the general public and investing those funds primarily in one-to-four family residential mortgage loans, commercial and multi-family real estate, agricultural operations and real estate, construction, consumer loans (including tax refund advance loans), commercial operating loans, and premium finance loans. In addition to originating loans, the Bank also has contracted to sell loans, in this case principally tax refund advance loans, to third party buyers. The Bank also sells and purchases loan participations from time to time to and from other financial institutions, as well as mortgage-backed securities and other investments permissible under applicable regulations.

In addition to its lending and deposit gathering activities, the Bank’s various divisions issue prepaid cards, design innovative consumer credit products, sponsor Automatic Teller Machines (“ATMs”) into various debit networks, and offer tax refund-transfer services and other payment industry products and services. Through its activities, the Meta Payment Systems (“MPS”) division of the Bank generates both fee income and low- and no cost deposits for the Bank. On September 8, 2015, the Bank purchased substantially all of the assets and related liabilities of Fort Knox Financial Services Corporation and its subsidiary, Tax Product Services, LLC (together “Refund Advantage”). The assets acquired by MetaBank in the acquisition include the Fort Knox operating platform and trade name, Refund Advantage®, and other assets. On November 1, 2016, the Bank purchased substantially all of the assets and certain liabilities of EPS Financial, LLC ("EPS") from privately held Drake Enterprises, Ltd. ("Drake"). The assets acquired by MetaBank in the EPS acquisition include the EPS trade name, operating platform, and other assets. Also, on December 14, 2016, the Bank purchased substantially all of the assets and specified liabilities of privately-held Specialty Consumer Services LP ("SCS") relating to its consumer lending and tax advance business. All of these transactions expanded the Company’s business into providing tax refund-transfer and lending services for its customers.

First Midwest Financial Capital Trust, also a wholly-owned subsidiary of Meta Financial, was established in July 2001 for the purpose of issuing trust preferred securities.

In April 2017, the Company formed a new entity, Meta Capital, LLC, that is a wholly-owned service corporation subsidiary of MetaBank. Meta Capital was formed for the purposes of investing in financial technology companies.

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

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

Market Areas

The Bank's home office is located at 5501 South Broadband Lane, Sioux Falls, South Dakota. The Banking segment consists of the retail bank, the AFS/IBEX division, as well as other specialty finance loans. The retail bank's locations include offices in Storm Lake, Iowa, Brookings, South Dakota, Sioux Falls, South Dakota and the Des Moines, Iowa area. AFS/IBEX operates an office in both Dallas, Texas and Newport Beach, California. The Payments segment offers prepaid cards, tax refund-transfer services, and other payment industry products and services nationwide and includes the MPS, Refund Advantage, EPS Financial and SCS divisions. It operates out of Sioux Falls, South Dakota, with offices in Louisville, Kentucky, Easton, Pennsylvania and Hurst, Texas.

Table of Contents

Lending Activities

General. The Company originates both fixed-rate and adjustable-rate (“ARM”) loans in response to consumer demand. At September 30, 2017, the Company had $1.12 billion in fixed-rate loans and $205.6 million in ARM loans. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which is included in Item 7 of this Annual Report on Form 10-K for further information on Asset/Liability Management.

In addition, the Company has more recently focused its lending activities on the origination of commercial and multi-family real estate loans, one-to-four family mortgage loans, commercial operating loans, premium finance loans, and tax refund advance loans. The Company also continues to originate traditional consumer loans and agricultural-related loans. The Company originates most of its retail bank loans in the primary market areas in Storm Lake, IA, Brookings, SD, Sioux Falls, SD, and Des Moines, IA. At September 30, 2017, the Company’s net loan portfolio totaled $1.32 billion, or 25% of the Company’s total assets, as compared to $919.5 million, or 23%, at September 30, 2016. The Bank recently signed an agreement extension to originate tax refund advance loans to customers of Jackson Hewitt Tax Service through the 2020 tax season. The Bank also purchased two separate student loan portfolios, one in fiscal year 2017 and one in the beginning of fiscal year 2018. The loans included in each of these loan portfolios are serviced by ReliaMax Lending Services, LLC, and the loans are insured by ReliaMax Surety Company.

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

At September 30, 2017, the Company’s largest lending relationship to a single borrower or group of related borrowers totaled $50.8 million. The Company had 24 other lending relationships in excess of $9.1 million as of September 30, 2017. At September 30, 2017, one of these relationships, which had loans that totaled $27.8 million at September 30, 2017, was classified as substandard. See “Non-Performing Assets, Other Loans of Concern, and Classified Assets.”

Loan Portfolio Composition. The following table provides information about the composition of the Company’s loan portfolio in dollar amounts and in percentages as of the dates indicated. In general, for the fiscal year ended September 30, 2017, the aggregate principal amounts in all categories of loans discussed below, except agriculture real estate and agriculture operating loans, increased over levels from the prior fiscal year.

Table of Contents

	At September 30,									
	2017		2016		2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real Estate Loans:										
1-4 Family	$196,706	14.8 %	$162,298	17.5 %	$125,021	17.5 %	$116,395	23.3 %	$82,287	21.4 %
Commercial & Multi-Family	585,510	44.1 %	422,932	45.7 %	310,199	43.5 %	224,302	44.9 %	192,786	50.1 %
Agricultural	61,800	4.7 %	63,612	6.9 %	64,316	9.0 %	56,071	11.3 %	29,552	7.7 %
Total Real Estate Loans	844,016	63.6 %	648,842	70.1 %	499,536	70.0 %	396,768	79.5 %	304,625	79.2 %
Other Loans:										
Consumer Loans:										
Home Equity	21,228	1.6 %	20,883	2.2 %	18,463	2.6 %	15,116	3.0 %	13,799	3.6 %
Automobile	769	0.1 %	730	0.1 %	573	0.1 %	671	0.1 %	658	0.1 %
Purchased Student Loans	123,742	9.3 %	—	— %	—	— %	—	— %	—	— %
Other [(1)]	17,265	1.3 %	15,481	1.7 %	14,491	2.0 %	13,542	2.7 %	15,857	4.1 %
Total Consumer Loans	163,004	12.3 %	37,094	4.0 %	33,527	4.7 %	29,329	5.8 %	30,314	7.8 %
Agricultural Operating	33,594	2.5 %	37,083	4.0 %	43,626	6.1 %	42,258	8.5 %	33,750	8.8 %
Commercial Operating	35,759	2.7 %	31,271	3.4 %	29,893	4.2 %	30,846	6.2 %	16,264	4.2 %
Premium Finance	250,459	18.9 %	171,604	18.5 %	106,505.0	15.0 %	—	— %	—	— %
Total Other Loans	482,816	36.4 %	277,052	29.9 %	213,551	30.0 %	102,433	20.5 %	80,328	20.8 %
Total Loans	$1,326,832	100.0%	$925,894	100.0%	$713,087	100.0%	$499,201	100.0%	$384,953	100.0%

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

Table of Contents

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

	September 30, 2017		2016		2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Fixed Rate Loans:										
Real Estate:										
1-4 Family	$185,596	14.0 %	$152,232	16.5 %	$116,171	16.3 %	$105,870	21.2 %	$75,477	19.6 %
Commercial & Multi-Family	566,156	42.6 %	404,888	43.7 %	284,586	39.9 %	203,840	40.8 %	173,373	45.1 %
Agricultural	57,863	4.4 %	59,455	6.4 %	59,219	8.3 %	49,643	10.0 %	22,433	5.8 %
Total Fixed-Rate Real Estate Loans	809,615	61.0 %	616,575	66.6 %	459,976	64.5 %	359,353	72.0 %	271,283	70.5 %
Consumer	24,656	1.9 %	23,024	2.5 %	20,842	2.9 %	19,279	3.9 %	20,129	5.2 %
Agricultural Operating	22,556	1.7 %	27,196	2.9 %	35,802	5.0 %	24,991	5.0 %	23,137	6.0 %
Commercial Operating	13,935	1.1 %	12,393	1.4 %	15,520	2.2 %	13,659	2.7 %	8,070	2.1 %
Premium Finance	250,459	18.9 %	171,604	18.5 %	106,505	15.0 %	—	— %	—	— %
Total Fixed-Rate Loans	1,121,221	84.6 %	850,792	91.9 %	638,645	89.6 %	417,282	83.6 %	322,619	83.8 %
Adjustable Rate Loans:										
Real Estate:										
1-4 Family	11,110	0.8 %	10,066	1.1 %	8,850	1.2 %	10,525	2.1 %	6,810	1.8 %
Commercial & Multi-Family	19,354	1.5 %	18,044	1.9 %	25,613	3.6 %	20,461	4.1 %	19,413	5.0 %
Agricultural	3,937	0.3 %	4,157	0.5 %	5,097	0.7 %	6,429	1.3 %	7,119	1.9 %
Total Adjustable Real Estate Loans	34,401	2.6 %	32,267	3.5 %	39,560	5.5 %	37,415	7.5 %	33,342	8.7 %
Consumer	138,348	10.4 %	14,070	1.5 %	12,685	1.8 %	10,050	2.0 %	10,185	2.6 %
Agricultural Operating	11,038	0.8 %	9,887	1.1 %	7,824	1.1 %	17,267	3.5 %	10,613	2.8 %
Commercial Operating	21,824	1.6 %	18,878	2.0 %	14,373	2.0 %	17,187	3.4 %	8,194	2.1 %
Total Adjustable	205,611	15.4 %	75,102	8.1 %	74,442	10.4 %	81,919	16.4 %	62,334	16.2 %

Loans										
Total Loans	1,326,832	100.0%	925,894	100.0%	713,087	100.0%	499,201	100.0%	384,953	100.0%
Deferred Fees and Discounts	(1,461)		(789)		(577)		(797)		(595)	
Allowance for Loan Losses	(7,534)		(5,635)		(6,255)		(5,397)		(3,930)	
Total Loans Receivable, Net	$1,317,837		$919,470		$706,255		$493,007		$380,428	

6

Table of Contents

The following table illustrates the maturity analysis of the Company's loan portfolio at September 30, 2017. Mortgages that have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract reprices. The table reflects management's estimate of the effects of loan prepayments or curtailments based on data from the Company's historical experiences and other third-party sources.

	Real Estate [1]		Consumer		Commercial Operating		Agricultural Operating		Premium Finance		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)											
Due in one year or less [2]	$220,813	4.32 %	$22,252	3.97 %	$15,136	4.98 %	$31,141	4.39 %	$250,447	5.90 %	$539,789	5.00 %
Due after one year through five years	435,956	4.24 %	88,569	4.03 %	15,353	5.11 %	2,339	5.14 %	12	8.40 %	542,229	4.23 %
Due after five years	187,247	4.17 %	52,183	4.50 %	5,270	5.18 %	114	4.74 %	—	— %	244,814	4.26 %
Total	$844,016		$163,004		$35,759		$33,594		$250,459		$1,326,832	

[1] Includes one-to-four family, multi-family, commercial and agricultural real estate loans.
[2] Includes demand loans, loans having no stated maturity and overdraft loans.

One-to-Four Family Residential Mortgage Lending. One-to-four family residential mortgage loan originations are generated by the Company's marketing efforts, its present customers, walk-in customers and referrals. The Company offers fixed-rate loans and ARM loans for both permanent structures and those under construction. The Company's one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas.

At September 30, 2017, the Company's one-to-four family residential mortgage loan portfolio totaled $196.7 million, or 14.8% of the Company's total loans. During the year ended September 30, 2017, the Company originated $21.3 million of adjustable-rate loans and $74.3 million of fixed-rate loans secured by one-to-four family residential real estate. See "Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." As of the same date, the average outstanding principal balance of a one-to-four family residential mortgage loan was approximately $0.2 million.

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 property securing the loan or the contract price. However, the vast majority of these loans are originated with loan-to-value ratios below 80%. The Company generally requires that private mortgage insurance be obtained in an amount sufficient to reduce the Company's exposure to at or below the 80% loan to value level. Residential loans generally do not include prepayment penalties. 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 standards such as Fannie Mae, Ginnie Mae, and Freddie Mac standards. The Company typically holds all fixed-rate mortgage loans and does not engage in secondary market sales. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions.

