META FINANCIAL GROUP INC
Form 10-K/A
March 10, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended September 30, 2008

OR

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

For the transition period from to

Commission file number 0-22140.

META FINANCIAL GROUP, INC.

(Name of Registrant as specified in its charter)

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

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

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

None

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

Common Stock, par value $0.01 per share

(Title of Class)

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

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

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

Indicate by check mark 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. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12-b2 of the Exchange Act. (Check one):

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

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

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

As of March 31, 2008, the aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked prices of such stock on the NASDAQ System as of such date, was $34.6 million.

DOCUMENTS INCORPORATED BY REFERENCE

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

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EXPLANATORY NOTE

This Amendment No. 1 (this Amendment) to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2008 (the Form 10-K) is being filed for the sole purpose of filing the Independent Registered Public Accounting Firm s Report on the Financial Statements Predecessor Firm for the fiscal year ended September 30, 2007 and related consent that was omitted from the Form 10-K, as originally filed with the SEC. Items 8 and 15 of the Form 10-K are, however, set forth in their entirety as required by SEC rules.

Please note that the financial statements and other information contained in Items 8 and 15 in the Form 10-K/A do not reflect any other changes to such financial statements and other information as set forth in the Form 10-K as originally filed with the SEC. Please note also that the information contained in this 10-K/A has not been updated to reflect events or developments occurring after December 12, 2008, the date the Form 10-K was originally filed with the SEC and, accordingly, such information continues to speak as of such earlier date. You are urged to read the Quarterly Report on Form 10-Q and Current Reports on Form 8-K filed by the Company since the original filing date of the Form 10-K.

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

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KPMG LLP

2500 Ruan Center

666 Grand Avenue

Des Moines, IA 50309

Independent Auditors   Report

Audit Committee

Meta Financial Group, Inc.:

We have audited the accompanying consolidated statement of financial condition of Meta Financial Group, Inc. and subsidiaries as of September 30, 2008, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meta Financial Group, Inc. and subsidiaries as of September 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the 2008 consolidated financial statements referred to above present fairly, in all material respects, t

December 12, 2008

KPMG LLP, a U.S. limited liability partnership, is the U.S.

member firm of KPMG International, a Swiss cooperative.

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Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements

To the Board of Directors

Meta Financial Group, Inc. and Subsidiaries

Storm Lake, Iowa

We have audited the consolidated statements of financial condition of Meta Financial Group, Inc. and subsidiaries as of September 30, 2007, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders equity and cash flows for each of the two years in the period ended September 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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, 2007, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2007, in conformity with U.S. generally accepted accounting principles.

Des Moines, Iowa

January 7, 2008

McGladrey & Pullen, LLP is a member firm of RSM International

an affiliation of separate and independent legal entities.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

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

ASSETS		September 30, 2008		September 30, 2007
Cash and due from banks	$	2,963	$	1,210
Interest-bearing deposits in other financial institutions				10,110
Total cash and cash equivalents		2,963		11,320
Federal funds sold		5,188		75,000
Investment securities available for sale		19,711		25,960
Mortgage-backed securities available for sale		184,123		132,741
Loans receivable - net of allowance for loan losses of $5,732 at September 30, 2008 and $4,493 at September 30, 2007		427,928		355,612
Federal Home Loan Bank stock, at cost		8,092		4,015
Accrued interest receivable		4,497		4,189
Bond insurance receivable		6,098		
Premises, furniture, and equipment, net		21,992		19,707
Bank-owned life insurance		12,758		12,261
Assets related to discontinued operations, held for sale				35,770
Goodwill		2,206		1,508
MPS accounts receivable		50,046		1,748
Other assets		11,654		6,249
Total assets	$	757,256	$	686,080
LIABILITIES AND SHAREHOLDERS EQUITY				
LIABILITIES				
Non-interest-bearing checking	$	355,020	$	260,098
Interest-bearing checking		15,029		14,600
Savings deposits		9,394		10,265
Money market deposits		43,038		81,292
Time certificates of deposit		123,491		156,723
Total deposits		545,972		522,978
Advances from Federal Home Loan Bank		132,025		68,000
Securities sold under agreements to repurchase		5,348		224
Subordinated debentures		10,310		10,310
Accrued interest payable		578		842
Contingent liability		4,293		
Liabilities related to discontinued operations, held for sale				30,949
Accrued expenses and other liabilities		11,923		4,679
Total liabilities		710,449		637,982
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS EQUITY				
Preferred stock, 800,000 shares authorized, no shares issued or outstanding				

