

**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**

(State or other jurisdiction of incorporation or organization)

**5501 South Broadband Lane, Sioux Falls, SD**

(Address of principal executive offices)

**42-1406262**

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

**57108**

(Zip Code)

Registrant's telephone number: (605) 782-1767

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

**Title of Class**

**Common Stock, par value \$0.01 per share**

**Name of each exchange on which registered**

**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 ☒  
Emerging growth company ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller Reporting 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.

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

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## Forward-Looking Statements

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

You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue,” “could,” “future,” or the negative of those terms, or other words of 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.

## 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.

## 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.

At September 30,										
2017		2016		2015		2014		2013		
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
(Dollars in Thousands)										
<b>Real Estate Loans:</b>										
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%
<b>Other Loans:</b>										
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 <sup>(1)</sup>	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%

<sup>(1)</sup> Consist generally of various types of secured and unsecured consumer loans.

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

September 30,										
2017		2016		2015		2014		2013		
Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
(Dollars in Thousands)										
<b>Fixed Rate Loans:</b>										
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%
<b>Adjustable Rate Loans:</b>										
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 Loans	205,611	15.4%	75,102	8.1%	74,442	10.4%	81,919	16.4%	62,334	16.2%
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	<u>\$1,317,837</u>		<u>\$919,470</u>		<u>\$706,255</u>		<u>\$493,007</u>		<u>\$380,428</u>	



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 <sup>(1)</sup>		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 <sup>(2)</sup>	\$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%
<b>Total</b>	<b>\$844,016</b>		<b>\$163,004</b>		<b>\$35,759</b>		<b>\$33,594</b>		<b>\$250,459</b>		<b>\$1,326,832</b>	

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

<sup>(2)</sup> 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.

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.

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.

*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.

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.

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
(Dollars in Thousands)			
<b>Originations by Type:</b>			
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
<b>Purchases:</b>			
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
<b>Sales and Repayments:</b>			
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

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 <sup>(1)</sup>				60-89 Days <sup>(2)</sup>			90 Days and Over <sup>(3)</sup>			
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.



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 <sup>(1)</sup>	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.

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.

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 <sup>(1)</sup>	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.

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.

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.

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The following table sets forth the carrying value of the Company's investment securities portfolio, excluding mortgage-backed securities and other 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 <sup>(1)</sup>	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 <sup>(2)</sup>	\$ 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.

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
<u>Available for Sale</u>	(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 <sup>(1)</sup>	—%	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
<u>Held to Maturity</u>	(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 <sup>(1)</sup>	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%.

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



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.

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.

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%

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 <sup>(1)</sup>	\$ 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.

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%.

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)		
<u>Maximum Balance:</u>			
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
<u>Average Balance:</u>			
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

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
<b>Total borrowings</b>	<b>\$ 1,490,067</b>	<b>\$ 1,187,578</b>	<b>\$ 563,460</b>
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).

*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.”



*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.

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.

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.

## **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.

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.



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.

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)				
<b>September 30, 2017</b>				
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 <sup>(1)</sup> 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 <sup>(1)</sup>	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.



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

	<b>September 30, 2017</b>
	(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 cyclicity 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.

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.

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.

*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.

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

### ***Failure to Meet QTL Test.***

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

***Activities Restrictions.***

Prior to the Dodd-Frank Act, savings and loan holding companies were generally permitted to engage in a wider array of activities than those permissible for their bank holding company counterparts and could have concentrations in real estate lending that are not typical for bank holding companies. Section 606 of the Dodd-Frank Act 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.



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.

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.

## **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](http://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 Elsassner, 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.

***We may have difficulty continuing to grow, and even if we do grow, our growth may strain our resources and limit our ability to expand our operations successfully.***

As described above, we have experienced significant growth in the amount of our assets; this is also the case with the level of our deposits. Our future profitability will depend in part on our continued ability to grow in both of these categories, as well as in other categories; including through expansion of our business through acquisitions and other strategic transactions. See “Acquisitions could disrupt our business and harm our financial condition.” We may not, however, be able to sustain our historical growth rate or be able to grow at all. In addition, we believe that our future success will depend on competitive factors and on the ability of our senior management to continue to maintain a robust system of internal controls and procedures and manage a growing number of customer relationships. See “The Company operates in an extremely competitive market, and the Company’s business will suffer if it is unable to compete effectively.” We may not be able to implement changes or improvements to these internal controls and procedures in an efficient or timely manner and may discover deficiencies in existing systems and controls. Consequently, continued growth, if achieved, may place a strain on our operational infrastructure, which could have a material adverse effect on our financial condition and results of operations.

***We incur significant costs and demands upon management and accounting and finance resources as a result of complying with the laws and regulations affecting public companies; if we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and our reputation.***

As an SEC reporting company, we are required to, among other things, maintain a system of effective internal control over financial reporting, which requires annual management and independent registered public accounting firm assessments of the effectiveness of our internal controls. Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We have historically dedicated a significant amount of time and resources to implement our internal financial and accounting controls and procedures. Substantial work may continue to be required to further implement, document, assess, test and remediate our system of internal controls. We may also need to retain additional finance and accounting personnel in the future.

If our internal control over financial reporting is not effective, we may be unable to issue our financial statements in a timely manner, we may be unable to obtain the required audit or review of our financial statements by our independent registered public accounting firm in a timely manner or we may be otherwise unable to comply with the periodic reporting requirements of the SEC, our common stock listing on the NASDAQ Global Select Market could be suspended or terminated and our stock price could materially suffer. In addition, we or members of our management could be subject to investigation and sanction by the SEC and other regulatory authorities and to claims by stockholders, which could impose significant additional costs on us and divert our management's attention.

In addition, see “Item 9A. Controls and Procedures-Management’s Annual Report on Internal Control over Financial Reporting” for inherent limitations in a control system.

***The Company is required to serve as a “source of strength” for the Bank.***

Federal banking law codifies a requirement that savings and loan holding companies (like the Company) act as a financial “source of strength” for its FDIC-insured depository institution subsidiaries (like the Bank). The term “source of financial strength” is defined in the relevant statute as the ability of a company to provide financial assistance to such insured depository institution in the event of the financial distress of such insured depository institution. The statute permits the OCC, as the Bank’s primary federal regulator, to request reports from the Company to assess its ability to serve as a source of strength and to enforce compliance with these statutory requirements. To date, no regulations have been proposed in connection with this statutory requirement, although it is widely assumed that the Federal Reserve would enforce its prior guidance regarding the applicability of this doctrine to bank holding companies in connection with the rule’s application to savings and loan holding companies.

Given the power provided to the federal banking agencies in this provision, it is possible that the Company could be required to serve as a source of strength when it might not otherwise voluntarily choose to do so. Specifically, the imposition of such financial requirements might require the Company to raise additional capital to support the Bank at a time when it is not otherwise prudent for the Company to do so; for example, such raise could be on terms that are not favorable or typical in the existing market. Further, any capital provided by the Company would be subordinate to others with interest in the Bank, including its depositors. In addition, in the event of the bankruptcy of the Company at a time when it had a commitment to one of the Bank’s regulators to maintain the capital of the Bank, the regulators’ claims against the Company may be entitled to priority status over other obligations.

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

Over the last several fiscal years, our loan portfolio has grown substantially with new loan originations. Our underwriting practices are designed to mitigate risk by adhering to specific loan parameters. Components of our underwriting program include, where appropriate, an analysis of the borrower and their creditworthiness, a financial statement review, and, if applicable, cash flow projections and a valuation of collateral. Other lending programs, particularly in the Bank's divisions, rely on experience and quantitative data. We may incur losses in our loan portfolio, especially the new portions thereof, if our underwriting practices or criteria fail to identify credit risks. It is also possible that losses will exceed the amounts the Bank has set aside for loss reserves and result in reduced interest income and increased provision for loan losses, which could have an adverse effect on our financial condition and results of operations. Deterioration in our loan portfolio could also cause a decrease in our capital, which would make it more difficult to maintain regulatory capital compliance.

***The bulk of our retail bank lending operations is concentrated in Iowa and South Dakota.***

Our retail bank lending activities are largely based in Iowa and South Dakota. As a result, and notwithstanding lending in our AFS/IBEX division and lending in our tax-related financial solutions divisions, our financial performance depends to a large degree on the economic conditions in these areas. If local economic conditions worsen it could cause us to experience an increase in the number of borrowers who default on their loans along with a reduction in the value of the collateral securing such loans, which could decrease our capital and have an adverse effect on our financial condition and results of operations. Lending by AFS/IBEX is concentrated in California, Texas, Florida and New York, while lending by Refund Advantage, EPS Financial and SCS is nationwide.

***Economic and market conditions could adversely affect our industry and regulatory costs and could continue to increase.***

General economic trends, low national economic growth and reduced availability of commercial credit could negatively impact the credit performance of commercial and consumer credit in general, which could lead to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We have faced increased regulation of our industry. Although it is possible that the effect of the November 2016 federal elections may curtail such events, compliance with existing and expected regulations may increase our costs and limit our ability to pursue business opportunities;
- Customer demand for loans secured by real estate could be reduced due to weaker economic conditions, an increase in unemployment, a decrease in real estate values or an increase in interest rates;
- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions, and whether economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process. Further, a new method of determining loan loss allowances, expected to be implemented in fiscal year 2020, could decrease our profitability.
- The value of the portfolio of investment securities that we hold, and which constitute a large percentage of our assets, may be adversely affected; and
- If we experience financial setbacks or regulatory action in the future, we may be required to pay significantly higher FDIC insurance premiums than we currently pay due, in part, to our significant level of brokered deposits. See “– Regulation.”

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

While regulatory agencies have made considerable progress in implementing the Dodd-Frank Act, the full compliance burden and impact on our operations and profitability are still not known. Hundreds of new federal regulations, studies and reports were required under the Dodd-Frank Act and not all of them have been finalized; some rules and policies will be further developing for months and years to come. Based on the provisions of the Dodd-Frank Act that have already been implemented as well as anticipated regulations, and notwithstanding the recent Presidential election results of 2016, it is likely that banks and thrifts as well as their holding companies will continue to be subject to regulation and compliance obligations that expose us to higher costs as well as noncompliance risk and consequences.

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

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

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

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

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

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

Under the CRA, the Bank is evaluated periodically by its primary federal banking regulator to determine if it is meeting its continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. In the Bank’s most recent CRA examination dated January 3, 2017, the Bank received an overall rating of “Satisfactory.” If the Bank were to receive a future CRA rating of less than “Satisfactory,” the CRA requires the OCC to take such rating into account in considering an application for any of the following: (i) the establishment of a domestic branch; (ii) the relocation of its main office or of a branch; (iii) the merger or consolidation with or acquisition of assets or assumption of liabilities of an insured depository institution; or (iv) the conversion of the Bank to a national charter.

***Legislative and regulatory initiatives taken to date, including with respect to capital requirements may not achieve their intended objective.***

Under the Basel III Capital Rules, minimum requirements have increased for both the quantity and quality of capital held by banking organizations. The Basel III Capital Rules include a new minimum ratio of CET1 Capital to risk-weighted assets of 4.5% and a capital conservation buffer of which is .0625% for 2016, rising by .0625% per year to 2.5% of risk-weighted assets for 2019 and later years. The Rules also impose a minimum ratio of tier 1 capital to risk-weighted assets of 6% and includes a minimum leverage ratio (tier 1 capital to average total assets) of 4% for all banking organizations. The Rules also emphasize CET1 Capital and implement strict eligibility criteria for regulatory capital instruments. The minimum total capital ratio remains at 8% but the general PCA framework has been changed to incorporate these increased minimum requirements. The Basel III Capital Rules phase-in period for smaller, less complex banking organizations like the Company and the Bank began in January 2015. The phase-in will gradually increase capital requirements for the Company and the Bank, making compliance and future growth more difficult to achieve. Should the Company or the Bank fail to meet the requirements of the Basel III Capital Rules, including the application of well-capitalized levels in connection with such rules, the Company and the Bank would be subject to adverse regulatory action by our regulators, which action could result in material adverse consequences for us, the Bank, and our shareholders.

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

As of September 30, 2017, approximately 13.4% of the Company’s assets were invested in mortgage-backed securities, compared to 17.3% at September 30, 2016. The Company’s mortgage-backed and related securities portfolio consists primarily of securities issued by U.S. Government instrumentalities, including those of Fannie Mae and Freddie Mac which are in conservatorship. The Fannie Mae and Freddie Mac certificates are modified pass-through mortgage-backed securities that represent undivided interests in underlying pools of fixed-rate, or certain types of adjustable-rate, predominantly single-family and, to a lesser extent, multi-family residential mortgages issued by these U.S. Government instrumentalities.

Mortgage-backed securities remain subject to credit risk, and to the risk that a fluctuating interest rate environment, along with other risk factors such as the geographic distribution of the underlying mortgage loans may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed, and value, of such securities.

As of September 30, 2017, approximately 26.8% of the Bank’s assets were invested in municipal securities, compared to approximately 29.6% at September 30, 2016. As of September 30, 2017, 26.4% of the Bank’s assets invested in municipal securities were non-bank qualified obligations.

Municipal securities remain subject to the risk that a fluctuating interest rate environment may alter the value of the securities.



***Our reputation and business could be damaged by negative publicity.***

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

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

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

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

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

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

The Company's success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond the Company's control may adversely affect the Company's asset quality, deposit levels, products and loan demand and, therefore, the Company's earnings. Because the Company has a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Among other things, adverse changes in the economy may also have a negative effect on the ability of the Company's borrowers to make timely repayments of their loans, which would have an adverse impact on the Company's earnings. In addition, at the present, the vast majority of the Company's loans are to individuals and businesses in the Company's market areas. Consequently, any economic decline in the Company's market areas could have an adverse impact on the Company's earnings. During the 2017 tax season, we made a large amount of no-interest, 0% APR tax refund loans in connection with a program agreement with a national tax preparation company. Although we have developed policies and procedures related to the underwriting and making of these loans, this is still a relatively new business line for us, and unexpected events could cause unanticipated losses or issues related to such loans.



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

The Company's earnings depend substantially on the Company's interest rate spread, which is the difference between (i) the rates we earn on loans, securities and other earning assets, and (ii) the interest rates we pay on deposits and other borrowings. These rates are highly sensitive to many factors beyond the Company's control, including general economic conditions and the policies of various governmental and regulatory authorities. As market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits, especially at our retail bank, which may result in a decrease of the Company's net interest income. Conversely, if interest rates fall, yields on loans and investments may fall. Although the Bank continues to monitor its interest rate risk exposure and has undertaken additional analyses and implemented additional controls to improve its core earnings from interest income, the Bank can provide no assurance that its efforts will appropriately protect the Bank in the future from interest rate risk exposure. For additional information, see Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

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

The Company and the Bank operate in a highly regulated environment and are subject to extensive regulation, supervision and examination by the OCC and the Federal Reserve. In addition, the Bank is subject to regulation by the FDIC and the Bureau. See Item 1 "Business – Regulation" herein. Applicable laws and regulations may change and the enforcement of existing laws and regulations may vary when actions are evaluated by these regulators, and there is no assurance that such changes will not adversely affect the Company's business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations or legislation, could have a material impact on the Company's operations. Notwithstanding the recent Presidential election, it is unknown at this time to what extent new legislation will be passed into law or pending or new regulatory proposals will be adopted, or the effect that such passage or adoption will have, positively or negatively, on the banking industry or the Company.

***Changes in technology could be costly.***

The banking industry is undergoing technological innovation at a fast pace. To keep up with its competition, the Company needs to stay abreast of innovations and evaluate those technologies that will enable it to compete on a cost-effective basis. This is especially true with respect to our MPS division. The cost of such technology, including personnel, has been high in both absolute and relative terms and additional funds continue to be used to enhance existing management information systems. There can be no assurance, given the fast pace of change and innovation, that the Company's technology, either purchased or developed internally, will meet the needs of the Company, in a timely, cost-effective manner. During the course of implementing new technology into the Company's or the Bank's operations, we may experience system interruptions and failures. In addition, there can be no assurances that we will recognize, in a timely manner or at all, the benefits that we may expect as a result of our implementing new technology into our operations.

***The OCC and Federal Reserve are our primary banking regulators and we may not be able to comply with applicable banking regulations to their satisfaction.***

Our primary regulators have broad discretionary powers to enforce banking laws and regulations and may seek to take informal or formal supervisory action if they deem such actions are necessary or required. If imposed in the future, corrective steps could result in additional regulatory requirements, operational restrictions, a consent order, enhanced supervision and/or civil money penalties. If imposed, additional resources, both economic and in terms of personnel, would be expended by the Company and the Bank and such regulatory actions could have a material adverse effect on the Company.

***We are a party to certain legal matters and are subject to additional litigation risk.***

From time to time, the Company, the Bank or our other subsidiaries are subject to certain legal proceedings and claims in the ordinary course of business. While most matters are now resolved, an adverse resolution in remaining litigation or other litigation, including litigation brought by the Company's shareholders, could result in substantial damages negatively or otherwise impact our business, reputation and financial condition. See also Part I, Item 3, "Legal Proceedings."

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

The Bank has entered into numerous contracts with third parties with respect to the operations of its business. In some instances, the third parties provide services to the Bank and its divisions; in other instances, the Bank and its divisions provide products and services to such third parties. Were such agreements not to be renewed by the third party or were such agreements to be renewed on terms less favorable, such actions could have an adverse material impact on the Bank, its divisions and, ultimately, the Company. For example, in July 2017, the Bank announced that it would not be providing interest-free Refund Advance loans for H&R Block tax preparation customers during the 2018 tax season. The Company's relationship with H&R Block represented approximately \$12.0 million in net earnings during fiscal year 2017. Given the loss of this relationship, the Company recognized a total impairment charge of \$10.2 million, which was expensed during the 2017 fiscal fourth quarter. Similarly, were one of these third-parties unable to meet their obligations to us for any reason (including but not limited to bankruptcy, computer or other technological interruptions or failures, personnel loss or acts of God), we may need to seek alternative service providers.

We may not be able to secure alternate service providers, and, even if we do, the terms with such alternate providers may not be as favorable as those currently in place. In addition, were we to lose any of our important third-party providers, it could cause a material disruption in our own ability to service our customers, which also could have an adverse material impact on the Bank, its divisions and, ultimately, the Company. Moreover, were the disruptions in our ability to provide services significant, this could negatively affect the perception of our business, which could result in a loss of confidence and other adverse effects on our business.

Additionally, our agreements with third-party vendors could come under scrutiny by our regulators. If a regulator should raise an issue with, or object to, any term or provision in such agreement or any action taken by such third party vis-à-vis the Bank's operations or customers, this could result in a material adverse effect to the Company including, but not limited to, the imposition of fines and/or penalties and the termination of such agreement.

Finally, we may be held responsible for actions of our third party vendors (e.g., EROs) for activity they undertake on behalf of the Bank, notwithstanding the Bank's onboarding and review program.

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

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

Several banking institutions have adopted business strategies that are similar to ours, particularly with respect to the MPS division. As a consequence, we have encountered competition in this area and anticipate that we will continue to do so in the future. This competition may increase our costs, reduce our revenues or revenue growth, or make it difficult for us to compete effectively in obtaining additional customer relationships.

***A substantial portion of the Company's deposit liabilities are classified as brokered deposits, and failure to maintain the Bank's status as a "well-capitalized" institution could have a serious adverse effect on the Company.***

On January 5, 2015, the FDIC published industry guidance in the form of Frequently Asked Questions ("FAQs") with respect to, among other things, the categorization of deposit liabilities as "brokered" deposits. This guidance was later supplemented on November 13, 2015, and June 30, 2016. Based on the noted guidance, as of September 30, 2017, the Bank classified \$1.47 billion, or 45.6%, of its deposit liabilities as brokered deposits. Due to the Bank's current status as a "well-capitalized" institution under the FDIC's prompt corrective action regulations, management believes the guidance does not pose a risk to the Bank. 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 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. For the year ended September 30, 2017, the Company estimates that the additional surcharge attributable to the Bank's brokered deposits was approximately \$0.5 million, after tax. 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.

***We derive a significant percentage of our deposits, total assets and income from deposit accounts that we generate through MPS' customer relationships, of which four are particularly significant to our operations.***

We derive a significant percentage of our deposits, total assets and income from deposit accounts we generate through program manager relationships between third parties and MPS. Deposits related to our top four program managers (each, a significant program manager) totaled \$1.38 billion at September 30, 2017. We provide oversight and auditing of such third-party relationships and all such relationships must meet all internal and regulatory requirements. We may exit these relationships if such requirements are not met or if required to do so by our regulators. We perform liquidity reporting and planning daily and identify and monitor contingent sources of liquidity, such as national CDs, fed fund lines or public fund CDs. If one of these significant program manager relationships were to be terminated, it could materially reduce our deposits, assets and income. Similarly, if a significant program manager was not replaced, we may be required to seek higher-rate funding sources as compared to the existing program manager, and interest expense might increase. We may also be required to sell securities or other assets which would reduce revenues and potentially generate losses.

***Fraud and other illegal activity involving our tax preparation partners or products could lead to a regulatory investigation and reputational damage to us, reduce the use and acceptance of our cards and reload network, reduce the use of our services, and may adversely affect our financial position and results of operations.***

Criminals are using increasingly sophisticated methods to engage in illegal activities involving prepaid cards, reload products, and tax refunds. Illegal activities involving such products and services include malicious social engineering schemes, where people are asked to provide a prepaid card or reload product in order to obtain a loan or purchase goods or services. Illegal activities may also include fraudulent payment or refund schemes and identity theft. We rely upon third party tax preparers for tax preparation and other services, which subjects us to risks related to the vulnerabilities of those third parties. Even a single significant instance of fraud could theoretically result in reputational damage to us, which could reduce the use and acceptance of our cards and other products and services, cause retail distributors or their customers to cease doing business with us or them, or could lead to greater regulation that would increase our compliance costs. Fraudulent activity could also result in the imposition of regulatory sanctions, including significant monetary fines, which could adversely affect our business, operating results and financial condition.

***The student loan portfolio purchases present certain risks to the Bank.***

The Bank purchased two separate student loan portfolios in fiscal year 2017 and the beginning of fiscal year 2018. The first of which portfolios included seasoned loans that were taken by medical school students who enrolled in non-U.S. medical schools and the second included more traditional loans made to higher education students. The servicing of these loans remains with ReliaMax Lending Services, LLC, and are insured by ReliaMax Surety Company. To the extent there are any issues raised in connection with the origination, transfer or servicing of the loans constituting these portfolios, and to the extent any related losses were not deemed to be insured losses pursuant to the surety agreement and other insurance applicable to these loans, such a determination could have a material adverse effect on the Bank and the Company.

***A data security breach involving the Company, the Bank or any of our tax preparation partners could expose use to liability and protracted and costly litigation, and could adversely affect our reputation and operating revenues.***

In connection with the Company's and the Bank's businesses, we collect and retain significant volumes of personally identifiable information, including social security numbers of our customers and other personally identifiable information of our customers and employees. We and our tax preparation partners may experience security breaches involving the receipt, transmission and storage of confidential customer and other personally identifiable information. The continued occurrence of high-profile data breaches provides evidence of the serious threats to information security. Our customers and employees, and those of our tax preparation partners, expect that we and our partners will adequately protect their personal information, and the regulatory environment surrounding information security and privacy is increasingly demanding. Improper access to our or the tax preparation partner's systems or databases could result in the theft, publication, deletion or modification of confidential customer and other information. In addition, a data security breach at the tax preparation partners could result in significant reputational harm to us and cause the use and acceptance of our tax-related products and services to decline, either of which could have an adverse impact on our operating revenues and future growth prospects.

***Agency, technological, or human error could lead to tax refund processing delays, which could adversely affect our reputation and operating revenues.***

We and our tax preparation partners rely on the Internal Revenue Services (the "IRS"), technology, and employees when processing and preparing tax refunds and tax-related products and services. Any delays during the processing or preparation period could result in reputational damage to us or to our tax preparation partners, which could reduce the use and acceptance of our cards and tax-related products and services, either of which could have a significant adverse impact on our operating revenues and future growth prospects. An IRS delay in processing tax returns this season could result in a smaller percentage of expected revenues flowing into our third fiscal quarter.

***Changes in laws and regulations, or our failure to comply with existing laws and regulations, that govern or are otherwise applicable to our tax refund-related services could have a material adverse effect on our business, prospects, results of operations and financial condition.***

We derive a significant portion of our total operating revenues and earnings from tax refund processing and settlement services. The tax preparation industry is highly regulated under a variety of statutes and regulations, all of which are subject to change, which may impose significant costs, limitations or prohibitions on the way we conduct or expand our tax refund processing and related services. Any new requirements or rules, changes in such requirements or rules, new interpretations of existing requirements or rules, failure to follow requirements or rules, or future lawsuits or rulings could increase our compliance and other costs of doing business, require significant systems redevelopment, render our products or services less profitable or obsolete or otherwise have a material adverse effect on our business, prospects, results of operations, and financial condition. In addition, changes in the U.S. tax laws, as a result of pending tax legislation in the U.S. Congress or otherwise, may adversely impact our tax refund processing and settlement business, including to the extent that any such changes may reduce customer demand for the Company's strategic partner's refund advance products, thereby reducing the volume of refund advance loans that we may offer.

***Tax advance loans represent a significant credit risk, and if we are unable to collect a significant portion of the tax return advances, it would materially negatively impact earnings.***

There is a credit risk associated with a tax refund advance because the funds are disbursed to the customer prior to the Company receiving the customer's refund from the IRS. Because there is no recourse to the customer if the tax refund advance is not paid in full with the proceeds of the customer's tax refund, the Company may not collect all of its payments related to the tax refund advances from the IRS and state revenue departments. Losses will generally occur on tax refund advances when the Company does not receive payment from the IRS or state revenue department due to a number of reasons, such as IRS revenue protection strategies including audits of returns, errors in the tax return, tax return fraud and tax debts not previously disclosed to the Company during its underwriting process. Although the Company's underwriting takes these factors into consideration during the tax refund advance approval process, if the IRS significantly alters its revenue protection strategies for a given tax season, or the Company is incorrect in its underwriting assumptions, the Company could experience higher loan loss provisions above those projected. In addition, a consumer could exercise its rights and withdraw its ACH authorization provided in connection with a tax refund advance, meaning the Bank could no longer collect the payments related to the tax return advances via a direct debit to the designated bank account, which could result in additional losses.

***Acquisitions could disrupt our business and harm our financial condition .***

As part of our general growth strategy, we have expanded our business in part through acquisitions. Since December 2014, we have completed the acquisition of substantially all of the commercial loan portfolio and related assets of AFS/IBEX Financial Services, Inc., and completed the acquisition of the assets of Fort Knox Financial Services Corporation and its subsidiary, Tax Products Services LLC, in September 2015. More recently, we completed the acquisition of substantially all the assets and certain liabilities of EPS Financial in November 2016 and completed the acquisition of substantially all of the assets and specified liabilities of SCS in December 2016.

In addition to the transactions noted above, we may engage in additional acquisitions that we believe provide a strategic or geographic fit with our business. We cannot predict the number, size or timing of acquisitions. To the extent that we grow through acquisitions, we cannot assure that we will be able to adequately and profitably manage this growth. Acquiring other businesses will involve risks commonly associated with acquisitions, including:

- increased capital needs;
- increased and new regulatory and compliance requirements;
- implementation or remediation of controls, procedures and policies at the acquired company;
- diversion of management time and focus from operation of our then-existing business to acquisition-integration challenges;
- coordination of product, sales, marketing and program and systems management functions;
- transition of the acquired company's users and customers onto our systems;
- retention of employees from the acquired company;
- integration of employees from the acquired company into our organization;
- integration of the acquired company's accounting, information management, human resources and other administrative systems and operations with ours;
- potential liability for activities of the acquired company prior to the acquisition, including violations of law, commercial disputes and tax and other known and unknown liabilities;
- potential increased litigation or other claims in connection with the acquired company, including claims brought by terminated employees, customers, former stockholders, vendors, or other third parties; and
- goodwill impairment

If we are unable to successfully integrate an acquired business or technology, or otherwise address these difficulties and challenges or other problems encountered in connection with an acquisition, we might not realize the anticipated benefits of that acquisition, we might incur unanticipated liabilities or we might otherwise suffer harm to our business generally, which could have a material adverse effect on our business, prospects, financial condition and results of operations. Unanticipated costs, delays, regulatory review and examination, or other operational or financial problems related to integrating the acquired company and business with our company, may result in the diversion of our management's attention from other business issues and opportunities. To integrate acquired businesses, we must implement our technology and compliance systems in the acquired operations and integrate and manage the personnel of the acquired operations. We also must effectively integrate the different cultures of acquired business organizations into our own in a way that aligns various interests and may need to enter new markets in which we have no or limited experience and where competitors in such markets have stronger market positions. Failures or difficulties in integrating the operations of the businesses that we acquire, including their personnel, technology, compliance programs, financial systems, distribution and general business operations and procedures, marketing, promotion and other relationships, may affect our ability to grow and may result in us incurring asset impairment or restructuring charges. Furthermore, acquisitions and investments are often speculative in nature and the actual benefits we derive from them could be lower or take longer to materialize than we expect.

To the extent we pay the consideration for any future acquisitions or investments in cash, it would reduce the amount of cash available to us for other purposes. Future acquisitions or investments could also result in dilutive issuances of our equity securities or the incurrence of debt, contingent liabilities, amortization expenses or impairment charges against goodwill on our balance sheet, any of which could harm our financial condition and negatively impact our stockholders.

***An impairment charge of goodwill or other intangibles could have a material adverse impact on our financial condition and results of operations.***

Because we have recently grown in part through acquisitions, goodwill and intangible assets are now a portion of our consolidated assets. Our goodwill and intangible assets were \$150.9 million as of September 30, 2017. Under accounting principles generally accepted in the United States, or U.S. GAAP, we are required to test the carrying value of goodwill and intangible assets at least annually or sooner if events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including sustained decline in a reporting unit's fair value, legal and regulatory factors, operating performance indicators, competition and other factors. U.S. GAAP requires us to assign and then test goodwill at the reporting unit level. If over a sustained period of time we experience a decrease in our stock price and market capitalization, which may serve as an estimate of the fair value of our reporting unit, this may be an indication of impairment. If the fair value of our reporting unit is less than its net book value, we may be required to record goodwill impairment charges in the future. In addition, if the revenue and cash flows generated from any of our other intangible assets is not sufficient to support its net book value, we may be required to record an impairment charge. For example, in the fiscal 2017 fourth quarter, we recognized a \$10.2 million intangible impairment charge related to the non-renewal of the H&R Block relationship. The amount of any impairment charge could be significant and could have a material adverse impact on our financial condition and results of operations for the period in which the charge is taken.

***New lines of business or new products and services may subject us to additional risks.***

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. Substantial risks and uncertainties are associated with developing and marketing new lines of business or new products or services, particularly in instances where the markets are not fully developed, and we may be required to invest significant time and resources. Initial timetables for the introduction and development of new lines of business or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as regulatory reception, compliance with regulations and guidance (such as the OCC's guidance released in August 2015 related to the offering of tax refund-related products), competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could reduce our revenues and potentially generate losses.