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

In underwriting one-to-four family residential real estate loans, the Company evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Company are appraised by independent appraisers approved by the Board of Directors of the Company. The Company generally requires borrowers to obtain an attorney's title opinion or title insurance, as well as 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. At September 30, 2017, there were no one-to-four family residential mortgage loans that were non-performing.

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market areas and surrounding areas and, in order to supplement its loan portfolio, has purchased whole loan and participation interests in loans from other financial institutions. The purchased loans and loan participation interests are generally secured by properties located in the Midwest. See "Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities."

At September 30, 2017, the Company's commercial and multi-family real estate loan portfolio totaled $585.5 million, or 44.1%, of the Company's total loans. At September 30, 2017, the Company's largest commercial and multi-family real estate lending relationship totaled $47.2 million and was secured by real estate. As of the same date, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately $1.8 million.

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

Table of Contents

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, 2017, there were $0.7 million of commercial and multi family real estate loans that were non-performing. See "Non-Performing Assets, Other Loans of Concern and Classified Assets."

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer, and other farm-related products, primarily in its market areas. 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, are due upon sale. Such loans provide for payments of principal and interest at least annually or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years.

At September 30, 2017, the Company had agricultural real estate loans secured by farmland of $61.8 million or 4.7% of the Company's total loans. At the same date, $33.6 million, or 2.5%, of the Company's total loans consisted of secured loans related to agricultural operations. Total agricultural-related lending constituted 7.2% of total loans at September 30, 2017. At September 30, 2017, the Company's largest agricultural real estate and agricultural operating loan relationship was $27.8 million, which is currently non-performing (as it is more than 90 days past due) but still accruing. Given the underlying values of collateral (primarily land related to our agricultural loans), we believe that we have minimal loss exposure on this agricultural relationship . At the same date, the average outstanding principal balance of an agricultural real estate loan and agricultural operating loan held by the Company was approximately $0.6 million and $0.2 million, respectively.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first five to ten years, after which the loan will balloon or the interest rate will adjust annually. These loans generally amortize over a period of 20 to 25 years. Fixed-rate agricultural real estate loans typically have terms up to ten years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan.

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

Weather presents one of the greatest risks as hail, drought, floods, or other conditions can severely limit crop yields and thus impair loan repayments and the value of the underlying collateral. The farmer can reduce this risk with a variety of insurance coverages which can help to ensure loan repayment. Both government support programs, as well as the Company, typically require farmers to procure crop insurance coverage. Grain and livestock prices also present a risk as prices may decline prior to sale, resulting in a failure to cover production costs. These risks may be reduced, by the farmer, with the use of futures contracts or options to mitigate price risk. The Company frequently requires borrowers to use futures contracts or options to reduce price risk and help ensure loan repayment. The uncertainty of government programs and other regulations is also a risk. During periods of low commodity prices, the income from government programs can be a significant source of cash for the borrower to make loan payments, and if these

programs are discontinued or significantly changed, cash flow problems or defaults could result. Finally, many farms are dependent on a limited number of key individuals whose injury or death may result in an inability to successfully operate the farm. At September 30, 2017, $34.2 million of the Company's agricultural real estate loans and $0.1 million of agricultural operating loans were non-performing. See "Non-Performing Assets, Other Loans of Concern and Classified Assets."

Consumer Lending. The Company originates a variety of secured consumer loans, including home equity, home improvement, automobile, boat and loans secured by savings deposits. In addition, the Company offers other secured and unsecured consumer loans and currently originates most of its retail bank consumer loans in its primary market areas and surrounding areas. In addition, at September 30, 2017, the Company's consumer lending portfolio included a purchased student loan portfolio, along with consumer lending products offered through its Payments segment.

Table of Contents

On December 20, 2016, the Bank purchased, net of purchase discount, a $134.0 million seasoned, floating rate, private student loan portfolio. This portfolio is serviced by ReliaMax Lending Services, LLC and insured by ReliaMax Surety Company. All the loans in this portfolio are floating rate and indexed to the three-month LIBOR plus various margins. On October 11, 2017, the Bank purchased a second student loan portfolio. See also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the caption “Overview of Corporate Developments Since Fiscal Year 2016.”

At September 30, 2017, the Company's consumer loan portfolio totaled $163.0 million, or 12.3% of its total loans including the student loan portfolio purchased in December 2016. Excluding the December 2016 purchased student loan portfolio of $123.7 million, the Bank's consumer loan portfolio at September 30, 2017 consisted of $24.7 million in short- and intermediate-term, fixed-rate loans and $14.6 million in adjustable-rate loans.

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

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

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

Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

At September 30, 2017, $1.4 million of the Bank’s consumer loans were non-performing. The Bank's non-performing consumer loans, at September 30, 2017, were primarily comprised of purchased student loans that are serviced by ReliaMax Lending Services, LLC and insured by ReliaMax Surety Company; accordingly, the Company believes that its exposure to realizable losses with respect to these loans is low. See “Non-Performing Assets, Other Loans of Concern and Classified Assets.”

Through its Payments segment, the Bank strives to offer consumers innovative payment products, including credit products. The Payments segment continues its development of new alternative lending products primarily to serve its customer base and to provide innovative lending solutions to the unbanked and under-banked segment.

The Payments segment also provides short-term consumer refund advance loans. Taxpayers are underwritten to determine eligibility for the unsecured loans which are by design interest and fee-free to the consumer. Due to the nature of consumer advance loans, it typically takes no more than three e-file cycles (the period of time between scheduled IRS payments) from when the return is accepted by the IRS to collect from the borrower. In the event of default, the Bank has no recourse against the tax consumer. Generally, when the refund advance loan becomes delinquent for 180 days or more, or when collection of principal becomes doubtful, the Company will charge off the loan balance.

No Payments segment credit products were non-performing as of September 30, 2017. There were no taxpayer advances outstanding as of September 30, 2017.

Table of Contents

Commercial Operating Lending. The Company also originates its Banking segment's commercial operating loans primarily in its market areas. Most of these commercial operating loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also may involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. The Company also extends short-term commercial Electronic Return Originator ("EROs") advance loans to their clients on a nationwide basis through its Payments segment. At September 30, 2017, $35.8 million, or 2.7% of the Company's total loans, were comprised of commercial operating loans.

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

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial operating loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial operating loans may be substantially dependent on the success of the business itself (which, in turn, is likely to be dependent upon the general economic environment). The Company's commercial operating loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At September 30, 2017, the average outstanding principal balance of a commercial operating loan held by the Company's Banking segment was approximately $0.2 million.

Through its Payments segment, the Company also provides short-term ERO advance loans on a nation-wide basis. These loans are typically utilized to purchase tax preparation software and to prepare tax offices for the upcoming tax season. EROs go through an underwriting process to determine eligibility for the unsecured advances. Collection on ERO advances begins once the ERO begins to process refund transfers. Generally, when the ERO advance loan becomes delinquent for 120 days or more, or when collection of principal becomes doubtful, the Company will charge off the loan balance. There were $0.2 million of ERO advances outstanding as of September 30, 2017.

At September 30, 2017, none of the Company's commercial operating loans were non-performing.

Premium Finance Lending. Through its AFS/IBEX division, the Company provides short-term, primarily collateralized financing to facilitate the commercial customers' purchase of insurance for various forms of risk otherwise known as insurance premium financing. This includes, but is not limited to, policies for commercial property, casualty and liability risk. The AFS/IBEX division markets itself to the insurance community as a competitive option based on service, reputation, competitive terms, cost and ease of operation. At September 30, 2017, the four largest market areas for the Company with respect to premium finance loans were California, Texas, Florida and New York.

At September 30, 2017, $250.5 million, or 18.9% of the Company's total loans, were comprised of premium finance loans. The largest premium finance exposure outstanding at September 30, 2017, was a $4.6 million loan relationship secured by the related insurance policy of the borrower. At the same date, the average outstanding principal balance

of a premium finance loan held by the Company was approximately $9,900. During fiscal year 2017, the average balance of a premium finance loan originated was approximately $20,500.

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

Table of Contents

Due to the nature of collateral for commercial premium finance receivables, it customarily takes 60-210 days to convert the collateral into cash. In the event of default, AFS/IBEX, by statute and contract, has the power to cancel the insurance policy and establish a first position lien on the unearned portion of the premium from the insurance carrier. In the event of cancellation, the cash returned in payment of the unearned premium by the insurer has typically been sufficient to cover the receivable balance, the interest and other charges due. Due to notification requirements and processing time by most insurance carriers, many receivables will become delinquent beyond 90 days while the insurer is processing the return of the unearned premium. Generally, when a premium finance loan becomes delinquent for 210 days or more, or when collection of principal or interest becomes doubtful, the Company will charge off the loan balance and any remaining interest and fees after applying any collection from the insurance company. At September 30, 2017, $1.2 million of the Company's premium finance loans were non-performing.

Originations, Sales and Servicing of Loans

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

The Company, from time to time, sells loan participations, generally without recourse. At September 30, 2017, there were no loans outstanding sold with recourse. When loans are sold, the Company may retain the responsibility for collecting and remitting loan payments, making certain that real estate tax payments are made on behalf of borrowers, and otherwise servicing the loans. The servicing fee is recognized as income over the life of the loans. The Company services loans that it originated and sold totaling $21.8 million at September 30, 2017, of which $3.2 million were sold to Fannie Mae and $18.6 million were sold to others.

On October 26, 2016, MetaBank entered into an agreement with certain H&R Block entities to originate up to $1.45 billion and retain up to $750 million of interest-free tax advance loans for H&R Block tax preparation customers during the 2017 tax season. On July 27, 2017, MetaBank announced the H&R Block agreement would not be renewed for the 2018 tax season.

On August 2, 2017, MetaBank announced an extension through the 2020 tax season of its current agreement with Jackson Hewitt Tax Service to offer on an annual basis up to $750 million of interest-free tax advance loans, an increase of $300 million over the prior year.

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

Table of Contents

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

	Years Ended September 30,		
	2017	2016	2015
Originations by Type:	(Dollars in Thousands)		
Adjustable Rate:			
1-4 Family Real Estate	$21,324	$15,276	$15,360
Commercial and Multi-Family Real Estate	6,014	2,460	5,575
Consumer	9	13	13
Commercial Operating	168,136	35,433	20,219
Agricultural Operating	23,513	21,954	12,347
Total Adjustable Rate	218,996	75,136	53,514
Fixed Rate:			
1-4 Family Real Estate	74,294	81,218	48,576
Commercial and Multi-Family Real Estate	190,618	154,478	109,173
Agricultural Real Estate	5,033	4,216	12,877
Consumer	1,505,247	222,391	204,258
Commercial Operating	54,866	42,775	15,533
Agricultural Operating	16,340	30,889	20,646
Premium Finance	535,339	357,252	208,183
Total Fixed-Rate	2,381,737	893,219	619,246
Total Loans Originated	2,600,733	968,355	672,760
Purchases:			
1-4 Family Real Estate	540	—	—
Commercial and Multi-Family Real Estate	7,078	—	—
Consumer	133,785	—	—
Premium Finance	—	—	74,120
Total Loans Purchased	141,403	—	74,120
Sales and Repayments:			
Sales:			
Commercial and Multi-Family Real Estate	4,720	—	4,843
Agricultural Real Estate	—	—	520
Consumer	685,934	17,611	11,650
Agricultural Operating	—	83	99
Total Loan Sales	690,654	17,694	17,112
Repayments:			
Loan Principal Repayments	1,652,674	737,853	515,883
Total Principal Repayments	1,652,674	737,853	515,883
Total Reductions	2,343,328	755,547	532,995
(Decrease) increase in Other Items, Net	(441)	408	(637)
Net Increase	$398,367	$213,216	$213,248

Table of Contents

At September 30, 2017, approximately $134.5 million, or 10%, of the Company's loan portfolio consisted of purchased loans, including the purchased student loan portfolio balance of $123.7 million. The remainder of the Company's purchased loan portfolio is secured by properties located in Iowa, North Dakota and South Dakota. The Company believes that purchasing loans outside of its market areas assists the Company in diversifying its portfolio and may lessen the adverse effects on the Company's business or operations which could result in the event of a downturn or weakening of the local economy in which the Company conducts its primary operations. However, additional risks are associated with purchasing loans outside of the Company's market areas, including the lack of knowledge of the local market and difficulty in monitoring and inspecting the property securing the loans. During fiscal 2017, the Company purchased a $148.7 million student loan portfolio discounted to $133.8 million, $7.1 million of commercial real estate participation loans and $0.5 million of other loans.