Common stock, $.01 par value; 5,200,000 shares authorized, 2,957,999 shares issued, 2,601,103 and 2,589,717 shares outstanding at September 30, 2008 and September 30, 2007, respectively				
Additional paid-in capital		23,058		21,958
Retained earnings - substantially restricted		35,516		36,805
Accumulated other comprehensive (loss)		(5,022)		(3,345)
Unearned Employee Stock Ownership Plan shares				(377)
Treasury stock, 356,896 and 368,282 common shares, at cost, at September 30, 2008 and September 30, 2007, respectively		(6,775)		(6,973)
Total shareholders equity		46,807		48,098
Total liabilities and shareholders equity	$	757,256	$	686,080

See Notes to Consolidated Financial Statements.

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META FINANCIAL GROUP, INC

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

Basic earnings (loss) per common share:						
Income (loss) from continuing operations	$	(0.71)	$	0.52	$	1.36
Income (loss) from discontinued operations		0.73		(0.06)		0.12
Net income	$	0.02	$	0.46	$	1.48
Diluted earnings (loss) per common share:						
Income (loss) from continuing operations	$	(0.70)	$	0.50	$	1.34
Income (loss) from discontinued operations		0.72		(0.05)		0.12
Net income	$	0.02	$	0.45	$	1.46
Dividends declared per common share:	$	0.52	$	0.52	$	0.52

See Notes to Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in Thousands)

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

See Notes to Condensed Consolidated Financial Statements.

META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders Equity

For the Years Ended September 30, 2006, 2007, and 2008

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated other Comprehensive (Loss), Net of Tax	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders Equity
Balance, September 30, 2005	$ 30	$ 20,647	$ 34,557	$ (3,181)	$ (825)	$ (8,269)	$ 42,959
Cash dividends declared on common stock ($.52 per share)			(1,292)				(1,292)
Issuance of 18,712 common shares from treasury stock due to exercise of stock options		(156)				429	273
Issuance of 3,667 common shares from treasury stock due to issuance of nonvested shares		(44)				44	
Stock compensation		481					481
14,500 common shares committed to be released under the ESOP		41			316		357
Change in net unrealized losses on securities available for sale, net				(1,367)			(1,367)
Net income for year ended September 30, 2006			3,688				3,688
Balance, September 30, 2006	**$ 30**	**$ 20,969**	**$ 36,953**	**$ (4,548)**	**$ (509)**	**$ (7,796)**	**$ 45,099**
Balance, September 30, 2006	$ 30	$ 20,969	$ 36,953	$ (4,548)	$ (509)	$ (7,796)	$ 45,099
Cash dividends declared on common stock ($.52 per share)			(1,319)				(1,319)
Issuance of 55,350 common shares from treasury stock due to exercise of stock options		(130)				823	693
Stock compensation		1,117					1,117
5,750 common shares committed to be released under the ESOP		2			132		134
Change in net unrealized losses on securities available for sale, net				1,203			1,203

Net income for year ended September 30, 2007			1,171				1,171
Balance, September 30, 2007	**$ 30**	**$ 21,958**	**$ 36,805**	**$ (3,345)**	**$ (377)**	**$ (6,973)**	**$ 48,098**
Balance, September 30, 2007	$ 30	$ 21,958	$ 36,805	$ (3,345)	$ (377)	$ (6,973)	$ 48,098
Cash dividends declared on common stock ($.52 per share)			(1,340)				(1,340)
Issuance of 11,386 common shares from treasury stock due to exercise of stock options		1				198	199
Stock compensation		901					901
16,562 common shares committed to be released under the ESOP		198			377		575
Change in net unrealized losses on securities available for sale, net				(1,677)			(1,677)
Net income for year ended September 30, 2008			51				51
Balance, September 30, 2008	**$ 30**	**$ 23,058**	**$ 35,516**	**$ (5,022)**	**$**	**$ (6,775)**	**$ 46,807**

See Notes to Consolidated Financial Statements.

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META FINANCIAL GROUP, INC.