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

Fidelity, business interruption, cybersecurity and property insurance policies are in place with respect to the operations of the Company. Should any event triggering such policies occur, however, it is possible that our policies would not fully reimburse us for the losses we could sustain due to deductible limits, policy limits, coverage limits or other factors. We generally renew our insurance policies on an annual basis. If the cost of coverage becomes too high, we may need to reduce our policy limits, increase the deductibles or agree to certain exclusions from our coverage in order to reduce the premiums to an acceptable amount.

***The loss of key members of the Company's senior management team, or our ability to attract and retain qualified personnel, could adversely affect the Company's business.***

We believe that the Company's success depends largely on the efforts and abilities of the Company's senior executive management team. Their experience and industry contacts significantly benefit us. Our future success also depends in large part on our ability to attract, retain and motivate key management and operating personnel. As we continue to develop and expand our operations, we may require personnel with different skills and experiences, with a sound understanding of our business and the industries in which we operate. The competition for qualified personnel in the financial services industry is intense, and the loss of any of the Company's key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect the Company's business.

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

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

- *Commercial Mortgage Loans* . Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.
- *Commercial Loans* . Repayment is dependent upon the successful operation of the borrower's business.
- *Consumer Loans* . Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage or loss.
- *Agricultural Loans* . Repayment is dependent upon the successful operation of the business, which is greatly dependent on many things outside the control of either the Bank or the borrowers. These factors include weather, commodity prices and interest rates, among others.
- *Premium Finance Loans*. Repayment is dependent upon the successful operations of the business. The risk is mitigated since the loan is secured by the unamortized portion of the underlying insurance policy.
- *Student Loans*. Repayment is dependent upon the obligor's fulfillment of its contractual payment obligations.
- *Refund Advance Loans*. Repayment is dependent upon an income tax refund being approved and paid by the Internal Revenue Service or a state tax authority.

***Premium financing activity may result in increased exposure to credit risk and fraud.***

The Company acquired the premium finance loan portfolio and related assets of AFS/IBEX Financial Services, Inc., and continues, through that platform, to serve businesses and insurance agencies nationwide with commercial insurance premium financing. The Company is reliant on insurance agents and brokers to produce these commercial loans, which are made to borrowers who borrow funds to pay premiums on property and casualty insurance policies. Typically the financing arrangement with the borrower provides for periodic payments to the lender to secure the insurance policy with an insurer, and that the lender is entitled to any unearned premium due from the insurer in the event of policy cancellation with any excess returned to the insured/borrower after the loan has been paid off. The financing arrangement typically includes a limited power of attorney to permit the lender to cancel the insurance policy in the event of default. Typically, premium finance loans are designed to amortize faster than the unearned premium that has been paid, either as a down payment, or periodically is earned, so that the value of the unearned premium exceeds the outstanding financed amount, providing collateral to the lender. If the borrower fails to pay on the premium finance loan, then the financed insurance policy must be cancelled to avoid losses with respect to unearned premiums. The Company must consider both the creditworthiness of the borrower, and the creditworthiness of the insurer (for the ability to return the unearned premium). There is also an operational risk of assuring that the insurance policy is cancelled on a timely basis to prevent unearned premium from dissipating once the policy can be cancelled. Further, the Company is not involved in the production of the loans, and is therefore exposed to the risk of fraud by producers.



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

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

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

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

***Our agricultural loans are subject to factors beyond the Company's control.***

The agricultural community is subject to commodity price fluctuations. Extended periods of low commodity prices, higher input costs or poor weather conditions could result in reduced profit margins, reducing demand for goods and services provided by agriculture-related businesses, which, in turn, could affect other businesses in the Company's market area. Any combination of these factors could produce losses within the Company's agricultural loan portfolios.

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

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

***New products and services are expensive to implement and are closely scrutinized by the OCC.***

The Bank operates in an environment that is reliant upon innovative products and services that complement and enhance existing product and service offerings. The investments we make in these new products and services are often expensive and we can never be certain that products or services will be acceptable to our regulators or will realize commercial success. In addition, the OCC has stated that new products and services must be undertaken only after the appropriate controls are in place (which can often be time-consuming and expensive to implement).



***Our framework for managing risks may not be effective in mitigating risk and loss to us.***

We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. For example, the 2008 financial and credit crisis and resulting regulatory reform highlighted both the importance and certain limitations of managing unanticipated risks. If our risk management framework proves ineffective, we could suffer unexpected losses which could have a material adverse effect on our financial condition and results of operations.

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

The Company depends on data processing, communication and information exchange on a variety of computing platforms and networks and over the Internet. Despite safeguards, no system, including ours, is entirely free from vulnerability to attack or error. Additionally, the Company relies on and does business with a variety of third-party service providers, agents and vendors with respect to the Company's business, data and communications needs. If information security is breached, or one of the Company's agents or vendors breaches compliance procedures, or otherwise errs, information could be lost or misappropriated, resulting in financial loss or costs to the Company or damages to others. These costs or losses could materially exceed the Company's amount of insurance coverage, if any, which would adversely affect the Company's business.

Other "high profile" data breaches during recent years have raised interest in new legislation at both the federal and state level. To the extent additional requirements are imposed on the Bank as a result of such legislation, these costs could have an adverse impact on the Bank.

***Changes in accounting policies or accounting standards, or changes in how accounting standards are interpreted or applied, could materially affect how we report our financial results and condition.***

Our accounting policies are fundamental to determining and understanding our financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Any changes in our accounting policies could materially affect our financial statements. From time to time, the Financial Accounting Standards Board (the "FASB") and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, the SEC, banking regulators and our outside auditors) may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be difficult to predict and could materially affect how we report our financial results and condition. We may be required to apply a new or revised standard retroactively or apply an existing standard differently and retroactively, which may result in the Company being required to restate prior period financial statements in material amounts. In particular, the FASB issued a rule in 2016 requiring companies to estimate current expected credit losses. The rule, which is a major change for banking organizations, becomes effective for the Company on October 1, 2020. The new standard is likely to result in more timely recognition of credit losses than under the previous incurred loss model, and the Company is evaluating the extent to which the new rule will affect its results of operations.

***Our network of tax preparation partners is extensive but it may be difficult to manage and retain such marketing partners because of competitive market forces.***

As of the date of this filing, the Bank has a network of over 10,000 active EROs that utilize its services and it is expected that this number will increase for the 2018 tax season. Although each ERO undergoes an analysis of its operations prior to marketing the Bank's products, it is possible that certain EROs will facilitate or engage in tax-related malfeasance or offer the Bank's products and services in a manner that does not comply with law or contractual representations, warranties and covenants. In addition, it is possible that the EROs may choose to offer the tax-related products of other companies who provide products and services similar to the Bank's for pricing or other competitive reasons. The effect of any of these events, were they to be realized in the future, could potentially result in material adverse consequences to the Company.

***Catastrophic events could occur and impact either our or our vendors' operations.***

Catastrophic events (including those that are weather related as well as those that are geopolitical related) could have an adverse impact on both the Bank's and its vendors' ability to provide necessary services to support the operation of the Bank and provide products and services to the Bank's customers. These events, which are beyond our control, could be short-term in nature or longer term, lasting for significant periods of time. Although insurance coverage may provide some protection in light of such events, it cannot be determined whether insurance proceeds would adequately compensate the Bank for the losses it incurred as a result of such events. Moreover, the damage caused by such events may not be directly compensable, such as damage to our reputation as a result of such events.

**Risks Related to the Company's Stock**

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

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

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

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

***An investment in Company common stock is not an insured deposit.***

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and is subject to market forces that affect the price of common stock in any company. As a result, if you hold or acquire our common stock, it is possible that you may lose all or a portion of your investment.

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

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

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

Sales of a substantial amount of the Company's capital stock in the public market or the issuance of a significant number of shares could adversely affect the market price for shares of the Company's common stock. As of September 30, 2017, the Company was authorized to issue up to 15,000,000 shares of common stock, of which 9,622,595 shares were outstanding, and 3,836 shares were held as treasury stock. The Company was also authorized to issue up to 3,000,000 shares of preferred stock and 3,000,000 shares of non-voting common stock, none of which were outstanding or reserved for issuance. Future sales or additional issuances of stock may affect the market price for shares of the Company's common stock.

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

Certain provisions of the Company's charter documents and federal regulations could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of the Company. In addition, the Company may need to obtain approval from regulatory authorities before it can acquire control of any other company. Such approvals could involve significant expenses related to diligence, legal compliance and the submission of required applications and could be conditioned on acts or practices that limit or otherwise constrain the Company's or the Bank's operations.

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

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

## **Risks Related to the Bank's divisions**

***Our divisional products and services are highly regulated financial products subject to extensive supervision and regulation and are costly to maintain.***

The products and services offered by several of our divisions are highly regulated by federal banking agencies, the Bureau and some state regulators. Some of the laws and related regulations affecting its operations include consumer protection laws, escheat laws, privacy laws, anti-money laundering laws and data protection laws. Compliance with the relevant legal paradigm in which our divisions operate is costly and requires significant personnel resources, as well as extensive contacts with outside lawyers and consultants to stay abreast of the applicable regulatory schemes.

***The Bureau's Prepaid Accounts Rule impacts the Bank's offering of prepaid cards.***

As described above, the Bureau issued a final rule on October 5, 2016, which supplemented the existing regulatory framework pursuant to which prepaid products (both cards and other delivery methods, including codes) are offered and serviced. The Prepaid Accounts Rule brought prepaid products fully within Regulation E, which implements the federal Electronic Funds Transfer Act, and, for prepaid products that have a "credit" component, within Regulation Z, which implements the federal Truth in Lending Act. The Prepaid Accounts Rule created tailored provisions which (1) created a definition for a "prepaid account" in Regulation E, (2) required certain disclosures to consumers before such consumer acquires a prepaid card account, (3) extended Regulation E's limited liability and error resolution provisions to certain registered prepaid accounts, (4) regulated the provision of billing statements, and (5) extended Regulation Z's credit card rules and disclosure requirements to prepaid accounts that provide overdraft services and other credit features (the Bank currently issues a card with an overdraft feature that is marketed by a third party program manager.) The Prepaid Accounts Rule also required account issuers to post their publicly offered prepaid card program agreements on their own websites and make them available to consumers upon request and to provide copies of all publicly offered prepaid card program agreements to the Bureau. The Prepaid Accounts Rule became effective on October 1, 2017, and compliance with the Prepaid Accounts Rule has resulted in additional costs.

***In addition to the CFPB's final prepaid regulation (discussed above), it is possible that new legislation or more stringent focus by banking agencies could further restrict our current operations or change the regulatory environment in which our customers operate.***

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

In addition to the relevant legal paradigm set forth above, it should also be noted that there has been concern within the bank regulatory environment over the use of credit and, in particular, prepaid cards as a means by which to illegally launder and move money. The U.S. Treasury's Financial Crimes Enforcement Network issued rules related to providers of "prepaid access" which have left certain issues unresolved related to its regulatory requirements. It is likely that any changes to the regulatory environment related to the offering of prepaid cards will increase the Bank's compliance and operational costs. Although the Bank will continue to work with its regulators to provide information about its operations as well as the state of the prepaid card industry, we believe such concerns in general will continue for the foreseeable future for the entire banking industry, with a continued emphasis on heightened compliance expectations, resulting in higher compliance costs. See "Business Regulation – Bank Supervision and Regulation" which is included in Item 1 of this Annual Report on Form 10-K.

***Our tax refund-related business is concentrated in a limited number of partners and our success will depend upon the maintenance of those agreements.***

If any of the companies through which we offer tax refund-related products to consumers and commercial entities were to significantly decrease the size of our existing or projected relationship, such a decrease would likely have a significant impact on our financial condition. For example, the Bank's agreement with Jackson Hewitt Tax Service extends through the 2020 tax season, but the loss of this relationship prior to such time for a contractual or other reason would have a materially adverse impact on the Bank's results of operation.

***The CFPB's recently published final rule related to certain small dollar loans will impact certain processes used by the Bank and could materially impact the Bank's ability to grow certain aspects of the Payments division.***

On October 5, 2017, the CFPB issued its final rule related to certain small dollar loans. Affecting primarily shorter term (e.g., 45 days or less) loans with an Annual Percentage Rate of 36% or more, the rule generally requires a provider of such loans to determine the consumer borrower's ability to repay; an alternative to the ability-to-repay determination is provided for loans that do not exceed \$500 and meet certain other requirements.

In addition to these restrictions, the CFPB also imposes certain requirements related to the collection of longer-term loans with an Annual Percentage Rate of 36% or more; specifically, the final rule requires that, where the creditor (like the Bank) has access to the consumer's bank account for repayment of the loan proceeds, the creditor must provide certain notices to the consumer about upcoming payments and transactions via model forms the CFPB also published. In addition, a creditor is prohibited from attempting to withdraw payment from a consumer's bank account where such repayment has been declined for two consecutive payment attempts. At such time, the creditor is required to get a new, specific authorization from the consumer to debit the bank account.

***If the OCC finalizes rules related to the application process for the acceptance of "fintech" charters, entities that receive such charters could encroach upon the Bank's business.***

Although the OCC has publicly stated in court filings that it is not yet accepting applications for a "fintech" charter, the recent Acting Comptroller of the Currency has stated that the agency continues to evaluate the benefits and risks of providing national charters to companies that do not exercise the full range of traditional banking powers. Were the OCC to accept such applications from companies that sought a national platform from which to offer specific banking products and services (including payment processing services), such new fintech companies could engage in operations or bring products to the market that could materially impact the Bank's financial performance.

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

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

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

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

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

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

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

Issuers of prepaid and credit cards have suffered significant losses in recent years with respect to the theft of cardholder data that has been illegally exploited for personal gain. The theft of such information is regularly reported and affects not only individuals but businesses as well. Many types of credit card fraud exist, including the counterfeiting of cards and "skimming."

Losses from fraud have been substantial for certain card industry participants. Although fraud has not had a material impact on the profitability of the Bank, it is possible that such activity could adversely impact in the future, notwithstanding, our recent introduction of EMV ( i. e., chip-enabled) cards and the broader acceptance of such cards in the U.S. and international markets.

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

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

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

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

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

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

***Our business could suffer if there is a decline in the use of prepaid cards or there are adverse developments with respect to the prepaid financial services industry in general.***

As the prepaid financial services industry evolves, consumers may find prepaid financial services to be less attractive than other financial services. Consumers might not use prepaid financial services for any number of reasons. For example, negative publicity surrounding the Company or other prepaid financial service providers could impact MPS' business and prospects for growth to the extent it adversely impacts the perception of prepaid financial services. If consumers do not continue or increase their usage of prepaid cards, MPS' operating revenues may remain at current levels or decline. Growth of prepaid financial services as an electronic payment mechanism may not occur or may occur more slowly than estimated. If there is a shift in the mix of payment forms used by consumers (i.e., cash, credit cards, traditional debit cards and prepaid cards) away from products and services offered by MPS, such a shift could have a material adverse effect on our financial condition and results of operations.

***FTC legal action against a major program manager offering Bank-issued prepaid cards requires heightened review and oversight***

On November 10, 2016, the Federal Trade Commission filed suit in federal court in Georgia against NetSpend, a significant program manager for the Bank, alleging that NetSpend engaged in deceptive marketing and servicing in connection with Bank and other-branded prepaid cards issued pursuant to such program agreement. No allegations against the Bank are included in the complaint but it is possible in the future that other third parties with which the Bank has contractual agreements are accused or found to have engaged in illegal practices.

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

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

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

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

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

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

The nature of the banking industry in general, and the credit card and debit card industry in particular, is that it must be operational every day of the week and every hour of the week. Any disruption in the utilities utilized by the Bank or its divisions could have a negative effect on our operations and extensive disruptions could materially affect our operations, and have a material adverse effect on our financial condition and results of operations.

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

The Bank and its divisions hold sensitive business and personal information with respect to the products and services it offers. This information, which is generally digitally encrypted, is passed along various technology channels, including the Internet. Although we encrypt its customer and other sensitive information and expend significant financial and personnel resources to maintain the integrity of its technology networks and the confidentiality of nonpublic customer information, because such information may travel on public technology and other non-secure channels, the confidential information is potentially susceptible to hacking and other illegal intrusions. Were such a security breach to occur, the provision of products and services to our customers would be impaired. In addition, were a breach to occur, we could incur significant fines from the electronic funds associations involved, or from federal and/or state regulators, and be subject to other prohibitions, as well as extensive litigation from commercial parties and consumers affected by such breach. Such actions would have a material adverse effect on our financial condition and results of operations.

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

The concept of escheatment involves the reporting and delivery of property to states that is abandoned when its rightful owner cannot be readily located and/or identified. In the context of prepaid cards, the funds in connection with such cards can sometimes be "abandoned" or unused for the relevant period of time set forth in each applicable state's abandoned property laws. MPS utilizes automated programs to ensure its operations are compliant with such applicable laws and regulations. There appears, however, to be a movement among some state regulators to interpret definitions in escheatment statutes and regulations in a manner that is more aggressive. Should such state regulators choose to do so, they may initiate collection or other litigation action against prepaid card issuers for unreported abandoned property. Such actions may seek to assess fines and penalties.

***MPS Revenue Concentration.***

MPS works with a large number of business partners to derive its revenue. The Company believes four of its partners have reached a size that, should these partners' business with the Company end or there is a significant decrease in revenues associated with any of these business relationships, the earnings attributable to them would have a material effect on the financial results of the Company.

***ATM fraud is becoming both more sophisticated and more prevalent.***

Although the Bank has not been the subject of any widespread or concerted ATM attack, ATM fraud has shown a marked increase and threats to the network of entities that comprise ATM networks continue. It is estimated that global losses from ATM skimming alone are over \$2 billion annually and are expected to grow. Although most ATM fraud continues to involve skimming (whereby a skimmer reads a debit card's encoded mag stripe and a camera records the PIN that is entered by a customer), new frauds including those perpetrated by Wi-Fi scanners and the cracking of encryption software, are being perpetrated against global banks and their customers. The Bank continues to monitor these developments and has a program in place to monitor for debit and credit card fraud. Even with such policies and procedures in place, however, there can be no assurance that the Bank, its customers or the ATM networks in which it participates will not be the victims of an ATM-based crime.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

The Company's home office is located at 5501 South Broadband Lane in Sioux Falls, South Dakota. The Bank is a federally chartered savings bank which operates 10 full-service branch banking offices in four market areas: Storm Lake and Des Moines, Iowa and Brookings and Sioux Falls, South Dakota, one non-retail service branch in Memphis, Tennessee, and seven non-branch offices located in South Dakota, Texas, California, Kentucky, and Pennsylvania. The non-branch offices are related to the following divisions of MetaBank: MPS, Refund Advantage, EPS Financial, SCS, and AFS/IBEX. Our MPS division offers prepaid cards, along with other payment industry products and services with operations in two offices in Sioux Falls, South Dakota. Refund Advantage and EPS Financial offer tax payment industry products and services nationwide, with offices located in Louisville, Kentucky, and Easton, Pennsylvania. SCS provides consumer credit services through its propriety underwriting model with an office located in Hurst, Texas. Our AFS/IBEX division provides nationwide commercial insurance premium financing for business and insurance agencies and has two agency offices, one in Dallas, Texas, and one in Newport Beach, California.



Of the Company's 19 properties, the Company leases 15 of them, all on market terms. See Note 7 to the "Notes to Consolidated Financial Statements" which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Though the Company has experienced rapid growth in both of its payments and banking segments, management believes current facilities are adequate to meet its present needs.

The Bank maintains an online database with a service bureau, whose primary business is providing such services to financial institutions .

### **Item 3. Legal Proceedings**

The Bank was served on April 15, 2013, with a lawsuit captioned Inter National Bank v. NetSpend Corporation, MetaBank, BDO USA, LLP d/b/a BDO Seidman, Cause No. C-2084-12-I filed in the District Court of Hidalgo County, Texas. The Plaintiff's Second Amended Original Petition and Application for Temporary Restraining Order and Temporary Injunction adds both MetaBank and BDO Seidman to the original causes of action against NetSpend. NetSpend acts as a prepaid card program manager and processor for both Inter National Bank ("INB") and MetaBank. According to the Petition, NetSpend has informed INB that the depository accounts at INB for the NetSpend program supposedly contained \$10.5 million less than they should. INB alleges that NetSpend has breached its fiduciary duty by making affirmative misrepresentations to INB about the safety and stability of the program, and by failing to timely disclose the nature and extent of any alleged shortfall in settlement of funds related to cardholder activity and the nature and extent of NetSpend's systemic deficiencies in its accounting and settlement processing procedures. To the extent that an accounting reveals that there is an actual shortfall, INB alleges that MetaBank may be liable for portions or all of said sum due to the fact that funds have been transferred from INB to MetaBank, and thus MetaBank would have been unjustly enriched. The Bank is vigorously contesting this matter. In January 2014, NetSpend was granted summary judgment in this matter which is under appeal. Because the theory of liability against both NetSpend and the Bank is the same, the Bank views the NetSpend summary judgment as a positive in support of our position. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation because discovery is still being conducted.

The Bank was served, on October 14, 2016, with a lawsuit captioned Card Limited, LLC v. MetaBank dba Meta Payment Systems, Civil No. 2:16-cv-00980 in the United States District Court for the District of Utah. This action was initiated by a former prepaid program manager of the Bank, which was terminated by the Bank in fiscal year 2016. Card Limited alleges that after all of the programs were wound down, there were two accounts with a positive balance to which they are entitled. The Bank's position is that Card Limited is not entitled to the funds contained in said accounts. The total amount to which Card Limited claims it is entitled is \$4,001,025. The Bank intends to vigorously defend this claim. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation because discovery is still being conducted.

From time to time, the Company or its subsidiaries are subject to certain legal proceedings and claims in the ordinary course of business. Accruals have been recorded when the outcome is probable and can be reasonably estimated. While management currently believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Company's financial position or its results of operations, legal proceedings are inherently uncertain and unfavorable resolution of some or all of these matters could, individually or in the aggregate, have a material adverse effect on the Company's and its subsidiaries' respective businesses, financial condition or results of operations.

### **Item 4. Mine Safety Disclosures**

Not applicable.



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

The Company's common stock trades on the NASDAQ Global Market<sup>®</sup> under the symbol "CASH." Quarterly dividends for 2017 and 2016 were \$0.13. The quarterly high and low sales prices per share of the common stock, as reported on the NASDAQ Global Market, was as follows for the periods presented below:

	Fiscal Year 2017		Fiscal Year 2016	
	Low	High	Low	High
First Quarter	\$ 60.20	\$ 106.85	\$ 39.10	\$ 49.67
Second Quarter	76.56	106.90	36.22	46.53
Third Quarter	82.40	93.20	43.55	53.76
Fourth Quarter	60.70	95.00	48.97	62.62

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

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

As of November 24, 2017, the Company had (i) 9,666,462 shares of common stock outstanding, which were held by approximately 213 stockholders of record, (ii) no shares of nonvoting common stock outstanding, and (iii) 18,936 shares of common stock held in treasury.

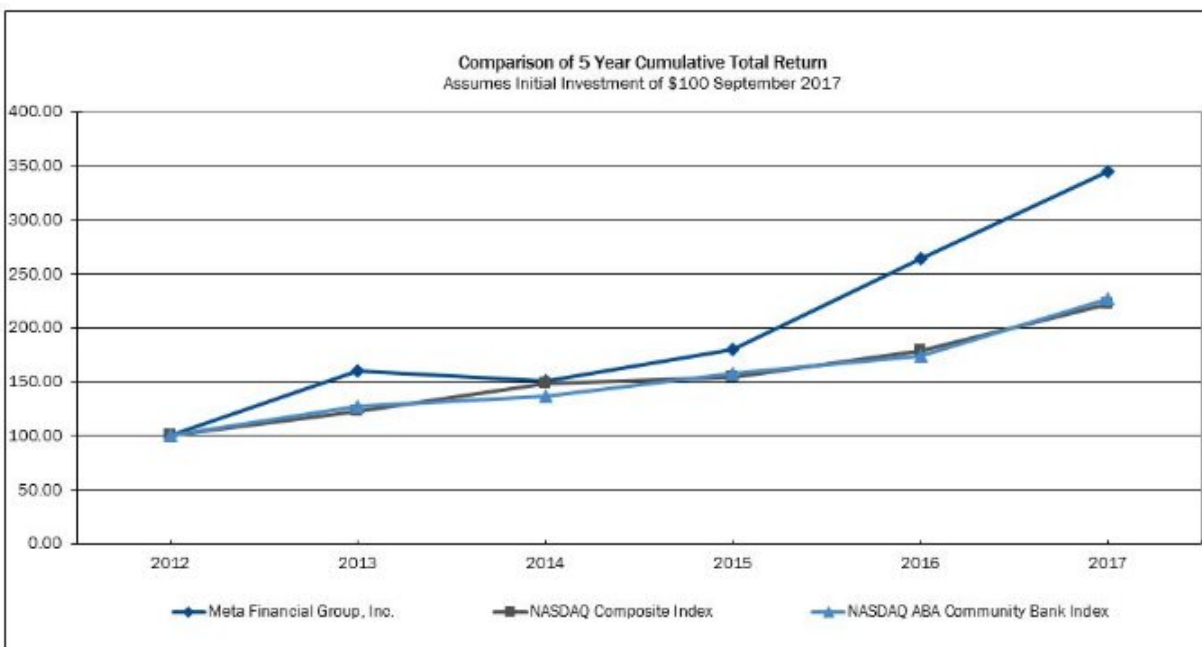
The transfer agent for the Company's common stock is Computershare Investor Services, 462 South 4th Street, Suite 1600, Louisville, KY 40202.

There were no purchases by the Company during the fiscal year ended September 30, 2017, of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

*Total Stock Return Performance Graph*

The following graph compares the cumulative total stockholder return on Meta Financial common stock over the last five fiscal years with the cumulative total return of the NASDAQ Composite Index and the NASDAQ ABA Community Bank Index (assuming the investment of \$100 in each index on October 1, 2012 and reinvestment of all dividends). The stock price performance reflected below is based on historical results and is not necessarily indicative of future stock price performance.

*The information contained in this section, including the following line graph, shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings of Meta Financial with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.*



Index	Year Ended September 30,					
	2012	2013	2014	2015	2016	2017
Meta Financial Group	\$ 100.00	\$ 159.75	\$ 150.22	\$ 180.37	\$ 264.51	\$ 344.36
NASDAQ Composite Index	100.00	122.77	148.08	153.99	179.29	221.75
NASDAQ ABA Community Bank Index	100.00	126.80	136.75	157.73	174.20	226.50

**Item 6. Selected Financial Data**

September 30,	2017	2016 <sup>(1)</sup>	2015	2014	2013
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**SELECTED FINANCIAL CONDITION DATA**

(Dollars in Thousands)

Total assets	\$ 5,228,332	\$ 4,006,419	\$ 2,529,705	\$ 2,054,031	\$ 1,691,989
Loans receivable, net	1,317,837	919,470	706,255	493,007	380,428
Securities available for sale	1,693,431	1,469,249	1,256,087	1,140,216	881,193
Securities held to maturity	563,529	619,853	345,744	282,933	288,026
Goodwill and intangible assets	150,901	65,849	70,505	2,588	2,339
Deposits	3,223,424	2,430,082	1,657,534	1,366,541	1,315,283
Total borrowings	1,490,067	1,187,578	561,317	497,721	216,456
Stockholders' equity	434,496	334,975	271,335	174,802	142,984

Year Ended September 30,	2017	2016	2015	2014	2013
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**SELECTED OPERATIONS DATA**

(Dollars in Thousands, Except Per Share Data)

Total interest income	\$ 108,103	\$ 81,396	\$ 61,607	\$ 48,660	\$ 38,976
Total interest expense	14,873	4,091	2,387	2,398	2,954
Net interest income	93,230	77,305	59,220	46,262	36,022
Provision for loan losses	10,589	4,605	1,465	1,150	—
Net interest income after provision for loan losses	82,641	72,700	57,755	45,112	36,022
Total non-interest income	172,172	100,770	58,174	51,738	55,503
Total non-interest expense	199,663	134,648	96,506	78,231	74,403
Income before income tax expense	55,150	38,822	19,423	18,619	17,122
Income tax expense	10,233	5,602	1,368	2,906	3,704
Net income	44,917	33,220	18,055	15,713	13,418

**Earnings per common share:**

Basic	\$ 4.86	\$ 3.93	\$ 2.68	\$ 2.57	\$ 2.40
Diluted	\$ 4.83	\$ 3.91	\$ 2.66	\$ 2.53	\$ 2.38

(1) See Reclassification and Revision of Prior Period Balances under Note 1 Summary of Significant Accounting Policies for additional information describing adjustments made to the Company's EPS calculation. 2016 YTD basic EPS of \$3.95 was corrected to \$3.93 and diluted EPS of \$3.92 was corrected to \$3.91.

Year Ended September 30,	2017	2016	2015	2014	2013
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## SELECTED FINANCIAL RATIOS AND OTHER DATA

### PERFORMANCE RATIOS

Return on average assets	1.13%	1.10%	0.78%	0.81%	0.78%
Return on average equity	11.20%	10.80%	8.83%	10.01%	9.36%
Net interest margin, tax equivalent	3.05%	3.19%	3.03%	2.80%	2.48%

### QUALITY RATIOS

Non-performing assets to total assets	0.72%	0.03%	0.31%	0.05%	0.05%
Allowance for loan losses to total loans	0.57%	0.61%	0.88%	1.08%	1.02%
Allowance for loan losses to non-performing loans	20%	479%	80%	547%	568%

#### Excluding insured loans <sup>(1)</sup>

Non-performing assets to total assets <sup>(2)</sup>	0.70%	0.03%	0.31%	0.05%	0.05%
Allowance for loan losses to total loans <sup>(3)</sup>	0.63%	0.61%	0.88%	1.08%	1.02%
Allowance for loan losses to non-performing loans <sup>(4)</sup>	21%	479%	80%	547%	568%

### CAPITAL RATIOS

Stockholders' equity to total assets	8.31%	8.36%	10.73%	8.51%	8.45%
Average stockholders' equity to average assets	10.07%	10.19%	8.81%	8.14%	8.37%

### OTHER DATA

Book value per common share outstanding at end of year	\$	45.15	\$	39.30	\$	33.24	\$	28.33	\$	23.55
Tangible book value per common share outstanding at end of year	\$	29.47	\$	31.57	\$	24.60	\$	27.91	\$	23.17
Dividends declared per share at end of year		0.52		0.52		0.52		0.52		0.52
Number of full-service offices at end of year		10		10		10		11		11

Common Shares Outstanding	9,622,595	8,523,641	8,163,022	6,169,604	6,070,654
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(1) Excludes student loans that are insured by ReliaMax Surety Company.

(2) The insured student loans that are 90 or more days past due are excluded from non-performing assets.

(3) The insured student loan balance of \$123.7 million is excluded from the total loan balance.

(4) The insured student loans that are 90 or more days past due are excluded from non-performing loans.

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

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

### General

The Company, a registered unitary savings and loan holding company, is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of the Bank, a federal savings bank. 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.