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

When a borrower fails to make a required payment on retail bank real estate secured loans and consumer loans within 16 days after the payment is due, the Company generally initiates collection procedures by mailing a delinquency notice. The customer is contacted again, by written notice or telephone, before the payment is 30 days past due and again before 60 days past due. Generally, delinquencies are cured promptly; however, if a loan has been delinquent for more than 90 days, satisfactory payment arrangements must be adhered to or the Company may initiate foreclosure or repossession. For premium finance loans, a notice of cancellation is sent 18 days after the missed payment. If the account is not brought current, the Company may cancel the underlying insurance policy.

The following table sets forth the Company's loan delinquencies by type, by amount and by percentage of type at September 30, 2017.

	Loans Delinquent For:								
	30-59 Days (1)			60-89 Days (2)			90 Days and Over (3)		
	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
				(Dollars in Thousands)					
Real Estate:									
1-4 Family	1	$ 370	8.4 %	1	$ 79	2.6 %	—	$—	— %
Commercial & Multi-Family	—	—	— %	—	—	— %	3	685	1.8 %
Agricultural	—	—	— %	—	—	— %	13	34,198	91.0 %
Consumer	82	2,512	57.2 %	21	558	18.1 %	51	1,406	3.7 %
Agricultural Operating	—	—	— %	—	—	— %	1	97	0.3 %
Premium Finance	327	1,509	34.4 %	241	2,442	79.3 %	1,010	1,205	3.2 %
Total	410	$ 4,391	100.0 %	263	$ 3,079	100.0 %	1,078	$37,591	100.0 %

(1) As of September 30, 2017, 80 of the consumer loans, which totaled $2.5 million, were student loans that are insured by ReliaMax Surety.
(2) As of September 30, 2017, 20 of the consumer loans, which totaled $0.1 million, were student loans that are insured by ReliaMax Surety.
(3) As of September 30, 2017, 50 of the consumer loans, which totaled $1.4 million were student loans that are insured by ReliaMax Surety.

Delinquencies 90 days and over constituted 2.8% of total loans and 0.72% of total assets. Excluding the insured student loans, delinquencies 90 days and over would have constituted 2.7% of total loans and 0.70% of total assets.

Table of Contents

Generally, when a loan becomes delinquent 90 days or more for retail bank loans 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 reversed against current income. The loan will generally remain on a non-accrual status until six months of good payment history has been established. Certain relationships in the table above are over 90 days past due and still accruing. The Company considers these relationships as being in the process of collection. Specialty finance loans and Payments segment loans are generally not placed on non-accrual status, but are instead written off when the collection of principal and interest become doubtful.

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

	At September 30,				
	2017	2016	2015	2014	2013
Non-Performing Loans	(Dollars in Thousands)				
Non-Accruing Loans:					
1-4 Family Real Estate	$—	$83	$24	$281	$245
Commercial & Multi-Family Real Estate	685	—	904	312	427
Agricultural Operating	—	—	5,132	340	—
Commercial Operating	—	—	—	—	7
Total	685	83	6,060	933	679
Accruing Loans Delinquent 90 Days or More:					
Agricultural Real Estate	34,198	—	—	—	—
Consumer	1,406	53	13	54	13
Agricultural Operating	97	—	—	—	—
Premium Finance	1,205	965	1,728	—	—
Total	36,906	1,018	1,741	54	13
Total Non-Performing Loans	37,591	1,101	7,801	987	692
Other Assets					
Foreclosed Assets:					
1-4 Family Real Estate	62	76	—	—	—
Commercial & Multi-Family Real Estate	230	—	—	15	116
Total	292	76	—	15	116
Total Other Assets	292	76	—	15	116
Total Non-Performing Assets	$37,883	$1,177	$7,801	$1,002	$808
Total as a Percentage of Total Assets	0.72 %	0.03 %	0.31 %	0.05 %	0.05 %
Total Non-Performing Assets as a Percentage of Total Assets - excluding insured loans [1]	0.70 %	0.03 %	0.31 %	0.05 %	0.05 %

(1) Excludes from non-performing assets the student loans that are insured by ReliaMax Surety Company.

Table of Contents

For the year ended September 30, 2017, gross interest income that would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately $13,000, none of which was included in interest income.

Non-Accruing Loans. At September 30, 2017, the Company had $0.7 million in non-accruing loans, which constituted less than 0.1% of the Company's gross loan portfolio and total assets. At September 30, 2016, the Company had $0.1 million in non-accruing loans which also constituted less than 0.1% of its gross loans portfolio and total assets. The fiscal 2017 increase in non-accruing loans relates to an increase in non-accruing loans in the commercial real estate category of $0.7 million.

Accruing Loans Delinquent 90 Days or More. At September 30, 2017, the Company had $1.2 million in accruing premium finance loans delinquent 90 days or more. At the same date, the Company also had $36.9 million in agricultural loans related to two large relationships that were more than 90 days past due and still accruing. One of these agricultural relationships, which represented an outstanding loan balance of about $7 million at September 30, 2017, was paid in full on November 1, 2017. The Company received all principal, accrued interest, legal, and other expenses at the closing. The Company also believes that its strong collateral position on the other relationship (less than 75% loan-to-value ("LTV") secured by agricultural real estate) and active collection process with the borrower supports the decision to continue to accrue interest on such loan. Given the underlying values of collateral (primarily land related to our agricultural loans), we believe that we have minimal loss exposure on this agricultural relationship and expect to receive all principal, accrued interest, legal, and other expenses. It is possible the collateral will go through a deed-in-lieu of foreclosure process in the near future. In addition to the principal balance, this relationship also had accrued interest of $1.8 million as of September 30, 2017 that the Company, as noted above, expects to collect.

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

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

On the basis of management’s review of its classified assets, at September 30, 2017, the Company had classified loans of $40.6 million as substandard and none as doubtful or loss. Further, at September 30, 2017, the Bank owned real estate or other assets as a result of foreclosure of loans with a value of $292,000.

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

includes a review of loans for which full collectability may not be reasonably assured, considers, among other matters, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience and other factors that warrant recognition in providing for an appropriate loan loss allowance.

Management closely monitors economic developments both regionally and nationwide, and considers these factors when assessing the appropriateness of its allowance for loan losses. The current economic environment continues to show signs of stability and improvement in the Bank's markets. The Bank's average loss rates over the past three years were low relative to industry averages for such years, offset, in the case of fiscal 2016, with a higher agricultural loss rate driven by the charge off of one relationship. The Bank does not believe it is likely these low loss conditions will continue indefinitely. Each loan segment is evaluated using both historical loss factors as well as other qualitative factors in order to determine the amount of risk the Company believes exists within that segment.

Table of Contents

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 level of the allowance for loan losses at September 30, 2017 reflected an appropriate allowance against probable losses from the loan portfolio. Although the Company maintains its allowance for loan losses at a level it considers to be appropriate, investors and others are cautioned that there can be no assurance that future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Company's determination of the allowance for loan losses is subject to review by the OCC, which can require the establishment of additional general or specific allowances.

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

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

	September 30,				
	2017	2016	2015	2014	2013
	(Dollars in Thousands)				
Balance at Beginning of Period	$5,635	$6,255	$5,397	$3,930	$3,971
Charge Offs:					
1-4 Family Real Estate	—	(32)	(45)	—	(25)
Commercial & Multi-Family Real Estate	(138)	(385)	(214)	—	(194)
Consumer	(7,084)	(728)	—	—	(1)
Commercial Operating	(1,149)	(249)	—	—	—
Agricultural Operating	—	(3,252)	(186)	(50)	—
Premium Finance	(626)	(726)	(285)	—	—
Total Charge Offs	(8,997)	(5,372)	(730)	(50)	(220)
Recoveries:					
1-4 Family Real Estate	—	—	—	2	2
Commercial & Multi-Family Real Estate	—	27	6	347	113
Consumer	209	11	—	—	1
Commercial Operating	25	—	3	18	63
Agricultural Operating	12	2	—	—	—
Premium Finance	61	107	114	—	—
Total Recoveries	307	147	123	367	179
Net (Charge Offs) Recoveries	(8,690)	(5,225)	(607)	317	(41)
Provision Charged to Expense	10,589	4,605	1,465	1,150	—
Balance at End of Period	$7,534	$5,635	$6,255	$5,397	$3,930
Ratio of Net Charge Offs During the Period to Average Loans Outstanding During the Period	0.73 %	0.06 %	0.10 %	(0.07)%	0.01 %
Ratio of Net Charge Offs During the Period to Non-Performing Assets at Year End	22.94 %	443.84 %	7.78 %	(31.66)%	5.07 %
Allowance to Total Loans	0.57 %	0.61 %	0.88 %	1.08 %	1.02 %
Allowance to Total Loans - excluding insured loans (1)	0.63 %	0.61 %	0.88 %	1.08 %	1.02 %

(1) Excludes from the total loan balance student loans that are insured by ReliaMax Surety Company.

17

Table of Contents

For more information on the Provision for Loan Losses, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in Item 7 of this Annual Report on Form 10-K.
The distribution of the Company's allowance for losses on loans at the dates indicated is summarized as follows:

	At September 30,									
	2017		2016		2015		2014		2013	
	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)									
1-4 Family Real Estate	$803	14.8 %	$654	17.5 %	$278	17.5 %	$552	23.3 %	$333	21.4 %
Commercial & Multi-Family Real Estate	2,670	44.1	2,198	45.7	1,187	43.5	1,575	44.9	1,937	50.1
Agricultural Real Estate	1,390	4.7	142	6.9	163	9.0	263	11.2	112	7.6
Consumer	6	12.3	51	4.0	20	4.7	78	5.9	74	7.9
Commercial Operating	158	2.7	117	3.4	28	4.2	93	6.2	49	4.2
Agricultural Operating	1,184	2.5	1,332	4.0	3,537	6.1	719	8.5	267	8.8
Premium Finance	796	18.9	588	18.5	293	15.0	—	—	—	—
Unallocated	527	—	553	—	749	—	2,117	—	1,158	—
Total	$7,534	100.0 %	$5,635	100.0 %	$6,255	100.0 %	$5,397	100.0 %	$3,930	100.0 %

Investment Activities

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

As of September 30, 2017, investment and mortgage-backed securities with fair values of approximately $1.07 billion, $325.4 million, and $9.5 million were pledged as collateral for the Bank's Federal Home Loan Bank of Des Moines ("FHLB") advances, Federal Reserve Bank ("FRB") advances and collateral for securities sold under agreements to repurchase, respectively. For additional information regarding the Company's collateralization of borrowings, see Notes 8 and 9 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

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

18

Table of Contents

The Company continues to execute its investment strategy of primarily purchasing U.S. Government-related securities and U.S. Government-related MBS, as well as AAA and AA rated NBQ municipal bonds; however, the Company also reviews opportunities to add other diverse, high-quality securities at attractive relative rates when opportunities arise. As of September 30, 2017, the Company had total investment securities, excluding mortgage-backed securities, with an amortized cost of $1.54 billion compared to $1.37 billion as of September 30, 2016. At September 30, 2017, $838.8 million, or 57%, of the Company's investment securities were pledged to secure various obligations of the Company.

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

As of September 30, 2017, the Company held obligations of states and political subdivisions of $1.40 billion, representing 90.0% of total investment securities, excluding mortgage backed securities. This amount is spread among 48 of the 50 states of the U.S. and the District of Columbia, with no individual state (excluding agency backed and/or convertible municipal securities) having a concentration higher than 10% of the total carrying value of the municipal portfolio. The Company has no direct municipal bond exposure in Detroit or Puerto Rico, which are municipalities that have had recent financial troubles and carry a higher than normal risk of the principal not being returned to the investor. Management believes this geographical diversification lessens the credit risk associated with these investments. The Company also monitors concentrations of the ultimate borrower and exposure to counties within each state to further enhance proper diversification.

