META FINANCIAL GROUP INC

FORM 10-K
(Annual Report)

Filed 12/22/2004 For Period Ending 9/30/2004

Address	121 EAST FIFTH STREET P O BOX 1307
	STORM LAKE, Iowa 50588
Telephone	712-732-4117
CIK	0000907471
Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	09/30

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

FORM 10-K

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

For the fiscal year ended September 30, 2004

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.

FIRST MIDWEST FINANCIAL, INC.

(Name of registrant as specified in its charter)

Delaware	**42-1406262**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Fifth at Erie, Storm Lake, Iowa	**50588**
(Address of principal executive offices)	**(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 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 |_|

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 an accelerated filer (as defined in Rule 12b-2 of the Act). YES |_| NO |X|

As of November 29, 2004, there were outstanding 2,491,025 shares of the Registrant's Common Stock.

As of March 31, 2004, 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 $43.8 million.

DOCUMENTS INCORPORATED BY REFERENCE

PARTS II and IV of Form 10-K — Portions of the Annual Report to Shareholders for the fiscal year ended September 30, 2004.

PART III of Form 10-K — Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held January 24, 2005.

Forward-Looking Statements

First Midwest Financial, Inc. ("First Midwest" or the "Company"), and its wholly-owned operating subsidiaries including First Federal Savings Bank of the Midwest and Security State Bank, may from time to time make written or oral "forward-looking statements", inc luding statements contained in its filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the Exhibits hereto and thereto), in its reports to shareholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors some of which are beyond the Company's control. The words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements. The important factors we discuss below and elsewhere in this document, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report to Shareholders and identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this prospectus:

- 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 Federal Reserve Board;
- inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for the Company's products and services;
- the success of the Company in gaining regulatory approval of its products and services, when required;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities, agriculture and insurance);
- technological changes;
- acquisitions;
- changes in consumer spending and saving habits; and
- the success of the Company at managing the risks involved in the foregoing.

The Company wishes to caution readers that such forward-looking statements speak only as of the date made. The Company does not undertake, and expressly disclaims any intent or obligation, to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Available Information

The Company’s website address is www.metacash.com. The Company makes available, through a link with the SEC’sEdgar database, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and beneficial ownership reports on Forms 3, 4, and 5 as soon as reasonably practicable after electronically filing such material with, or furnishing it to, the Securities and Exchange Commission. 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 Securities and Exchange Commission.

PART I

Item 1. Description of Business

General

First Midwest Financial, Inc. is a Delaware corporation, the principal assets of which are all the issued and outstanding shares of First Federal Savings Bank of the Midwest (“First Federal”) and Security State Bank (“Security”). First Midwest, on September 20, 1993, acquired all of the capital stock of First Federal in connection with First Federal’s conversion from the mutual to stock form ownership (the “Conversion”). On September 30, 1996, First Midwest became a bank holding company upon its acquisition of Security, as discussed below.

Since the Conversion, the Company has acquired several financial institutions. On March 28, 1994, First Midwest acquired Brookings Federal Bank in Brookings, South Dakota. On December 29, 1995, First Midwest acquired Iowa Savings Bank, FSB in Des Moines, Iowa (“Iowa Savings”). Brookings Federal and Iowa Savings were both merged with, and now operate as divisions of, First Federal and such divisions are currently referred to as “Brookings” and “Iowa Savings,” respectively. On September 30, 1996, First Midwest completed the acquisition of Central West Bancorporation (“CWB”). CWB was the holding company for Security in Stuart, Iowa, which upon the merger of CWB into First Midwest resulted in Security becoming a stand-alone banking subsidiary of First Midwest. Unless the context otherwise requires, references herein to the Company include First Midwest, Security and First Federal and all subsidiaries on a consolidated basis.

First Federal and Security (collectively, the “Banks”) are the only direct, active banking subsidiaries of First Midwest. The Banks are community-oriented financial institutions offering a variety of financial services to meet the needs of the communities they serve. The Company, through the Banks, provides a full range of financial services. The principal business of First Federal has consisted of attracting retail deposits from the general public and investing those funds primarily in one- to four-family residential mortgage loans, commercial and multi-family real estate, agricultural operating and real estate, construction, consumer and commercial business loans primarily in First Federal’s market area. First Federal’s lending activities have expanded to include an increased emphasis on originations of commercial and multi-family real estate loans and commercial business loans. The principal business of Security has been and continues to be attracting retail deposits from the general public and investing those funds in commercial and multi-family real estate and commercial operating loans and, to a lesser extent, one- to four-family residential and consumer (including agriculture) loans. The Banks also purchase mortgage-backed securities and invest in U.S. Government and agency obligations and other permissible investments. At September 30, 2004, the Company had total assets of $780.8 million, deposits of $461.6 million, and shareholders’ equity of $47.3 million. It is anticipated that First Midwest, First Federal and

Security will change their names to Meta Financial Group, Inc., MetaBank and MetaBank – West Central Iowa in the first quarter of 2005.