## Overview of Corporate Developments Since Fiscal Year 2016

On November 1, 2016, MetaBank completed the acquisition of 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. The EPS management team and other employees were hired by MetaBank and EPS operations have continued to be based out of Easton, PA. The purchase price for the acquisition of approximately \$42.5 million included the payment of approximately \$21.3 million in cash and the issuance of 369,179 shares of Meta Financial common stock to Drake. The cash portion of the purchase price was funded from the proceeds of the previously announced subordinated debt issuance.

On December 14, 2016, MetaBank completed the acquisition of substantially all of the assets and specified liabilities of SCS, a fintech provider of consumer tax advances and other consumer credit services through its propriety underwriting model and loan management system. The assets acquired by MetaBank in the SCS acquisition include the SCS trade name, propriety underwriting model and loan management system and other assets. The purchase price for the acquisition included the payment of approximately \$7.5 million in cash to SCS and the issuance of 113,328 shares of Meta Financial common stock to SCS’ stakeholders on behalf of SCS. In addition, MetaBank paid out \$17.5 million of contingent cash consideration and 264,431 shares of Meta Financial common stock due to the achievement of certain performance benchmarks during fiscal year 2017. MetaBank acquired SCS assets with estimated fair values of \$28.1 million of intangible assets, including customer relationships, trademark, and non-compete agreements, and negligible other assets, resulting in goodwill of \$31.6 million.

On December 20, 2016, MetaBank purchased, net of purchase discount, a \$133.8 million seasoned, floating rate, private student loan portfolio. All loans are indexed to three-month LIBOR plus various margins. The portfolio is serviced by ReliaMax Lending Services, LLC and insured by ReliaMax Surety Company.

On July 27, 2017, MetaBank was advised they will not be providing interest-free tax advance loans for H&R Block tax preparation customers during the 2018 tax season. The Company’s relationship with H&R Block represented approximately \$12.0 million in net earnings during fiscal year 2017. Given the loss of this relationship, the Company recognized a total impairment charge of \$10.2 million, which was expensed during the 2017 fiscal fourth quarter.

On August 2, 2017, MetaBank, entered into an extension to its current agreement with Jackson Hewitt Tax Service to offer on an annual basis up to \$750 million of interest-free refund advance loans, an increase of \$300 million in available funds over last year. The agreement includes underwriting, origination, servicing, and loan retention, and is supported by Specialty Consumer Services, a division of MetaBank. Under the extended agreement, MetaBank will continue to provide these services through the 2020 tax season.

On September 25, 2017, Sheree Thornsberry joined the Company as Executive Vice President and Head of Payments. Ms. Thornsberry is responsible for the prepaid, debit, correspondent and ATM business lines.

On October 11, 2017, the Company completed the purchase of a \$73 million, seasoned, floating rate, private student loan portfolio. All loans are indexed to one-month LIBOR. The portfolio is serviced by ReliaMax Lending Services LLC and insured by ReliaMax Surety Company. The Company expects to realize initial net yields of over 6%. This portfolio purchase builds on our existing student loan platform and we expect that the acquired loan portfolio will be easily integrated with minimal impact to the business.

On November 13, 2017, Shelly Schneekloth joined the Company as Executive Vice President and Head of Technology and Operations. Ms. Schneekloth is responsible for directing information technology and operations initiatives to align and support business strategies.

The Company recorded net income of \$44.9 million in fiscal 2017 compared to \$33.2 million in fiscal 2016. The increase in net income was primarily due to increases in non-interest income and net interest income. In fiscal 2017, non-interest income increased to \$172.2 million from \$100.8 million in fiscal 2016, primarily due to increases in tax advance product fee income, card fee income and refund transfer product fee income. The Company’s net interest income grew to \$93.2 million in fiscal 2017, compared to \$77.3 million in fiscal 2016. The increase was driven by growth in both loan and investment volumes as well as increased yields in the investment portfolio. Additionally, the continuous improvement in the overall interest-earning asset mix contributed to the increased net interest income, primarily due to loan growth, including as a result of the December 2016 purchased student loan portfolio, and purchases of highly rated tax-exempt municipal securities at relatively high tax equivalent yields. Partially offsetting the higher non-interest income and net interest income was non-interest expense, which rose \$65.0 million, from \$134.6 million in fiscal 2016 to \$199.7 million in fiscal 2017, and income tax expense which rose from \$5.6 million to \$10.2 million year over year.

Overall, the cost of funds at MetaBank averaged 0.43% during fiscal 2017 , compared to 0.15% for 2016 . This increase was primarily due to a combination of the issuance of the Company's subordinated debt in the fourth quarter of fiscal year 2016, the addition of wholesale deposits, and an increase in short-term borrowing rates.

Tangible book value per common share decreased by \$2.10 , or 7% , to \$29.47 per share at September 30, 2017 , from \$31.57 per share at September 30, 2016 . This decrease was driven by an increase in common shares outstanding along with increases in goodwill and intangible assets, which for this calculation, are excluded from total stockholders' equity. The increases in common shares outstanding, goodwill and intangible assets were primarily attributable to the EPS and SCS acquisitions completed during fiscal 2017. Book value per common share outstanding increased by \$5.85 , or 15% , to \$45.15 per share at September 30, 2017 , from \$39.30 per share at September 30, 2016 .

The Company's non-performing assets ("NPAs") were 0.72% of total assets at September 30, 2017 , compared to 0.03% at September 30, 2016 . The increase in NPAs was primarily related to two large agricultural relationships becoming more than 90 days past due. These loan relationships were both still accruing in the fourth fiscal quarter. One of these relationships was paid in full on November 1, 2017, and it is possible the collateral related to the other relationship could go through a deed in lieu of foreclosure process in the near future.

## **Financial Condition**

As of September 30, 2017 , the Company's assets grew by \$1.22 billion , or 30% , to \$5.23 billion , compared to \$4.01 billion at September 30, 2016 . The growth in assets resulted from a variety of factors, including increases in the Company's cash and cash equivalents, loan balances, and investment securities portfolio.

Total cash and cash equivalents was \$1.27 billion at September 30, 2017 , an increase of \$493.8 million from \$773.8 million at September 30, 2016 . The majority of this increase was related to a temporary repositioning of the balance sheet in September 2017, similar to what was done in fiscal year 2016, to prepare the Company for the upcoming 2018 seasonal tax lending activity. The Company anticipated utilizing excess cash it held at its fiscal year end to repay overnight borrowings in October 2017. In general, the Company maintains its cash investments in interest-bearing overnight deposits with the FHLB and the FRB. At September 30, 2017 , the Company had no federal funds sold.

The total of MBS and investment securities increased \$167.9 million , or 8% , to \$2.26 billion at September 30, 2017 , compared to September 30, 2016 , as investment purchases exceeded related maturities, sales and principal pay downs. The Company's portfolio of securities customarily consists primarily of MBS, which have expected lives much shorter than the stated final maturity, non-bank qualified obligations of states and political subdivisions ("NBQ") which mature in approximately 15 years or less, and other tax exempt municipal mortgage related pass through securities which have average lives much shorter than their stated final maturities. All MBS held by the Company at September 30, 2017 were issued by a U.S. Government agency or instrumentality. Of the total \$700.1 million of MBS at September 30, 2017, \$586.5 million were classified as available for sale ("AFS"), and \$113.7 million were classified as held to maturity ("HTM"). Of the total \$1.56 billion of investment securities, \$1.11 billion were classified as AFS and \$449.8 million were classified as HTM. During fiscal 2017 , the Company purchased an aggregate of \$292.2 million of MBS securities, of which \$131.4 million have an average life estimated at approximately five years or less or stated final maturities of approximately 30 years or less, and sold MBS in the amount of \$90.0 million. In addition, the Company purchased \$557.4 million of investment securities which are principally comprised of tax exempt municipal bonds primarily backed by, and/or convertible into, Ginnie Mae, Fannie Mae, or Freddie Mac MBS securities, government related and guaranteed floating rate securities, and smaller portions of other security types. See Note 6 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Consolidated Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The Company's portfolio of net loans receivable increased by \$398.4 million , or 43% , to \$1.32 billion at September 30, 2017 , from \$919.5 million at September 30, 2016 . This growth was driven by increases in commercial real estate loans of \$162.6 million , consumer loans of \$125.9 million , residential mortgage loans of \$34.4 million and commercial operating loans of \$4.5 million , along with growth in premium finance loans of \$78.9 million . The growth in consumer loans was primarily related to the student loan portfolio purchase in December 2016. The increase in net loans receivable was partially offset by a decrease in agricultural loans of \$5.3 million . See Note 3 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.

Through the Bank, the Company owns stock in the FHLB due to the Bank's membership and participation in this banking system. The FHLB requires a level of stock investment based on a pre-determined formula. The Company's investment in such stock increased \$13.6 million , or 29% , to \$61.1 million at September 30, 2017 , from \$47.5 million at September 30, 2016 . The increase directly correlates with the higher short-term borrowings balances.

Total deposits increased by \$793.3 million , or 33% , to \$3.22 billion at September 30, 2017 , from \$2.43 billion at September 30, 2016 . The increase in end-of-period deposits was primarily the result of an increase in wholesale deposits of \$476.2 million , an increase in non-interest bearing checking deposits of \$286.5 million , and a \$29.2 million increase in interest-bearing checking deposits. Wholesale deposits were added during fiscal year 2017 at advantageous rates when compared to the overnight borrowing rates, thereby lowering funding costs, or to target strategic maturities which are expected to aid in tax season tax advance loan funding. Deposits attributable to the Payments divisions were up \$305.9 million, or 14%, at September 30, 2017 , as compared to September 30, 2016 . The increase is due to continued growth in our core business relationships related to the Payments divisions.

The Company's total borrowings increased \$302.5 million , or 25% , from \$1.19 billion at September 30, 2016 , to \$1.49 billion at September 30, 2017 , primarily due to the increases in short-term advances from the FHLB, which was done as part of a temporary repositioning of the balance sheet, as noted above. The Company's short-term borrowings fluctuate on a daily basis due to the nature of a portion of its non-interest-bearing deposit base, primarily related to payroll processing timing with a higher volume of short-term borrowings on Monday and Tuesday, which are typically paid down throughout the week. This predictable fluctuation may be augmented near a month-end by a prefunding of certain programs.

See Notes 8 and 9 to the "Notes to Consolidated Financial Statements," which are included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

At September 30, 2017 , the Company's stockholders' equity totaled \$434.5 million , an increase of \$99.5 million from \$335.0 million at September 30, 2016 . Stockholders' equity increased primarily as a result of an increase in additional paid-in capital and retained earnings. At September 30, 2017 , the Bank continued to meet regulatory requirements for classification as a well-capitalized institution. 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.

## **Results of Operations**

The Company's results of operations are dependent on net interest income, provision for loan losses, non-interest income, non-interest expense and income tax expense. Net interest income is the difference, or spread, between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. Notwithstanding that a significant amount of the Company's deposits, primarily those attributable to the Payments divisions, pay relatively low rates of interest or none at all, the Company, like other financial institutions, is subject to interest rate risk to the extent that its interest-earning assets mature or reprice at different times, or on a different basis, than its interest-bearing liabilities. The provision for loan loss is the adjustment to the allowance for loan loss balance for the applicable period. The allowance for loan loss is management's estimate of probable loan losses in the loan portfolio based upon loan losses that have been incurred as of the balance sheet date.

The Company's non-interest income is derived primarily from tax product fees, prepaid cards, credit products, ATM fees attributable to the MPS division and fees charged on bank loans and transaction accounts. Non-interest income is also derived from net gains on the sale of securities available for sale as well as the Company's holdings of bank-owned life insurance. This income is offset by non-interest expenses, such as compensation and occupancy expenses associated with additional personnel and office locations as well as card processing expenses attributable to Payments. Non-interest expense is also impacted by acquisition-related expenses, occupancy and equipment expenses, regulatory expenses, and legal and consulting expenses.

## Average Balances, Interest Rates and Yields

The following table presents, for the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. Only the yield/rate have tax equivalent adjustments. Non-Accruing loans have been included in the table as loans carrying a zero yield.

Year Ended September 30,	2017			2016			2015		
(Dollars in Thousands)	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate	Average Outstanding Balance	Interest Earned / Paid	Yield / Rate
<b>Interest-earning assets:</b>									
Specialty Finance Loans*	\$ 317,293	\$ 16,903	5.33%	\$ 135,334	\$ 7,276	5.38%	\$ 74,537	\$ 6,037	8.10%
Tax Advance Loans	49,026	11	0.02%	3,804	—	—%	—	—	—%
Retail Bank Loans	820,980	35,203	4.29%	671,308	28,911	4.31%	543,329	23,528	4.33%
Mortgage-backed securities	747,027	16,571	2.22%	728,738	15,771	2.16%	695,539	13,979	2.01%
Tax-Exempt Investment Securities	1,303,830	31,930	3.77%	1,061,198	24,965	3.56%	704,529	15,730	3.38%
Asset-Backed Securities	115,716	2,999	2.59%	54,993	1,199	2.18%	—	—	—%
Other investments and fed funds sold	115,958	3,104	2.68%	101,258	2,537	2.51%	72,954	1,742	2.39%
Cash & Fed Funds Sold	150,338	1,382	0.92%	66,759	737	1.54%	127,901	591	0.51%
<b>Total interest-earning assets</b>	<b>3,620,168</b>	<b>\$ 108,103</b>	<b>3.46%</b>	<b>2,823,392</b>	<b>\$ 81,396</b>	<b>3.34%</b>	<b>2,218,789</b>	<b>\$ 61,607</b>	<b>3.14%</b>
Non-interest-earning assets	362,133			193,286			103,138		
<b>Total assets</b>	<b>\$ 3,982,301</b>			<b>\$ 3,016,678</b>			<b>\$ 2,321,927</b>		
Non-interest bearing deposits	\$ 2,286,358	\$ —	—%	\$ 2,017,977	\$ —	0.00%	\$ 1,632,130	\$ —	—%
<b>Interest-bearing liabilities:</b>									
Interest-bearing checking	42,231	172	0.41%	36,317	97	0.27%	35,610	88	0.25%
Savings	55,484	31	0.06%	59,670	24	0.04%	34,129	40	0.12%
Money markets	46,466	87	0.19%	46,115	75	0.16%	39,401	61	0.15%
Time deposits	103,115	830	0.80%	79,825	418	0.52%	85,843	537	0.63%
Wholesale deposits	558,855	4,931	0.88%	—	—	—%	—	—	—%
FHLB advances	52,956	1,045	1.97%	61,454	709	1.15%	7,000	495	7.07%
Overnight fed funds purchased	259,378	2,649	1.02%	339,035	1,607	0.47%	234,025	691	0.30%
Subordinated debentures	73,273	4,448	6.07%	9,437	539	5.71%	—	—	—%
Other borrowings	15,939	680	4.27%	14,575	622	4.27%	21,193	475	2.05%
<b>Total interest-bearing liabilities</b>	<b>1,207,697</b>	<b>14,873</b>	<b>1.23%</b>	<b>646,428</b>	<b>4,091</b>	<b>0.63%</b>	<b>457,201</b>	<b>2,387</b>	<b>0.56%</b>
<b>Total deposits and interest-bearing liabilities</b>	<b>3,494,055</b>	<b>\$ 14,873</b>	<b>0.43%</b>	<b>2,664,405</b>	<b>\$ 4,091</b>	<b>0.15%</b>	<b>2,089,331</b>	<b>\$ 2,387</b>	<b>0.11%</b>
Other non-interest bearing liabilities	87,084			44,786			28,009		
<b>Total liabilities</b>	<b>3,581,139</b>			<b>2,709,191</b>			<b>2,117,340</b>		
Stockholders' equity	401,162			307,487			204,587		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,982,301</b>			<b>\$ 3,016,678</b>			<b>\$ 2,321,927</b>		
Net interest income and net interest rate spread including non-interest bearing deposits		<b>\$ 93,230</b>	<b>3.04%</b>		<b>\$ 77,305</b>	<b>3.18%</b>		<b>\$ 59,220</b>	<b>3.03%</b>
<b>Net interest margin, tax equivalent</b>			<b>3.05%</b>			<b>3.19%</b>			<b>3.03%</b>

\*Specialty Finance Loan Receivables include loan portfolios the Company deems as non-retail bank product offerings or loans not generated by the Retail Bank itself (for example, premium finance and purchased loan portfolios). The loan receivables included in this line item are included in the customary loan categories presented elsewhere in this report.





## Rate / Volume Analysis

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

### Rate / Volume

Year Ended September 30,	2017 vs. 2016			2016 vs. 2015 <sup>(1)</sup>		
	Increase / (Decrease) Due to Volume	Increase / (Decrease) Due to Rate	Total Increase / (Decrease)	Increase / (Decrease) Due to Volume	Increase / (Decrease) Due to Rate	Total Increase / (Decrease)
<b>Interest-earning assets</b>						
Specialty Finance Loans	\$ 9,699	\$ (72)	\$ 9,627	\$ 3,751	\$ (2,514)	\$ 1,237
Tax Advance Loans	—	11	11	5,513	(128)	5,385
Retail Bank Loans	6,441	(149)	6,292	—	—	—
Mortgage-backed securities	385	415	800	687	1,105	1,792
Tax-Exempt Investment Securities	5,576	1,389	6,965	8,115	1,120	9,235
Asset-Backed Securities	1,537	263	1,800	1,199	—	1,199
Other investments and fed funds sold	389	178	567	705	90	795
Cash & Fed Funds Sold	1,115	(470)	645	(508)	654	146
<b>Total interest-earning assets</b>	<b>\$ 25,142</b>	<b>\$ 1,565</b>	<b>\$ 26,707</b>	<b>\$ 19,462</b>	<b>\$ 327</b>	<b>\$ 19,789</b>
<b>Interest-bearing liabilities</b>						
Interest-bearing checking	\$ 18	\$ 57	\$ 75	\$ 2	\$ 7	\$ 9
Savings	(2)	10	8	20	(37)	(17)
Money markets	1	10	11	11	4	15
Time deposits	145	267	412	(36)	(83)	(119)
Wholesale deposits	4,931	—	4,931	—	—	—
FHLB advances	(109)	445	336	941	(728)	213
Overnight fed funds purchased	(451)	1,493	1,042	389	526	915
Subordinated Debt	3,873	36	3,909	22	—	22
Other borrowings	58	—	58	(234)	900	666
<b>Total interest-bearing liabilities</b>	<b>\$ 8,464</b>	<b>\$ 2,318</b>	<b>\$ 10,782</b>	<b>\$ 1,115</b>	<b>\$ 589</b>	<b>\$ 1,704</b>
<b>Net effect on net interest income</b>	<b>\$ 16,678</b>	<b>\$ (753)</b>	<b>\$ 15,925</b>	<b>\$ 18,347</b>	<b>\$ (262)</b>	<b>\$ 18,085</b>

(1) Due to the change in categorization of the Average Balances, Interest Rates and Yields table, 2016 vs. 2015 rate/volume calculation results have been conformed to be consistent with the updated categorization.

### Comparison of Operating Results for the Years Ended September 30, 2017 , and September 30, 2016

**General.** The Company recorded net income of \$44.9 million , or \$4.83 per diluted share, for the year ended September 30, 2017 , compared to \$33.2 million , or \$3.91 per diluted share, for the year ended September 30, 2016 , an increase of \$11.7 million . The increase in net income was primarily caused by an increase in tax advance fee income of \$30.3 million , a \$24.2 million increase in card fee income, a \$15.9 million increase in net interest income, and a \$15.6 million increase in refund advance fee income. The net income increase was offset in part by an increase in compensation and benefits expense of \$27.1 million , a \$10.2 million intangible impairment expense, a \$7.5 million increase in amortization expense, and an increase in other expense of \$5.5 million .

**Net Interest Income.** Net interest income for fiscal 2017 increased by \$15.9 million , or 21% , to \$93.2 million from \$77.3 million for the prior year. Net interest margin decreased to 3.05% in fiscal 2017 as compared to 3.19% in 2016 . The increase in net interest income was primarily due to an increase in interest income of \$26.7 million to \$108.1 million from \$81.4 million for the prior year. The increase in interest income was primarily due to an increase in the Company's average earning assets of \$796.8 million , or 28% , to \$3.62 billion during fiscal 2017 from \$2.82 billion during 2016 . This was due to a significant increase in volume in commercial real estate loans and specialty finance loans, which includes premium finance loans and the December 2016 purchased student loan portfolio. Growth in investment security balances and yields attained on those investment securities also contributed to the increase in net interest income. The increase in interest income was partially offset by an increase in interest expense of \$10.8 million , to \$14.9 million from \$4.1 million for the prior year.

Overall, when using a taxable equivalent yield ("TEY"), the Company's interest earning asset yield increased by 12 basis points due to improved yields achieved within the securities portfolio and a shift in the earning asset mix due to increased volume in loans. The yield on non-MBS investment securities increased by 19 basis points on a TEY basis. The yield on government-related MBS increased six basis points while longer-term interest rates generally decreased throughout the fiscal year. Average TEY on the securities portfolio increased by 20 basis points in fiscal 2017 compared to fiscal 2016 . The increased volume in loans receivable reflects the growth in specialty finance loans, which includes premium finance loans and the purchased student loan portfolio, as well as growth in the typical retail banking sectors.

The Company's average balance of total deposits and interest-bearing liabilities increased \$829.7 million , or 31% , to \$3.49 billion during fiscal 2017 from \$2.66 billion during 2016 . A portion of this increase was due to the utilization of advantageous pricing and strategic maturities on certain wholesale deposits, an increase in average non-interest bearing deposits and the Company's completion of the public offering of its subordinated notes in August 2016, which are due August 15, 2026. This increase was partially offset by a decrease of \$79.7 million in the average balance of overnight fed funds purchased. The average outstanding balance of non-interest-bearing deposits increased from \$2.02 billion in fiscal 2016 to \$2.29 billion in fiscal 2017 . The Company's cost of total deposits and interest-bearing liabilities increased 28 basis points to 0.43% during fiscal 2017 from 0.15% during 2016 . This increase was primarily due to a combination of the issuance of the Company's subordinated debt in the fourth quarter of fiscal 2016, the addition of wholesale deposits, an increase in the overnight borrowing rates and higher average overall funding balances due to the Company's utilization of more of its capital during non-tax season with higher investment balances and funding. Notwithstanding this increase, the Company believes that its growing, lower-cost deposit base gives it a distinct and significant competitive advantage, and even more so if interest rates continue to rise, because the Company anticipates that its cost of funds will likely remain relatively low, increasing less than at many other banks.

**Provision for Loan Losses.** In fiscal 2017 , the Company recorded \$10.6 million in provision for loan losses, compared to \$4.6 million in 2016 . The increase in provision expense was primarily driven by higher seasonal volumes in tax season loans. The growth in the Banking segment loans, as well as the downgrade of a significant agriculture relationship during the second quarter of fiscal 2017 also contributed to an increased provision in fiscal 2017.

**Non-Interest Income.** Non-interest income increased by \$71.4 million , or 71% , to \$172.2 million for fiscal 2017 from \$100.8 million for 2016 . This increase was primarily due to an increase in tax advance fee income of \$30.3 million , a \$24.2 million increase in card fee income, and a \$15.6 million increase in refund transfer product fee income. The increases in tax advance fee income and refund transfer product fee income were related to the acquisitions of EPS and SCS during the fiscal 2017 first quarter. Card fee income primarily grew due to a wind-down of one of our non-strategic partners and also due to continued strong growth in our core business relationships.

**Non-Interest Expense.** Non-interest expense increased by \$65.0 million , or 48% , to \$199.7 million for fiscal 2017 from \$134.6 million for fiscal 2016 . This increase in non-interest expense from 2016 to 2017 was largely driven by an increase in compensation expense of \$27.1 million , an increase in amortization expense of \$7.5 million , and an increase in other expense of \$5.5 million . The increases in these categories were principally due to the EPS Financial and SCS acquisitions, which occurred in the first quarter of fiscal 2017. The increase in compensation was also driven by non-cash stock-related compensation expense associated with three executive officers signing long-term employment agreements in the first and second quarters of fiscal 2017. Also leading to the increase in non-interest expense when comparing 2017 to 2016 was a \$10.2 million intangible impairment charge related to the non-renewal of the H&R Block relationship during the fiscal 2017 fourth quarter. In addition, and to a lesser extent, non-interest expense also increased year over year due to increases in legal and consulting expense, tax advance product expense, refund transfer product expense, occupancy and equipment expense, and card processing expense.

**Income Tax Expense.** Income tax expense for fiscal 2017 was \$10.2 million , resulting in an effective tax rate of 18.6% , compared to a tax expense of \$5.6 million and an effective tax rate of 14.4% , in fiscal 2016 . The increase in the Company's recorded income tax expense for 2017 was primarily attributable to an increase in earnings; however, the increase was partially offset by the effects of adopting ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" for recording excess tax benefits as a reduction to income tax expense.

**Comparison of Operating Results for the Years Ended  
September 30, 2016 , and September 30, 2015**

**General.** The Company recorded net income of \$33.2 million, or \$3.92 per diluted share, for the year ended September 30, 2016, compared to \$18.1 million, or \$2.66 per diluted share, for the year ended September 30, 2015, an increase of \$15.1 million. The increase in net income was primarily caused by tax product fee income of \$23.3 million, a \$16.0 million increase in card fee income, a \$13.2 million increase in interest income from the securities portfolio, and a \$6.6 million increase in loan interest income. The net income increase was offset in part by an increase in compensation and benefits expense of \$15.2 million, tax product expense of \$8.6 million, and increased card processing expense of \$5.8 million.

**Net Interest Income.** Net interest income for fiscal 2016 increased by \$18.1 million, or 31% , to \$77.3 million from \$59.2 million for the prior year. Net interest margin increased to 3.19% in fiscal 2016 as compared to 3.03% in 2015 . The increase was mainly due to growth in loans receivable and a higher volume of other investments (primarily high credit quality municipal bonds). An improved mix of earning assets complemented the higher volume of investments, adding to the overall increase.

The Company's average earning assets increased \$604.6 million, or 27%, to \$2.82 billion during fiscal 2016 from \$2.22 billion during 2015 . The increase is primarily the result of the increase in the Company's investment securities and non-bank qualified, high-quality municipal portfolios as well as loans receivable.

The Company's average total deposits and interest-bearing liabilities increased \$575.1 million, or 28%, to \$2.66 billion during fiscal 2016 from \$2.09 billion during 2015. The increase resulted mainly from an increase in the Company's non-interest-bearing deposits. The average outstanding balance of non-interest-bearing deposits increased from \$1.63 billion in fiscal 2015 to \$2.02 billion in fiscal 2016. The Company's cost of total deposits and interest-bearing liabilities increased four basis points to 0.15% during fiscal 2016 from 0.11% during 2015, primarily due to an increase in the overnight borrowing rate as well as the issuance of the Company's subordinated debt.

**Provision for Loan Losses.** In fiscal 2016 , the Company recorded \$4.6 million in provision for loan losses, compared to \$1.5 million in 2015 . The increased provision was primarily due to loan growth as well as seasonal charge-offs related to refund advance loan programs, and also partially due to a write down and eventual charge-off of a large agriculture relationship.

**Non-Interest Income.** Non-interest income increased by \$42.6 million, or 73%, to \$100.8 million for fiscal 2016 from \$58.2 million for 2015 primarily due to tax product fee income of \$23.3 million related to the acquisition of Refund Advantage in September 2015, an increase in fees earned on prepaid debit cards, credit products and other payment systems products of \$16.0 million due to the addition of multiple new partners and growth in existing Payments programs. Loan fees also increased by \$2.9 million from retail and premium finance loan growth.

**Non-Interest Expense.** Non-interest expense increased by \$38.1 million , or 40% , to \$134.6 million for fiscal 2016 from \$96.5 million for fiscal 2015 . Compensation expense increased \$15.2 million during fiscal 2016 compared to 2015, and occupancy and equipment increased \$2.6 million. The increases in these categories were principally due to a full year of expenses associated with the Refund Advantage and AFS/IBEX operations and due to additional product development and IT developer staffing to support the Company's growth initiatives and prepare for other business opportunities. In addition, tax product expense increased \$8.6 million due to the Refund Advantage acquisition, card-processing expense increased \$5.8 million, and other expense increased \$2.2 million primarily due to intangibles amortization and overall Company growth initiatives. A significant portion of the increase in card-processing expense was due to sales promotions from one of our largest partners and is a variable expense directly tied to the fee income growth.

**Income Tax Expense.** Income tax expense for fiscal 2016 was \$5.6 million, resulting in an effective tax rate of 14%, compared to a tax expense of \$1.4 million and an effective tax rate of 7%, in fiscal 2015. The increase in the Company's recorded income tax expense for 2016 was impacted primarily by an increase in earnings and also by higher year-to-date income than what was projected; however, the increase was partially reduced by an increase in tax-exempt income, highlighting one of the benefits of our growing tax-exempt municipal securities portfolio.

## Critical Accounting Policies

The Company's financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The financial information contained within these financial statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. Management has identified the policies described below as Critical Accounting Policies. These policies involve complex and subjective decisions and assessments. Some of these estimates may be uncertain at the time they are made, could change from period to period, and could have a material impact on the financial statements.

*Allowance for Loan Losses* . The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in non-performing loans and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. Although management believes the levels of the allowance as of both September 30, 2017 , and September 30, 2016 , were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions or other factors could result in increasing losses.

*Goodwill and Intangible Assets*. Each quarter, the Company evaluates the estimated useful lives of its amortizable intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with ASC 350, Intangibles – Goodwill and Other, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company was advised on July 27, 2017 that they will not be providing interest-free Refund Advance loans for H&R Block tax preparation customers during the 2018 tax season. Given the loss of this relationship, the Company reviewed the intangible asset relating to this relationship for impairment, which resulted in an impairment charge of \$10.2 million during the fourth quarter of fiscal year 2017.

In addition, goodwill and intangible assets are tested annually, as of our fiscal year end, for impairment or more often if conditions indicate a possible impairment. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate future cash flows, risk-adjusted discount rates, future economic and market conditions, comparison of the Company's market value to book value and determination of appropriate market comparables. Actual future results may differ from those estimates.

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

Customer relationship, trademark, and non-compete intangibles are amortized over the periods in which the asset is expected to meaningfully contribute to the business as a whole, using either the present value of excess earnings or straight line amortization, depending on the nature of the intangible asset. Patents are estimated to have a useful life of 20 years, beginning on the date the patent application is originally filed. Thus, patents are amortized based on the remaining useful life once granted. Periodically, the Company reviews the intangible assets for events or circumstances that may indicate a change in recoverability of the underlying basis.

*Deferred Tax Assets and Liabilities* . The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates applicable to income for the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. An estimate of probable income tax benefits that will not be realized in future years is required in determining the necessity for a valuation allowance.

**Security Impairment.** Management continually monitors the investment securities portfolio for impairment on a security-by-security basis. Management has a process in place to identify securities that could potentially have a credit impairment that is other-than-temporary. This process involves the length of time and extent to which the fair value has been less than the amortized cost basis, review of available information regarding the financial position of the issuer, monitoring the rating of the security, monitoring changes in value, cash flow projections and the Company's intent to sell a security or whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized. If the Company intends to sell a security or it is more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the Company recognizes an other-than-temporary impairment in earnings for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. For those securities, the Company separates the total impairment into a credit loss component recognized in earnings, and the amount of the loss related to other factors is recognized in other comprehensive income net of taxes.