Table of Contents

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

	At September 30,		
	2017	2016	2015
	(Dollars in Thousands)		
Investment Securities AFS			
Trust preferred and corporate securities	$—	$12,978	$13,944
Asset backed securities	96,832	116,815	—
Small business administration securities	57,871	80,719	56,056
Non-bank qualified obligations of states and political subdivisions	950,829	698,672	608,590
Common equities and mutual funds	1,445	1,125	914
Subtotal AFS	1,106,977	910,309	679,504
Investment Securities HTM			
Obligations of states and political subdivisions	19,247	20,626	19,540
Non-bank qualified obligations of states and political subdivisions (1)	430,593	465,469	259,627
Subtotal HTM	449,840	486,095	279,167
FHLB Stock	61,123	47,512	24,410
Total Investment Securities and FHLB Stock	$1,617,940	$1,443,916	$983,081
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds Sold (2)	$1,227,308	$513,441	$10,051

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

(2) From time to time, the Company maintains balances in excess of insured limits at various financial institutions, including the FHLB, the FRB, and other private institutions. At September 30, 2017, the Company had $1.23 billion in interest bearing deposits held at the FRB and $0.5 million at other institutions. At September 30, 2017, the Company did not have interest bearing deposits held at the FHLB and had no federal funds sold at a private institution.

Table of Contents

The composition and maturities of the Company's available for sale and held to maturity investment securities portfolio, excluding equity securities, FHLB stock and mortgage-backed securities, are indicated in the following table. The actual maturity of certain municipal housing related securities are typically less than its stated contractual maturity due to scheduled principal payments and prepayments of the underlying mortgages.

	September 30, 2017					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
Available for Sale	(Dollars in Thousands)					
Asset backed securities	—	—	—	96,832	94,451	96,832
Small business administration securities	—	—	43,160	14,711	57,046	57,871
Non-bank qualified obligations of states and political subdivisions	—	37,674	315,038	598,117	938,883	950,829
Total Investment Securities AFS	$—	$37,674	$358,198	$709,660	$1,090,380	$1,105,532
Weighted Average Yield [(1)]	—%	1.38 %	1.89 %	2.75 %	2.67 %	2.39 %

	September 30, 2017					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
Held to Maturity	(Dollars in Thousands)					
Obligations of states and political subdivisions	$1,483	$5,893	$8,473	$3,398	$19,247	$19,368
Non-bank qualified obligations of states and political subdivisions	—	12,033	136,523	282,037	430,593	432,361
Total Investment Securities HTM	$1,483	$17,926	$144,996	$285,435	$449,840	$451,729
Weighted Average Yield [(1)]	1.43 %	1.83 %	2.19 %	2.90 %	2.62 %	2.41 %

(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 as of September 30, 2017 consisted entirely of securities issued by U.S. Government agencies or instrumentalities, including those of Ginnie Mae, Fannie Mae, Freddie Mac and Farmer Mac. The Ginnie Mae, Fannie Mae, Freddie Mac and Farmer Mac certificates are modified pass through mortgage-backed securities representing undivided interests in underlying pools of fixed rate, or certain types of adjustable-rate, predominantly single-family mortgages issued by these U.S. Government agencies or instrumentalities.

At September 30, 2017, the Company had a diverse portfolio of mortgage-backed securities with an amortized cost of $702.6 million, all at fixed rates of interest. At September 30, 2017, the Company held primarily seasoned 20-year, 30-year, and 40-year pass through mortgage-backed securities. Coupons on these securities ranged from below 3% to 4.5%.

Table of Contents

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, 2017, $514.4 million, or 74%, of the Company's mortgage-backed securities were pledged to secure various obligations of the Company.

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

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

	At September 30,		
	2017	2016	2015
Available for Sale	(Dollars in Thousands)		
Freddie Mac	$100,287	$164,577	$174,322
Fannie Mae	486,167	394,363	391,846
Fannie Mae DUS	—	—	10,415
Total AFS	$586,454	$558,940	$576,583

	At September 30,		
	2017	2016	2015
Held to Maturity	(Dollars in Thousands)		
Farmer Mac	$61,295	$71,011	$—
Fannie Mae	43,458	51,894	61,026
Ginnie Mae	8,936	10,853	5,551
Total HTM	$113,689	$133,758	$66,577

Table of Contents

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 2017. 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, all of which typically lower the average life of these securities.

	September 30, 2017					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
Available for Sale	(Dollars in Thousands)					
Freddie Mac	$—	$ —	$ —	$100,287	$102,385	$100,287
Fannie Mae	—	—	—	486,167	486,533	486,167
Total Investment Securities	$—	$ —	$ —	$586,454	$588,918	$586,454
Weighted Average Yield	—%	— %	— %	2.73 %	2.64 %	2.73 %

	September 30, 2017					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Fair Value
Held to Maturity	(Dollars in Thousands)					
Farmer Mac	$—	$ —	$ —	$61,295	$61,295	$60,733
Fannie Mae	—	—	—	43,458	43,458	42,894
Ginnie Mae	—	—	—	8,936	8,936	8,829
Total Investment Securities	$—	$ —	$ —	$113,689	$113,689	$112,456
Weighted Average Yield	—%	— %	— %	2.64 %	2.64 %	2.73 %

At September 30, 2017, the contractual maturity 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 contractual maturity due to scheduled principal payments and prepayments of the underlying mortgages. Prepayments that are different than anticipated will affect the yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of mortgage-backed securities, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, borrower credit scores, loan to premises value, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the

underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because, to the extent that the Company's mortgage-backed securities amortize or prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate. During periods of rising interest rates, these prepayments tend to decelerate as the prevailing market interest rates for mortgage rates increase and prepayment incentives dissipate.

Table of Contents

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

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

In fiscal 2017, 2016 and 2015, there were no other-than-temporary impairments recorded. Fannie Mae and Freddie Mac, which are both in conservatorship, generally provide the certificate holder a guarantee of timely payments of interest, whether or not collected. Ginnie Mae's guarantee to the holder is timely payments of principal and interest, backed by the full faith and credit of the U.S. Government.

Sources of Funds

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

Borrowings, including FHLB advances, repurchase agreements, other short-term borrowings, and funds available through the FRB Discount Window, may be used at times to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels, may be used on a longer-term basis to support expanded lending activities, and may also be used to match the funding of a corresponding asset.

Deposits. The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of statement savings accounts, money market savings accounts, NOW and regular checking accounts, deposits related to prepaid cards primarily categorized as checking accounts and certificate accounts currently ranging in terms from 3 months to 5 years. The Company solicits deposits from its primary market area and relies primarily on competitive pricing policies, advertising and high-quality customer service to attract and retain these deposits. In addition, the Company may periodically utilize brokered deposits to target strategic maturities related to our seasonal tax advance lending. The tax advance lending season typically lasts six weeks or less and it is generally more efficient to fund these short-term loans by using brokered deposits rather than by selling investment securities. As of September 30, 2017, $255.3 million of the Company's brokered certificates of deposits are scheduled to mature during the second quarter of fiscal 2018 to coincide with a significant paydown of the principal balances on these tax advances. Other sources of brokered deposits may also be utilized periodically to take advantage of balance sheet funding opportunities.

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

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

prepaid cards are relatively stable sources of deposits. However, the ability of the Company to attract and maintain certificates of deposit and the rates paid on these deposits has been and will continue to be significantly affected by market conditions.

Table of Contents

At September 30, 2017, $2.44 billion of the Company's $3.22 billion deposit portfolio was attributable to the Payments segment. The majority of these deposits represent funds available to spend on prepaid debit cards and other stored value products, of which $2.39 billion are included with non-interest-bearing checking accounts and $20.2 million are included with savings deposits on the Company's Consolidated Statement of Financial Condition. Generally, these deposits do not pay interest. The Payments segment originates debit card programs through outside sales agents and other financial institutions. As such, these deposits carry a somewhat higher degree of concentration risk than traditional consumer products. If a major client or card program were to leave the Bank, deposit outflows could be more significant than if the Bank were to lose a more traditional customer, although it is considered unlikely that all deposits related to a program would leave the Bank without significant advance notification. As such, and as historical results indicate, the Company believes that its deposit portfolio attributable to the Payments segment is stable. The increase in deposits arising from Payments has allowed the Bank to reduce its reliance on certificates of deposits and public funds, which typically have relatively higher costs. See "Regulation – FDIC Deposit Classification Guidance."

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

	September 30,		
	2017	2016	2015
	(Dollars in Thousands)		
Opening Balance	$2,430,082	$1,657,534	$1,366,541
Deposits	418,732,743	418,950,277	315,944,447
Withdrawals	(417,941,472)	(418,178,086)	(315,653,993)
Interest Credited	2,071	357	539
Ending Balance	$3,223,424	$2,430,082	$1,657,534
Net Increase	$793,342	$772,548	$290,993
Percent Increase	32.65 %	46.61 %	21.29 %

Table of Contents

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

	September 30, 2017		2016		2015	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transactions and Savings Deposits:						
Non-Interest Bearing Checking	$2,454,057	76.1 %	$2,167,522	89.2 %	$1,449,101	87.4 %
Interest Bearing Checking	67,294	2.1 %	38,077	1.6 %	33,320	2.0 %
Savings Deposits	53,505	1.7 %	50,742	2.1 %	41,720	2.5 %
Money Market Deposits	48,758	1.5 %	47,749	1.9 %	42,222	2.6 %
Wholesale transaction and savings deposits	18,245	0.6 %	—	— %	—	— %
Total Non-Certificate Deposits	$2,641,859	82.0 %	$2,304,090	94.8 %	$1,566,363	94.5 %
Time Certificates of Deposit:						
Variable	103	— %	124	— %	192	— %
0.00 - 0.99%	58,745	1.8 %	125,519	5.2 %	89,044	5.4 %
1.00 - 1.99%	522,393	16.2 %	349	— %	1,935	0.1 %
2.00 - 2.99%	324	— %	—	— %	—	— %
Total Time Certificates of Deposits (1)	$581,565	18.0 %	$125,992	5.2 %	$91,171	5.5 %
Total Deposits	$3,223,424	100.0%	$2,430,082	100.0%	$1,657,534	100.0%

(1) As of September 30, 2017, total time certificates of deposits included $457.9 million of brokered certificates of deposits.

Table of Contents

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 2017.

	Variable	0.00-0.99%	1.00 - 1.99%	2.00 - 2.99%	Total	Percent of Total
	(Dollars in Thousands)					
Certificate accounts maturing in quarter ending:						
December 31, 2017	34	42,083	174,877	—	$216,994	37.3 %
March 31, 2018	18	2,093	298,302	—	300,413	51.7 %
June 30, 2018	8	4,700	35,743	—	40,451	7.0 %
September 30, 2018	26	1,324	1,617	—	2,967	0.5 %
December 31, 2018	9	2,673	3,417	—	6,099	1.1 %
March 31, 2019	8	498	831	—	1,337	0.2 %
June 30, 2019	—	1,386	1,620	—	3,006	0.5 %
September 30, 2019	—	501	—	—	501	0.1 %
December 31, 2019	—	1,647	1,397	7	3,051	0.5 %
March 31, 2020	—	269	36	—	305	0.1 %
June 30, 2020	—	829	757	—	1,586	0.3 %
September 30, 2020	—	135	82	—	217	— %
Thereafter	—	607	3,714	317	4,638	0.8 %
Total	$103	$58,745	$522,393	$324	$581,565	100.0%
Percent of total	— %	10.1 %	89.8 %	0.1 %	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, 2017.

	Maturity 3 Months or Less	After 3 to 6 Months	After 6 to 12 Months	After 12 Months	Total
	(Dollars in Thousands)				
Certificates of deposit less than $250,000	$193,317	$257,999	$26,928	$18,117	$496,361
Certificates of deposit of $250,000 or more	23,677	42,414	16,490	2,623	$85,204
Total certificates of deposit	$216,994	$300,413	$43,418	$20,740	$581,565

At September 30, 2017, there were $80.4 million in deposits from governmental and other public entities included in certificates of deposit.