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollars in Thousands)

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

Net change in securities sold under agreements to repurchase	5,124	(14,955)	(5,328)
Cash dividends paid	(1,340)	(1,319)	(1,291)
Stock compensation	901	1,117	481
Proceeds from exercise of stock options	199	540	187
Net cash provided by (used in) financing activities-continuing operations	91,903	(14,237)	(35,290)
Net cash (used in) financing activities-discontinued operations	(33,210)	(4,275)	(6,454)
Net cash provided by (used in) financing activities	58,693	(18,512)	(41,744)
Net change in cash and cash equivalents	(17,940)	(88,450)	94,983
Cash and cash equivalents at beginning of period	20,903	109,353	14,370
Cash and cash equivalents at end of period	$ 2,963	$ 20,903	$ 109,353

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

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

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

NATURE OF BUSINESS AND INDUSTRY SEGMENT INFORMATION

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

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

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

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

CASH AND CASH EQUIVALENTS AND FEDERAL FUNDS SOLD

For purposes of reporting cash flows, cash and cash equivalents is defined to include the Company s cash on hand and due from financial institutions and short-term interest-bearing deposits in other financial institutions. The Company reports cash flows net for customer loan transactions, securities purchased under agreement to resell, deposit transactions, securities sold under agreements to repurchase, and Federal Home Loan Bank of Des Moines (FHLB) advances with terms less than 90 days. The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based

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on a percentage of deposits. The total of those reserve balances was $1.1 million and $0 at September 30, 2008 and 2007, respectively. The Company at times maintains balances in excess of insured limits at various financial institutions including the FHLB, the Federal Reserve Bank, and other private institutions. At September 30, 2008 the Company had no interest bearing deposits held at the FHLB. At September 30, 2008 the Company had $5.2 million of federal funds sold at several private institutions. The Company does not believe these carry a significant risk of loss, but cannot provide assurances that no losses could occur if these institutions were to become insolvent.

SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

Securities purchased under agreement to resell generally mature or reprice within one week and are carried at cost.

SECURITIES

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

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

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

LOANS RECEIVABLE

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

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

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

MORTGAGE SERVICING AND TRANSFERS OF FINANCIAL ASSETS

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

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ALLOWANCE FOR LOAN LOSSES

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

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

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

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

FORECLOSED REAL ESTATE AND REPOSSESSED ASSETS

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

INCOME TAXES

The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates. Deferred tax assets

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

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

PREMISES, FURNITURE, AND EQUIPMENT

Land is carried at cost. Buildings, furniture, fixtures, leasehold improvements and equipment are carried at cost, less accumulated depreciation and amortization computed principally by using the straight-line method over the estimated useful lives of the assets, which range from 15 to 39 years for buildings, 5 to 20 years for leasehold improvements and 3 to 7 years for furniture, fixtures and equipment. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

TRANSFERS OF FINANCIAL ASSETS

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

BANK-OWNED LIFE INSURANCE

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

EMPLOYEE STOCK OWNERSHIP PLAN

The Company accounts for its employee stock ownership plan (ESOP) in accordance with AICPA Statement of Position (SOP) 93-6. Under SOP 93-6, the cost of shares issued to the ESOP, but not yet allocated to participants, are presented in the consolidated balance sheets as a reduction of shareholders equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. Dividends on unallocated shares are used to reduce the accrued interest and principal amount of the ESOP s loan payable to the Company.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

GOODWILL

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

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ASSETS AND LIABILITIES RELATED TO DISCONTINUED OPERATIONS

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

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

REVENUE RECOGNITION

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

EARNINGS PER COMMON SHARE (EPS)

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

COMPREHENSIVE INCOME

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

STOCK COMPENSATION

Effective October 1, 2005, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, using a modified prospective application. Prior to that date, the Company accounted for stock option awards under APB Opinion No. 25, *Accounting for Stock Issued to Employees*. In accordance with SFAS No. 123(R), compensation expense for share based awards is recorded over the vesting period at the fair value of the award at the time of grant. The recording of such compensation expense began on October 1, 2005 for shares not yet vested as of that date and for all new grants subsequent to that date. Prior years results have not been restated. The exercise price of options or fair value of nonvested shares granted under the Company s incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock based compensation, since actual historical forfeiture rates on its stock based incentive awards has been negligible.

RECLASSIFICATIONS

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

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NEW ACCOUNTING PRONOUNCEMENTS

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

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

In September 2006, the FASB issued Statement No. 157, (SFAS No. 157), *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. SFAS No. 157 is effective for the Company beginning October 1, 2008 and adoption of SFAS No. 157 will not have a material impact on the Company s financial position, results of operation or cash flows.