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

In fiscal 2017, 2016 and 2015, there were no other-than-temporary impairment losses.

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

### **Interest Rate Risk ("IRR")**

**Overview.** The Company actively manages interest rate risk, as changes in market interest rates can have a significant impact on reported earnings. The Bank, like other financial institutions, is subject to interest rate risk to the extent that its interest-bearing liabilities mature or reprice more rapidly than its interest-earning assets. The interest rate risk process is designed to compare income simulations in market scenarios designed to alter the direction, magnitude and speed of interest rate changes, as well as the slope of the yield curve. The Company does not currently engage in trading activities to control interest rate risk although it may do so in the future, if deemed necessary, to help manage interest rate risk.

**Earnings at risk and economic value analysis.** As a continuing part of its financial strategy, the Bank considers methods of managing an asset/liability mismatch consistent with maintaining acceptable levels of net interest income. In order to monitor interest rate risk, the Board of Directors has created an Investment Committee whose principal responsibilities are to assess the Bank's asset/liability mix and implement strategies that will enhance income while managing the Bank's vulnerability to changes in interest rates.

The Company uses two approaches to model interest rate risk: Earnings at Risk ("EAR analysis") and Economic Value of Equity ("EVE analysis"). Under EAR analysis, net interest income is calculated for each interest rate scenario to the net interest income forecast in the base case. EAR analysis measures the sensitivity of interest-sensitive earnings over a one-year minimum time horizon. The results are affected by projected rates, prepayments, caps and floors. Management exercises its best judgement in making assumptions regarding events that management can influence, such as non-contractual deposit re-pricing, as well as events outside of management's control, such as customer behavior on loan and deposit activity and the effect that competition has on both loan and deposit pricing. These assumptions are subjective and, as a result, net interest income simulation results will differ from actual results due to the timing, magnitude and frequency of interest rate changes, changes in market conditions, customer behavior and management strategies, among other factors. We perform various sensitivity analyses on assumptions of deposit attrition and deposit re-pricing. Market-implied forward rates and various likely and extreme interest rate scenarios can be used for EAR analysis. These likely and extreme scenarios can include rapid and gradual interest rate ramps, rate shocks and yield curve twists.

The EAR analysis used in the following table reflects the required analysis used no less than quarterly by management. It models -100, +100, +200, +300 and +400 basis point parallel shifts in market interest rates over the next one-year period. Due to the current low level of interest rates, only a -100 basis point parallel shift is represented.

The Company is within Board approved policy limits for all interest rate scenarios using the snapshot as of September 30, 2017. The tables below show the results of the scenarios as of September 30, 2017 and 2016:

#### Net Sensitive Earnings at Risk

Net Sensitive Earnings at Risk					
Balances as of September 30, 2017	Standard (Parallel Shift) Year 1				
	Net Interest Income at Risk%				
	-100	+100	+200	+300	+400
Percent Change Scenario	-6.6 %	3.7 %	6.0 %	8.4 %	10.9 %
Board Policy Limits	-8.0 %	-8.0 %	-10.0 %	-15.0 %	-20.0 %

Net Sensitive Earnings at Risk					
Balances as of September 30, 2016	Standard (Parallel Shift) Year 1				
	Net Interest Income at Risk%				
	-100	+100	+200	+300	+400
Percent Change Scenario	-4.5 %	0.5 %	-0.9 %	-2.2 %	-2.8 %
Board Policy Limits	-5.0 %	-5.0 %	-10.0 %	-15.0 %	-20.0 %

The EAR analysis reported at September 30, 2017, shows that in an increasing +100, +200, +300, and +400 interest rate environment, more assets than liabilities will reprice over the modeled one-year period.

IRR is a snapshot in time. The Company's business and deposits are very predictably cyclical on a weekly, monthly and yearly basis. The Company's static IRR results could vary depending on which day of the week and timing in relation to certain payrolls, as well as time of the month in regard to early funding of certain programs, when this snapshot is taken. The Company's overnight federal funds purchased fluctuates on a predictable daily and monthly basis due to fluctuations in a portion of its non-interest bearing deposit base, primarily related to payroll processing and timing of when certain programs are prefunded and when the funds are received. Fiscal fourth quarter 2017 results do not necessarily show the typical effect of day of week cyclicity due to the temporary repositioning of the balance sheet, as previously noted. Owing to the snapshot nature of IRR, as is required by regulators, in concert with the Company's predictable weekly, monthly and yearly fluctuating deposit base and overnight borrowings, the results produced by static IRR analysis are not necessarily representative of what management, the Board of Directors and others would view as the Company's true IRR positioning. Management and the Board are aware of and understand these typical borrowing and deposit fluctuations as well as the point in time nature of IRR analysis and anticipated an outcome where the Company may temporarily be outside of Board policy limits based on a snapshot analysis.

For management to better understand the IRR position of the Bank, an alternative IRR run was completed, for which all September 30, 2017, values were utilized with the exception of overnight borrowings, non-interest bearing deposits, brokered deposits, cash due from banks, non-earning assets, and non-paying liabilities. To diminish potential issues documented above, quarterly average balances were utilized for overnight borrowings, non-interest-bearing deposits, brokered deposits and cash due from banks. Non-earning assets and non-paying liabilities were used to balance the balance sheet. Management believes this view on IRR, while still subject to some yearly cyclicity, more accurately portrays the Bank's IRR position. As noted in the below chart, the alternative EAR results are more normalized and slightly improved in the -100 interest rate shock compared to the static results, as timing issues in deposits and overnight borrowings are diminished and lower balances in cash and due from banks are observed.

The Company would be within policy limits in all scenarios utilizing the alternative IRR scenario run for management purposes. The tables below highlight those results for September 30, 2017 and 2016.

## Alternative Net Sensitive Earnings at Risk

Net Sensitive Earnings at Risk					
Balances as of September 30, 2017	Standard (Parallel Shift) Year 1				
Alternative IRR Results	Net Interest Income at Risk%				
	-100	+100	+200	+300	+400
Percent Change Scenario	-1.8 %	3.4 %	5.4 %	5.7 %	6.3 %
Board Policy Limits	-8.0 %	-8.0 %	-10.0 %	-15.0 %	-20.0 %

Net Sensitive Earnings at Risk					
Balances as of September 30, 2016	Standard (Parallel Shift) Year 1				
Alternative IRR Results	Net Interest Income at Risk%				
	-100	+100	+200	+300	+400
Percent Change Scenario	-4.6 %	0.9 %	-0.2 %	-1.2 %	-1.4 %
Board Policy Limits	-5.0 %	-5.0 %	-10.0 %	-15.0 %	-20.0 %

The alternative EAR analysis reported at September 30, 2017 shows that in an increasing +100, +200, +300, and +400 interest rate environment, more assets than liabilities will reprice over the modeled one-year period.

## Net Sensitive Earnings at Risk as of September 30, 2017

Balances as of September 30, 2017			Change in Interest Income/Expense for a given change in interest rates					
Basis Point Change Scenario	Total Earning Assets (in \$000's)	% of Total Earning Assets	Over / (Under) Base Case Parallel Ramp					
			-100	Base	+100	+200	+300	+400
Total Loans	1,317,152	28.0%	62,784	67,489	72,240	76,914	81,601	86,378
Total Investments (non-TEY) and other Earning Assets	3,390,010	72.0%	49,427	69,628	86,760	102,502	118,174	134,059
Total Interest -Sensitive Income	4,707,162	100.0%	112,211	137,117	159,000	179,416	199,775	220,437
Total Interest-Bearing Deposits	743,831	34.7%	3,700	7,304	11,111	14,917	18,724	22,530
Total Borrowings	1,402,000	65.3%	5,706	19,726	33,746	47,766	61,768	75,806
Total Interest-Sensitive Expense	2,145,831	100.0%	9,406	27,030	44,857	62,683	80,492	98,336

## Alternative Net Sensitive Earnings at Risk

Alternative IRR Results			Change in Interest Income/Expense for a given change in interest rates					
Basis Point Change Scenario	Total Earning Assets (in \$000's)	% of Total Earning Assets	Over / (Under) Base Case Parallel Ramp					
			-100	Base	+100	+200	+300	+400
Total Loans	1,317,152	37.4%	62,784	67,489	72,240	76,914	81,601	86,378
Total Investments (non-TEY) and other Earning Assets	2,206,516	62.6%	46,468	54,826	60,100	63,968	67,751	71,732
Total Interest -Sensitive Income	3,523,668	100.0%	109,252	122,315	132,340	140,882	149,352	158,110
Total Interest-Bearing Deposits	817,480	69.6%	872	8,386	12,950	17,515	22,079	26,643
Total Borrowings	357,207	30.4%	1,997	5,569	7,354	9,141	12,713	16,285
Total Interest-Sensitive Expense	1,174,687	100.0%	2,869	13,955	20,304	26,656	34,792	42,928



The Company believes that its growing portfolio of non-interest bearing deposits provides a stable and profitable funding vehicle and a significant competitive advantage in a rising interest rate environment as the Company's cost of funds will likely remain relatively low, with less increase expected relative to other banks. When not able to match loan growth to deposit growth, the Company continues to execute its investment strategy of primarily purchasing NBQ municipal bonds and agency MBS, however, the Bank reviews opportunities to add diverse, high quality securities at attractive relative rates when opportunities present themselves. The NBQ municipal bonds are tax exempt and as such have a tax equivalent yield higher than their book yield. The tax equivalent yield calculation for NBQ municipal bonds uses the Company's cost of funds as one of its components. With the Company's large volume of non-interest bearing deposits, the tax equivalent yield for these NBQ municipal bonds is higher than a similar term investment in other investment categories of similar risk and higher than most other banks can realize and sustain on the same or similar instruments. The above interest income figures are quoted on a pre-tax basis which is particularly notable due to the size of the Company's tax-exempt municipal portfolio.

Under EVE analysis, the economic value of financial assets, liabilities and off-balance sheet instruments is derived under each rate scenario. The economic value of equity is calculated as the difference between the estimated market value of assets and liabilities, net of the impact of off-balance sheet instruments.

The EVE analysis used in the following table reflects the required analysis used no less than quarterly by management. It models immediate -100, +100, +200, 300 and +400 basis point parallel shifts in market interest rates. Due to the current low level of interest rates, only a -100 basis point parallel shift is represented.

The Company is within Board policy limits for all scenarios. The tables below show the results of the scenario as of September 30, 2017 and 2016:

#### Economic Value Sensitivity

##### Balances as of September 30, 2017

	Standard (Parallel Shift)				
	Economic Value of Equity at Risk%				
	-100	+100	+200	+300	+400
Percent Change Scenario	-3.2 %	-0.8 %	-3.8 %	-7.8 %	-10.7 %
Board Policy Limits	-10.0 %	-10.0 %	-20.0 %	-30.0 %	-40.0 %

##### Balances as of September 30, 2016

	Standard (Parallel Shift)				
	Economic Value of Equity at Risk%				
	-100	+100	+200	+300	+400
Percent Change Scenario	1.6 %	-3.7 %	-8.3 %	-13.1 %	-17.2 %
Board Policy Limits	-10.0 %	-10.0 %	-20.0 %	-30.0 %	-40.0 %

The EVE at risk reported at September 30, 2017, shows that as interest rates increase immediately, the economic value of equity position will decrease from the base, partially due to the degree of the economic value of its base asset size in relation to the economic value of its base liabilities.

The Company would be within policy limits in all scenarios utilizing the alternative IRR scenario run for management purposes. The tables below highlight those results for September 30, 2017 and 2016:

#### Alternative Economic Value Sensitivity

##### Balances as of September 30, 2017

Alternative IRR Results	Standard (Parallel Shift)				
	Economic Value of Equity at Risk%				
	-100	+100	+200	+300	+400
Percent Change Scenario	-2.2 %	-1.9 %	-6.0 %	-10.9 %	-14.7 %
Board Policy Limits	-10.0 %	-10.0 %	-20.0 %	-30.0 %	-40.0 %

**Balances as of September 30, 2016**

Alternative IRR Results	Standard (Parallel Shift)				
	Economic Value of Equity at Risk%				
	-100	+100	+200	+300	+400
Percent Change Scenario	2.1 %	-4.2 %	-9.4 %	-14.7 %	-19.3 %
Board Policy Limits	-10.0 %	-10.0 %	-20.0 %	-30.0 %	-40.0 %

The EVE at risk reported using the alternative methodology used for management purposes shows that as interest rates increase immediately, the economic value of equity position will decrease from the base, partially due to the degree of the economic value of its base asset size in relation to the economic value of its base liabilities. These results under the rising scenarios are marginally more sensitive than the static snapshot as the effects of the temporary balance sheet repositioning noted above are diminished.

**Detailed Economic Value Sensitivity as of September 30, 2017**

The following table details the economic value sensitivity to changes in market interest rates at September 30, 2017, for loans, investments, deposits, borrowings and other assets and liabilities (dollars in thousands). The analysis reflects the temporary balance sheet positioning of cash and due from bank in total investments, and the added economic value creation of the Bank's non-interest bearing deposit base under a rising rate environment relative to other aspects of the balance sheet.

Balances as of September 30, 2017	Book Value (in \$000's)	% of Total Assets	Change in Economic Value for a given change in interest rates				
			Over / (Under) Base Case Parallel Ramp				
			-100	+100	+200	+300	+400
Basis Point Change Scenario							
Total Loans	1,317,152	25%	2.0%	-2.0 %	-4.1 %	-6.0 %	-7.8 %
Total Investment	3,390,010	65%	2.4%	-3.1 %	-6.3 %	-9.7 %	-12.5 %
Other Assets	508,410	10%	—%	— %	— %	— %	— %
Assets	5,215,572	100%	2.1%	-2.6 %	-5.3 %	-8.1 %	-10.5 %
Interest Bearing Deposits	743,831	16%	1.0%	-0.7 %	-1.4 %	-2.1 %	-2.8 %
Non-Interest Bearing Deposits	2,480,087	53%	6.4%	-5.9 %	-11.2 %	-16.1 %	-20.6 %
Total Borrowings & Other Liabilities	1,470,633	31%	—%	— %	— %	— %	— %
Liabilities	4,694,551	100%	3.3%	-3.0 %	-5.7 %	-8.2 %	-10.4 %

**Detailed Alternative Economic Value Sensitivity**

The following is EVE at risk reported using the alternative methodology used for management purposes, for loans, investments, deposits, borrowings, and other assets and liabilities (dollars in thousands). The analysis reflects the more evenly matched changes in value of the Bank's non-interest bearing deposit base under a rising rate environment relative to changes in value observed in total investments, which is adjusted for the temporary increased portion of cash and due from bank at period end.

Alternative IRR Results	Book Value (in \$000's)	% of Total Assets	Change in Economic Value for a given change in interest rates				
			Over / (Under) Base Case Parallel Ramp				
			-100	+100	+200	+300	+400
Economic Value Sensitivity							
Basis Point Change Scenario							
Total Loans	1,317,152	25%	2.0%	-2.0 %	-4.1 %	-6.0 %	-7.8 %
Total Investment	2,206,516	42%	3.6%	-4.6 %	-9.5 %	-14.5 %	-18.8 %
Other Assets	1,691,904	32%	—%	— %	— %	— %	— %
Assets	5,215,572	100%	2.1%	-2.6 %	-5.3 %	-8.1 %	-10.5 %
Interest Bearing Deposits	817,480	17%	0.9%	-0.7 %	-1.3 %	-1.9 %	-2.5 %
Non-Interest Bearing Deposits	2,291,115	49%	6.4%	-5.8 %	-11.2 %	-16.1 %	-20.5 %
Total Borrowings & Other Liabilities	1,585,956	34%	—%	— %	— %	— %	— %
Liabilities	4,694,551	100%	3.0%	-2.7 %	-5.2 %	-7.5 %	-9.6 %

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

The above EAR and EVE measures do not include all actions that management may undertake to manage interest rate risk in response to anticipated changes in interest rates.

### **Asset Quality**

At September 30, 2017, non-performing assets, consisting of impaired/non-accruing loans, accruing loans delinquent 90 days or more, foreclosed real estate and repossessed consumer property totaled \$37.9 million, or 0.72% of total assets, compared to \$1.2 million, or 0.03% of total assets, at September 30, 2016. The increase in NPAs was primarily related to two large, well-collateralized agricultural relationships that became more than 90 days past due. These loan relationships were both still accruing in the fourth fiscal quarter and one was paid in full on November 1, 2017. The majority of the past due receivables related to AFS/IBEX are due to the notification requirements and processing time by most insurance carriers while the insurer is processing the return of the unearned premium. Management will continue to accrue interest until maturity as the unearned premium is ordinarily sufficient to pay off the outstanding balance and the contractual interest due.

Non-accruing loans at September 30, 2017, totaled approximately \$0.7 million. The Company had repossessed assets of approximately \$0.3 million at September 30, 2017.

The Company maintains an allowance for loan losses because it is probable that some loans may not be repaid in full. At September 30, 2017, the Company had an allowance for loan losses of \$7.5 million as compared to \$5.6 million at September 30, 2016. This increase was mainly due to loan growth and a downgrade of a large well-collateralized agricultural relationship, as mentioned previously. Management's periodic review of the allowance for loan losses is based on various subjective and objective factors including the Company's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions. While management may allocate portions of the allowance for specifically identified problem loan situations, the majority of the allowance is based on both subjective and objective factors related to the overall loan portfolio and is available for any loan charge-offs that may occur. As stated previously, there can be no assurance future losses will not exceed estimated amounts, or that additional provisions for loan losses will not be required in future periods. In addition, the Bank is subject to review by the OCC, which has the authority to require management to make changes to the allowance for loan losses, and the Company is subject to similar review by the Federal Reserve.

In determining the allowance for loan losses, the Company specifically identifies loans it considers to have potential collectability problems. Based on criteria established by ASC 310, *Receivables*, some of these loans are considered to be "impaired" while others are not considered to be impaired, but possess weaknesses that the Company believes merit additional analysis in establishing the allowance for loan losses. All other loans are evaluated by applying estimated loss ratios to various pools of loans. The Company then analyzes other applicable qualitative factors (such as economic conditions) in determining the aggregate amount of the allowance needed.

At September 30, 2017, none of the allowance for loan losses was allocated to impaired loans. See Note 3 of the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. Of the allowance, \$2.0 million was allocated to other identified problem loans and loan relationships, representing 3.5% of the related loan balances, and \$5.5 million, representing 0.4% of the related loan balances, was allocated to the remaining overall loan portfolio based on historical loss experience and qualitative factors. At September 30, 2016, \$0.01 million of the allowance for loan losses was allocated to impaired loans, representing 1.7% of the related loan balances. \$0.9 million was allocated to other identified problem loan situations or 1.9% of related loan balances, and \$4.7 million, representing 0.5%, was allocated against losses from the overall loan portfolio based on historical loss experience and qualitative factors.

The Company maintains an internal loan review and classification process which involves multiple officers of the Company and is designed to assess the general quality of credit underwriting and to promote early identification of potential problem loans. All loan officers are charged with the responsibility of risk rating all loans in their portfolios and updating the ratings, positively or negatively, on an ongoing basis as conditions warrant.

The level of potential problem loans is another predominant factor in determining the relative level of risk in the loan portfolio and in determining the appropriate level of the allowance for loan losses. Potential problem loans are generally defined by management to include loans rated as substandard by management that are not considered impaired ( *i.e.* , non-accrual loans and accruing troubled debt restructurings), but there are circumstances present to create doubt as to the ability of the borrower to comply with present repayment terms. The decision of management to include performing loans in potential problem loans does not necessarily mean that the Company expects losses to occur, but that management recognizes a higher degree of risk associated with these loans. The loans that have been reported as potential problem loans are predominantly commercial loans covering a diverse range of businesses and real estate property types. At September 30, 2017 , potential problem loans totaled \$39.5 million compared to \$8.9 million at September 30, 2016 . The \$30.6 million increase in potential problem loans since September 30, 2016 , was primarily due to the previously mentioned large, well-collateralized agriculture relationship that was downgraded during fiscal 2017 . This relationship also had accrued interest of \$1.8 million as of September 30, 2017 , which is expected to be collected. It is possible the collateral will go through a deed in lieu of foreclosure in the near future.

## **Liquidity and Capital Resources**

The Company's primary sources of funds are deposits, derived principally through its Payments divisions, and to a lesser extent through its retail bank division, borrowings, principal and interest payments on loans and mortgage-backed securities, and maturing investment securities. In addition, the Company utilizes wholesale deposit sources to provide temporary funding when necessary or when favorable terms are available. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments are influenced by the level of interest rates, general economic conditions and competition.

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

The low-cost checking deposits generated through the Company's Payments divisions may carry a greater degree of concentration risk than traditional consumer checking deposits but, based on experience, the Company believes that Payments-generated deposits are a stable source of funding. To date, the Company has not experienced any material net outflows related to Payments-generated deposits, though no assurance can be given that this will continue to be the case.

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

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

The primary investing activities of the Company are the origination of loans, the acquisitions of companies and the purchase of securities. During the years ended September 30, 2017 , 2016 and 2015 , the Company originated loans totaling \$2.6 billion , \$968.4 million and \$672.8 million , respectively. Purchases of loans totaled \$141.4 million , and \$74.1 million during the years ended September 30, 2017 and 2015 , respectively, and the Company did not purchase any loans during the year ended September 30, 2016. During the years ended September 30, 2017 , 2016 and 2015 , the Company purchased mortgage-backed securities and other securities in the amount of \$849.5 million , \$902.9 million and \$894.3 million , respectively. Of these purchases in 2017 , 2016 and 2015 , \$0.9 million , \$298.9 million and \$75.8 million , respectively, were securities designated as held to maturity.

At September 30, 2017, the Company had unfunded loan commitments of \$233.2 million. See Note 14 to the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. Certificates of deposit scheduled to mature in one year or less from September 30, 2017 totaled \$560.8 million, \$457.9 million of which are brokered certificates of deposit, with \$255.3 million of the \$457.9 million brokered certificates of deposit structured to mature during the second quarter of fiscal 2018, to coincide with the funding of seasonal tax advance loans. Retail bank certificates of deposit scheduled to mature in one year or less from September 30, 2017 totaled \$102.9 million and based on its historical experience, management believes that a significant portion of such deposits will remain with the Company; however, there can be no assurance that the Company can retain all such deposits. Management believes that loan repayment and other sources of funds will be adequate to meet the Company’s foreseeable short- and long-term liquidity needs.

The following table summarizes the Company’s significant contractual obligations at September 30, 2017 (dollars in thousands)

Contractual Obligations	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Time deposits	\$ 581,565	\$ 557,858	\$ 19,069	\$ 4,638	\$ —
Long-term debt	85,533	—	137	159	85,237
Short-term debt	1,404,534	1,404,534	—	—	—
Operating leases	29,009	2,486	4,576	4,025	17,922
Data processing services	27,789	3,369	14,762	9,658	—
Total	<u>\$ 2,128,430</u>	<u>\$ 1,968,247</u>	<u>\$ 38,544</u>	<u>\$ 18,480</u>	<u>\$ 103,159</u>

During July 2001, the Company’s unconsolidated trust subsidiary, First Midwest Financial Capital Trust I, sold \$10.3 million in floating-rate cumulative preferred securities. Proceeds from the sale were used to purchase trust preferred securities of the Company, which mature in 2031, and are redeemable at any time after five years. The capital securities are required to be redeemed on July 25, 2031; however, the Company has the option to redeem them earlier. The Company used the proceeds for general corporate purposes.

On August 15, 2016, the Company announced that it had completed the public offering of \$75 million of its 5.75% fixed-to-floating rate subordinated debentures due August 15, 2026. Use of proceeds from the offering was for general purposes, acquisitions and investments in MetaBank as Tier 1 capital to support growth. See Note 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.

The Company and the Bank met regulatory requirements for classification as well-capitalized institutions at September 30, 2017. 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.

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

The Board of Directors approved a minimum management target, reflected in its capital plan, for the Bank to stay at or above an 8% Tier 1 capital to adjusted total assets ratio during fiscal 2017. Adjusted total assets are calculated based on a rolling six month average basis.

Management and the Board of Directors are also mindful of new capital rules that will increase bank and holding company capital requirements and liquidity requirements. No assurance can be given that our regulators will consider our liquidity level, or our capital level, though substantially in excess of current rules pursuant to which we are considered “well-capitalized,” to be sufficiently high in the future.

#### Off-Balance Sheet Financing Arrangements

For discussion of the Company’s off-balance sheet financing arrangements, see Note 14 of “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. Depending on the extent to which the commitments or contingencies described in Note 14 occur, the effect on the Company’s capital and net income could be significant.

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

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

## **Impact of New Accounting Standards**

See Note 1 to the Consolidated Financial Statements for information regarding recently issued accounting pronouncements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

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

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

The Company currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate and fixed-rate loan products with short to intermediate terms to maturity, and may originate loans with terms longer than five years for borrowers that have a strong credit profile and typically lower loan-to-value ratios. This approach allows the Company to better maintain a portfolio of loans that will have less sensitivity to changes in the level of interest rates, while providing a reasonable spread to the cost of liabilities used to fund the loans.

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

The Company's cost of funds responds to changes in interest rates due to the relatively short-term nature of its deposit portfolio, and due to the relatively short-term nature of its borrowed funds. The Company believes that its growing portfolio of low-cost deposits provides a stable and profitable funding vehicle, but also subjects the Company to greater risk in a falling interest rate environment than it would otherwise have without this portfolio. This risk is due to the fact that, while asset yields may decrease in a falling interest rate environment, the Company cannot significantly reduce interest costs associated with these deposits, which thereby compresses the Company's net interest margin. As a result of the Company's interest rate risk exposure in this regard, the Company has elected not to enter into any new longer-term wholesale borrowings, and generally has not emphasized longer-term time deposit products.

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

See also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the caption "Interest Rate Risk ("IRR")."

Item 8. Financial Statements and Supplementary Data

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**KPMG LLP**

2500 Ruan Center  
666 Grand Avenue  
Des Moines, IA 50309

**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated statements of financial condition of Meta Financial Group, Inc. and subsidiaries (the Company) as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2017. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meta Financial Group, Inc. and subsidiaries as of September 30, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Meta Financial Group, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 29, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Des Moines, Iowa  
November 29, 2017

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

ASSETS	September 30, 2017	September 30, 2016
Cash and cash equivalents	\$ 1,267,586	\$ 773,830
Investment securities available-for-sale	1,106,977	910,309
Mortgage-backed securities available-for-sale	586,454	558,940
Investment securities held to maturity	449,840	486,095
Mortgage-backed securities held to maturity	113,689	133,758
Loans receivable	1,325,371	925,105
Allowance for loan losses	(7,534)	(5,635)
Federal Home Loan Bank stock, at cost	61,123	47,512
Accrued interest receivable	19,380	17,199
Premises, furniture, and equipment, net	19,320	18,626
Bank-owned life insurance	84,702	57,486
Foreclosed real estate and repossessed assets	292	76
Goodwill	98,723	36,928
Intangible assets	52,178	28,921
Prepaid assets	28,392	9,443
Deferred taxes	9,101	—
Other assets	12,738	7,826
<b>Total assets</b>	<b>\$ 5,228,332</b>	<b>\$ 4,006,419</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Non-interest-bearing checking	\$ 2,454,057	\$ 2,167,522
Interest-bearing checking	67,294	38,077
Savings deposits	53,505	50,742
Money market deposits	48,758	47,749
Time certificates of deposit	123,637	125,992
Wholesale deposits	476,173	—
<b>Total deposits</b>	<b>3,223,424</b>	<b>2,430,082</b>
Short-term debt	1,404,534	1,095,118
Long-term debt	85,533	92,460
Accrued interest payable	2,280	875
Deferred taxes	—	4,600
Accrued expenses and other liabilities	78,065	48,309
<b>Total liabilities</b>	<b>4,793,836</b>	<b>3,671,444</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, 3,000,000 shares authorized, no shares issued or outstanding at September 30, 2017 and 2016, respectively	—	—
Common stock, \$.01 par value; 15,000,000 shares authorized, 9,626,431 and 8,523,641 shares issued, 9,622,595 and 8,523,641 shares outstanding at September 30, 2017 and 2016, respectively	96	85
Common stock, Nonvoting, \$.01 par value; 3,000,000 shares authorized, no shares issued or outstanding at September 30, 2017 and 2016, respectively	—	—
Additional paid-in capital	258,336	184,780
Retained earnings	167,164	127,190
Accumulated other comprehensive income	9,166	22,920
Treasury stock, at cost, 3,836 common shares at September 30, 2017 and none at September 30, 2016	(266)	—
<b>Total stockholders' equity</b>	<b>434,496</b>	<b>334,975</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,228,332</b>	<b>\$ 4,006,419</b>



**META FINANCIAL GROUP, INC  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Years Ended September 30,		
(Dollars in Thousands, Except Share and Per Share Data)	2017	2016	2015
Interest and dividend income:			
Loans receivable, including fees	\$ 52,117	\$ 36,187	\$ 29,565
Mortgage-backed securities	16,571	15,771	13,979
Other investments	39,415	29,438	18,063
	108,103	81,396	61,607
Interest expense:			
Deposits	6,051	614	726
FHLB advances and other borrowings	8,822	3,477	1,661
	14,873	4,091	2,387
<b>Net interest income</b>	93,230	77,305	59,220
Provision for loan losses	10,589	4,605	1,465
<b>Net interest income after provision for loan losses</b>	82,641	72,700	57,755
Non-interest income:			
Refund transfer product fees	38,956	23,347	63
Tax advance product fees	31,913	1,575	—
Card fees	94,707	70,533	54,542
Loan fees	3,882	3,374	2,348
Bank-owned life insurance income	2,216	1,656	2,030
Deposit fees	736	603	593
Loss on sale of securities available-for-sale, net (Includes (\$493), (\$326), and (\$1,634) reclassified from accumulated other comprehensive income (loss) for net gains (losses) on available for sale securities for the fiscal years ended September 30, 2017, 2016 and 2015, respectively)	(493)	(326)	(1,634)
Loss (gain) on foreclosed real estate	(6)	—	28
Other income	261	8	204
<b>Total non-interest income</b>	172,172	100,770	58,174
Non-interest expense:			
Compensation and benefits	88,728	61,675	46,493
Refund transfer product expense	11,885	8,648	3
Tax advance product expense	3,241	—	—
Card processing expense	24,130	22,263	16,508
Occupancy and equipment expense	16,465	13,999	11,399
Legal and consulting expense	8,384	4,824	4,978
Marketing	2,117	1,972	1,537
Data processing expense	1,449	1,334	1,347
Amortization expense	12,362	4,828	1,349
Intangible impairment	10,248	—	—
Other expense	20,654	15,105	12,892
<b>Total non-interest expense</b>	199,663	134,648	96,506
<b>Income before income tax expense</b>	55,150	38,822	19,423
Income tax expense (Includes (\$185), (\$118), and (\$597) income tax expense (benefit) reclassified from accumulated other comprehensive income (loss) for the fiscal years ended September 30, 2017, 2016 and 2015, respectively)	10,233	5,602	1,368
<b>Net income</b>	\$ 44,917	\$ 33,220	\$ 18,055

**Earnings per common share <sup>(1)</sup>:**

Basic	\$	4.86	\$	3.93	\$	2.68
Diluted	\$	4.83	\$	3.91	\$	2.66

(1) See Reclassification and Revision of Prior Period Balances under Note 1 Summary of Significant Accounting Policies for additional information describing adjustments made to the Company's EPS calculation. Basic EPS for the fiscal year ended September 30, 2016 of \$3.95 was corrected to \$3.93 and diluted EPS of \$3.92 was corrected to \$3.91 . See Notes to Consolidated Financial Statements.