Borrowings. Although deposits are the Company's primary source of funds, the Company's practice has been to utilize borrowings when they are a less costly source of funds, can be invested at a positive interest rate spread, or when the Company desires additional capacity to fund loan demand. Borrowings from various sources mature based on stated payment schedules.

The Company's borrowings have historically consisted primarily of advances from the FHLB upon the security of a blanket collateral agreement of a percentage of unencumbered loans and the pledge of specific investment securities. Such advances can be made pursuant to several different credit programs, each of which has its own interest rate and

range of maturities. At September 30, 2017, the Bank had $415.0 million of term advances, $987.0 million of overnight borrowings and the ability to borrow up to an approximate additional $0.4 million from the FHLB. During the fourth quarter of fiscal 2017, the Company incurred a $0.8 million prepayment expense related to the early extinguishment of longer term FHLB debt, which had a balance of $7.0 million at a weighted average interest rate of 6.98%.

Table of Contents

The Company completed the public offering of $75 million of 5.75% fixed-to-floating rate subordinated debentures during fiscal year 2016. These notes are due August 15, 2026. The subordinated debentures were sold at par, resulting in net proceeds of approximately $73.9 million. At September 30, 2017, $73.3 million in subordinated debentures, net of issuance costs of $1.7 million, were outstanding.

On July 16, 2001, the Company issued all of the 10,310 authorized shares of Company Obligated Mandatorily Redeemable Preferred Securities of First Midwest Financial Capital Trust I (preferred securities of subsidiary trust) holding solely trust preferred securities. Distributions are paid semi annually. Cumulative cash distributions are calculated at a variable rate of the London Interbank Offered Rate ("LIBOR") plus 3.75%, not to exceed 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions must be paid. The capital securities are required to be redeemed on July 25, 2031; however, the Company has a semi annual option to shorten the maturity date. The option has not been exercised as of the date of this filing. The redemption price is $1,000 per capital security plus any accrued and unpaid distributions to the date of redemption. Holders of the capital securities have no voting rights, are unsecured, and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's common stock. The trust preferred securities have been includable in the Company's capital calculations since they were issued. The preferential capital treatment of the Company's trust preferred securities was grandfathered under recent banking legislation.

From time to time, the Company has offered retail repurchase agreements to its customers. These agreements typically range from 14 days to five years in term, and typically have been offered in minimum amounts of $100,000. The proceeds of these transactions are used to meet cash flow needs of the Company. At September 30, 2017, the Company had $2.5 million of retail repurchase agreements outstanding.

The Company had three capital leases as of September 30, 2017, two equipment leases and one property lease. At September 30, 2017, the portion of the liability expected to be expensed and amortized over the next 12 months is approximately $62,000, while the portion of the liability expected to be expensed and amortized beyond 12 months is $1.9 million. The majority of the $1.9 million liability is related to the Urbandale, Iowa retail branch location.

The following table sets forth the maximum month-end balance and average balance of FHLB advances, retail and reverse repurchase agreements, trust preferred securities, subordinated debentures, capital leases, and overnight fed funds purchased for the periods indicated.

	September 30,		
	2017	2016	2015
	(Dollars in Thousands)		
Maximum Balance:			
FHLB advances	$415,000	$107,000	$7,000
Repurchase agreements	3,782	3,468	17,400
Trust preferred securities	10,310	10,310	10,310
Subordinated debentures	73,347	73,211	—
Capital leases	2,012	2,137	2,247
Other overnight borrowings	20,000	—	—
Overnight fed funds purchased	987,000	992,000	540,000
Average Balance:			
FHLB advances	$52,956	$61,454	$7,000
Repurchase agreements	2,225	2,179	10,884
Trust preferred securities	10,310	10,310	10,310

Subordinated debentures	73,273	9,437	—
Capital leases	1,979	2,086	1,993
Other overnight borrowings	1,425	—	—
Overnight fed funds purchased	259,378	339,035	234,025

Table of Contents

The following table sets forth certain information as to the Company’s FHLB advances, retail and reverse repurchase agreements, trust preferred securities, subordinated debentures, capital leases, and overnight fed funds purchased at the dates indicated.

	September 30,		
	2017	2016	2015
	(Dollars in Thousands)		
FHLB advances	$415,000	$107,000	$7,000
Repurchase agreements	2,472	3,039	4,007
Trust preferred securities	10,310	10,310	10,310
Subordinated debentures	73,347	73,211	—
Capital leases	1,938	2,018	2,143
Overnight fed funds purchased	987,000	992,000	540,000
Total borrowings	$1,490,067	$1,187,578	$563,460
Weighted average interest rate of FHLB advances	1.27 %	0.89 %	6.98 %
Weighted average interest rate of repurchase agreements	0.98 %	0.60 %	0.52 %
Weighted average interest rate of trust preferred securities	5.26 %	4.99 %	4.28 %
Weighted average interest rate of subordinated debentures	5.75 %	5.75 %	— %
Weighted average interest rate of overnight fed funds purchased	1.33 %	0.45 %	0.30 %

Subsidiary Activities

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

Payments Overview

The Company, through the MPS division of the Bank, is focused on innovation in the fintech and payments industries. MPS 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 on a nationwide basis. The products and services offered by MPS are generally designed to facilitate the processing and settlement of authorized electronic transactions involving the movement of funds. MPS offers specific product solutions in the following areas: (i) prepaid cards, (ii) consumer credit products, (iii) ATM sponsorship, (iv) tax refund transfers and (v) interest-free tax refund loans. MPS’ products and services generally target banks, card processors, third parties that market and distribute the cards, resellers and independent tax preparers (EROs).

Each line of MPS’ business is discussed generally below. With respect to the lines of business, there is a significant amount of cross-utilization of personnel and resources (e.g., MPS may develop products for both prepaid and consumer credit needs pursuant to a client's request).

29

Table of Contents

Prepaid Cards. As one of the largest issuers of prepaid cards in the United States, MPS has issued over 870 million prepaid cards since MPS first began issuing prepaid cards. Prepaid cards are debit cards that are embedded with a magnetic stripe which encodes relevant card data (which may or may not include information about the user and/or purchaser of such card), or an EMV chip, which is equipped with a microprocessor chip and the technology used to authenticate chip card transactions. 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. Most recently, "virtual" prepaid cards have become popular in the industry. Virtual prepaid cards are used in both the consumer space, for example as a gift card, and in the commercial arena to facilitate accounts payable and vendor payments.

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. Although the funds are held in pooled accounts, the account of record indicates the funds held by each individual card. The cards may work in a closed loop (e.g., the card will only work at one particular merchant and will not work anywhere else), a "Restricted Access Network" (e.g., the card will only work at a specific set of merchants such as a shopping mall), or in an open loop which functions 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.

The MPS prepaid card business can generally be divided into two categories: Consumer Use and Business Use products. These programs are typically offered via a third-party relationship.

Consumer Use. Examples of consumer use prepaid card programs include payroll, General Purpose Reloadable ("GPR"), Reward, Gift and Benefit/HSA cards. Payroll cards are a product whereby an employee's payroll is loaded to the card by their employer utilizing direct deposit. GPR cards are usually distributed by retailers and can be reloaded an indefinite number of times at participating retail load networks. Other examples of reloadable cards are travel cards which are used to replace traveler's checks and can be reloaded a predetermined number of times, as well as tax-related cards where a taxpayer's refund is placed on the card. Reloadable cards are generally open- loop cards that consumers can use to obtain cash at ATMs or purchase goods and services wherever such cards are accepted for payment.

Business or Commercial Use. Prepaid cards are also frequently used by businesses for travel and entertainment, accounts payable and B2B settlement products. For example, virtual prepaid cards are used to facilitate one-time payments between a company and its vendors for monthly settlement. Travel and Entertainment cards, alternatively, are reloadable by the company for use by its employees to travel for business.

Consumer Credit Products. In its belief that credit programs can help meet legitimate credit needs for prime and sub-prime borrowers, and afford the Company an opportunity to diversify the loan portfolio and minimize earnings exposure due to economic downturns, the Company has offered certain credit programs that were designed to accomplish these objectives, although only one such program existed as of September 30, 2017.

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

ATM Sponsorship. MPS sponsors ATM independent sales organizations ("ISOs") into various networks and provides associated sponsorships of encryption support organizations and third-party processors in support of the financial institutions and the ATM ISO sponsorships. Sponsorship consists of the review and oversight of entities participating in debit and credit networks. In certain instances, MPS also has certain leasehold interests in certain ATMs which require bank ownership and registration for compliance with applicable state law.

While the Company has adopted policies and procedures to manage and monitor the risks attendant to this line of business, and the executives who manage the Company's program have years of experience in this area of the Company's business, no guarantee can be made that the Company will not experience losses in the MPS division. MPS has signed agreements with terms extending through the next few years with several of its largest sales agents/program managers, which the Company expects will help mitigate this risk. See "- Regulation - Proposal Prepaid Payments Regulation."

Table of Contents

Tax Refund Transfers and Lending. With the acquisitions of Refund Advantage in September 2015, EPS Financial in November 2016, and SCS in December 2016, the Company is a leading provider of professional tax refund-transfer software used by independent EROs. Both Refund Advantage and EPS offer tax refund-transfer solutions through ACH direct deposit, check and prepaid card. The Bank offers 0% APR tax refund loans to consumers through marketing programs with national consumer tax preparation companies, including Jackson Hewitt and MetaBank's own refund transfer companies, Refund Advantage and EPS.

Regulation

General

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

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

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

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

The Dodd-Frank Act included provisions which restrict interchange fees to those which are “reasonable and proportionate” for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing (known as the “Durbin Amendment”). The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. In the final rule, interchange fees for debit card transactions were capped at

$0.21 plus five basis points to be eligible for a “safe harbor” such that the fee is conclusively reasonable and proportionate. Another related rule also permits an additional $0.01 per transaction “fraud prevention adjustment” to the interchange fee if certain standards designed by the Federal Reserve are implemented including an annual review of fraud prevention policies and procedures. With respect to network exclusivity and merchant routing restrictions, it is now required that all debit cards participate in at least two unaffiliated networks so that the transactions initiated using those debit cards will have at least two independent routing channels. Notably, the interchange fee restrictions in the Durbin Amendment do not apply to the Bank because debit card issuers with total worldwide assets of less than $10 billion are exempt.

The Dodd-Frank Act also included a provision that supplements the Federal Trade Commission Act’s prohibitions against practices that are unfair or deceptive by also prohibiting practices that are “abusive.” The Bureau’s Director, Richard Cordray, has publicly stated that this term will not be defined by regulation but will, instead, be illuminated by the enforcement actions the Bureau initiates.

Table of Contents

The extent to which new legislation, existing and planned governmental initiatives, and a new presidential administration result in an improvement in the national economy is uncertain. In addition, because some components of the Dodd-Frank Act still have not been finalized, it is difficult to predict the ultimate effect of the Dodd-Frank Act on us or the Bank at this time, although recent public statements by federal regulators have expressed recognition that regulatory relief is needed for smaller financial institutions (e.g., those with less than $10 billion in assets, like the Bank).

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

Privacy. The Bank is required by statute and regulation to disclose its privacy policies to its customers on an annual basis. The Bank does not share nonpublic personal information about its customers with non-affiliated third parties for marketing purposes. The Bank is also required to appropriately safeguard its customers' personal information.

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

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

operational history, the Bureau has redrawn the consumer financial laws through rulemaking and enforcement actions, which may directly impact the business operations of financial institutions offering consumer financial products or services including the Bank and its divisions.

Prepaid Accounts under the Electronic Fund Transfer Act (Regulation E) and the Truth In Lending Act (Regulation Z). On October 5, 2016, the CFPB issued a final rule which supplemented the existing regulatory framework pursuant to which prepaid products (both cards and other delivery methods, including codes) are offered and serviced. Importantly for the Bank, the rule brought prepaid products fully within Regulation E, which implements the federal Electronic Funds Transfer Act by adding a definition for “prepaid account”. In addition, prepaid products that have a credit component, like some of those offered in connection with an existing program manager agreement, are now regulated by Regulation Z, which implements the federal Truth in Lending Act.