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

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

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

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

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

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

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

NOTE 2. DISCONTINUED BANK OPERATIONS

Sale of MetaBank West Central

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

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

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

Presented below are condensed financial statements for MetaBank WC.

CONDENSED STATEMENTS OF FINANCIAL CONDITION - DISCONTINUED OPERATIONS

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

CONDENSED STATEMENTS OF OPERATIONS FOR DISCONTINUED OPERATIONS

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

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NOTE 3. EARNINGS PER COMMON SHARE (EPS)

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

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

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

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NOTE 4. SECURITIES

Year end securities available for sale were as follows:

2008		AMORTIZED COST		GROSS UNREALIZED GAINS		GROSS UNREALIZED (LOSSES)		FAIR VALUE
				(Dollars in Thousands)				
Debt securities								
Trust preferred and corporate securities	$	25,795	$	25	$	(7,646)	$	18,174
Obligations of states and political subdivisions		1,534		17		(14)		1,537
Mortgage-backed securities		184,515		478		(870)		184,123
Total debt securities	$	211,844	$	520	$	(8,530)	$	203,834

2007		AMORTIZED COST		GROSS UNREALIZED GAINS		GROSS UNREALIZED (LOSSES)		FAIR VALUE
				(Dollars in Thousands)				
Debt securities								
Trust preferred and corporate securities	$	26,784	$	172	$	(2,546)	$	24,410
Obligations of states and political subdivisions		1,534		17		(1)		1,550
Mortgage-backed securities		135,432		76		(2,767)		132,741
Total debt securities	$	163,750	$	265	$	(5,314)	$	158,701

Gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at September 30, 2008 and 2007 are as follows:

2008	LESS THAN 12 MONTHS				OVER 12 MONTHS				TOTAL			
		Fair Value		Unrealized (Losses)		Fair Value		Unrealized (Losses)		Fair Value		Unrealized (Losses)
					(Dollars in Thousands)							
Debt securities												
Trust preferred and corporate securities	$	425	$	(75)	$	17,224	$	(7,571)	$	17,649	$	(7,646)
Obligations of states and political subdivisions		419		(14)						419		(14)
Mortgage-backed securities		115,225		(870)		26				115,251		(870)
Total debt securities	$	116,069	$	(959)	$	17,250	$	(7,571)	$	133,319	$	(8,530)

2007	LESS THAN 12 MONTHS				OVER 12 MONTHS				TOTAL			
		Fair Value		Unrealized (Losses)		Fair Value		Unrealized (Losses)		Fair Value		Unrealized (Losses)
					(Dollars in Thousands)							
Debt securities												
Trust preferred and corporate securities	$		$		$	22,238	$	(2,546)	$	22,238	$	(2,546)

Obligations of states and political subdivisions		432		(1)						432		(1)
Mortgage-backed securities		4,082		(33)		121,102		(2,734)		125,184		(2,767)
Total debt securities	$	4,514	$	(34)	$	143,340	$	(5,280)	$	147,854	$	(5,314)

As of September 30, 2008, the investment portfolio included 6 securities with current unrealized losses which have existed for longer than one year. All of these securities are considered to be acceptable credit risks. Because the declines in fair value were due to changes in market interest rates, not in estimated cash flows, no other-than-temporary impairment was recorded at September 30, 2008. In addition, the Company has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

The amortized cost and fair value of debt securities by contractual maturity are shown below. Certain securities have call features which allow the issuer to call the security prior to maturity. Expected maturities may differ from contractual maturities in mortgage-backed securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore,

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

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

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

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

NOTE 5. LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

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

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

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

Virtually all of the Company s originated loans are to Iowa- and South Dakota-based individuals and organizations. The Company s purchased loans totaled $38.6 million at September 30, 2008, which were secured by properties located, as a percentage of total loans, as follows: 4% in Iowa, 2% in Washington, 1% each in Colorado, Florida, and Oregon, and the remaining 1% in eleven other states.

The Company originates and purchases commercial real estate loans. These loans are considered by management to be of somewhat greater risk of uncollectibility due to the dependency on income production. The Company s commercial real estate loans include $16.3 million of loans secured by hotel properties and $44.2 million of multi-family properties at September 30, 2008. The Company s commercial real estate loans include $19.4 million of loans secured by hotel properties and $21.8 million of multi-family properties at September 30, 2007. The remainder of the commercial real estate portfolio is diversified by industry. The Company s policy for requiring collateral and guarantees varies with the creditworthiness of each borrower.

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

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