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

	For Years Ended September 30,		
	2017	2016	2015
Net income	\$ 44,917	\$ 33,220	\$ 18,055
Other comprehensive (loss) income:			
Change in net unrealized gain on securities	(21,661)	31,965	7,723
Losses realized in net income	493	326	1,634
	(21,168)	32,291	9,357
Deferred income tax effect	(7,414)	11,826	3,493
Total other comprehensive (loss) income	(13,754)	20,465	5,864
Total comprehensive income	\$ 31,163	\$ 53,685	\$ 23,919

See Notes to Consolidated Financial Statements.

**META FINANCIAL GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the Years Ended September 30, 2015, 2016 and 2017**

(Dollars in Thousands, Except Share and Per Share Data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Total Stockholders' Equity
Balance, September 30, 2014	\$ 62	\$ 95,079	\$ 83,797	\$ (3,409)	\$ (727)	\$ 174,802
Cash dividends declared on common stock (\$0.52 per share)	—	—	(3,493)	—	—	(3,493)
Issuance of common shares from the sales of equity securities	14	50,737	—	—	417	51,168
Issuance of common shares due to issuance of stock options and restricted stock	—	378	—	—	—	378
Issuance of common shares due to acquisition	6	24,297	—	—	—	24,303
Stock compensation	—	258	—	—	—	258
Net change in unrealized gains (losses) on securities, net of income taxes	—	—	—	5,864	—	5,864
Net income	—	—	18,055	—	—	18,055
<b>Balance, September 30, 2015</b>	<b>\$ 82</b>	<b>\$ 170,749</b>	<b>\$ 98,359</b>	<b>\$ 2,455</b>	<b>\$ (310)</b>	<b>\$ 271,335</b>
Balance, September 30, 2015	\$ 82	\$ 170,749	\$ 98,359	\$ 2,455	\$ (310)	\$ 271,335
Cash dividends declared on common stock (\$0.52 per share)	—	—	(4,389)	—	—	(4,389)
Issuance of common shares from the sales of equity securities	2	11,498	—	—	—	11,500
Issuance of common shares due to issuance of stock options and restricted stock	1	2,046	—	—	310	2,357
Stock compensation	—	487	—	—	—	487
Net change in unrealized gains (losses) on securities, net of income taxes	—	—	—	20,465	—	20,465
Net income	—	—	33,220	—	—	33,220
<b>Balance, September 30, 2016</b>	<b>\$ 85</b>	<b>\$ 184,780</b>	<b>\$ 127,190</b>	<b>\$ 22,920</b>	<b>\$ —</b>	<b>\$ 334,975</b>
Balance, September 30, 2016	\$ 85	\$ 184,780	\$ 127,190	\$ 22,920	\$ —	\$ 334,975
Adoption of Accounting Standards Update 2016-09	—	104	(104)	—	—	—
Cash dividends declared on common stock (\$0.52 per share)	—	—	(4,839)	—	—	(4,839)
Issuance of common shares due to exercise of stock options	—	650	—	—	—	650
Issuance of common shares due to restricted stock	4	—	—	—	—	4
Issuance of common shares due to ESOP	—	1,174	—	—	—	1,174
Issuance of common shares due to acquisition	7	37,289	—	—	—	37,296
Contingent consideration equity earnout due to acquisition	—	24,142	—	—	—	24,142
Shares repurchased for tax withholdings on stock compensation	—	(204)	—	—	(266)	(470)
Stock compensation	—	10,401	—	—	—	10,401
Net change in unrealized gains on securities, net of income taxes	—	—	—	(13,754)	—	(13,754)
Net income	—	—	44,917	—	—	44,917

Balance, September 30, 2017	\$	96	\$	258,336	\$	167,164	\$	9,166	\$	(266)	\$	434,496
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See Notes to Consolidated Financial Statements.



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

	For the Years Ended September 30,		
	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income	\$ 44,917	\$ 33,220	\$ 18,055
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion, net	45,048	35,617	28,882
Stock compensation	10,401	487	258
Provision for loan losses	10,589	4,605	1,465
Recovery for deferred taxes	(6,286)	(230)	(3,896)
Loss on other assets	406	104	6
Loss (Gain) on foreclosed real estate	6	—	(28)
Loss on sale of securities available-for-sale, net	537	326	1,634
Gain on sale of securities held-to-maturity, net	(44)	—	—
Net change in accrued interest receivable	(2,181)	(3,847)	(2,130)
Impairment of intangibles	10,248	—	—
Fair value adjustment of foreclosed real estate	18	—	—
Originations of loans held for sale	(685,934)	—	—
Proceeds from sales of loans held for sale	685,934	—	—
Change in bank-owned life insurance value	(2,216)	(1,656)	(1,225)
Net change in other assets	(23,408)	(1,968)	(672)
Net change in accrued interest payable	1,405	603	(46)
Excess contingent consideration paid	(248)	—	—
Net change in accrued expenses and other liabilities	30,806	11,237	6,911
<b>Net cash provided by operating activities</b>	<b>119,998</b>	<b>78,498</b>	<b>49,214</b>
<b>Cash flows from investing activities:</b>			
Purchase of securities available-for-sale	(848,613)	(603,995)	(810,624)
Proceeds from sales of securities available-for-sale	457,306	285,508	566,371
Proceeds from maturities and principal repayments of securities available-for-sale	126,420	116,333	124,558
Purchase of securities held to maturity	(932)	(298,869)	(72,759)
Proceeds from sales of securities held-to-maturity	5,870	—	—
Proceeds from maturities and principal repayments of securities held to maturity	45,615	20,465	9,879
Purchase of bank-owned life insurance	(25,000)	(10,000)	(10,000)
Proceeds from bank-owned life insurance death benefit	—	—	864
Loans purchased	(141,403)	—	—
Proceeds from loans sold	4,720	89	5,462
Net change in loans receivable	(274,840)	(217,985)	(146,111)
Proceeds from sales of foreclosed real estate	200	—	86
Cash paid for acquisitions	(29,425)	—	(125,314)
Cash received upon acquisitions	—	—	9,768
Federal Home Loan Bank stock purchases	(715,891)	(860,902)	(544,324)
Federal Home Loan Bank stock redemptions	702,280	837,800	541,160
Proceeds from the sale of premises and equipment	58	55	2,100
Purchase of premises and equipment	(6,798)	(6,979)	(5,031)
<b>Net cash used in investing activities</b>	<b>(700,433)</b>	<b>(738,480)</b>	<b>(453,915)</b>
<b>Cash flows from financing activities:</b>			
Net change in checking, savings, and money market deposits	319,524	737,727	334,375
Net change in time deposits	(2,355)	34,821	(43,382)
Net change in wholesale deposits	476,173	—	—
Net change of FHLB and other borrowings	308,000	100,000	—

Net change in federal funds	(5,000)	452,000	70,000
Net change in securities sold under agreements to repurchase	(565)	(969)	(6,404)
Proceeds from long term debt	—	75,000	—
Payment of debt issuance costs	—	(1,767)	—
Payment of debt extinguishment costs	(772)	—	—
Principal payments on capital lease obligations	(80)	(126)	(116)
Cash dividends paid	(4,839)	(4,389)	(3,493)

Purchase of shares by ESOP	1,174	—	—
Issuance of restricted stock	4	—	—
Proceeds from exercise of stock options and issuance of common stock	650	13,857	51,547
Shares repurchased for tax withholdings on stock compensation	(470)	—	—
Contingent consideration - cash paid	(17,253)	—	—
<b>Net cash provided by financing activities</b>	<b>1,074,191</b>	<b>1,406,154</b>	<b>402,527</b>
<b>Net change in cash and cash equivalents</b>	<b>493,756</b>	<b>746,172</b>	<b>(2,174)</b>
Cash and cash equivalents at beginning of year	773,830	27,658	29,832
Cash and cash equivalents at end of year	<u>\$ 1,267,586</u>	<u>\$ 773,830</u>	<u>\$ 27,658</u>

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

	For the Years Ended September 30,		
	2017	2016	2015
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for:			
Interest	\$ 16,278	\$ 3,488	\$ 2,433
Income taxes	20,058	5,898	5,277
Franchise taxes	187	98	98
Other taxes	290	79	48
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Loans transferred to foreclosed real estate	440	\$ 76	54
Common stock issued for acquisition	(37,296)	—	(24,303)
Contingent consideration - equity	(24,142)	—	—
Capital lease obligation	—	—	(2,259)
Securities transferred from available-for-sale to held to maturity	—	—	310
Purchase of available-for-sale securities accrued, not paid	—	—	(7,877)
Purchase of held-to-maturity securities accrued, not paid	\$ —	\$ —	\$ (3,000)

See Notes to Consolidated Financial Statements.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of Meta Financial Group, Inc. (the “Company”), a unitary savings and loan holding company located in Sioux Falls, South Dakota, and its wholly-owned subsidiaries which include MetaBank (the “Bank”), a federally chartered savings bank whose primary federal regulator is the Office of the Comptroller of the Currency, and Meta Capital, LLC, a wholly owned service corporation subsidiary of MetaBank which invests in financial technology companies. The Company also owns 100% of First Midwest Financial Capital Trust I (the “Trust”), which was formed in July 2001 for the purpose of issuing trust preferred securities. The Trust is not included in the consolidated financial statements of the Company. All significant intercompany balances and transactions have been eliminated.

#### **NATURE OF BUSINESS AND INDUSTRY SEGMENT INFORMATION**

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

#### **USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS**

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

#### **CASH AND CASH EQUIVALENTS AND FEDERAL FUNDS SOLD**

For purposes of reporting cash flows, cash and cash equivalents is defined to include the Company’s cash on hand and due from financial institutions and short-term interest-bearing deposits in other financial institutions. The Company reports cash flows net for customer loan transactions, securities purchased under agreement to resell, federal funds purchased, deposit transactions, securities sold under agreements to repurchase, and Federal Home Loan Bank (“FHLB”) advances with terms less than 90 days. The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank (“FRB”), based on a percentage of deposits. The total of those reserve balances was \$ 1.5 million at September 30, 2017, and there were no such reserve balances at September 30, 2016. The Company at times maintains balances in excess of insured limits at various financial institutions including the FHLB, the FRB and other private institutions. At September 30, 2017, the Company had no interest-bearing deposits held at the FHLB and \$ 1.23 billion in interest-bearing deposits held at the FRB. At September 30, 2017, the Company had no federal funds sold. The Company does not believe these instruments carry a significant risk of loss, but cannot provide assurances that no losses could occur if these institutions were to become insolvent.

#### **SECURITIES**

GAAP requires that, at acquisition, an enterprise classify debt securities into one of three categories: Available for Sale (“AFS”), Held to Maturity (“HTM”) or trading. AFS securities are carried at fair value on the consolidated statements of financial condition, and unrealized holding gains and losses are excluded from earnings and recognized as a separate component of equity in accumulated other comprehensive income (loss) (“AOCI”). HTM debt securities are measured at amortized cost. Both AFS and HTM are subject to review for other-than-temporary impairment. Meta Financial did not hold trading securities at September 30, 2017.

The Company classifies the majority of its securities as AFS. AFS securities are those the Company may decide to sell if needed for liquidity, asset-liability management or other reasons. Prior to June 30, 2013, the Basel III Accord was finalized and clarified that unrealized losses and gains on securities will not affect regulatory capital for those companies that opt out of the requirement, which the Company has done.

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

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), or based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market (Level 2 inputs). The Company considers these valuations supplied by a third-party provider that utilizes several sources for valuing fixed-income securities. Sources utilized by the third-party provider include pricing models that vary based on asset class and include available trade, bid, and other market information. This methodology includes broker quotes, proprietary models, descriptive terms and conditions databases, as well as extensive quality control programs.

#### *Securities Impairment*

Management continually monitors the investment securities portfolio for impairment on a security-by-security basis and has a process in place to identify securities that could potentially have a credit impairment that is other-than-temporary. This process involves the consideration of the length of time and extent to which the fair value has been less than the amortized cost basis, review of available information regarding the financial position of the issuer, monitoring the rating of the security, monitoring changes in value, cash flow projections, and the Company's intent to sell a security or whether it is more likely than not the Company will be required to sell the security before the recovery of its amortized cost, which, in some cases, may extend to maturity. To the extent the Company determines that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized. If the Company intends to sell a security or it is more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the Company recognizes an other-than-temporary impairment for the difference between amortized cost and fair value. If the Company does not expect to recover the amortized cost basis, does not plan to sell the security and if it is not more likely than not that the Company would be required to sell the security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. For those securities, the Company separates the total impairment into a credit loss component recognized in net income, and the amount of the loss related to other factors is recognized in other comprehensive income, net of taxes.

The amount of the credit loss component of a debt security impairment is estimated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. In fiscal 2017, 2016 and 2015, there was no other-than-temporary impairment recorded.

#### **LOANS RECEIVABLE**

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

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

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

As part of the Company's ongoing risk management practices, management attempts to work with borrowers when necessary to extend or modify loan terms to better align with their current ability to repay. Extensions and modifications to loans are made in accordance with internal policies and guidelines which conform to regulatory guidance. Each occurrence is unique to the borrower and is evaluated separately. In a situation where an economic concession has been granted to a borrower that is experiencing financial difficulty, the Company identifies and reports that loan as a troubled debt restructuring ("TDR"). Management considers regulatory guidelines when restructuring loans to ensure that prudent lending practices are followed. As such, qualification criteria and payment terms consider the borrower's current and prospective ability to comply with the modified terms of the loan. Additionally, the Company structures loan modifications with the intent of strengthening repayment prospects.

The Company considers whether a borrower is experiencing financial difficulties, as well as whether a concession has been granted to a borrower determined to be troubled, when determining whether a modification meets the criteria of being a TDR. For such purposes, evidence which may indicate that a borrower is troubled includes, among other factors, the borrower's default on debt, the borrower's declaration of bankruptcy or preparation for the declaration of bankruptcy, the borrower's forecast that entity-specific cash flows will be insufficient to service the related debt, or the borrower's inability to obtain funds from sources other than existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor. If a borrower is determined to be troubled based on such factors or similar evidence, a concession will be deemed to have been granted if a modification of the terms of the debt occurred that management would not otherwise consider. Such concessions may include, among other modifications, a reduction of the stated interest for the remaining original life of the debt, an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, a reduction of accrued interest, or a reduction of the face amount or maturity amount of the debt.

Loans that are reported as TDRs apply the identical criteria in the determination of whether the loan should be accruing or not accruing. The event of classifying the loan as a TDR due to a modification of terms may be independent from the determination of accruing interest on a loan.

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 remain on a non-accrual status until six months of good payment history. Specialty finance loans and Payment segment loans are generally not placed on non-accrual status, but are instead written off when the collection of principal and interest becomes doubtful.

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

The Company, from time to time, sells loan participations, generally without recourse. Sold loans are not included in the consolidated financial statements. The Bank generally retains the right to service the sold loans for a fee. At September 30, 2017 and 2016, the Bank was servicing loans for others with aggregate unpaid principal balances of \$ 21.8 million and \$ 19.4 million, respectively.

## **ALLOWANCE FOR LOAN LOSSES**

The allowance for loan losses represents management's estimate of probable loan losses that have been incurred as of the date of the consolidated financial statements. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Management's periodic evaluation of the appropriateness of the allowance is based on the Company's and peer group's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management may periodically allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur. The allowance consists of specific, general and unallocated components.

The specific component relates to impaired loans. Loans are generally considered impaired if full principal or interest payments are not probable in accordance with the contractual loan terms. Often this is associated with a delay or shortfall in payments of 90 days or more for retail bank loans categories. Non-accrual loans and all TDRs are considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

The general reserve covers retail bank loans not considered impaired and is determined based upon both quantitative and qualitative analysis. A separate general reserve analysis is performed for individual classified non-impaired loans and for non-classified smaller-balance homogeneous loans. The three main assumptions for the quantitative components for 2017 and 2016 are historical loss rates, the look back period (“LBP”) and the loss emergence period (“LEP”).

- The historical loss experience is determined by portfolio segment and is based on the actual loss history of the Company over the past seven years. For the individual classified loans, historic charge-off rates for the Company’s classified loan population are utilized.
- A seven-year LBP is appropriate as it captures the Company’s ability to workout troubled loans or relationships while continuing to factor in the loss experience resulting from varying economic cycles and other factors.
- The weighted average LEP is an estimate of the average amount of time from the point the Company identifies a credit event of the borrower to the point the loss is confirmed by the Company weighted by the dollar value of the write off. The LEP is only applied to the non-classified loan general reserve.

Qualitative adjustment considerations for the general reserve include considerations of changes in lending policies and procedures, changes in national and local economic and business conditions and developments, changes in the nature and volume of the loan portfolio, changes in lending management and staff, trending in past due, classified, nonaccrual, and other loan categories, changes in the Company’s loan review system and oversight, changes in collateral values, credit concentration risk, and the regulatory and legal requirements and environment.

An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The other loan portfolios primarily utilize a general reserve process that primarily uses historical factors related to the specific loan portfolio, although other qualitative factors may be considered in the final loss rate used to calculate the reserve on these portfolios. Loans in these portfolios are generally not placed on non-accrual status or impaired. The balances are written off after a loan becomes past due greater than 210 days for premium finance loans, 180 days for tax and other specialty lending loans and 90 days for other loans.

## **FORECLOSED REAL ESTATE AND REPOSSESSED ASSETS**

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

## **INCOME TAXES**

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

In accordance with ASC 740, *Income Taxes*, the Company recognizes a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized upon examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.



## **PREMISES, FURNITURE AND EQUIPMENT**

Land is carried at cost. Buildings, furniture, fixtures, leasehold improvements and equipment are carried at cost, less accumulated depreciation and amortization. Capital leases, where we are the lessee, are included in premises and equipment at the capitalized amount less accumulated amortization. We primarily use the straight-line method of depreciation over the estimated useful lives of the assets, which range from 10 to 40 years for buildings, and 2 to 15 years for leasehold improvements, and for furniture, fixtures and equipment. We amortize capitalized leased assets on a straight-line basis over the lives of the respective leases. Assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

## **TRANSFERS OF FINANCIAL ASSETS**

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

## **BANK-OWNED LIFE INSURANCE**

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

## **EMPLOYEE STOCK OWNERSHIP PLAN (“ESOP”)**

The cost of shares issued to the ESOP, but not yet allocated to participants, are presented in the consolidated statements of financial condition as a reduction of stockholders’ equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. Dividends on unallocated shares are used to reduce the accrued interest and principal amount of the ESOP’s loan payable to the Company. At September 30, 2017 and 2016, all shares in the ESOP were allocated.

## **FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

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

## **GOODWILL**

Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as business acquisitions. Goodwill is evaluated annually for impairment. The Company performs its impairment evaluation as of September 30 of each fiscal year. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill are not recognized in the consolidated financial statements. No goodwill impairment was recognized during the years ended September 30, 2017, 2016 or 2015.

## **INTANGIBLE ASSETS**

Intangible assets other than goodwill are amortized over their respective estimated lives. All intangible assets are subject to an impairment test at least annually or more often if conditions indicate a possible impairment.

## **SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

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

## REVENUE RECOGNITION

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

## EARNINGS PER COMMON SHARE ("EPS")

Basic earnings per share is computed by dividing income available to common stockholders after the allocation of dividends and undistributed earnings to the participating securities by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, and is computed after giving consideration to the weighted average dilutive effect of the Company's stock options and after the allocation of earnings to the participating securities.

## COMPREHENSIVE INCOME (LOSS)

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

## STOCK COMPENSATION

Compensation expense for share-based awards is recorded over the vesting period at the fair value of the award at the time of grant. The exercise price of options or fair value of nonvested restricted shares granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date.

## RECLASSIFICATION AND REVISION OF PRIOR PERIOD BALANCES

The Company reclassified insignificant electronic return originator ("ERO") and taxpayer advance fee income and related expenses during fiscal year 2017 from loan fees and other income to tax product fees and other expenses to tax product expense. Prior period amounts have also been reclassified.

As of March 31, 2017, certain insignificant adjustments to previously reported Earnings Per Share ("EPS") have been made to correctly reflect the effect of participating securities on basic and diluted EPS calculations in accordance with ASC 260. These changes were immaterial to the overall EPS calculation. Basic EPS for the fiscal year ended September 30, 2016 of \$3.95 was corrected to \$3.93 and diluted EPS of \$3.92 was corrected to \$3.91.

In fiscal 2017, the Company early adopted Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The requirement to report the excess tax benefit related to settlements of share-based payment awards in earnings as an increase or (decrease) to income tax expense has been applied utilizing the prospective method. While the adoption of ASU 2016-09 requires retrospective application to all fiscal year periods presented, the Company elected to not recast previously reported financial statements as the impact was considered insignificant. However, the Company reclassified stock compensation from financing to operating activities on the Consolidated Statement of Cash Flows as of September 30, 2016 and September 30, 2015.

The Company reclassified goodwill, intangibles, and related amortization expenses during fiscal year 2017 from the *Corporate Services / Other* segment to *Payments* and *Banking* based on how the Company performs its annual impairment testing. Prior period amounts have also been reclassified to conform to the current year presentation.

In fiscal year 2016, the Company disclosed \$89 thousand for proceeds from loan sales as a negative adjustment to net cash used in investing activities in the Consolidated Statements of Cash Flows. In fiscal 2017, the Company has corrected the fiscal year 2016 cash flow presentation to appropriately disclose this amount as a positive adjustment to net cash used in investing activities. As a result, the prior period amount for net changes in loans receivable has been adjusted from \$(217,807) thousand, as previously reported, to \$(217,985) thousand. These adjustments are considered to be prior period immaterial corrections and do not have any impact on fiscal year 2017 net cash provided by (used in) operating activities, investing activities, and financing activities. In fiscal year 2015, the Company disclosed \$5,462 thousand for proceeds from loan sales as a negative adjustment to net cash used in investing activities. In fiscal year 2017, the Company has corrected the fiscal year 2015 cash flow presentation to appropriately disclose this amount as a positive adjustment to net cash used in investing activities. As a result, the prior period amount for net changes in loans receivable has been adjusted from \$(135,187) thousand, as previously reported, to \$(146,111) thousand. These adjustments are considered to be prior period immaterial corrections and do not have any impact on fiscal year 2017 net cash provided by (used in) operating activities, investing activities, and financing activities.

## **NEW ACCOUNTING PRONOUNCEMENTS**

### **Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments***

This ASU requires organizations to replace the incurred loss impairment methodology with a methodology reflecting expected credit losses with considerations for a broader range of reasonable and supportable information to substantiate credit loss estimates. This ASU is effective for annual reporting periods beginning after December 15, 2019. The Company is currently undertaking a data analysis and ensuring its systems are capturing data applicable to the standard. In addition, the Company is undergoing a readiness assessment with an external consultant that began in the first quarter of fiscal 2018.

### **ASU No. 2016-04, *Extinguishment of liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products***

This ASU requires organizations to derecognize the deposit liabilities for unredeemed prepaid stored-value products (i.e. – breakage) consistently with breakage guidance in Topic 606, *Revenue from Contracts with Customers*. This ASU is effective for annual reporting periods beginning after December 15, 2017, and the Company expects the impact to the consolidated financial statements to be minimal.

### **ASU No. 2016-02, *Leases (Topic 842): Amendments to the Leases Analysis***

This ASU requires organizations to recognize lease assets and lease liabilities on the balance sheet, along with disclosing key information about leasing arrangements. This update is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and the Company has finalized their initial assessment of the ASU and expects that the standard will be immaterial to the consolidated financial statements with the Company's current leases.

### **ASU No. 2014-9, *Revenue Recognition – Revenue from Contracts with Customers (Topic 606)***

This ASU provides guidance on when to recognize revenue from contracts with customers. The objective of this ASU is to eliminate diversity in practice related to this topic and to develop guidance that would streamline and enhance revenue recognition requirements. The ASU defines five steps to recognize revenue, including identify the contract with a customer, identify the performance obligations in the contract, determine a transaction price, allocate the transaction price to the performance obligations and then recognize the revenue when or as the entity satisfies a performance obligation. This update is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and the Company is currently assessing all income streams, including different prepaid card programs so as to ascertain how breakage will be recognized under the standard.

### **ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes***

This ASU requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. This update is effective for annual and interim periods in fiscal years beginning after December 15, 2016, and the Company has determined that this update will not have an impact on the consolidated financial statements.

**ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting**

This ASU provides guidance to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient - expected term (nonpublic companies only); and (7) intrinsic value (nonpublic companies only). This update is effective for annual and interim periods in fiscal years beginning after December 15, 2016, and the Company early adopted the standard in the Company's third quarter of fiscal year 2017. Under the new standard, excess tax benefits and deficiencies related to employee stock-based compensation will be recognized directly within income tax expense or benefit in the consolidated statement of operations, rather than within additional paid-in capital. Additionally, as permitted under the new standard, the Company made an accounting policy election to account for forfeitures of awards as they occur, which represents a change from the current requirement to estimate forfeitures when recognizing compensation expense. The impact of applying that guidance reduced reported income tax expense by \$0.5 million for the quarter ended June 30, 2017. All income tax-related cash flows resulting from share-based payments are reported as an operating activity in the consolidated statements of cash flows. The Company elected to adopt the change in cash flow classification on a prospective basis, which resulted in an increase to net cash from operating activities and a corresponding decrease to net cash from financing activities in the accompanying consolidated statement of cash flows.

**ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments**

This ASU addresses eight classification issues related to the statement of cash flows including; debt prepayment or debt extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. This update is effective for annual periods and interim periods in fiscal years beginning after December 15, 2017, and the Company is currently assessing the potential impact to the consolidated financial statements.

**ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities**

This ASU requires entities to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments in this update require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, and is not expected to have an impact on the consolidated financial statements.

**ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities**

This ASU targets improving the accounting treatment for hedging activities and provides more flexibility in defining what can be hedged, less earnings volatility due to ineffective hedges, and less arduous documentation requirements. The ASU also offers the ability to reclassify prepayable debt securities from HTM to AFS and subsequently sell the securities, as long as the securities are eligible to be hedged. This update is effective for annual periods and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted in any interim period or fiscal year before the effective date. The Company is currently assessing the potential impact of early adoption for reclassification of certain prepayable debt securities from HTM to AFS.

## NOTE 2. ACQUISITIONS

The Company completed two acquisitions for the fiscal year ended September 30, 2017. The two purchase transactions are detailed below.

### EPS Financial

On November 1, 2016, the Company, through MetaBank, completed the acquisition of 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. EPS is a leading provider of comprehensive tax-related financial transaction solutions for over 10,000 ERO's nationwide, offering a one-stop-shop for all tax preparer financial transactions. These solutions include a full-suite of refund settlement products, prepaid payroll card solutions and merchant services.

Under the terms of the purchase agreement, the aggregate purchase price, which was based upon the November 1, 2016 tangible book value of EPS, included the payment of \$21.9 million in cash, after adjustments, and the issuance of 369,179 shares of Meta Financial common stock. The Company acquired assets with approximate fair values of \$17.9 million of intangible assets, including customer relationships, trademark, and non-compete agreements, and \$0.1 million of other assets, resulting in \$30.4 million of goodwill.

The following table represents the approximate fair value of assets acquired and liabilities assumed of EPS on the consolidated balance sheet as of November 1, 2016:

	<b>As of November 1, 2016</b>	
	(Dollars in Thousands)	
<b>Fair value of consideration paid</b>		
Cash	\$	21,877
Stock issued		26,507
<b>Total consideration paid</b>		<b>48,384</b>
<b>Fair value of assets acquired</b>		
Intangible assets		17,930
Other assets		79
<b>Total assets</b>		<b>18,009</b>
<b>Fair value of net assets acquired</b>		<b>18,009</b>
<b>Goodwill resulting from acquisition</b>	\$	<b>30,375</b>

The Company has included the financial results of EPS in its consolidated financial statements subsequent to the acquisition date. The EPS transaction has been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the transaction date. The Company made significant estimates and exercised judgment in estimating fair values and accounting for such acquired assets and liabilities.

The Company recognized goodwill of \$30.4 million as of November 1, 2016, which is calculated as the excess of both the consideration exchanged and the liabilities assumed, which were negligible, as compared to the fair value of identifiable assets acquired. Goodwill resulted from expected operational synergies and expanded product lines and is expected to be deductible for tax purposes. See Note 20 to the Consolidated Financial Statements for further information on goodwill.

The Company recognized \$0.5 million of pre-tax transaction-related expenses during fiscal 2017. The transaction expenses are reflected on the consolidated statement of operations primarily under legal and consulting.

## SCS

On December 14, 2016, the Company, through MetaBank, completed the acquisition of substantially all of the assets and specified liabilities of Specialty Consumer Services LP ("SCS"). The assets acquired by MetaBank in the SCS acquisition include the SCS trade name, propriety underwriting model and loan management system and other assets. SCS primarily provides consumer tax advance and other consumer credit services through its loan management services and other financial products.

Under the terms of the purchase agreement, the aggregate purchase price paid at closing, which was based upon the December 14, 2016 tangible book value of SCS, was approximately \$7.5 million in cash and the issuance of 113,328 shares of Meta Financial common stock. In addition, contingent cash consideration of \$17.5 million was paid out in the third quarter of fiscal 2017 and equity contingent consideration of 264,431 shares of Meta Financial common stock was paid in the fourth quarter of fiscal 2017 following the achievement of specified performance benchmarks (described more fully below). The Company acquired assets with approximate fair values of \$28.3 million of intangible assets, including customer relationships, trademark, and non-compete agreements, and negligible other assets, resulting in goodwill of \$31.4 million. All amounts are at estimated fair market values.

Subject to the equity earn-out terms of the purchase agreement, SCS was eligible to receive up to an aggregate of 264,431 shares of Meta Financial common stock within 20 days after the applicable equity earn-out statement was deemed final if certain targets achieved. The equity earn-out measurements were as follows; 1) if, as of an equity earn-out measurement date, the anticipated 2018 measured gross profit met or exceeded the statement amount, MetaBank would deliver to SCS a stated number of shares of Meta Financial common stock; 2) if, as of an equity earn-out measurement date, the aggregate anticipated loan volume under all 2018 eligible contracts was greater than or equal to the agreed upon volume amount, then MetaBank would deliver to SCS a stated number of shares of Meta Financial common stock; and 3) if, as of an equity earn-out measurement date, each agreement specified in the contract was in effect and none of such agreements was amended or modified as of such time (except as approved in writing by the President of MetaBank, in his or her sole discretion), then MetaBank would deliver to SCS a stated number of shares of Meta Financial common stock. None of the equity earn-out payments was contingent on the achievement of any of the other equity earn-out targets. Upon the determined equity earn-out measurement date, MetaBank determined that each of the three earn-out measurement targets was achieved and the Company issued an aggregate of 264,431 shares of Meta Financial common stock in the fourth quarter of fiscal 2017.