Table of Contents

Pursuant to the Prepaid Accounts Rule, the CFPB requires that the consumer be presented with a new “Know Before You Owe” disclosure. Financial institutions, such as the Bank, must provide certain account information in a short form disclosure, in close proximity to the short-form disclosure, and in a long form disclosure to consumers before they acquire a prepaid account, unless specifically exempted. The rule generally extended Regulation E’s error resolution and limited liability requirements to all prepaid accounts, regardless of whether the financial institution has completed its consumer identification and verification process with respect to the account. In addition, the Prepaid Accounts Rule extended Regulation E’s three tiers of liability for unauthorized transfers to prepaid accounts, depending on when the consumer reported the error. The rule also extended Regulation E’s periodic statement requirement to prepaid accounts. Under the final rule, financial institutions must, at no additional charge or fee, provide prepaid account holders with (i) periodic account statements, or (ii) access to his or her account balance through a readily available telephone line and written and electronic records of the account history. The rule also extended Regulation Z’s credit card rules and disclosure requirements to prepaid accounts that provide overdraft services and other credit features. The rule also requires account issuers, such as the Bank, to post their publicly offered prepaid card program agreements on their websites, make them available to consumers upon request, and provide copies of all publicly offered prepaid card program agreements to the CFPB. Most of the rule's provisions took effect on October 1, 2017.
Customer Identification Programs for Holders of Prepaid Cards. On March 21, 2016, the federal banking agencies, including the OCC and the Federal Reserve, issued Interagency Guidance to Issuing Banks on Applying Customer Identification Program Requirements to Holders of Prepaid Cards. This guidance extends the requirements of the Customer Identification Program required by Section 326 of the USA Patriot Act to prepaid accounts where the cardholder has either the (i) ability to reload funds, or (ii) access to credit or overdraft features. If either of these features is present, the issuer must verify the identity of the named account holder.
Incentive-Based Compensation Restrictions. On June 10, 2016, the federal banking regulators, including the Federal Reserve and the OCC, issued a proposed rule related to incentive-based compensation (the original proposed rule was published in April 2011). A rule related to incentive-based compensation is required by Dodd-Frank. According to the banking agencies, the rule is intended to (1) prohibit incentive-based payment arrangements that the Agencies determine could encourage certain financial institutions to take inappropriate risks by providing excessive compensation or that could lead to material financial loss, (2) require the board of directors of those financial institutions to take certain oversight actions related to incentive-based compensation, and (3) require those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate Federal regulator.

The banking regulators have tailored the requirements of the proposed rule to the size and complexity of the covered institution. As currently contemplated, the Company and the Bank would be Level 3 covered institutions under the proposal because both have an average total consolidated assets between $1 and $50 billion. As a Level 3 covered institution, the proposal subjects the Company and the Bank to only the basic set of prohibitions and requirements, which prohibit “excessive compensation, fees, or benefits” or any compensation agreement that “could lead to material financial loss.”
The proposal also would require that the Company’s board of directors, or a committee thereof, conduct oversight of its incentive-based compensation program and approve incentive-based compensation arrangements for senior executive officers. Additionally, the Company and the Bank would be required to create and maintain records that document the structure of all of the incentive-based compensation arrangements, demonstrate compliance with the final rule, and disclose those records to the appropriate Federal regulator upon request.
Examination Guidance for Third-Party Lending. On July 29, 2016, the FDIC issued revised examination guidance related to third-party lending relationships (e.g., lending arrangements that rely on a third party to perform a significant aspect of the lending process). Similar to guidance published by the OCC in 2013, these regulatory materials generally require that financial institutions ensure that risks related to such programs are evaluated, including the type of lending activity, the complexity of the lending program, the projected and realized volume created by the relationship, and the number of third-party lending relationships the institution has in place.

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

Table of Contents

Bank Supervision & Regulation

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

Regulatory authorities have been granted extensive discretion in connection with their supervisory and enforcement activities which are intended to strengthen the financial condition of the banking industry, including, 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. Typically, these actions are undertaken due to violations of laws or regulations or conduct of operations in an unsafe or unsound manner. The OCC has announced that supervisory strategies for 2018 will focus on the following: (i) cybersecurity and operational resiliency; (ii) retail credit loan underwriting and concentration risk management; (iii) business model sustainability; (iv) BSA/AML compliance management; and (v) change management processes to address new regulatory requirements.

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

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

In connection with its assumption of responsibility for the ongoing examination, supervision and regulation of federal savings associations, the OCC published a final rule on July 21, 2011, that republishes those OTS regulations that the OCC has the authority to promulgate and enforce as of the July 21, 2011 transfer date, with nomenclature and other technical amendments to reflect OCC supervision of federal savings associations. In addition, on May 17, 2012, November 20, 2013, June 2, 2015 and March 14, 2016, the OCC rescinded additional OTS documents that formerly applied to federal savings and loan associations, and applied new policy guidance where policy guidance did not already exist. With respect to the 2015 rules, the OCC streamlined requirements (where permitted) to provide integrated treatment to national banks and federal savings associations with respect to certain corporate activities and transactions. The new regulations define an "eligible savings association" as one that: (i) is well capitalized as defined in 12 CFR 6.4; (ii) has a composite rating of 1 or 2 under the Uniform Financial Institutions Rating System ("CAMELS"); (iii) has a Community Reinvestment Act ("CRA"), 12 U.S.C. 2901 et seq., rating of ''Outstanding'' or ''Satisfactory,'' if applicable; (iv) has a consumer compliance rating of 1 or 2 under the Uniform Interagency Consumer Compliance Rating System; and (v) is not subject to a cease and desist order, consent order, formal written agreement, or Prompt Corrective Action directive or, if subject to any such order, agreement, or directive, is informed in writing by the OCC that the savings association may be treated as an ''eligible bank or eligible savings association'' for purposes

of the regulation. With respect to the 2016 rule changes, the OCC removed unnecessary regulatory reporting, accounting and management policy requirements and integrated and updated rules related to insiders and affiliate transactions. The OCC undertook this integration to promote fairness in supervision, reduce regulatory duplication and create efficiencies for national banks and federal savings associations, as well as the OCC. Once finalized, the OCC's regulations and guidance supersede that of OTS and are indicative of the OCC's goal of one integrated policy platform for national banks and savings associations.

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

Business Activities

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

Loan and Investment Powers

The Bank derives its lending and investment powers from the Home Owners' Loan Act ("HOLA") and the OCC's implementing regulations thereunder. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial and consumer loans, certain types of debt securities and certain other assets. The Bank may also establish service corporations that are permitted to engage in activities not otherwise permissible for the Bank, including certain real estate equity investments and securities and insurance brokerage activities; provided, however, that such investments are limited to 3% of the association's assets. These investment powers are subject to various limitations, including (i) a prohibition against the acquisition of any corporate debt security unless, prior to acquisition, the savings association has determined that the investment is safe and sound and suitable for the institution and that the issuer has adequate resources and willingness to provide all required payments on its obligations in a timely manner; (ii) a limit of 400% of an association's capital on the aggregate amount of loans secured by non-residential real estate property; (iii) a limit of 20% of an association's assets on the aggregate amount of commercial and agricultural loans and leases with the amount of commercial loans in excess of 10% of assets being limited to small business loans; (iv) a limit of 35% of an association's assets on the aggregate amount of secured consumer loans and acquisitions of certain debt securities, with amounts in excess of 30% of assets being limited to loans made directly to the original obligor and where no third-party finder or referral fees were paid; (v) a limit of 5% of assets on non-conforming loans (loans in excess of the specific limitations of the HOLA); and (vi) a limit of the greater of 5% of assets or an association's capital on certain construction loans made for the purpose of financing what is or is expected to become residential property. In addition, the HOLA and the OCC regulations provide that a federal savings association may invest up to 10% of its assets in tangible personal property for leasing purposes.

The Bank's general permissible lending limit to one borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At September 30, 2017, the Bank's lending limit under these restrictions was $57.2 million. The Bank is in compliance with this lending limit.

Federal Deposit Insurance and Other Regulatory Requirements

Insurance of Accounts and Regulation by the FDIC. The Bank is a member of the DIF, which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. While not our primary federal regulator, the FDIC as insurer imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. The FDIC also has authority to initiate enforcement actions against any FDIC-insured institution after giving its primary federal regulator the opportunity to take such action, and may seek to terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Under the Dodd-Frank Act, a permanent increase in deposit insurance was authorized to $250,000. The coverage limit is per depositor, per insured depository institution for each account ownership category. The Dodd-Frank Act

also set a new minimum DIF reserve ratio at 1.35% of estimated insured deposits. The FDIC is required to attain this ratio by September 30, 2020. In connection with this requirement, in November 2015, the FDIC released a proposed rulemaking (1) raising the minimum reserve ratio from 1.15% to 1.35%; (2) requiring that the reserve ratio reach 1.35% by September 30, 2020; and (3) requiring that the FDIC offset the effect of the increase in the minimum reserve ratio on insured depository institutions with less than $10 billion in assets, like the Bank. The Board of the FDIC voted to increase the reserve ratio to 1.35% in October 2015. The reserve ratio reached 1.15% on June 30, 2016 and it is anticipated to reach the statutory mandate of 1.35% by December 31, 2018.

Table of Contents

The FDIC imposes an assessment against all depository institutions for deposit insurance. Pursuant to changes adopted by the FDIC that were effective July 1, 2016, in connection with the achievement of a 1.15% reserve ratio, the initial base rate for deposit insurance is between 3-30 basis points. Total base assessment after possible adjustments now ranges between 1.5-40.0 basis points. For established smaller institutions, like the Bank, CAMELS composite ratings are used along with (i) an initial base assessment rate, (ii) an unsecured debt adjustment (can be positive or negative), and (iii) a brokered deposit adjustment rate, to calculate a total base assessment rate. Note that the final rule states that it is "revenue neutral" in that it leaves aggregate assessment revenue collected from small banks approximately as it would have been absent the final rule. Risk categorization for purposes of deposit insurance are no longer utilized.

As noted above, brokered deposits are subject to an adjustment rate in the calculation of deposit insurance premiums. Based upon guidance issued by the FDIC, some of Meta's prepaid deposits are deemed to be "brokered" deposits. As discussed below, should the Bank fail to maintain its well capitalized status, limitations related to brokered deposits would automatically trigger which could have a material adverse effect on the Bank and the Company.

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

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

DIF-insured institutions pay a Financing Corporation ("FICO") assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. At September 30, 2017, the FICO assessment was equal to 0.54 basis points for each $100 of its total assessment base of approximately $3.62 billion. These assessments will continue until the bonds mature in 2019.

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

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

Assessments. The Dodd-Frank Act provides that, in establishing the amount of an assessment, the Comptroller of the Currency may consider the nature and scope of the activities of the entity, the amount and type of assets it holds, the financial and managerial condition of the entity and any other factor that is appropriate. The Bank's assessment (standard assessment) at September 30, 2017, was $368,373.

Basel III Capital Requirements. 2017 is the third year of implementation of the bank capital rules (the "Basel III Capital Rules") adopted in July 2013 by our primary federal regulator, the Federal Reserve, and the Bank's primary federal regulator, the OCC. The Basel III Capital Rules established a new comprehensive capital framework for U.S. banking organizations and generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The Basel III Capital Rules substantially increased the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including us and the Bank. The Basel III Capital Rules became effective for us and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Table of Contents

The Basel III Capital Rules established three components of regulatory capital: (1) common equity tier 1 capital ("CET1 Capital"), (2) additional tier 1 capital, and (3) tier 2 capital. Tier 1 capital is the sum of CET1 Capital and additional tier 1 capital instruments meeting certain revised requirements. Total capital is the sum of tier 1 capital and tier 2 capital. Under the Basel III Capital Rules, for most banking organizations, the most common form of additional tier 1 capital is non-cumulative perpetual preferred stock and the most common form of tier 2 capital is subordinated notes and a portion of the allocation for loan and lease losses, in each case, subject to the Basel III Capital Rules' specific requirements. CET1 Capital, tier 1 capital, and total capital serve as the numerators for three prescribed regulatory capital ratios. Risk-weighted assets, calculated using the standardized approach in the Basel III Capital Rules for us and the Bank, provide the denominator for such ratios. There is also a leverage ratio that compares tier 1 capital to average total assets.

Failure by our Company or Bank to meet minimum capital requirements set by the Basel III Capital Rules could result in certain mandatory and/or discretionary disciplinary actions by our regulators that could have a material adverse effect on our business and our consolidated financial position. Under the capital requirements and the regulatory framework for prompt corrective action, our Company and Bank must meet specific capital guidelines that involve quantitative measures of our Company and Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our Company's and Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Beginning January 1, 2016, we and the Bank became required to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively composed of CET1 Capital, applies to each of the three risk-based capital ratios (but not the leverage ratio), and increases the minimum requirement of the three risk-based capital ratios by 0.625% for each year through 2019. On January 1, 2017, the Company and Bank complied with the capital conservation buffer requirement for 2017.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1 Capital. These include, for example, the requirement that deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 Capital to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1 Capital. See Note 13 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

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

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

With respect to the Bank, the Basel III Capital Rules apply to and revised the Prompt Corrective Action ("PCA") regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 Capital

ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 Capital ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules did not change the total risk-based capital requirement for any PCA category.

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

Table of Contents

As of September 30, 2017, the Bank exceeded all of its regulatory capital requirements as showing in the table below and was designated as "well-capitalized" under federal guidelines. The table below includes certain non-GAAP financial measures that are used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews these measures along with other measures of capital as part of its financial analysis. See Note 13 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Regulatory Capital Data

	Company (Actual)	Bank (Actual)	Minimum Requirement For Capital Adequacy Purposes	Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions
	Ratio	Ratio	Ratio	Ratio
	(Dollars in Thousands)			
September 30, 2017				
Tier 1 leverage ratio	7.64 %	9.64 %	4.00 %	5.00 %
Common equity Tier 1 capital ratio	13.97 %	18.22 %	4.50 %	6.50 %
Tier 1 capital ratio	14.46 %	18.22 %	6.00 %	8.00 %
Total qualifying capital ratio	18.41 %	18.59 %	8.00 %	10.00 %

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

Reconciliation:

	Standardized Approach [(1)] September 30, 2017 (Dollars in Thousands)
Total equity	$ 434,496
Adjustments:	
LESS: Goodwill, net of associated deferred tax liabilities	95,332
LESS: Certain other intangible assets	41,743
LESS: Net deferred tax assets from operating loss and tax credit carry-forwards	1,495
LESS: Net unrealized gains (losses) on available-for-sale securities	9,166
Common Equity Tier 1 [(1)]	286,760
Long-term debt and other instruments qualifying as Tier 1	10,310
LESS: Additional tier 1 capital deductions	374
Total Tier 1 capital	296,696
Allowance for loan losses	7,718
Subordinated debentures (net of issuance costs)	73,347
Total qualifying capital	377,761

(1) Capital ratios were determined using the Basel III Capital Rules that became effective on January 1, 2015. Basel III revised the definition of capital, increased minimum capital ratios, and introduced a minimum CET1 ratio; those changes are being fully phased in through the end of 2021.

Table of Contents

The following table provides a reconciliation of tangible common equity used in calculating tangible book value data.

	September 30, 2017 (Dollars in Thousands)
Total Stockholders' Equity	$ 434,496
Less: Goodwill	98,723
Less: Intangible assets	52,178
Tangible common equity	283,595
Less: AOCI	9,166
Tangible common equity excluding AOCI	274,429

Due to the predictable, quarterly cyclicality of MPS deposits in connection with tax season business activity, management believes that a six-month capital calculation is a useful metric to monitor the Company's overall capital management process. As such, the Bank's six-month average Tier 1 leverage ratio, Common equity Tier 1 capital ratio, Tier 1 capital ratio, and Total qualifying capital ratio as of September 30, 2017 were 9.70%, 18.99%, 18.99%, and 19.39%, respectively.

Recent Releases Related to Capital Rules. On November 21, 2017, the federal banking agencies released a final rule finalizing certain capital rule transitions related to regulatory capital deductions and risk weights for banking organizations, including federal savings banks (like the Bank) and savings and loan holding companies (like the Company), that are not subject to the advanced approaches capital rule. Specifically, the final rule extends existing capital provisions for mortgage servicing assets, certain deferred tax assets, non-significant investments in the capital instruments of unconsolidated financial institutions, and minority interests. Without adoption of this final rule, new requirements that included significantly higher risks ratings for the affected assets would have become effective on January 1, 2018.

In September 2017, the federal banking agencies, including the OCC, the FDIC, and the Federal Reserve, released for comment a proposed rule that would simplify certain aspects of the agencies' capital rules as they relate to federal savings banks and savings and loan holding companies. The proposal is designed to simplify and clarify certain complex aspects of the existing capital rules. Among other proposed changes, the proposal would replace the definition of high volatility commercial real estate exposure in the standardized approaches capital framework with a straightforward definition of highly volatile acquisition, development or construction; these exposures would receive a 130% risk weighting instead of the current 150% risk weighting such assets receive now. In addition, the proposal would simplify threshold deduction treatment for mortgage servicing assets and certain tax deferred assets; it would also simplify limits on minority interests included in regulatory capital. The comment period is currently scheduled to close on this proposal on December 26, 2017.

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, (and revised as described above) the federal banking agencies were given additional enforcement authority with respect to undercapitalized depository institutions. Under the current regulations, an institution is deemed to be (a) "well-capitalized" if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 8.0% or more, has a CET1 risk based capital ratio of 6.5% or more, and has leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure; (b) "adequately capitalized" if it has a total Capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, a CET1 risk based capital ratio of 4.5% or more and has a leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well-capitalized; (c) "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 6.0%, a CET1 Capital ratio less than 4.5% or a Tier 1 leverage capital ratio that is less than 4.0%; (d) "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, a CET1 Capital

ratio less than 3% or a Tier 1 leverage capital ratio that is less than 3.0%; and (e) "critically undercapitalized" if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. In certain situations, a federal banking agency may reclassify a well-capitalized institution as adequately capitalized and may require an adequately capitalized or undercapitalized institution to comply with supervisory actions as if the institution were in the next lower category.

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 and such holding company has provided appropriate assurances of performances. 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.

Table of Contents

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

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

Any institution that fails to comply with its capital plan or is "significantly undercapitalized" (i.e., Tier 1 risk-based ratio of less than 4% or CET1 risk-based or core capital ratios of less than 3% or a risk-based capital ratio of less than 6%) must be made subject to one or more of additional specified actions and operating restrictions mandated by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). These actions and restrictions include requiring the issuance of additional voting securities; limitations on asset growth; mandated asset reduction; changes in senior management; divestiture, merger or acquisition of the association; restrictions on executive compensation; and any other action the OCC deems appropriate. An institution that becomes "critically undercapitalized" is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized associations. In addition, the appropriate banking regulator must appoint a receiver (or conservator with the FDIC's concurrence) for an institution, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized institution is also subject to other possible enforcement actions, including the appointment of a receiver or conservator. The appropriate regulator is also generally authorized to reclassify an institution into a lower capital category and impose restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

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

dilution in stockholders' percentage of ownership of Meta Financial.

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

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

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

Civil Money Penalties. The OCC has the authority to assess civil money penalties ("CMPs") against any national bank, federal savings bank or any of their institution-affiliated parties ("IAP"). In addition, the OCC has the authority to assess CMPs against bank service companies and service providers. CMPs may encourage an affected party to correct violations, unsafe or unsound practices or breaches of fiduciary duty. CMPs also serve as a deterrent to future violations of law, regulation, orders and other conditions. When determining CMP amounts, the OCC is required by statute to consider the following four factors: (1) the size and financial resources and good faith of the institution or IAP charged; (2) the gravity of the violation; (3) the history of previous violations; and (4) such other matters as justice may require. In addition to these factors there are other factors that the FFIEC has adopted that banking agencies should consider. If the Bank, the Company or any of its IAPs were to have CMPs imposed, such penalties could be material.

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

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

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

Table of Contents

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

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

- the proposed distribution raises safety and soundness concerns; or

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

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

During the fiscal year ended September 30, 2017, the Bank paid no cash dividends to the Company, as the Company utilized existing cash holdings for payment of dividends to the Company's stockholders and other holding company expenses. The Company does not currently anticipate that it will need dividends from the Bank in order to fund dividends to the Company's stockholders. To declare a dividend under new rules adopted in 2015 by the OCC, an institution must file a notice with the OCC as an "eligible savings association" (as defined in the OCC's regulations) if, among other things, it would not remain well-capitalized or would not be an eligible savings association upon the distribution. An application to the OCC is required prior to a capital distribution if, among other things, a federal savings association is not an "eligible savings association." If neither of these are triggered, an institution does not need to file a notice or an application before declaring a dividend or otherwise making a capital distribution.

Qualified Thrift Lender Test. All savings associations, including the Bank, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio assets (as defined by regulation) in qualified thrift investments (primarily residential mortgages and related investments, including certain mortgage-backed securities) on a monthly average for nine out of every 12 months on a rolling basis or meet the requirements for a domestic building and loan association under the Internal Revenue Code. Under either test, the required assets primarily consist of residential housing related to loans and investments. At September 30, 2017, the Bank met the test and always has since its inception.

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

Community Reinvestment Act. Under the Community Reinvestment Act (the "CRA"), the Bank is evaluated periodically by its primary federal banking regulator to determine if it is meeting its continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its assessment areas, including

low and moderate income neighborhoods. The Bank received a “Satisfactory” rating during its most recent Performance Evaluation dated January 3, 2017. A copy of the Bank’s most recent Performance Evaluation is available as part of its Public File.

Table of Contents

Volcker Rule. On December 10, 2013, five financial regulatory agencies, including our primary federal regulators the Federal Reserve and the OCC, adopted final rules implementing the so-called Volcker Rule embodied in Section 13 of the Bank Holding Company Act ("BHCA"), which was added by Section 619 of the Dodd-Frank Act. The final rules prohibit banking entities from (1) engaging in short-term proprietary trading for their own accounts and (2) having certain ownership interests in and relationships with hedge funds or private equity funds ("covered funds"). The final rules are intended to provide greater clarity with respect to both the extent of those primary prohibitions and of the related exemptions and exclusions. The final rules also require each regulated entity to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include (for the largest entities) making regular reports about those activities to regulators. Community and small banks, such as MetaBank, are afforded some relief under the final rules. If such banks are engaged only in exempted proprietary trading, such as trading in U.S. Government, agency, state and municipal obligations, they are exempt entirely from compliance program requirements. Moreover, even if a community or small bank engages in proprietary trading or covered fund activities under the rule, they need only incorporate references to the Volcker Rule into their existing policies and procedures. The compliance date for banks to conform to the Volcker Rule was July 21, 2015, but the regulators granted multiple extensions until July 21, 2017 for conformance of relationships with covered funds that existed prior to December 31, 2013 (this was the final extension granted in connection with such "legacy" covered funds). Beginning June 30, 2014, banking entities with $50 billion or more in trading assets and liabilities were required to report quantitative metrics; on April 30, 2016, banking entities with at least $25 billion but less than $50 billion were required to report; and on December 31, 2016, banking entities with at least $10 billion but less than $25 billion were required to report. The Company does not at this time expect the Volcker Rule to have a material impact on its operations.

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

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

Transactions with Affiliates. The Bank must comply with Sections 23A and 23B of the Federal Reserve Act relative to transactions with "affiliates," generally defined to mean any company that controls or is under common control with the institution (as such, Meta Financial is an affiliate of the Bank for these purposes). Transactions between an institution or its subsidiaries and its affiliates are required to be on terms as favorable to the Bank as terms prevailing at the time for transactions with non-affiliates. In addition, certain transactions, such as loans to an affiliate, are restricted to a percentage of the institutions' capital (e.g., the aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the institution; the aggregate amount of covered transactions with all affiliates is limited to 20% of the institution's capital and surplus). In addition, a savings and loan holding company may not lend to any affiliate engaged in activities not permissible for a savings and loan holding company or acquire the securities of most affiliates. The OCC has the discretion to treat subsidiaries of savings institutions as affiliates on a case-by-case basis.

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

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.

Table of Contents

Federal Home Loan Bank System. The Bank is a member of the FHLB of Des Moines, one of 11 regional FHLBs that administers the home financing credit function of savings associations that is subject to supervision and regulation by the Federal Housing Finance Agency. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances must be used for residential home financing.