Subject to the cash earn-out terms of the purchase agreement, MetaBank agreed to pay to SCS an amount equal to 100% of the 2017 measured business gross profit up to a maximum of \$17.5 million within 20 days after the date on which each determination of the cash earn-out payment was deemed final. During the third quarter of fiscal 2017, MetaBank paid out the \$17.5 million of contingent cash consideration to SCS based upon the measured business gross profit.

The Company has included the financial results of SCS in its consolidated financial statements subsequent to the acquisition date. The fair value of the liability for the cash contingent consideration was approximately \$17.3 million and was included in other liabilities in the Company's consolidated statement of financial condition. The fair value of the equity contingent consideration was approximately \$24.1 million at closing and was included in additional paid-in capital in the Company's consolidated statement of financial condition. The respective fair values of the liability and equity were estimated using an option-based income valuation method with significant inputs that were not observable in the market and thus represent a Level 3 fair value measurement as defined in the FASB's Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures. The significant inputs in the Level 3 measurement not supported by market activity included the Company's probability assessments of the expected future cash flows related to the Company's acquisition of SCS during the earn-out period.

The following table represents the approximate fair value of assets acquired from and liabilities recorded of SCS on the consolidated statement of financial condition as of December 14, 2016.

	<b>As of December 14, 2016</b>	
	(Dollars in Thousands)	
<b>Fair value of consideration paid</b>		
Cash	\$	7,548
Stock issued		10,789
<b>Paid Consideration</b>		<b>18,337</b>
Contingent consideration - cash		17,252
Contingent consideration - equity		24,142
<b>Contingent consideration payable</b>		<b>41,394</b>
<b>Total consideration paid</b>		<b>59,731</b>
<b>Fair value of assets acquired</b>		
Intangible assets		28,310
Other assets		2
<b>Total assets</b>		<b>28,312</b>
<b>Fair value of net assets acquired</b>		<b>28,312</b>
<b>Goodwill resulting from acquisition</b>	\$	<b>31,419</b>

The SCS transaction has been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the transaction date. The Company made significant estimates and exercised judgment in estimating fair values and accounting for such acquired assets and liabilities. Upon receipt of final fair value estimates on certain assets, liabilities, and contingent considerations, which must be within one year of the acquisition date, the Company made final adjustments to the purchase price allocation and retrospectively adjusted the recorded goodwill.

The Company recognized goodwill of \$31.4 million as of December 14, 2016, which was calculated as the excess of both the adjusted consideration exchanged and the liabilities recorded as compared to the fair value of identifiable assets acquired. Goodwill resulted from expected operational synergies and expanded product lines and is expected to be deductible for tax purposes. See Note 20 to the Consolidated Financial Statements for further information on goodwill.

The Company recognized \$0.8 million of pre-tax transaction related expenses during the fiscal year ended 2017. The transaction expenses are reflected on the consolidated statement of operations primarily under legal and consulting.

**NOTE 3. LOANS RECEIVABLE, NET**

Year-end loans receivable were as follows:

	September 30, 2017		September 30, 2016	
	(Dollars in Thousands)			
1-4 Family Real Estate	\$	196,706	\$	162,298
Commercial and Multi-Family Real Estate		585,510		422,932
Agricultural Real Estate		61,800		63,612
Consumer		163,004		37,094
Commercial Operating		35,759		31,271
Agricultural Operating		33,594		37,083
Premium Finance		250,459		171,604
Total Loans Receivable		1,326,832		925,894
Allowance for Loan Losses		(7,534)		(5,635)
Net Deferred Loan Origination Fees		(1,461)		(789)
Total Loans Receivable, Net	\$	1,317,837	\$	919,470

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

Year ended September 30,	2017		2016		2015
	(Dollars in Thousands)				
Beginning balance	\$	5,635	\$	6,255	\$ 5,397
Provision for loan losses		10,589		4,605	1,465
Recoveries		307		147	123
Charge offs		(8,997)		(5,372)	(730)
Ending balance	\$	7,534	\$	5,635	\$ 6,255



Allowance for Loan Losses and Recorded Investment in loans at September 30, 2017 and 2016 were as follows:

	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Unallocated	Total
(Dollars in Thousands)									
<b>Year Ended September 30, 2017</b>									
<b>Allowance for loan losses:</b>									
Beginning balance	\$ 654	\$ 2,198	\$ 142	\$ 51	\$ 117	\$ 1,332	\$ 588	\$ 553	\$ 5,635
Provision (recovery) for loan losses	149	610	1,248	6,830	1,165	(160)	773	(26)	10,589
Charge offs	—	(138)	—	(7,084)	(1,149)	—	(626)	—	(8,997)
Recoveries	—	—	—	209	25	12	61	—	307
Ending balance	\$ 803	\$ 2,670	\$ 1,390	\$ 6	\$ 158	\$ 1,184	\$ 796	\$ 527	\$ 7,534
Ending balance: individually evaluated for impairment	—	—	—	—	—	—	—	—	—
Ending balance: collectively evaluated for impairment	803	2,670	1,390	6	158	1,184	796	527	7,534
Total	\$ 803	\$ 2,670	\$ 1,390	\$ 6	\$ 158	\$ 1,184	\$ 796	\$ 527	\$ 7,534
<b>Loans:</b>									
Ending balance: individually evaluated for impairment	72	1,109	—	—	—	—	—	—	1,181
Ending balance: collectively evaluated for impairment	196,634	584,401	61,800	163,004	35,759	33,594	250,459	—	1,325,651
Total	\$ 196,706	\$ 585,510	\$ 61,800	\$ 163,004	\$ 35,759	\$ 33,594	\$ 250,459	\$ —	\$ 1,326,832

	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Unallocated	Total
(Dollars in Thousands)									
<b>Year Ended September 30, 2016</b>									
<b>Allowance for loan losses:</b>									
Beginning balance	\$ 278	\$ 1,187	\$ 163	\$ 20	\$ 28	\$ 3,537	\$ 293	\$ 749	\$ 6,255
Provision (recovery) for loan losses	408	1,369	(21)	748	338	1,045	914	(196)	4,605
Charge offs	(32)	(385)	—	(728)	(249)	(3,252)	(726)	—	(5,372)
Recoveries	—	27	—	11	—	2	107	—	147
Ending balance	\$ 654	\$ 2,198	\$ 142	\$ 51	\$ 117	\$ 1,332	\$ 588	\$ 553	\$ 5,635

Ending balance: individually evaluated for impairment	10	—	—	—	—	—	—	—	10
Ending balance: collectively evaluated for impairment	644	2,198	142	51	117	1,332	588	553	5,625
Total	\$ 654	\$ 2,198	\$ 142	\$ 51	\$ 117	\$ 1,332	\$ 588	\$ 553	\$ 5,635

**Loans:**

Ending balance: individually evaluated for impairment	162	433	—	—	—	—	—	—	595
Ending balance: collectively evaluated for impairment	162,136	422,499	63,612	37,094	31,271	37,083	171,604	—	925,299
Total	\$ 162,298	\$ 422,932	\$ 63,612	\$ 37,094	\$ 31,271	\$ 37,083	\$ 171,604	\$ —	\$ 925,894

The asset classification of loans at September 30, 2017 , and 2016 , were as follows:

September 30, 2017	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Total
(Dollars in Thousands)								
Pass	\$ 195,838	\$ 574,730	\$ 27,376	\$ 163,004	\$ 35,759	\$ 18,394	\$ 250,459	\$ 1,265,560
Watch	525	10,200	2,006	—	—	4,541	—	17,272
Special Mention	247	201	2,939	—	—	—	—	3,387
Substandard	96	379	29,479	—	—	10,659	—	40,613
Doubtful	—	—	—	—	—	—	—	—
	\$ 196,706	\$ 585,510	\$ 61,800	\$ 163,004	\$ 35,759	\$ 33,594	\$ 250,459	\$ 1,326,832

September 30, 2016	1-4 Family Real Estate	Commercial and Multi-Family Real Estate	Agricultural Real Estate	Consumer	Commercial Operating	Agricultural Operating	Premium Finance	Total
(Dollars in Thousands)								
Pass	\$ 161,255	\$ 421,577	\$ 34,421	\$ 37,094	\$ 30,574	\$ 19,669	\$ 171,604	\$ 876,194
Watch	200	72	2,934	—	184	4,625	—	8,015
Special Mention	666	962	25,675	—	—	5,407	—	32,710
Substandard	177	321	582	—	513	7,382	—	8,975
Doubtful	—	—	—	—	—	—	—	—
	\$ 162,298	\$ 422,932	\$ 63,612	\$ 37,094	\$ 31,271	\$ 37,083	\$ 171,604	\$ 925,894

Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by the Bank's regulator, the Office of the Comptroller of the Currency (the "OCC"), to be of lesser quality as "substandard," "doubtful" or "loss." The loan classification and risk rating definitions are as follows:

**Pass-** A pass asset is of sufficient quality in terms of repayment, collateral and management to preclude a special mention or an adverse rating.

**Watch-** A watch asset is generally a credit performing well under current terms and conditions but with identifiable weakness meriting additional scrutiny and corrective measures. Watch is not a regulatory classification but can be used to designate assets that are exhibiting one or more weaknesses that deserve management's attention. These assets are of better quality than special mention assets.

**Special Mention-** Special mention assets are a credit with potential weaknesses deserving management's close attention and, if left uncorrected, may result in deterioration of the repayment prospects for the asset. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Special mention is a temporary status with aggressive credit management required to garner adequate progress and move to watch or higher.

The adverse classifications are as follows:

**Substandard-** A substandard asset is inadequately protected by the net worth and/or repayment ability or by a weak collateral position. Assets so classified will have well-defined weaknesses creating a distinct possibility the Bank will sustain some loss if the weaknesses are not corrected. Loss potential does not have to exist for an asset to be classified as substandard.

**Doubtful-** A doubtful asset has weaknesses similar to those classified substandard, with the degree of weakness causing the likely loss of some principal in any reasonable collection effort. Due to pending factors, the asset's classification as loss is not yet appropriate.

**Loss-** A loss asset is considered uncollectible and of such little value that the asset's continuance on the Bank's balance sheet is no longer warranted. This classification does not necessarily mean an asset has no recovery or salvage value leaving room for future collection efforts.

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. Specialty finance loans and Payment segment loans are generally not placed on non-accrual status but written off when the collection of principal and interest become doubtful.

Past due loans at September 30, 2017 and 2016 were as follows:

<b>September 30, 2017</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>Greater Than 90 Days</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Non-Accrual Loans</b>	<b>Total Loans Receivable</b>
(Dollars in Thousands)							
1-4 Family Real Estate	\$ 370	\$ 79	\$ —	\$ 449	\$ 196,257	\$ —	\$ 196,706
Commercial and Multi-Family Real Estate	—	—	—	—	584,825	685	585,510
Agricultural Real Estate	—	—	34,198	34,198	27,602	—	61,800
Consumer	2,512	558	1,406	4,476	158,528	—	163,004
Commercial Operating	—	—	—	—	35,759	—	35,759
Agricultural Operating	—	—	97	97	33,497	—	33,594
Premium Finance	1,509	2,442	1,205	5,156	245,303	—	250,459
<b>Total</b>	<b>\$ 4,391</b>	<b>\$ 3,079</b>	<b>\$ 36,906</b>	<b>\$ 44,376</b>	<b>\$ 1,281,771</b>	<b>\$ 685</b>	<b>\$ 1,326,832</b>
<b>September 30, 2016</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>Greater Than 90 Days</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Non-Accrual Loans</b>	<b>Total Loans Receivable</b>
(Dollars in Thousands)							
1-4 Family Real Estate	\$ —	\$ 30	\$ —	\$ 30	\$ 162,185	\$ 83	\$ 162,298
Commercial and Multi-Family Real Estate	—	—	—	—	422,932	—	422,932
Agricultural Real Estate	—	—	—	—	63,612	—	63,612
Consumer	—	—	53	53	37,041	—	37,094
Commercial Operating	151	354	—	505	30,766	—	31,271
Agricultural Operating	—	—	—	—	37,083	—	37,083
Premium Finance	1,398	275	965	2,638	168,966	—	171,604
<b>Total</b>	<b>\$ 1,549</b>	<b>\$ 659</b>	<b>\$ 1,018</b>	<b>\$ 3,226</b>	<b>\$ 922,585</b>	<b>\$ 83</b>	<b>\$ 925,894</b>

When analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments 90 days or more for retail bank loans. Specialty finance loans and Payment segment loans are generally not impaired but written off when the collection of principal and interest become doubtful. As of September 30, 2017, there were no specialty finance loans greater than 210 days past due and the Payment segment had no loans past due.

Impaired loans at September 30, 2017 and 2016 were as follows:

	<b>Recorded Balance</b>	<b>Unpaid Principal Balance</b>	<b>Specific Allowance</b>
(Dollars in Thousands)			
<b>September 30, 2017</b>			
Loans without a specific valuation allowance			
1-4 Family Real Estate	\$ 72	\$ 72	\$ —
Commercial and Multi-Family Real Estate	1,109	1,109	—
<b>Total</b>	<b>\$ 1,181</b>	<b>\$ 1,181</b>	<b>\$ —</b>
Loans with a specific valuation allowance			
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

	Recorded Balance	Unpaid Principal Balance	Specific Allowance
(Dollars in Thousands)			
<b>September 30, 2016</b>			
Loans without a specific valuation allowance			
1-4 Family Real Estate	\$ 84	\$ 84	\$ —
Commercial and Multi-Family Real Estate	433	433	—
<b>Total</b>	<b>\$ 517</b>	<b>\$ 517</b>	<b>\$ —</b>
Loans with a specific valuation allowance			
1-4 Family Real Estate	\$ 78	\$ 78	\$ 10
<b>Total</b>	<b>\$ 78</b>	<b>\$ 78</b>	<b>\$ 10</b>

Cash interest collected on impaired loans was not material during the years ended September 30, 2017 and 2016 .

The following table provides the average recorded investment in impaired loans for the years ended September 30, 2017 and 2016 .

	Year Ended September 30,	
	2017	2016
	Average Recorded Investment	Average Recorded Investment
1-4 Family Real Estate	\$ 176	\$ 144
Commercial and Multi-Family Real Estate	883	1,117
Agricultural Real Estate	146	—
Commercial Operating	202	6
Agricultural Operating	268	2,919
<b>Total</b>	<b>\$ 1,675</b>	<b>\$ 4,186</b>

For fiscal 2017 and 2016 , the Company's TDRs (which involved forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates) are included in the table above.

No TDRs were recorded during fiscal 2017 or 2016 . Also, no TDRs which had been modified during the 12-month period prior to default had a payment default during fiscal 2017 or 2016 .

In December 2016, MetaBank purchased, net of purchase discount, a \$134.0 million seasoned, floating rate, private student loan portfolio. All loans are indexed to three-month LIBOR plus various margins. The portfolio is serviced by ReliaMax Lending Services, LLC and insured by ReliaMax Surety Company.

The majority of the Company's retail bank originated loans are to Iowa- and South Dakota-based individuals and organizations. Excluding the purchased student loan balance of \$ 123.7 million at September 30, 2017, the Company's purchased loans portfolio totaled \$ 10.7 million at September 30, 2017 , which were secured by properties located in Iowa, North Dakota, and South Dakota.

The Company originates and purchases commercial real estate loans. These loans are considered by management to be of somewhat greater risk of not being collected due to the dependency on income production. The Company's commercial real estate loans included \$ 110.2 million of loans secured by hotel properties and \$ 156.4 million of multi-family properties at September 30, 2017 . The Company's commercial real estate loans included \$ 65.4 million of loans secured by hotel properties and \$ 112.6 million of multi-family properties at September 30, 2016 . The remainder of the commercial real estate portfolio is diversified by industry. The Company's policy for requiring collateral and guarantees varies with the creditworthiness of each borrower.

Non-accruing loans were \$0.7 million and \$0.1 million at September 30, 2017 and 2016, respectively. There were \$ 36.9 million and \$ 1.0 million in accruing loans delinquent 90 days or more at September 30, 2017 and 2016, respectively. For the year ended September 30, 2017, gross interest income which 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.

#### NOTE 4. LOAN SERVICING

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

September 30,	2017	2016	2015
	(Dollars in Thousands)		
Mortgage loan portfolios serviced for Fannie Mae	\$ 3,162	\$ 3,980	\$ 5,055
Other	18,649	15,452	17,156
	<u>\$ 21,811</u>	<u>\$ 19,432</u>	<u>\$ 22,211</u>

#### NOTE 5. EARNINGS PER COMMON SHARE

EPS is computed after deducting dividends. The Company has granted restricted share awards with dividend rights that are considered to be participating securities. Accordingly, a portion of the Company's earnings is allocated to those participating securities in the EPS calculation. Basic earnings per share is computed by dividing income available to common stockholders after the allocation of dividends and undistributed earnings to the participating securities by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, and is computed after giving consideration to the weighted average dilutive effect of the Company's stock options and after the allocation of earnings to the participating securities. Antidilutive options are disregarded in the EPS calculations.

A reconciliation of the net income and common stock share amounts used in the computation of basic and diluted EPS for the fiscal years ended September 30, 2017, 2016 and 2015 is presented below.

	2017	2016 <sup>(1)</sup>	2015
	(Dollars in Thousands, Except Share and Per Share Data)		
<b>Basic income per common share:</b>			
Net income attributable to Meta Financial Group, Inc.	\$ 44,917	\$ 33,220	\$ 18,055
Weighted average common shares outstanding	9,247,092	8,443,956	6,730,086
Basic income per common share	\$ 4.86	\$ 3.93	\$ 2.68
<b>Diluted income per common share:</b>			
Net income attributable to Meta Financial Group, Inc.	\$ 44,917	\$ 33,220	\$ 18,055
Weighted average common shares outstanding	9,247,092	8,443,956	6,730,086
Outstanding options - based upon the two-class method	55,652	53,390	61,499
Weighted average diluted common shares outstanding	9,302,744	8,497,346	6,791,585
Diluted income per common share	\$ 4.83	\$ 3.91	\$ 2.66

(1) See Reclassification and Revision of Prior Period Balances under Note 1 Summary of Significant Accounting Policies for additional information describing adjustments made to the Company's EPS calculation. Basic EPS for the fiscal year ended September 30, 2016 of \$3.95 was corrected to \$3.93 and diluted EPS of \$3.92 was corrected to \$3.91.

All stock options were considered in computing diluted EPS for the years ended September 30, 2017 and September 30, 2016. Stock options totaling 28,891 were not considered in computing diluted earnings per common share for the year ended September 30, 2015 because they were anti-dilutive.

**NOTE 6. SECURITIES**

Securities available for sale at September 30, 2017 and 2016 were as follows:

<b>Available For Sale</b>		<b>GROSS</b>		<b>GROSS</b>	
	<b>AMORTIZED</b>	<b>UNREALIZED</b>	<b>UNREALIZED</b>	<b>FAIR</b>	
<b>At September 30, 2017</b>	<b>COST</b>	<b>GAINS</b>	<b>(LOSSES)</b>	<b>VALUE</b>	
(Dollars in Thousands)					
Debt securities					
Small business administration securities	57,046	825	—	57,871	
Non-bank qualified obligations of states and political subdivisions	938,883	14,983	(3,037)	950,829	
Asset-backed securities	94,451	2,381	—	96,832	
Mortgage-backed securities	588,918	1,259	(3,723)	586,454	
Total debt securities	1,679,298	19,448	(6,760)	1,691,986	
Common equities and mutual funds	1,009	436	—	1,445	
Total available for sale securities	\$ 1,680,307	\$ 19,884	\$ (6,760)	\$ 1,693,431	
	<b>AMORTIZED</b>	<b>GROSS</b>	<b>GROSS</b>	<b>FAIR</b>	
<b>At September 30, 2016</b>	<b>COST</b>	<b>UNREALIZED</b>	<b>UNREALIZED</b>	<b>VALUE</b>	
(Dollars in Thousands)					
Debt securities					
Trust preferred and corporate securities	\$ 14,935	\$ —	\$ (1,957)	\$ 12,978	
Small business administration securities	78,431	2,288	—	80,719	
Non-bank qualified obligations of states and political subdivisions	668,628	30,141	(97)	698,672	
Asset-backed securities	117,487	73	(745)	116,815	
Mortgage-backed securities	555,036	4,382	(478)	558,940	
Total debt securities	1,434,517	36,884	(3,277)	1,468,124	
Common equities and mutual funds	755	373	(3)	1,125	
Total available for sale securities	\$ 1,435,272	\$ 37,257	\$ (3,280)	\$ 1,469,249	

Securities held to maturity at September 30, 2017 and 2016 were as follows:

<b>Held to Maturity</b>		<b>GROSS</b>		<b>GROSS</b>	
	<b>AMORTIZED</b>	<b>UNREALIZED</b>	<b>UNREALIZED</b>	<b>FAIR</b>	
<b>At September 30, 2017</b>	<b>COST</b>	<b>GAINS</b>	<b>(LOSSES)</b>	<b>VALUE</b>	
(Dollars in Thousands)					
Debt securities					
Obligations of states and political subdivisions	\$ 19,247	\$ 157	\$ (36)	\$ 19,368	
Non-bank qualified obligations of states and political subdivisions	430,593	4,744	(2,976)	432,361	
Mortgage-backed securities	113,689	—	(1,233)	112,456	
Total held to maturity securities	\$ 563,529	\$ 4,901	\$ (4,245)	\$ 564,185	

At September 30, 2016	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
(Dollars in Thousands)				
Debt securities				
Obligations of states and political subdivisions	\$ 20,626	\$ 355	\$ (44)	\$ 20,937
Non-bank qualified obligations of states and political subdivisions	465,469	11,744	(11)	477,202
Mortgage-backed securities	133,758	708	(31)	134,435
Total held to maturity securities	\$ 619,853	\$ 12,807	\$ (86)	\$ 632,574

Included in securities available for sale are trust preferred securities as follows:

#### At September 30, 2016

Issuer <sup>(1)</sup>	Amortized Cost	Fair Value	Unrealized Gain (Loss)	S&P Credit Rating	Moody's Credit Rating
(Dollars in Thousands)					
Key Corp. Capital I	\$ 4,987	\$ 4,189	\$ (798)	BB+	Baa2
Huntington Capital Trust II SE	4,981	4,077	(904)	BB	Baa2
PNC Capital Trust	4,968	4,712	(256)	BBB-	Baa1
Total	\$ 14,936	\$ 12,978	\$ (1,958)		

(1) Trust preferred securities are single-issuance. There are no known deferrals, defaults or excess subordination.

The Company sold all of its trust preferred securities during the first quarter of fiscal year 2017.

Management has implemented processes to identify securities that could potentially have a credit impairment that is other-than-temporary. This process can include, but is not limited to, evaluating the length of time and extent to which the fair value has been less than the amortized cost basis, reviewing available information regarding the financial position of the issuer, interest or dividend payment status, monitoring the rating of the security, monitoring changes in value, and projecting cash flows. Management also determines whether the Company intends 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 basis 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 collection will occur for all principal and interest due on all investments with amortized cost in excess of fair value and considered only temporarily impaired.

Generally accepted accounting principles require that, at acquisition, an enterprise classify debt securities into one of three categories: available for sale, held to maturity or trading. AFS securities are carried at fair value on the consolidated statements of financial condition, and unrealized holding gains and losses are excluded from earnings and recognized as a separate component of equity in accumulated other comprehensive income. HTM debt securities are measured at amortized cost. Both AFS and HTM are subject to review for other-than-temporary impairment. Meta Financial did not have any trading securities at September 30, 2017.

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at September 30, 2017, and 2016, were as follows:



Available For Sale	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
<b>At September 30, 2017</b>						
(Dollars in Thousands)						
Debt securities						
Non-bank qualified obligations of states and political subdivisions	280,900	(2,887)	5,853	(150)	286,753	(3,037)
Mortgage-backed securities	237,897	(1,625)	100,287	(2,098)	338,184	(3,723)
<b>Total debt securities</b>	<b>518,797</b>	<b>(4,512)</b>	<b>106,140</b>	<b>(2,248)</b>	<b>624,937</b>	<b>(6,760)</b>
<b>Total available for sale securities</b>	<b>\$ 518,797</b>	<b>\$ (4,512)</b>	<b>\$ 106,140</b>	<b>\$ (2,248)</b>	<b>\$ 624,937</b>	<b>\$ (6,760)</b>
	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
<b>At September 30, 2016</b>						
(Dollars in Thousands)						
Debt securities						
Trust preferred and corporate securities	\$ —	\$ —	\$ 12,978	\$ (1,957)	\$ 12,978	\$ (1,957)
Non-bank qualified obligations of states and political subdivisions	8,481	(58)	2,688	(39)	11,169	(97)
Asset-backed securities	89,403	(745)	—	—	89,403	(745)
Mortgage-backed securities	54,065	(230)	36,979	(248)	91,044	(478)
<b>Total debt securities</b>	<b>151,949</b>	<b>(1,033)</b>	<b>52,645</b>	<b>(2,244)</b>	<b>204,594</b>	<b>(3,277)</b>
Common equities and mutual funds	—	—	125	(3)	125	(3)
<b>Total available for sale securities</b>	<b>\$ 151,949</b>	<b>\$ (1,033)</b>	<b>\$ 52,770</b>	<b>\$ (2,247)</b>	<b>\$ 204,719</b>	<b>\$ (3,280)</b>
Held To Maturity	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
<b>At September 30, 2017</b>						
(Dollars in Thousands)						
Debt securities						
Obligations of states and political subdivisions	\$ 1,364	\$ (6)	\$ 4,089	\$ (30)	\$ 5,453	\$ (36)
Non-bank qualified obligations of states and political subdivisions	202,018	(2,783)	6,206	(193)	208,224	(2,976)
Mortgage-backed securities	112,456	(1,233)	—	—	112,456	(1,233)
<b>Total held to maturity securities</b>	<b>\$ 315,838</b>	<b>\$ (4,022)</b>	<b>\$ 10,295</b>	<b>\$ (223)</b>	<b>\$ 326,133</b>	<b>\$ (4,245)</b>

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)	Fair Value	Unrealized (Losses)
<b>At September 30, 2016</b>	(Dollars in Thousands)					
Debt securities						
Obligations of states and political subdivisions	\$ 2,909	\$ (13)	\$ 2,256	\$ (31)	\$ 5,165	\$ (44)
Non-bank qualified obligations of states and political subdivisions	1,294	(11)	—	—	1,294	(11)
Mortgage-backed securities	20,061	(31)	—	—	20,061	(31)
Total held to maturity securities	\$ 24,264	\$ (55)	\$ 2,256	\$ (31)	\$ 26,520	\$ (86)

As of September 30, 2017 and 2016, the investment portfolio included securities with current unrealized losses which have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Because the declines in fair value were due to changes in market interest rates, not in estimated cash flows, and the Company does not intend to sell these securities (has not made a decision to sell) and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, which may occur at maturity, no other-than-temporary impairment was recorded at September 30, 2017 or 2016.

The amortized cost and fair value of debt securities by contractual maturity are shown below. Certain securities have call features which allow the issuer to call the security prior to maturity. Expected maturities may differ from contractual maturities in mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, mortgage-backed securities are not included in the maturity categories in the following maturity summary. The expected maturities of certain Small Business Administration securities may differ from contractual maturities because the borrowers may have the right to prepay the obligation. However, certain prepayment penalties may apply.

<b>Available For Sale</b>	<b>AMORTIZED COST</b>	<b>FAIR VALUE</b>
<b>At September 30, 2017</b>	(Dollars in Thousands)	
Due in one year or less	\$ —	\$ —
Due after one year through five years	36,586	37,674
Due after five years through ten years	347,831	358,198
Due after ten years	705,963	709,660
	1,090,380	1,105,532
Mortgage-backed securities	588,918	586,454
Common equities and mutual funds	1,009	1,445
Total available for sale securities	\$ 1,680,307	\$ 1,693,431

	AMORTIZED COST	FAIR VALUE
<b>At September 30, 2016</b>		
	(Dollars in Thousands)	
Due in one year or less	\$ —	\$ —
Due after one year through five years	17,370	17,897
Due after five years through ten years	426,034	446,771
Due after ten years	436,077	444,516
	879,481	909,184
Mortgage-backed securities	555,036	558,940
Common equities and mutual funds	755	1,125
Total available for sale securities	\$ 1,435,272	\$ 1,469,249

	AMORTIZED COST	FAIR VALUE
<b>Held To Maturity</b>		
<b>At September 30, 2017</b>		
	(Dollars in Thousands)	
Due in one year or less	\$ 1,483	\$ 1,480
Due after one year through five years	17,926	18,160
Due after five years through ten years	144,996	147,832
Due after ten years	285,435	284,257
	449,840	451,729
Mortgage-backed securities	113,689	112,456
Total held to maturity securities	\$ 563,529	\$ 564,185

	AMORTIZED COST	FAIR VALUE
<b>At September 30, 2016</b>		
	(Dollars in Thousands)	
Due in one year or less	\$ 472	\$ 471
Due after one year through five years	12,502	12,696
Due after five years through ten years	157,944	163,806
Due after ten years	315,177	321,166
	486,095	498,139
Mortgage-backed securities	133,758	134,435
Total held to maturity securities	\$ 619,853	\$ 632,574

Activities related to the sale of securities are summarized below.

September 30,	2017	2016	2015
	(Dollars in Thousands)		
<b>Available For Sale</b>			
Proceeds from sales	\$ 457,306	\$ 285,508	\$ 566,371
Gross gains on sales	4,091	1,459	2,753
Gross losses on sales	4,628	1,785	4,387
<b>Net (loss) on available for sale securities</b>	<b>(537)</b>	<b>(326)</b>	<b>(1,634)</b>
<b>Held To Maturity</b>			
Net carrying amount of securities sold	\$ 5,826	\$ —	\$ —
Gross realized gain on sales	92	—	—
Gross realized losses on sales	48	—	—
<b>Net gain on held to maturity securities</b>	<b>44</b>	<b>—</b>	<b>—</b>

The Company's decision to sell securities held to maturity in the fourth quarter of fiscal 2017 was due to credit deteriorations of the securities based on the Company's internal credit analysis as well as respective downgrades from credit agencies.

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

Year-end premises and equipment were as follows:

September 30,	2017	2016
	(Dollars in Thousands)	
Land	\$ 1,578	\$ 1,578
Buildings	10,642	10,482
Furniture, fixtures, and equipment	46,934	41,756
Capitalized leases	2,259	2,259
	61,413	56,075
Less: accumulated depreciation and amortization	(42,093)	(37,449)
<b>Net book value</b>	<b>\$ 19,320</b>	<b>\$ 18,626</b>

Depreciation expense of premises, furniture and equipment included in occupancy and equipment expense was approximately \$ 5.5 million , \$ 5.4 million and \$ 4.6 million for the years ended September 30, 2017 , 2016 and 2015 , respectively. Amortization expense on capitalized leases for the years ended September 30, 2017 , 2016 and 2015, was \$ 0.1 million , \$0.2 million and \$0.2 million , respectively, and is included in occupancy and equipment expense. Substantially all of the Company's capitalized leases at September 30, 2017 were building leases.