As members of the FHLB System, the Bank is required to purchase and maintain activity-based capital stock in the FHLB in the amount specified by the applicable Federal Home Loan Bank's capital plan. At September 30, 2017, the Bank had in the aggregate $61.1 million in FHLB stock, which was in compliance with the Federal Home Loan Bank of Des Moines' requirement. For the fiscal year ended September 30, 2017, dividends paid by the FHLB to the Bank totaled $538,434. In June 2015, the FHLB of Des Moines and the FHLB of Seattle merged into the FHLB of Des Moines. Notably, pursuant to certain integration rules adopted by the OCC in 2015, federal savings associations are no longer required to become members of a Federal Home Loan Bank.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to low and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank’s FHLB stock may result in a corresponding reduction in the Bank’s capital. In addition, the federal agency that regulates the FHLBs has required each FHLB to register its stock with the SEC, which has increased the costs of each FHLB and may have other effects that are not possible to predict at this time.

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

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

FDIC Deposit Classification Guidance

On January 5, 2015, the Federal Deposit Insurance Corporation (“FDIC”) published initial industry guidance (the “Guidance”) in the form of Frequently Asked Questions with respect to the categorization of deposit liabilities as "brokered" deposits. This guidance was later supplemented on November 13, 2015, and was finalized on June 30, 2016. As of September 30, 2017, the Bank categorized $1.47 billion, or 45.7% of its deposit liabilities, as brokered deposits.

Due to the Bank’s status as a "well-capitalized" institution under the new Basel III Capital Rules, and further with respect to the Bank’s financial condition in general, the Company does not at this time anticipate that the Guidance will have a material adverse impact on the Company’s liquidity, statements of financial condition or results of operations going forward. However, should the Bank ever fail to be well-capitalized in the future as a result of not meeting the well-capitalized requirements or the imposition of an individual minimum capital requirement or a similar formal requirement, then, notwithstanding that the Bank has capital in excess of the well-capitalized minimum requirements, the Bank would be prohibited, absent waiver from the FDIC, from utilizing brokered deposits (i.e., no insured depository institution that is deemed to be less than “well-capitalized” may accept, renew or rollover brokered deposits

absent a waiver from the FDIC). In such event, unless the Bank were to receive a suitable waiver from the FDIC, such a result could produce serious material adverse consequences for the Bank with respect to liquidity and could also have serious material adverse effects on the Company's financial condition and results of operations. Further, and in general, depending on the Bank's condition in the future, the FDIC could increase the surcharge on our brokered deposits up to thirty basis points. The Company will monitor any future clarifications, rulings and interpretations, including whether institutions would be expected by the FDIC to amend prior call reports. If we are required to amend previous call reports with respect to our level of brokered deposits, which the Company does not expect, or we are ever required to pay higher surcharge assessments with respect to these deposits, such payments could be material and therefore could have a material adverse effect on our financial condition and results of operations.

Holding Company Supervision & Regulation

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

The Federal Reserve has responsibility for the primary supervision and regulation of all savings and loan holding companies, including the Company. In connection with its assumption of responsibility for the ongoing examination, supervision and regulation of savings and loan holding companies, the Federal Reserve has published an interim final rule ("Regulation LL", which, as of the date of this filing, has still not been adopted in final form) that provides for the corresponding transfer from the OTS to the Federal Reserve of the regulations necessary for the Federal Reserve to administer the statutes governing savings and loan holding companies. Related to this authority, the Federal Reserve issued on November 7, 2014, a list identifying the supervisory guidance documents issued by it prior to July 21, 2011 that are now applicable to savings and loan holding companies such as the Company. The FRB stated that, among other things, this list was part of their initiative to establish a savings and loan holding company supervisory program similar in nature to its "long-established supervisory program for bank holding companies."

Restrictions Applicable to All Savings and Loan Holding Companies.

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

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

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

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

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

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

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

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

The HOLA also prohibits a savings and loan holding company (directly or indirectly, or through one or more subsidiaries) from acquiring or retaining, with certain exceptions, more than 5% of the voting shares of a non subsidiary savings association, a non-subsidiary holding company or a non-subsidiary company engaged in

activities other than those permitted by the HOLA. In evaluating applications by holding companies to acquire savings associations, the Federal Reserve must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the DIF, the convenience and needs of the community and competitive factors.

Failure to Meet QTL Test.

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

Table of Contents

Activities Restrictions.

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

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

Source of Strength and Capital Requirements.

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

New rules promulgated by the Federal Reserve related to capital requirements that were required by the Dodd-Frank Act have also become effective. For a summary of the applicable changes, see "Risk Factors – Risks Related to Our Industry and Business."

Examination.

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

In accordance with its goal to assess the condition, performance and activities of savings and loan holding companies on a consolidated basis in a manner that is consistent with the Federal Reserve's established risk-based approach regarding bank holding company supervision, the Federal Reserve announced in 2013 that it will use the "RFI/C(D)" rating system (commonly referred to as "RFI") to assign indicative ratings to such companies. On December 9, 2016, the Federal Reserve issued a proposal to fully apply its existing rating system for bank holding companies to savings and loan holding companies on a fully implemented basis (the "Ratings Proposal"). If adopted as proposed, indicative ratings would no longer be used to evaluate the Company.

Table of Contents

In late 2013, the Federal Reserve announced that, with respect to savings and loan holding companies with less than $10 billion in assets (like the Company), such companies' inspection frequency and scope requirements will be the same as those for bank holding companies of the same asset size. The FRB will also determine whether or not a savings and loan holding company is "complex" as determined by certain factors enumerated by the Federal Reserve. According to the Federal Reserve, with respect to institutions with less than $10 billion in assets (such as the Company), the determination of whether a holding company is "complex" versus "noncomplex" is made at least annually on a case-by-case basis taking into account and weighing a number of considerations, such as: the size and structure of the holding company; the extent of intercompany transactions between insured depository institution subsidiaries and the holding company or uninsured subsidiaries of the holding company; the nature and scale of any non-bank activities, including whether the activities are subject to review by another regulator and the extent to which the holding company is conducting Gramm-Leach-Bliley authorized activities (e.g., insurance, securities, merchant banking); whether risk management processes for the holding company are consolidated; and whether the holding company has material debt outstanding to the public. The Federal Reserve has advised savings and loan holding companies with less than $10 billion in assets (like the Company) to refer to this supervisory guidance until the Ratings Proposal is finalized. As of the date of this filing, the FRB has not advised the Company that it is complex.

Change of Control.

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

(1)directly or indirectly or acting in concert with one or more persons, owns, controls or has the power to vote 25% or more of the voting securities of a company;

(2)controls in any manner the election of a majority of the directors (or any individual who performs similar functions in respect of any company, including a trustee under a trust) of the board; or

(3)directly or indirectly exercises a controlling influence over the management or policies of the bank.

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

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

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

Table of Contents

Moreover, unlike the OTS control rules, the Federal Reserve does not have a separate application process for rebutting control under the BHCA and Regulation LL does not include such a process. Under the former OTS rules, investors that triggered a control factor under the rules could submit an application to the OTS requesting a determination that they have successfully rebutted control under the HOLA. This separate application process is not available under Regulation LL. Given that Federal Reserve practice is to consider potential control relationships for all investors in connection with applications submitted under the BHCA, the Federal Reserve will review potential control relationships for all investors in connection with applications submitted to the Federal Reserve under Section 10(e) or 10(o) of the HOLA. The Federal Reserve may obtain a series of passivity commitments from investors seeking to purchase in excess of 5% of the issued and outstanding common stock of savings and loan holding companies and bank holding companies.

Management

On August 9, 2017, the Federal Reserve published proposed guidance related to supervisory expectations for board of directors, including boards of directors of savings and loan holding companies. The proposal seeks to clarify supervisory expectations of boards and distinguish the roles held by senior management to allow boards to focus on fulfilling their core responsibilities. The comment period closes on February 15, 2018.

Federal and State Taxation

Federal and State Taxation. Meta Financial and its subsidiaries file a consolidated federal and various consolidated state income tax returns. Additionally, Meta Financial or its subsidiaries file separate company income tax returns in states where required. All returns are filed on a fiscal year basis using the accrual method of accounting. We monitor relevant tax authorities and change our estimate of accrued income tax due to changes in income or franchise tax laws and their interpretation by the courts and regulatory authorities. In addition to the regular income tax, corporations, including savings banks such as the Bank, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income.

To the extent earnings appropriated to a savings bank's bad debt reserves and deducted for federal income tax purposes exceed the allowable amount of such reserves computed under the experience method and to the extent of the bank's supplemental reserves for losses on loans ("Excess"), such Excess may not, without adverse tax consequences, be utilized for the payment of cash dividends or other distributions to a stockholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 2017, the Bank's Excess for tax purposes totaled approximately $6.7 million.

Competition

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

The Company's Retail Banking operation attracts deposits through its Retail Banking offices, primarily from the communities in which those Retail Banking offices are located; therefore, competition for those deposits is principally

from other commercial banks, savings banks, credit unions and brokerage offices located in the same communities. The Company competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours and convenient branch locations with interbranch deposit and withdrawal privileges at each.

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

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

Table of Contents

Employees

At September 30, 2017, the Company and its subsidiaries had a total of 827 full-time equivalent employees, an increase of 155 employees, or 23%, from September 30, 2016. The Company's employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

Available Information

The Company's website address is www.metafinancialgroup.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 Exchange Act, and statements of ownership on Forms 3, 4, and 5. Investors are encouraged to access these reports and other information about our business on our website. The information found on the Company's website is not incorporated by reference in this or any other report the Company files or furnishes to the SEC. We also will provide copies of our Annual Report on Form 10-K, free of charge, upon written request to Brittany Kelly Elsasser, Director of Investor Relations, at the Company's address. Also posted on our website, among other things, are the charters of our committees of the Board of Directors, as well as the Company's and the Bank's Codes of Ethics.

Item 1A. Risk Factors

Factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected or 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, perhaps materially, by any of these risks, as well as other risks that we have not identified, whether due to such risks not presently being known to us, because we do not currently believe such risks to be material or otherwise. 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. The risks discussed below also include forward-looking statements, and actual results and events may differ substantially from those discussed or highlighted in these forward-looking statements. 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. Before making an investment decision with respect to any of our securities, you should carefully consider the following risks and uncertainties described below and elsewhere in this annual report on Form 10-K. See also "Forward-Looking Statements."

Risks Related to Our Industry and Business

Our growth has been robust, and failure to generate sufficient capital to support anticipated growth could cause us difficulty in maintaining regulatory capital compliance and meeting our capital requirements, and adversely affect our earnings and prospects.

The Company has continued to experience considerable growth recently, having increased its assets from $4.01 billion at September 30, 2016 to $5.23 billion at September 30, 2017. Funded primarily by growth of low- and no-cost deposits, the proceeds thereof have been invested primarily in loans, municipal bonds, mortgage-backed securities ("MBS") and investment securities available for sale. The Company's asset growth has required and, if continued as expected, will continue to generate a need for higher levels of capital which management believes may not be met through earnings retention alone. Additionally, our asset mix has changed, and we expect will continue to change, as we increase commercial and consumer loans, especially in our tax-related financial solutions divisions; such loans carry risk weights far in excess of traditional one- to four- family loans, and as a result it will be more difficult to

maintain regulatory capital compliance. Consideration of maintaining compliance with capital requirements, in August 2016, the Company completed the public offering of $75 million of its 5.75% fixed-to-floating rate subordinated debentures due August 15, 2026, with the proceeds of the offering, approximately $73.9 million, qualifying as Tier 2 capital for regulatory purposes at the Company level, and as Tier 1 capital as invested by the Company in the Bank. In addition, the Company privately placed 266,430 shares of common stock to several institutional investors during fiscal 2016. There can be no assurance, however, that the Company will be able to continue to access sources of capital, private or public. Failure to remain well-capitalized, or to attain potentially even higher levels of capitalization that are or will be required in the future under regulatory initiatives mandated by Congress, our regulatory agencies, or under the Basel accords, could adversely affect the Company's earnings and prospects.

Table of Contents