## NOTE 8. TIME CERTIFICATES OF DEPOSITS

Time certificates of deposits in denominations of \$ 250,000 or more were approximately \$85.2 million and \$ 44.5 million at September 30, 2017 , and 2016 , respectively.

At September 30, 2017 , the scheduled maturities of time certificates of deposits were as follows for the years ending:

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

2018	\$	560,825
2019		10,943
2020		5,158
2021		2,412
2022		2,227
Thereafter		—
<b>Total Certificates <sup>(1)</sup></b>	<b>\$</b>	<b>581,565</b>

<sup>(1)</sup> As of September 30, 2017, total certificates of deposits included \$457.9 million of brokered certificates of deposits, which are recored in Wholesale deposits on the consolidated statements of financial condition.

Under the Dodd-Frank Act, IRA and non-IRA deposit accounts are permanently insured up to \$ 250,000 by the DIF under management of the FDIC.

## NOTE 9. SHORT TERM DEBT AND LONG TERM DEBT

*Short Term Debt*

<b>September 30,</b>	<b>2017</b>	<b>2016</b>
Overnight federal funds purchased	\$ 987,000	\$ 992,000
Short-term FHLB advances	415,000	100,000
Short-term capital lease	62	79
Repurchase agreements	2,472	3,039
<b>Total</b>	<b>1,404,534</b>	<b>1,095,118</b>

The Company had \$ 987.0 million of overnight federal funds purchased from the FHLB as of September 30, 2017 . The Company had \$ 992.0 million in overnight federal funds purchased from the FHLB at September 30, 2016 . At September 30, 2017, the Company's short-term advances from the FHLB totaled \$415.0 million and carried a net weighted average rate of 1.27% . The Company had \$100.0 million in short-term advances from the FHLB at September 30, 2016.

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

At fiscal year-end 2017 and 2016 , the Bank pledged securities with fair values of approximately \$ 1.07 billion and \$ 824.5 million, respectively, against specific FHLB advances. In addition, qualifying mortgage loans of approximately \$ 628.0 million, and \$ 501.0 million were pledged as collateral at September 30, 2017 , and 2016 , respectively.

As of September 30, 2017 , the Company had three capital leases, 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 \$79,507 .

Securities sold under agreements to repurchase totaled approximately \$ 2.5 million and \$ 3.0 million at September 30, 2017 , and 2016 , respectively.

An analysis of securities sold under agreements to repurchase at September 30, 2017 and 2016 follows:

September 30,	2017	2016
	(Dollars in Thousands)	
Highest month-end balance	\$ 3,782	\$ 3,468
Average balance	2,225	2,179
Weighted average interest rate for the year	0.98%	0.60%
Weighted average interest rate at year end	1.59%	0.61%

The Company pledged securities with fair values of approximately \$ 9.3 million at September 30, 2017 , as collateral for securities sold under agreements to repurchase. There were \$ 9.2 million of securities pledged as collateral for securities sold under agreements to repurchase at September 30, 2016 .

#### Long Term Debt

September 30,	2017	2016
(Dollars in Thousands)		
Long-term FHLB advances	\$ —	\$ 7,000
Trust preferred securities	10,310	10,310
Subordinated debentures (net of issuance costs)	73,347	73,211
Long-term capital lease	1,876	1,939
Total	85,533	92,460

At September 30, 2017 , the Company had no long-term advances from the FHLB. The Company had \$7.0 million in long-term advances from the FHLB at September 30, 2016 which carried a weighted average rate of 6.98% . The \$7.0 million of long-term advances were paid off by the Company during the fourth quarter of 2017.

At September 30, 2017, the scheduled maturities of the Company's long-term debt were as follows for the years ending:

September 30,	Trust preferred securities	Subordinated debentures	Long-term capital lease	Total
(Dollars in Thousands)				
2018	\$ —	\$ —	\$ —	\$ —
2019	—	—	65	65
2020	—	—	72	72
2021	—	—	77	77
2022	—	—	82	82
Thereafter	10,310	73,347	1,580	85,237
Total long-term debt	\$ 10,310	\$ 73,347	\$ 1,876	\$ 85,533

Trust preferred securities are due to First Midwest Financial Capital Trust I, a 100% -owned nonconsolidated subsidiary of the Company. The securities were issued in 2001 in conjunction with the Trust's issuance of 10,000 shares of Trust Preferred Securities. The securities bear the same interest rate and terms as the trust preferred securities. The securities are included on the consolidated statements of financial condition as liabilities.

The Company issued all of the 10,310 authorized shares of trust preferred securities of First Midwest Financial Capital Trust I holding solely securities. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a variable rate of London Interbank Offered Rate (“LIBOR”) plus 3.75% ( 5.22% at September 30, 2017 , and 4.99% at September 30, 2016 ), not to exceed 12.5% . The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions are required to be paid. The capital securities are required to be redeemed on July 25, 2031; however, the Company has a semi-annual option to shorten the maturity date. 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.

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

The Company completed the public offering of \$75.0 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, the Company had \$73.3 million in subordinated debentures, net of issuance costs of \$1.7 million . Accumulated interest expense on the subordinated debentures was \$4.3 million as of September 30, 2017.

As of September 30, 2017, the Company had three capital leases, two equipment leases and one property lease. At September 30, 2017, 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 is related to the Urbandale, Iowa retail branch location .

#### NOTE 10. EMPLOYEE STOCK OWNERSHIP AND PROFIT SHARING PLANS

The Company maintains an Employee Stock Ownership Plan (“ESOP”) for eligible employees who have 1000 hours of employment with the Bank, have worked at least one year at the Bank and who have attained age 21 . ESOP expense of \$ 1,668,000 , \$ 1,150,000 and \$ 994,000 was recorded for the years ended September 30, 2017 , 2016 and 2015 , respectively. Contributions of \$ 1,606,102 , \$ 1,174,682 and \$ 992,038 were made to the ESOP during the years ended September 30, 2017 , 2016 and 2015 , respectively.

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

For the years ended September 30, 2017 , 2016 and 2015 , 20,486 shares, 19,381 shares and 23,750 shares, from the suspense account, with a fair value of \$ 78.40 , \$ 60.61 and \$ 41.77 per share, respectively, were released. For the years ended September 30, 2017 , 2016 and 2015 , allocated shares and total ESOP shares reflect 14,126 shares, 15,502 shares and 10,294 shares, respectively, withdrawn from the ESOP by participants who were no longer with the Company or by participants diversifying their holdings. At September 30, 2017 , 2016 and 2015 , there were 1,479 , 2,710 and 2,974 shares purchased, respectively, for dividend reinvestment.

Year-end ESOP shares are as follows:

At September 30,	2017	2016	2015
	(Dollars in Thousands)		
Allocated shares	256,219	262,872	256,283
Unearned shares	—	—	—
Total ESOP shares	256,219	262,872	256,283
Fair value of unearned shares	\$ —	\$ —	\$ —

The Company also has a profit sharing plan covering substantially all full-time employees. Contribution expense to the profit sharing plan, included in compensation and benefits, for the years ended September 30, 2017, 2016 and 2015 was \$ 1.61 million, \$ 1.26 million and \$ 1.10 million, respectively.

#### NOTE 11. SHARE-BASED COMPENSATION PLANS

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

The following table shows the effect to income, net of tax benefits, of share-based expense recorded in the years ended September 30, 2017, 2016 and 2015.

Year Ended September 30,	2017	2016	2015
	(Dollars in Thousands)		
Total employee stock-based compensation expense recognized in income, net of tax effects of \$3,907, \$192, and \$66, respectively	\$ 6,486	\$ 559	\$ 334

As of September 30, 2017, stock-based compensation expense not yet recognized in income totaled \$ 16.9 million, which is expected to be recognized over a weighted-average remaining period of 4.08 years.

At grant date, the fair value of options awarded to recipients is estimated using a Black-Scholes valuation model. The exercise price of stock options equals the fair market value of the underlying stock at the date of grant. Options are issued for 10 -year periods with 100% vesting generally occurring either at grant date or over a four -year period. No options were granted during the years ended September 30, 2017, 2016 or 2015. The intrinsic value of options exercised during the years ended September 30, 2017, 2016 and 2015 were \$ 1.8 million, \$ 1.5 million and \$ 0.9 million, respectively.

Shares have previously been granted each year to executives and senior leadership members under the applicable Company incentive plan. These shares vest at various times ranging from immediately to four years based on circumstances at time of grant. The fair value is determined based on the fair market value of the Company's stock on the grant date. Director shares are issued to the Company's directors, and these shares vest immediately. The total fair value of director's shares granted during the years ended September 30, 2017, 2016 and 2015 was \$ 0.5 million, \$ 0.2 million and \$ 0.1 million, respectively.

In addition to the Company's 2002 Omnibus Incentive Plan, the Company also maintains the 1995 Stock Option and Incentive Plan. No new options were, or could have been, awarded under the 1995 plan during the year ended September 30, 2017; however, previously awarded options were exercised under this plan during the year ended September 30, 2017.

In addition, during the first and second quarters of fiscal 2017, shares were granted to certain named executive officers ("NEOs") of the Company in connection with their signing of employment agreements with the Company. These stock awards vest in equal installments over eight years.

The following tables show the activity of options and share awards (including shares of restricted stock subject to vesting and fully-vested restricted stock) granted, exercised or forfeited under all of the Company's option and incentive plans during the years ended September 30, 2017 and 2016.



	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
(Dollars in Thousands, Except Share and Per Share Data)				
Options outstanding, September 30, 2016	125,560	\$ 25.73	2.68	\$ 4,379
Granted	—	—	—	—
Exercised	(29,386)	33.38	—	1,790
Forfeited or expired	(20,417)	26.25	—	1,464
Options outstanding, September 30, 2017	75,757	\$ 22.62	2.28	\$ 4,225

Options exercisable end of year	75,757	\$ 22.62	2.28	\$ 4,225
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	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Yrs)	Aggregate Intrinsic Value
(Dollars in Thousands, Except Share and Per Share Data)				

Options outstanding, September 30, 2015	189,088	\$ 25.74	3.16	\$ 3,027
Granted	—	—	—	—
Exercised	(63,528)	25.77	—	1,510
Forfeited or expired	—	—	—	—
Options outstanding, September 30, 2016	125,560	\$ 25.73	2.68	\$ 4,379

Options exercisable end of year	125,560	\$ 25.73	2.68	\$ 4,379
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	Number of Shares	Weighted Average Fair Value At Grant
(Dollars in Thousands, Except Share and Per Share Data)		

Nonvested shares outstanding, September 30, 2016	20,656	\$ 41.37
Granted	316,604	87.49
Vested	(29,135)	64.22
Forfeited or expired	(3,599)	56.39
Nonvested shares outstanding, September 30, 2017	304,526	\$ 86.96

	Number of Shares	Weighted Average Fair Value At Grant
(Dollars in Thousands, Except Share and Per Share Data)		

Nonvested shares outstanding, September 30, 2015	44,002	\$ 40.80
Granted	8,154	42.49
Vested	(33,666)	40.93
Forfeited or expired	2,166	46.98
Nonvested shares outstanding, September 30, 2016	20,656	\$ 41.37

## NOTE 12. INCOME TAXES

The Company and its subsidiaries file a consolidated federal income tax return on a fiscal year basis. The provision for income taxes for the years presented below consisted of the following:

Years ended September 30,	2017	2016	2015
	(Dollars in Thousands)		
Federal:			
Current	\$ 12,153	\$ 4,410	\$ 4,217
Deferred	(5,040)	(440)	(3,896)
	7,113	3,970	321
State:			
Current	4,366	1,422	1,048
Deferred	(1,246)	210	(1)
	3,120	1,632	1,047
<b>Income tax expense</b>	<b>\$ 10,233</b>	<b>\$ 5,602</b>	<b>\$ 1,368</b>

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

Years ended September 30,	2017	2016	2015
	(Dollars in Thousands)		
Income tax expense at federal tax rate	\$ 19,303	\$ 13,588	\$ 6,798
Increase (decrease) resulting from:			
State income taxes net of federal benefit	2,014	933	692
Nontaxable buildup in cash surrender value	(776)	(580)	(711)
Stock based compensation	(593)	(66)	(37)
Tax exempt income	(9,991)	(8,257)	(5,230)
Nondeductible expenses	316	196	188
Other, net	(40)	(212)	(332)
<b>Total income tax expense</b>	<b>\$ 10,233</b>	<b>\$ 5,602</b>	<b>\$ 1,368</b>

The components of the net deferred tax asset (liability) at September 30, 2017 and 2016 were:

September 30,	2017		2016	
	(Dollars in Thousands)			
Deferred tax assets:				
Bad debts	\$	2,832	\$	2,044
Deferred compensation		1,548		1,345
Stock based compensation		3,436		265
Operational reserve		645		540
AMT Credit		1,869		5,563
Intangibles		5,235		393
Indirect tax benefits of unrecognized tax positions		266		216
Other assets		1,933		1,362
		<u>17,764</u>		<u>11,728</u>
Deferred tax liabilities:				
FHLB stock dividend		(425)		(411)
Premises and equipment		(1,789)		(1,913)
Patents		(842)		(988)
Prepaid expenses		(673)		(668)
Net unrealized gains on securities available for sale		(4,934)		(12,348)
		<u>(8,663)</u>		<u>(16,328)</u>
<b>Net deferred tax assets (liabilities)</b>	<b>\$</b>	<b>9,101</b>	<b>\$</b>	<b>(4,600)</b>

As of September 30, 2017 and 2016, the Company had a gross deferred tax asset of \$1.3 million and \$0.9 million, respectively, for separate company state cumulative net operating loss carryforwards, which was fully reserved for as the Company does not anticipate any state taxable income at the holding company level in future periods.

In general, management believes that the realization of its deferred tax assets is more likely than not based on the expectations as to future taxable income; therefore, there was no deferred tax valuation allowance at September 30, 2017, or 2016 with the exception of the state cumulative net operating loss carryforwards discussed above.

Federal income tax laws provided savings banks with additional bad debt deductions through September 30, 1987, totaling \$6.7 million for the Bank. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total approximately \$ 2.3 million at September 30, 2017 and 2016. If the Bank were to be liquidated or otherwise cease to be a bank, or if tax laws were to change, the \$2.3 million would be recorded as expense.

The provisions of ASC 740, *Income Taxes*, address the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under ASC 740, the Company recognizes the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination, with a tax examination being presumed to occur, including the resolution of any related appeals or litigation. The tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

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

The tax years ended September 30, 2014 and later remain subject to examination by the Internal Revenue Service. For state purposes, the tax years ended September 30, 2014 and later remain open for examination, with few exceptions.

A reconciliation of the beginning and ending balances for liabilities associated with unrecognized tax benefits for the years ended September 30, 2017, and 2016 follows:

September 30,	2017		2016	
	(Dollars in Thousands)			
Balance at beginning of year	\$	525	\$	974
Additions for tax positions related to the current year		192		63
Additions for tax positions related to the prior years		31		—
Reductions for tax positions due to settlement with taxing authorities		—		(372)
Reductions for tax positions related to prior years		(103)		(140)
Balance at end of year	\$	645	\$	525

The total amount of unrecognized tax benefits that, if recognized, would impact the effective rate was \$ 460,000 as of September 30, 2017. The Company recognizes interest related to unrecognized tax benefits as a component of income tax expense. The amount of accrued interest related to unrecognized tax benefits was \$ 114,000 as of September 30, 2017. The Company does not anticipate any significant change in the total amount of unrecognized tax benefits within the next 12 months.

### NOTE 13. CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

In July 2013, the Company's primary federal regulator, the Federal Reserve and the Bank's primary federal regulator, the OCC, approved final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to financial institution holding companies and their depository institution subsidiaries, including us and the Bank, as compared to U.S. general risk-based capital rules. The Basel III Capital Rules revised the definitions and the components of regulatory capital, as well as addressed other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also addressed asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replaced the existing general risk-weighting approach, which was derived from the Basel Committee's 1988 "Basel I" capital accords, with a more risk-sensitive approach based, in part, on the "standardized approach" in the Basel Committee's 2004 "Basel II" capital accords. In addition, the Basel III Capital Rules implemented certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies' rules. The Basel III Capital Rules became effective for us and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum ratios (set forth in the table below) of total risk-based capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier 1 capital (as defined) to average assets (as defined). At September 30, 2017, both the Bank and the Company exceeded federal regulatory minimum capital requirements to be classified as well-capitalized under the prompt corrective action requirements. The Company and the Bank took the accumulated other comprehensive income (“AOCI”) opt-out election; under the rule, non-advanced approach banking organizations were given a one-time option to exclude certain AOCI components. The table below includes certain non-GAAP financial measures that are used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews these measures along with other measures of capital as part of its financial analyses and has included this non-GAAP financial information, and the corresponding reconciliation to total equity.

	Company	Bank	Minimum Requirement For Capital Adequacy Purposes	Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions
<b>September 30, 2017</b>				
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

**September 30, 2016**

Tier 1 leverage ratio	8.35%	10.35%	4.00%	5.00%
Common equity Tier 1 capital ratio	17.28	21.95	4.50	6.50
Tier 1 capital ratio	17.82	21.95	6.00	8.00
Total qualifying capital ratio	23.17	22.35	8.00	10.00

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

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

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

#### **NOTE 14. COMMITMENTS AND CONTINGENCIES**

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

At September 30, 2017 and 2016, unfunded loan commitments approximated \$ 233.2 million and \$ 182.9 million, respectively, excluding undisbursed portions of loans in process. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are cancelled upon expiration of the commitment term as outlined in each individual contract.

The Company had no commitments to purchase or sell securities at September 30, 2017 or September 30, 2016.

The exposure to credit loss in the event of non-performance by other parties to financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The same credit policies and collateral requirements are used in making commitments and conditional obligations as are used for on-balance-sheet instruments. Management monitors several factors when estimating its allowance for uncollectible off-balance-sheet credit exposures, including, but not limited to, economic developments and historical loss rates.

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

Securities with fair values of approximately \$5.7 million and \$ 5.8 million at September 30, 2017 and 2016, respectively, were pledged as collateral for public funds on deposit. Securities with fair values of approximately \$ 3.8 million and \$ 3.4 million at September 30, 2017, and 2016, respectively, were pledged as collateral for individual, trust and estate deposits.

#### **Legal Proceedings**

The Bank was served on April 15, 2013, with a lawsuit captioned Inter National Bank v. NetSpend Corporation, MetaBank, BDO USA, LLP d/b/a BDO Seidman, Cause No. C-2084-12-I filed in the District Court of Hidalgo County, Texas. The Plaintiff's Second Amended Original Petition and Application for Temporary Restraining Order and Temporary Injunction adds both MetaBank and BDO Seidman to the original causes of action against NetSpend. NetSpend acts as a prepaid card program manager and processor for both INB and MetaBank. According to the Petition, NetSpend has informed Inter National Bank ("INB") that the depository accounts at INB for the NetSpend program supposedly contained \$10.5 million less than they should. INB alleges that NetSpend has breached its fiduciary duty by making affirmative misrepresentations to INB about the safety and stability of the program, and by failing to timely disclose the nature and extent of any alleged shortfall in settlement of funds related to cardholder activity and the nature and extent of NetSpend's systemic deficiencies in its accounting and settlement processing procedures. To the extent that an accounting reveals that there is an actual shortfall, INB alleges that MetaBank may be liable for portions or all of said sum due to the fact that funds have been transferred from INB to MetaBank, and thus MetaBank would have been unjustly enriched. The Bank is vigorously contesting this matter. In January 2014, NetSpend was granted summary judgment in this matter which is under appeal. Because the theory of liability against both NetSpend and the Bank is the same, the Bank views the NetSpend summary judgment as a positive in support of our position. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation because discovery is still being conducted.

The Bank was served on October 14, 2016, with a lawsuit captioned Card Limited, LLC v. MetaBank dba Meta Payment Systems, Civil No. 2:16-cv-00980 in the United States District Court for the District of Utah. This action was initiated by former prepaid program manager of the Bank, which was terminated by the Bank in fiscal year 2016. Card Limited alleges that after all of the programs have been wound down, there are two accounts with a positive balance to which they are entitled. The Bank's position is that Card Limited is not entitled to the funds contained in said accounts. The total amount to which Card Limited claims it is entitled is \$4,001,025. The Bank intends to vigorously defend this claim. An estimate of a range of reasonably possible loss cannot be made at this stage of the litigation because discovery is still being conducted.

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

#### NOTE 15. LEASE COMMITMENTS

The Company has leased property under various non-cancelable operating lease agreements which expire at various times through 2036, and require annual rentals ranging from \$ 12,000 to \$ 789,000 plus the payment of the property taxes, normal maintenance, and insurance on certain properties. The Company also entered into capital lease agreements during the fiscal year ended September 30, 2015, for building and equipment expiring at various times through fiscal year 2035. Amortization expense for these capital leases was \$0.1 million for the fiscal year ended September 30, 2017, and included in interest expense.

In November 2014, the Company entered into a sale-leaseback transaction for one of its retail bank locations in the Des Moines area. This lease meets the requirements of a capital lease and has been reflected as such in the financial statements. The original term of the lease is 20 years and does not contain any penalties for failure to renew after the initial 20 year term where guarantees or loans from the lessee to the lessor are expected to be outstanding. The Company has the option to extend the lease for four additional five year terms at the conclusion of the original lease term.

The following table shows the total minimum rental commitment for our operating and capital leases for each of the years presented below as of September 30, 2017.

	Year Ended September 30,	
	(Dollars in Thousands)	
	Operating Leases	Capital Leases
2018	\$ 2,486	\$ 179
2019	2,287	179
2020	2,289	182
2021	2,143	182
2022	1,882	182
Thereafter	17,922	2,240
Total Leases Commitments	<u>\$ 29,009</u>	<u>\$ 3,144</u>
Amounts representing interest		\$ 1,206
Present value of net minimum lease payments		1,938

#### NOTE 16. SEGMENT REPORTING

An operating segment is generally defined as a component of a business for which discrete financial information is available and whose results are reviewed by the chief operating decision-maker. Operating segments are aggregated into reportable segments if certain criteria are met.

The Company reports its results of operations through the following three business segments: *Payments*, *Banking*, and *Corporate Services/Other*. Certain shared services, including the investment portfolio, wholesale deposits and borrowings, are included in *Corporate Services/Other*. Specialty Lending and Retail Bank are reported in the *Banking* segment. MPS, Refund Advantage, EPS, SCS, and other tax businesses are reported in the *Payments* segment.

The Company reclassified goodwill, intangibles, and related amortization expenses during fiscal year 2017 from the *Corporate Services / Other* segment to *Payments* and *Banking* based on how annual impairment testing is performed. Prior period amounts have also been reclassified to conform to the current year presentation.

	Payments	Banking	Corporate Services/Other	Total
<b>Year Ended September 30, 2017</b>				
Interest income	\$ 13,845	\$ 52,231	\$ 42,027	\$ 108,103
Interest expense	503	2,723	11,647	14,873
Net interest income	13,342	49,508	30,380	93,230
Provision for loan losses	7,613	2,976	—	10,589
Non-interest income	165,707	4,685	1,780	172,172
Non-interest expense	132,984	24,520	42,159	199,663
Income (loss) before income tax expense (benefit)	38,452	26,697	(9,999)	55,150
Total assets	185,521	1,343,968	3,698,843	5,228,332
Total goodwill	87,145	11,578	—	98,723
Total deposits	2,436,893	229,969	556,562	3,223,424

	Payments	Banking	Corporate Services/Other	Total
<b>Year Ended September 30, 2016</b>				
Interest income	\$ 9,711	\$ 38,321	\$ 33,364	\$ 81,396
Interest expense	181	1,331	2,579	4,091
Net interest income	9,530	36,990	30,785	77,305
Provision for loan losses	971	3,634	—	4,605
Non-interest income	95,261	4,280	1,229	100,770
Non-interest expense	77,411	23,001	34,236	134,648
Income (loss) before income tax expense (benefit)	26,409	14,635	(2,222)	38,822
Total assets	87,311	946,420	2,972,688	4,006,419
Total goodwill	25,350	11,578	—	36,928
Total deposits	2,131,042	299,030	10	2,430,082



	Payments	Banking	Corporate Services/Other	Total
<b>Year Ended September 30, 2015</b>				
Interest income	\$ 7,261	\$ 31,394	\$ 22,952	\$ 61,607
Interest expense	169	1,377	841	2,387
Net interest income	7,092	30,017	22,111	59,220
Provision for loan losses	—	689	776	1,465
Non-interest income	54,417	3,358	399	58,174
Non-interest expense	47,731	19,028	29,747	96,506
Income (loss) before income tax expense (benefit)	13,778	13,658	(8,013)	19,423
Total assets	93,336	724,834	1,711,535	2,529,705
Total goodwill	25,350	11,578	—	36,928
Total deposits	1,424,304	233,235	(5)	1,657,534

#### NOTE 17. PARENT COMPANY FINANCIAL STATEMENTS

Presented below are condensed financial statements for the parent company, Meta Financial, at the dates and for the years presented below.

#### CONDENSED STATEMENTS OF FINANCIAL CONDITION

September 30,	2017	2016
	(Dollars in Thousands)	
ASSETS		
Cash and cash equivalents	\$ 14,569	\$ 15,716
Investment in subsidiaries	521,021	403,574
Other assets	406	413
Total assets	\$ 535,996	\$ 419,703
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Long term debt	\$ 83,657	\$ 83,521
Other liabilities	17,843	1,207
Total liabilities	\$ 101,500	\$ 84,728
STOCKHOLDERS' EQUITY		
Common stock	\$ 96	\$ 85
Additional paid-in capital	258,336	184,780
Retained earnings	167,164	127,190
Accumulated other comprehensive income	9,166	22,920
Treasury stock, at cost	(266)	—
Total stockholders' equity	\$ 434,496	\$ 334,975
Total liabilities and stockholders' equity	\$ 535,996	\$ 419,703

# CONDENSED STATEMENTS OF OPERATIONS

Years Ended September 30,	2017	2016	2015
	(Dollars in Thousands)		
Interest expense	\$ 4,959	\$ 1,022	\$ 418
Other expense	440	382	269
<b>Total expense</b>	<b>5,399</b>	<b>1,404</b>	<b>687</b>
<b>Gain (loss) before income taxes and equity in undistributed net income of subsidiaries</b>	<b>(5,399)</b>	<b>(1,404)</b>	<b>(687)</b>
Income tax (benefit)	(1,935)	(519)	(324)
<b>Gain (loss) before equity in undistributed net income of subsidiaries</b>	<b>(3,464)</b>	<b>(885)</b>	<b>(363)</b>
Equity in undistributed net income of subsidiaries	48,381	34,105	18,418
<b>Net income</b>	<b>\$ 44,917</b>	<b>\$ 33,220</b>	<b>\$ 18,055</b>

## CONDENSED STATEMENTS OF CASH FLOWS

For the Years Ended September 30,

For the Years Ended September 30,	2017	2016	2015
	(Dollars in Thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 44,917	\$ 33,220	\$ 18,055
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation, amortization and accretion, net	136	(22)	—
Equity in undistributed net income of subsidiaries	(48,381)	(34,105)	(18,418)
Stock compensation	10,401	427	253
Change in other assets	7	(5)	(15)
Change in other liabilities	16,636	541	378
<b>Net cash provided by (used in) operating activities</b>	<b>23,716</b>	<b>56</b>	<b>253</b>
<b>CASH FLOWS FROM INVESTING ACTIVITES</b>			
Capital contributions to subsidiaries	(82,820)	(81,000)	(67,600)
<b>Net cash used in investing activities</b>	<b>(82,820)</b>	<b>(81,000)</b>	<b>(67,600)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid	(4,839)	(4,389)	(3,493)
Purchase of shares by ESOP	1,174	—	—
Proceeds from contingent consideration - equity	24,142	—	—
Proceeds from exercise of stock options & issuance of common stock	650	13,536	75,681
Issuance of common shares due to acquisition	37,296	—	—
Issuance of restricted stock	4	—	—
Proceeds from long term debt	—	75,000	—
Payment of debt issuance costs	—	(1,767)	—
Shares repurchased for tax withholdings on stock compensation	(470)	—	—
Other, net	—	—	—
<b>Net cash provided by financing activities</b>	<b>57,957</b>	<b>82,380</b>	<b>72,188</b>
<b>Net change in cash and cash equivalents</b>	<b>\$ (1,147)</b>	<b>\$ 1,436</b>	<b>\$ 4,841</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of year	\$ 15,716	\$ 14,280	\$ 9,439
End of year	\$ 14,569	\$ 15,716	\$ 14,280

The extent to which the Company may pay cash dividends to stockholders will depend on the cash currently available at the Company, as well as the ability of the Bank to pay dividends to the Company. For further discussion, see Note 13 herein.

**NOTE 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

	QUARTER ENDED			
	December 31	March 31	June 30	September 30
(Dollars in Thousands)				
<b>Fiscal Year 2017</b>				
Interest income	\$ 22,575	\$ 27,718	\$ 28,861	\$ 28,949
Interest expense	2,742	3,752	3,918	4,461
Net interest income	19,833	23,966	24,943	24,488
Provision (recovery) for loan losses	843	8,649	1,240	(144)
Net Income	1,244	32,142	9,787	1,744
Earnings per common and common equivalent share				
Basic	\$ 0.14	\$ 3.44	\$ 1.05	\$ 0.19
Diluted	0.14	3.42	1.04	0.19
Dividend declared per share	0.13	0.13	0.13	0.13
<b>Fiscal Year 2016</b>				
Interest income	\$ 18,275	\$ 20,629	\$ 20,763	\$ 21,729
Interest expense	720	691	844	1,836
Net interest income	17,555	19,938	19,919	19,893
Provision for loan losses	786	1,173	2,098	548
Net Income	4,058	14,283	8,873	6,006
Earnings per common and common equivalent share				
Basic	\$ 0.49	\$ 1.68	\$ 1.04	\$ 0.70
Diluted	0.49	1.67	1.04	0.70
Dividend declared per share	0.13	0.13	0.13	0.13
<b>Fiscal Year 2015</b>				
Interest income	\$ 14,232	\$ 15,758	\$ 15,254	\$ 16,363
Interest expense	661	473	593	660
Net interest income	13,571	15,285	14,661	15,703
Provision for loan losses	48	593	700	124
Net Income	3,595	5,181	4,640	4,639
Earnings per common and common equivalent share				
Basic	\$ 0.58	\$ 0.79	\$ 0.67	\$ 0.64
Diluted	0.58	0.78	0.66	0.63
Dividend declared per share	0.13	0.13	0.13	0.13

**NOTE 19. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements* defines fair value, establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system and requires disclosures about fair value measurement. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts.

The fair value hierarchy is as follows:

Level 1 Inputs – Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access at measurement date.

**Level 2 Inputs** – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market.

**Level 3 Inputs** – Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

There were no transfers between levels of the fair value hierarchy for the years ended September 30, 2017 or 2016 .

**Securities Available for Sale and Held to Maturity** . Securities available for sale are recorded at fair value on a recurring basis and securities held to maturity are carried at amortized cost. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using an independent pricing service. For both Level 1 and Level 2 securities, management uses various methods and techniques to corroborate prices obtained from the pricing service, including but not limited to reference to dealer or other market quotes, and by reviewing valuations of comparable instruments. The Company's Level 1 securities include equity securities and mutual funds. The Company's Level 2 securities include U.S. Government agency and instrumentality securities, U.S. Government agency and instrumentality mortgage-backed securities, municipal bonds, corporate debt securities and trust preferred securities. The Company had no Level 3 securities at September 30, 2017 , or 2016 .

The fair values of securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), or valuation based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which significant assumptions are observable in the market (Level 2 inputs). The Company considers these valuations supplied by a third-party provider which utilizes several sources for valuing fixed-income securities. These sources include Interactive Data Corporation, Reuters, Standard and Poor's, Bloomberg Financial Markets, Street Software Technology and the third-party provider's own matrix and desk pricing. The Company, no less than annually, reviews the third party's methods and source's methodology for reasonableness and to ensure an understanding of inputs utilized in determining fair value. Sources utilized by the third-party provider include but are not limited to pricing models that vary based on asset class and include available trade, bid, and other market information. This methodology includes but is not limited to broker quotes, proprietary models, descriptive terms and conditions databases, as well as extensive quality control programs. Monthly, the Company receives and compares prices provided by multiple securities dealers and pricing providers to validate the accuracy and reasonableness of prices received from the third-party provider. On a monthly basis, the Investment Committee reviews mark-to-market changes in the securities portfolio for reasonableness.

The following table summarizes the fair values of securities available for sale and held to maturity at September 30, 2017 and 2016 . Securities available for sale are measured at fair value on a recurring basis, while securities held to maturity are carried at amortized cost in the consolidated statements of financial condition.

Fair Value At September 30, 2017								
(Dollars in Thousands)	Available For Sale				Held to Maturity			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Debt securities								
Small business administration securities	57,871	—	57,871	—	—	—	—	—
Obligations of states and political subdivisions	—	—	—	—	19,368	—	19,368	—
Non-bank qualified obligations of states and political subdivisions	950,829	—	950,829	—	432,361	—	432,361	—
Asset-backed securities	96,832	—	96,832	—	—	—	—	—
Mortgage-backed securities	586,454	—	586,454	—	112,456	—	112,456	—
Total debt securities	1,691,986	—	1,691,986	—	564,185	—	564,185	—
Common equities and mutual funds	1,445	1,445	—	—	—	—	—	—
Total securities	\$ 1,693,431	\$ 1,445	\$ 1,691,986	\$ —	\$ 564,185	\$ —	\$ 564,185	\$ —

### Fair Value At September 30, 2016

(Dollars in Thousands)	Available For Sale				Held to Maturity			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Debt securities								
Trust preferred and corporate securities	\$ 12,978	\$ —	\$ 12,978	\$ —	\$ —	\$ —	\$ —	\$ —
Small business administration securities	80,719	—	80,719	—	—	—	—	—
Obligations of states and political subdivisions	—	—	—	—	20,937	—	20,937	—
Non-bank qualified obligations of states and political subdivisions	698,672	—	698,672	—	477,202	—	477,202	—
Asset-backed securities	116,815	—	116,815	—	—	—	—	—
Mortgage-backed securities	558,940	—	558,940	—	134,435	—	134,435	—
Total debt securities	1,468,124	—	1,468,124	—	632,574	—	632,574	—
Common equities and mutual funds	1,125	1,125	—	—	—	—	—	—
Total securities	\$ 1,469,249	\$ 1,125	\$ 1,468,124	\$ —	\$ 632,574	\$ —	\$ 632,574	\$ —

**Foreclosed Real Estate and Repossessed Assets .** Real estate properties and repossessed assets are initially recorded at the fair value less selling costs at the date of foreclosure, establishing a new cost basis. The carrying amount represents the lower of the new cost basis or the fair value less selling costs of foreclosed assets that were measured at fair value subsequent to their initial classification as foreclosed assets.

**Loans.** The Company does not record loans at fair value on a recurring basis. However, if a loan is considered impaired, an allowance for loan losses is established. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC 310, *Receivables* .

The following table summarizes the assets of the Company that are measured at fair value in the consolidated statements of financial condition on a non-recurring basis as of September 30, 2017 and 2016 .

### Fair Value at September 30, 2017

(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
Foreclosed Assets, net	292	—	—	292
Total	\$ 292	\$ —	\$ —	\$ 292

### Fair Value At September 30, 2016

(Dollars in Thousands)	Total	Level 1	Level 2	Level 3
Impaired Loans, net				
1-4 family real estate	\$ 68	\$ —	\$ —	\$ 68
Total	68	—	—	68
Foreclosed Assets, net	76	—	—	76
Total	\$ 144	\$ —	\$ —	\$ 144

### Quantitative Information About Level 3 Fair Value Measurements

(Dollars in Thousands)	Fair Value at September 30, 2017		Fair Value at September 30, 2016		Valuation Technique	Unobservable Input
Impaired Loans, net	\$	—	\$	68	Market approach	Appraised values <sup>(1)</sup>
Foreclosed Assets, net		292		76	Market approach	Appraised values <sup>(1)</sup>

<sup>(1)</sup> The Company generally relies on external appraisers to develop this information. Management reduced the appraised value by estimated selling costs in a range of 4% to 10% .

The following tables disclose the Company's estimated fair value amounts of its financial instruments at the dates provided. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 2017 and 2016 , as more fully described below. The operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the Bank's capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at September 30, 2017 and 2016 .

	September 30, 2017				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
	(Dollars in Thousands)				
Financial assets					
Cash and cash equivalents	\$ 1,267,586	\$ 1,267,586	\$ 1,267,586	\$ —	\$ —
Securities available for sale	1,693,431	1,693,431	1,445	1,691,986	—
Securities held to maturity	563,529	564,185	—	564,185	—
Total securities	2,256,960	2,257,616	1,445	2,256,171	—
Loans receivable:					
One to four family residential mortgage loans	196,706	196,970	—	—	196,970
Commercial and multi-family real estate loans	585,510	576,330	—	—	576,330
Agricultural real estate loans	61,800	61,584	—	—	61,584
Consumer loans	163,004	163,961	—	—	163,961
Commercial operating loans	35,759	35,723	—	—	35,723
Agricultural operating loans	33,594	32,870	—	—	32,870
Premium finance loans	250,459	250,964	—	—	250,964
Total loans receivable	1,326,832	1,318,402	—	—	1,318,402
Federal Home Loan Bank stock	61,123	61,123	—	61,123	—
Accrued interest receivable	19,380	19,380	19,380	—	—
Financial liabilities					
Non-interest bearing demand deposits	2,454,057	2,454,057	2,454,057	—	—
Interest bearing demand deposits, savings, and money markets	169,557	169,557	169,557	—	—
Certificates of deposit	123,637	123,094	—	123,094	—
Wholesale non-maturing deposits	18,245	18,245	18,245	—	—
Wholesale certificates of deposits	457,928	457,509	—	457,509	—
Total deposits	3,223,424	3,222,462	2,641,859	580,603	—
Advances from Federal Home Loan Bank	415,000	415,003	—	415,003	—
Federal funds purchased	987,000	987,000	987,000	—	—
Securities sold under agreements to repurchase	2,472	2,472	—	2,472	—
Capital leases	1,938	1,938	—	1,938	—
Trust preferred securities	10,310	10,447	—	10,447	—
Subordinated debentures	73,347	76,500	—	76,500	—
Accrued interest payable	2,280	2,280	2,280	—	—



September 30, 2016					
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
(Dollars in Thousands)					
<b>Financial assets</b>					
Cash and cash equivalents	\$ 773,830	\$ 773,830	\$ 773,830	\$ —	\$ —
Securities available for sale	1,469,249	1,469,249	1,125	1,468,124	—
Securities held to maturity	619,853	632,574	—	632,574	—
Total securities	2,089,102	2,101,823	1,125	2,100,698	—
Loans receivable:					
One to four family residential mortgage loans	162,298	163,886	—	—	163,886
Commercial and multi-family real estate loans	422,932	422,307	—	—	422,307
Agricultural real estate loans	63,612	63,868	—	—	63,868
Consumer loans	37,094	36,738	—	—	36,738
Commercial operating loans	31,271	31,108	—	—	31,108
Agricultural operating loans	37,083	36,897	—	—	36,897
Premium finance loans	171,604	172,000	—	—	172,000
Total loans receivable	925,894	926,803	—	—	926,803
Federal Home Loan Bank stock	47,512	47,512	—	47,512	—
Accrued interest receivable	17,199	17,199	17,199	—	—
<b>Financial liabilities</b>					
Non-interest bearing demand deposits	2,167,522	2,167,522	2,167,522	—	—
Interest bearing demand deposits, savings, and money markets	136,568	136,568	136,568	—	—
Certificates of deposit	125,992	125,772	—	125,772	—
Total deposits	2,430,082	2,429,862	2,304,090	125,772	—
Advances from Federal Home Loan Bank	107,000	108,168	—	108,168	—
Federal funds purchased	992,000	992,000	992,000	—	—
Securities sold under agreements to repurchase	3,039	3,039	—	3,039	—
Capital leases	2,018	2,018	—	2,018	—
Trust preferred	10,310	10,437	—	10,437	—
Subordinated debentures	73,211	77,250	—	77,250	—
Accrued interest payable	875	875	875	—	—

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 2017 and 2016 .

## **CASH AND CASH EQUIVALENTS**

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

## **SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY**

Securities available for sale are recorded at fair value on a recurring basis and securities held to maturity are carried at amortized cost. Fair values for investment securities are based on obtaining quoted prices on nationally recognized securities exchanges, or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

## **LOANS RECEIVABLE, NET**

The fair value of loans is estimated using a historical or replacement cost basis concept ( *i.e.*, an entrance price concept). The fair value of loans was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers and for similar remaining maturities. When using the discounting method to determine fair value, loans were grouped by homogeneous loans with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers at September 30, 2017 and 2016 . In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value as a result of the discounted cash flow which approximates the fair value adjustment for the credit quality component.

## **FHLB STOCK**

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

## **ACCRUED INTEREST RECEIVABLE**

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

## **DEPOSITS**

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

In accordance with ASC 825, *Financial Instruments* , no value has been assigned to the Company's long-term relationships with its deposit customers (core value of deposits intangible) since such intangible is not a financial instrument as defined under ASC 825.

## **ADVANCES FROM FHLB**

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

## **FEDERAL FUNDS PURCHASED**

The carrying amount of federal funds purchased is assumed to approximate the fair value.

## **SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE, CAPITAL LEASES, SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES**

The fair value of these instruments was estimated by discounting the expected future cash flows using derived interest rates approximating market over the contractual maturity of such borrowings.

**ACCRUED INTEREST PAYABLE**

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

**LIMITATIONS**

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

**NOTE 20. GOODWILL AND INTANGIBLE ASSETS**

The Company had a total of \$98.7 million of goodwill as of September 30, 2017. The recorded goodwill was due to two separate business combinations during fiscal 2015 and two separate business combinations during the first quarter of fiscal 2017. The fiscal 2015 business combinations included \$11.6 million of goodwill in connection with the purchase of substantially all of the commercial loan portfolio and related assets of AFS/IBEX on December 2, 2014, and \$25.4 million in goodwill in connection with the purchase of substantially all of the assets and liabilities of Refund Advantage on September 8, 2015. The fiscal 2017 business combinations included \$30.4 million of goodwill in connection with the purchase of substantially all of the assets of EPS on November 1, 2016, and \$31.4 million of goodwill in connection with the purchase of substantially all of the assets and specified liabilities of SCS on December 14, 2016. The goodwill associated with these transactions are deductible for tax purposes.

The changes in the carrying amount of the Company's goodwill and intangible assets for the years ended September 30, 2017 and 2016 are as follows:

	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
	(Dollars in Thousands)	
<b>Goodwill</b>		
Beginning balance	\$ 36,928	\$ 36,928
Acquisitions during the period	61,795	—
Write-offs during the period	—	—
Ending balance	<u>\$ 98,723</u>	<u>\$ 36,928</u>

The Company completed an annual goodwill impairment test for the fiscal year ended September 30, 2017. Based on the results of the qualitative analysis, it was identified that it was more likely than not the fair value of the goodwill recorded exceeded the current carrying value. The Company concluded a quantitative analysis was not required and no impairment existed.

	Trademark <sup>(1)</sup>	Non-Compete <sup>(2)</sup>	Customer Relationships <sup>(3)</sup>	Technology/Other <sup>(4)</sup>	Total
<b>Intangibles</b>					
Balance as of September 30, 2016	\$ 5,149	\$ 127	\$ 20,590	\$ 3,055	\$ 28,921
Acquisitions during the period	5,500	2,180	31,770	6,947	46,397
Amortization during the period	(598)	(525)	(10,405)	(835)	(12,363)
Write-offs during the period	—	—	(10,248)	(529)	(10,777)
Balance as of September 30, 2017	\$ 10,051	\$ 1,782	\$ 31,707	\$ 8,638	\$ 52,178
Balance upon acquisition	\$ 10,990	\$ 2,480	\$ 57,810	\$ 10,502	\$ 81,782
Accumulated amortization	\$ (939)	\$ (698)	\$ (15,855)	\$ (1,335)	\$ (18,827)
Accumulated impairment	\$ —	\$ —	\$ (10,248)	\$ (529)	\$ (10,777)
Balance as of September 30, 2017	\$ 10,051	\$ 1,782	\$ 31,707	\$ 8,638	\$ 52,178

(1) Book amortization period of 5-15 years. Amortized using the straight line and accelerated methods.

(2) Book amortization period of 3-5 years. Amortized using the straight line method.

(3) Book amortization period of 10-30 years. Amortized using the accelerated method.

(4) Book amortization period of 3-20 years. Amortized using the straight line method.

	Trademark <sup>(1)</sup>	Non-Compete <sup>(2)</sup>	Customer Relationships <sup>(3)</sup>	Technology/Other <sup>(4)</sup>	Total
<b>Intangibles</b>					
Balance as of September 30, 2015	\$ 5,439	\$ 227	\$ 24,811	\$ 3,100	\$ 33,577
Acquisitions during the period	—	—	—	172	172
Amortization during the period	(290)	(100)	(4,221)	(217)	(4,828)
Write-offs during the period	—	—	—	—	—
Balance as of September 30, 2016	\$ 5,149	\$ 127	\$ 20,590	\$ 3,055	\$ 28,921
Balance upon acquisition	\$ 5,490	\$ 300	\$ 26,040	\$ 3,539	\$ 35,369
Accumulated amortization	\$ (341)	\$ (173)	\$ (5,450)	\$ (484)	\$ (6,448)
Balance as of September 30, 2016	\$ 5,149	\$ 127	\$ 20,590	\$ 3,055	\$ 28,921

(1) Book amortization period of 15 years. Amortized using the straight line and accelerated methods.

(2) Book amortization period of 3 years. Amortized using the straight line method.

(3) Book amortization period of 10-30 years. Amortized using the accelerated method.

(4) Book amortization period of 3-20 years. Amortized using the straight line method.

The Company tests intangible assets for impairment at least annually or more often if conditions indicate a possible impairment. The Company recorded a \$10.2 million intangible impairment charge during the fourth quarter of fiscal 2017 related to the non-renewal of the H&R Block relationship.

The weighted-average amortization period, by major intangible asset class and in total, for each of the acquisitions during fiscal year 2017 were as follows:

Intangible	Weighted Average Amortization Period	
	EPS	SCS
Trademark	15.0	5.0
Non-Compete	3.0	4.1
Customer Relationships	20.0	9.1
Technology/Other	3.0	15.0
Total	16.1	10.2

The anticipated future amortization of intangibles is as follows:

	<b>September 30,</b>
	(Dollars in Thousands)
2018	\$ 7,706
2019	7,147
2020	5,749
2021	5,179
2022	4,257
Thereafter	22,140
Total anticipated intangible amortization	<u>\$ 52,178</u>

## **NOTE 21. SUBSEQUENT EVENTS**

On October 11, 2017, the Company completed the purchase of a \$73 million , seasoned, floating rate, private student loan portfolio. All loans are indexed to one-month LIBOR. The portfolio is serviced by ReliaMax Lending Services LLC and insured by ReliaMax Surety Company. This portfolio purchase builds on the Company's existing student loan platform.

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

None.

### **Item 9A. Controls and Procedures**

#### **(a) *Evaluation of Disclosure Controls and Procedures.***

Management, under the direction of its Chief Executive Officer and Chief Financial Officer, is responsible for maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “1934 Act”) that are designed to ensure that information required to be disclosed in reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Annual Report on Form 10-K, management evaluated the Company’s disclosure controls and procedures. The evaluation was performed under the direction of the Company’s Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of September 30, 2017 , of the design and operation of the Company’s disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company required to be included in the Company’s periodic SEC filings.

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

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2017, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control Integrated Framework (2013)." Based on this assessment, our management concluded that our internal control over financial reporting was effective as of September 30, 2017.

The effectiveness of the Company's internal control over financial reporting as of September 30, 2017, has been audited by KPMG LLP, the independent registered public accounting firm that also has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. KPMG LLP's report on the Company's internal control over financial reporting appears below.

*(c) Changes in Internal Control over Financial Reporting.*

There were no changes in the Company's internal control over financial reporting that occurred during the fourth quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None.

**KPMG LLP**

2500 Ruan Center  
666 Grand Avenue  
Des Moines, IA 50309

**Report of Independent Registered Public Accounting Firm**

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

We have audited Meta Financial Group, Inc.'s (the Company) internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Meta Financial Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Meta Financial Group, Inc. and subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2017, and our report dated November 29, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Des Moines, Iowa  
November 29, 2017

## PART III

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

#### Directors

Information concerning directors of the Company required by this item will be included under the captions “Election of Directors,” “Communicating with Our Directors” and “Stockholder Proposals For The Year 2018 Annual Meeting” in the Company’s definitive Proxy Statement for the Annual Meeting of Stockholders to be held on January 22, 2018 (the “2017 Proxy Statement”), a copy of which will be filed not later than 120 days after September 30, 2017, and is incorporated herein by reference.

#### Executive Officers

Information concerning the executive officers of the Company required by this item will be included under the captions “Executive Officers” and “Election of Directors” in the 2017 Proxy Statement and is incorporated herein by reference.

#### Compliance with Section 16(a)

Information required by this item regarding compliance with Section 16(a) of the Exchange Act will be included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s 2017 Proxy Statement and is incorporated herein by reference.

#### **Audit Committee Financial Expert**

Information regarding the audit committee of the Company’s Board of Directors, including information regarding Frederick Moore, Becky Shulman and Kendall Stork, the audit committee financial experts serving on the audit committee for fiscal 2017, will be included under the captions “Meetings and Committees” and “Election of Directors” in the Company’s 2017 Proxy Statement and is incorporated herein by reference.

#### **Code of Ethics**

Information regarding the Company’s Code of Ethics will be included under the caption “Corporate Governance” in the Company’s 2017 Proxy Statement and is incorporated herein by reference.

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

Information concerning executive and director compensation will be included under the captions “Compensation of Directors” and “Executive Compensation” in the Company’s 2017 Proxy Statement and is incorporated herein by reference.

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

#### **(a) Security Ownership of Certain Beneficial Owners and Management**

The information required by this item will be included under the caption “Stock Ownership” in the Company’s 2017 Proxy Statement and is incorporated herein by reference.

#### **(b) Changes in Control**

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

#### **(c) Equity Compensation Plan Information**

The Company maintains the 2002 Omnibus Incentive Plan for purposes of issuing stock-based compensation to employees and directors. An amendment to this plan, authorizing an additional 750,000 shares to be issued under this plan, was approved by the Board of Directors on November 30, 2007, and by the stockholders at the annual meeting held February 12, 2008. The Company also has unexercised options outstanding under a previous stock option plan. The following table provides information about the Company’s common stock that may be issued under the Company’s omnibus incentive plans.



Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan excluding securities reflected in (a)
Equity compensation plans approved by stockholders	75,757	\$ 22.62	188,152
Equity compensation plans not approved by stockholders	—	\$ —	—

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

The information required by this item will be included under the captions “Election of Directors,” “Meetings and Committees” and “Related Person Transactions” in the Company’s 2017 Proxy Statement and is incorporated herein by reference.

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

The information required by this item will be included under the caption “Independent Registered Public Accounting Firm” in the Company’s 2017 Proxy Statement and is incorporated herein by reference.

**PART IV**

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

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

**(a) Financial Statements:**

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

1. Report of Independent Registered Public Accounting Firm.
2. Consolidated Statements of Financial Condition as of September 30, 2017, and 2016.
3. Consolidated Statements of Operations for the Years Ended September 30, 2017, 2016, and 2015.
4. Consolidated Statements of Comprehensive Income for the Years ended September 30, 2017, 2016, and 2015.
5. Consolidated Statements of Changes in Stockholders’ Equity for the Years Ended September 30, 2017, 2016, and 2015.
6. Consolidated Statements of Cash Flows for the Years Ended September 30, 2017, 2016, and 2015.
7. Notes to Consolidated Financial Statements.

**(b) Exhibits:**

See Index to Exhibits.

**(c) Financial Statement Schedules:**

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

**Item 16.     Form 10-K Summary**

None.

## SIGNATURES

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

META FINANCIAL GROUP, INC.

Date: November 29, 2017

By: /s/ J. Tyler Haahr  
J. Tyler Haahr, Chairman of the Board  
and Chief Executive Officer

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

By: /s/ J. Tyler Haahr Date: November 29, 2017  
J. Tyler Haahr, Chairman of the Board  
and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Bradley C. Hanson Date: November 29, 2017  
Bradley C. Hanson, President and Director

By: /s/ Douglas J. Hajek Date: November 29, 2017  
Douglas J. Hajek, Director

By: /s/ Elizabeth G. Hoople Date: November 29, 2017  
Elizabeth G. Hoople, Director

By: /s/ Frederick V. Moore Date: November 29, 2017  
Frederick V. Moore, Director

By: /s/ Becky S. Shulman Date: November 29, 2017  
Becky S. Shulman, Director

By: /s/ Kendall E. Stork Date: November 29, 2017  
Kendall E. Stork, Director

By: /s/ Glen W. Herrick Date: November 29, 2017  
Glen W. Herrick, Executive Vice  
President and Chief Financial Officer  
(Principal Financial Officer)

By: /s/ Sonja A. Theisen Date: November 29, 2017  
Sonja A. Theisen, Senior Vice President  
and Chief Accounting Officer  
(Principal Accounting Officer)

**INDEX TO EXHIBITS**

Exhibit Number	Description
<a href="#"><u>2.1</u></a>	Asset Purchase Agreement, dated as of July 15, 2015, by and among Meta Financial Group, Inc., MetaBank, Fort Knox Financial Services Corporation, Tax Product Services LLC, Alan D. Lodge Family Trust, Michael E. Boone, Michael J. Boone, Cary Shields and Alan D. Lodge filed on July 16, 2015 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference. Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant will furnish the omitted exhibits and schedules to the Securities and Exchange Commission upon request by the Commission.
<a href="#"><u>2.2</u></a>	Asset Purchase Agreement, dated as of October 1, 2016, by and among Meta Financial Group, Inc., MetaBank, Drake Enterprises, Ltd., and EPS Financial, LLC filed on November 3, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference. Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant will furnish the omitted exhibits and schedules to the Securities and Exchange Commission upon request by the Commission.
<a href="#"><u>2.3</u></a>	Asset Purchase Agreement dated as of November 9, 2016, by and among Meta Financial Group, Inc., MetaBank, and Specialty Consumer Services LP filed on November 10, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference. Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant will furnish the omitted exhibits and schedules to the Securities and Exchange Commission upon request by the Commission.
<a href="#"><u>3.1</u></a>	Registrant's Certificate of Incorporation, as amended, filed on May 10, 2013 as an exhibit to the Registrant's registration statement on Form S-3 (Commission File No. 333-188535), is incorporated herein by reference.
<a href="#"><u>3.2</u></a>	Registrant's Certificate of Amendment to the Certificate of Incorporation, as amended, filed on January 26, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#"><u>3.3</u></a>	Registrant's Amended and Restated By-laws, as amended, filed on December 14, 2015 as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2015, is incorporated herein by reference.
<a href="#"><u>4.1</u></a>	Registrant's Specimen Stock Certificate, filed on June 26, 2016 as an exhibit to the Registrant's registration statement on Form S-3 (Commission File No. 333-212269), is incorporated herein by reference.
<a href="#"><u>4.2</u></a>	Indenture, dated as of August 15, 2016, by and between the Registrant and U.S. Bank National Association, as trustee, filed on August 15, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#"><u>4.3</u></a>	First Supplemental Indenture, dated as of August 15, 2016, by and between the Registrant and U.S. Bank National Association, as trustee, filed on August 15, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#"><u>4.4</u></a>	Form of Global Note of the Registrant representing the 5.75% Fixed-to-Floating Rate Subordinated Notes due August 15, 2026, filed on August 15, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
* <a href="#"><u>10.1</u></a>	Registrant's 1995 Stock Option and Incentive Plan, filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1996, is incorporated herein by reference
* <a href="#"><u>10.2</u></a>	Employment Agreement between MetaBank and J. Tyler Haahr, dated as of October 1, 2016, filed on November 18, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
* <a href="#"><u>10.3</u></a>	Employment Agreement between MetaBank and Bradley C. Hanson, dated as of October 1, 2016, filed on November 18, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
* <a href="#"><u>10.4</u></a>	Employment Agreement between MetaBank and Glen W. Herrick, dated as of October 1, 2016, filed on December 6, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
* <a href="#"><u>10.5</u></a>	Performance-Based Restricted Stock Agreement between Meta and J. Tyler Haahr, dated as of November 16, 2016, filed on November 18, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
* <a href="#"><u>10.6</u></a>	Performance-Based Restricted Stock Agreement between Meta and Bradley C. Hanson, dated as of November 16, 2016, filed on November 18, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference
* <a href="#"><u>10.7</u></a>	Performance-Based Restricted Stock Agreement between Meta and Glen W. Herrick, dated as of December 2, 2016, filed on December 6, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference
* <a href="#"><u>10.8</u></a>	Registrant's Supplemental Employees' Investment Plan, originally filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1994. First amendment to such agreement, filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year

ended September 30, 2008, is incorporated herein by reference.

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<a href="#">* 10.9</a>	Registrant's 2002 Omnibus Incentive Plan, as amended and restated effective November 24, 2014, filed on December 16, 2014 as Appendix A to the Registrant's Schedule 14A (DEF 14A) Proxy Statement, is incorporated herein by reference.
<a href="#">10.10</a>	Registration Rights Agreement by and among Meta Financial Group, Inc., BEP IV LLC and BEP Investors, LLC, dated as of December 17, 2015, filed on December 17, 2015 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#">10.11</a>	Investor Rights Agreement by and among Meta Financial Group, Inc., BEP IV LLC and BEP Investors, LLC, dated as of December 17, 2015, filed on December 17, 2015 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#">10.12</a>	Securities Purchase Agreement by and between Meta Financial Group, Inc. and Nantahala Capital Partners SI, LP, dated as of December 7, 2015, filed on December 8, 2015 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#">10.13</a>	Registration Rights Agreement by and between Meta Financial Group, Inc. and Nantahala Capital Partners SI, LP, dated as of December 17, 2015, filed on December 17, 2015 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#">* 10.14</a>	Separation and General Release Agreement dated as of September 9, 2016, by and among the Company, MetaBank and Ira D. Frericks. filed on September 9, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#">* 10.15</a>	Separation and General Release Agreement dated as of September 30, 2016, by and among the Company, MetaBank and Troy Moore III, filed on September 30, 2016 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#">* 10.16</a>	Severance and General Release Agreement dated as of August 30, 2017, by and between the MetaBank and Cynthia Smith, filed on September 8, 2017 as an exhibit to the Registrant's Current Report on Form 8-K, is incorporated herein by reference.
<a href="#">* 10.17</a>	Form of Restricted Stock Agreement under Meta Financial Group, Inc. 2002 Omnibus Incentive Plan filed on August 2, 2016 as an exhibit to the Registrant's Quarterly Report on Form 10-Q, is incorporated herein by reference.
<a href="#">11</a>	Statement re: computation of per share earnings (See Note 5 of "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K).
<a href="#">21</a>	Subsidiaries of the Registrant is filed herewith.
<a href="#">23.1</a>	Consent of Independent Registered Public Accounting Firm is filed herewith.
<a href="#">31.1</a>	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is filed herewith.
<a href="#">31.2</a>	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is filed herewith.
<a href="#">32.1</a>	Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed herewith.
<a href="#">32.2</a>	Certification of the CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed herewith.
101.INS	Instance Document Filed Herewith.
101.SCH	XBRL Taxonomy Extension Schema Document Filed Herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document Filed Herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document Filed Herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document Filed Herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document Filed Herewith.

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\* Management Contract or Compensatory Plan or Agreement

SUBSIDIARIES OF THE REGISTRANT

Parent	Subsidiary	Percentage of Ownership	State of Incorporation or Organization
Meta Financial Group, Inc.	MetaBank	100%	Federal
Meta Financial Group, Inc.	First Midwest Financial Capital Trust I	100%	Delaware

The financial statements of Meta Financial Group, Inc. are consolidated with those of MetaBank, but not those of First Midwest Financial Capital Trust I.

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Meta Financial Group, Inc.

We consent to the incorporation by reference in the registration statements pertaining to the Meta Financial Group, Inc. 1995 Stock Option and Incentive Plan (No. 333-22523) and the Meta Financial Group, Inc. 2002 Omnibus Incentive Plan (No. 333-110200, No. 333-141407 and No. 333-151604) of Meta Financial Group, Inc. on Form S-8 and in the registration statements (No. 333-188535 and No. 333-212269) of Meta Financial Group, Inc. on Form S-3 of our reports dated November 29, 2017, with respect to the consolidated statements of financial condition of Meta Financial Group, Inc. and subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2017, and the effectiveness of internal control over financial reporting as of September 30, 2017, which reports appear in the Annual Report on Form 10-K of Meta Financial Group, Inc. for the fiscal year ended September 30, 2017.

/s/ KPMG LLP

Des Moines, Iowa  
November 29, 2017



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

I, J. Tyler Haahr, certify that:

1. I have reviewed this Annual Report on Form 10-K of Meta Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant issuer's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 29, 2017

By: /s/ J. Tyler Haahr

J. Tyler Haahr, Chairman of the Board  
and Chief Executive Officer

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

I, Glen W. Herrick, certify that:

1. I have reviewed this Annual Report on Form 10-K of Meta Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 29, 2017

By: /s/ Glen W. Herrick

Glen W. Herrick, Executive Vice President and Chief  
Financial Officer

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

In connection with the Annual Report of Meta Financial Group, Inc. (the “Company”) on Form 10-K for the year ended September 30, 2017, as filed with the Securities and Exchange Commission on the date of this Certification (the “Report”), I, J. Tyler Haahr, the Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ J. Tyler Haahr

Name: J. Tyler Haahr  
Chairman of the Board and Chief Executive Officer  
November 29, 2017

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

In connection with the Annual Report of Meta Financial Group, Inc. (the “Company”) on Form 10-K for the year ended September 30, 2017, as filed with the Securities and Exchange Commission on the date of this Certification (the “Report”), I, Glen W. Herrick, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Glen W. Herrick

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Name: Glen W. Herrick

Executive Vice President and Chief Financial Officer

November 29, 2017