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

First Federal, through its affiliation with Bill Markve and Associates, offers insurance products, mutual funds, equities, bonds and annuities.

First Services Trust Company (the "Trust Company"), established in April 2002 as a South Dakota corporation and a wholly-owned subsidiary of First Midwest, provides a full range of trust services. It is anticipated that the Trust Company will change its name to Meta Trust Company in the first quarter of 2005. First Midwest Financial Capital Trust, also a wholly-owned subsidiary of First Midwest, was established in July 2001 for the purpose of issuing Company Trust Preferred Securities.

First Midwest and the Banks are subject to comprehensive regulation. See "Regulation" herein.

The executive offices of the Company are located at Fifth at Erie, Storm Lake, Iowa 50588. Its telephone number at that address is (712) 732-4117.

Market Area

First Federal Savings Bank of the Midwest has five divisions: First Federal Savings Bank Northwest Iowa (FFSL), Brookings Federal Bank (BFB), Iowa Savings Bank (ISB), and First Federal Savings Bank Sioux Empire (FFSE). First Federal's headquarters is located on the corner of Fifth and Erie streets in Storm Lake, Iowa. FFSL operates a total of six offices in Storm Lake, Lake View, Laurens, Odebolt and Sac City, Iowa. BFB operates one office in Brookings, South Dakota. ISB operates four offices in Des Moines, West Des Moines and Urbandale, Iowa, with plans to open a fifth office by Jordan Creek Mall in West Des Moines in 2005. FFSE operates two offices in Sioux Falls with plans to open a third office in 2005. The fifth division is Meta Payment Systems, which is the Bank's start up in the business of stored value cards. It operates out of its headquarters in Sioux Falls, South Dakota. See "Stored Value Card Program."

Security State Bank operates its business through three full-service offices in Casey, Menlo and Stuart, Iowa.

The Company's primary market area includes the Iowa counties of Adair, Buena Vista, Dallas, Guthrie, Pocahontas, Polk and Sac, and the South Dakota counties of Brookings, Lincoln and Minnehaha.

Iowa ranks sixth lowest nationally in business costs (Economy.com Inc. 2003), among the top ten states for "technology sophistication" in K-12 schools (Market Data Retrieval), third most favorable business liability climate in the nation (Harris Interactive Survey, U.S. Chamber of Commerce, 2003), second "most livable" state in the nation (Morgan Qullno State Rankings, 2003), and has low corporate income taxes.

South Dakota ranks first in "entrepreneurial friendliness" (Small Business Survival Foundation, 2002), first in students per computer (Technology Courts 2002), is the second "safest" state (FBI, 2001), and has no corporate income tax, personal income tax, personal property tax, business inventory tax, or inheritance tax.

Storm Lake is located in Iowa's Buena Vista County approximately 150 miles northwest of Des Moines and 200 miles southwest of Minneapolis. Like much of the State of Iowa, Storm Lake and the surrounding market area are highly dependent upon farming and agricultural markets. Major employers in the area include Buena Vista Regional Medical Center, Tyson-Foods, Sara Lee Foods and Buena Vista University, which currently enrolls 1,242 full-time students at its Storm Lake campus and employs 81 full-time faculty members. The Northwest Iowa division operates two offices in Storm Lake with additional offices in Laurens, Sac City, Lake View and Odebolt.

Brookings is located in east central South Dakota's Brookings County, approximately 50 miles north of Sioux Falls and 200 miles west of Minneapolis. The Bank's market area encompasses approximately a 30-mile radius of Brookings. The area is generally rural, and agriculture is a significant industry in the community. South Dakota State University is the largest employer in Brookings. The University had 10,996 students enrolled for the 2004 fall term and employs 550 full-time faculty members. The community also has several manufacturing companies, including 3M, Larson Manufacturing, Daktronics, Falcon Plastics and Twin City Fan. The Brookings division operates from an office located in downtown Brookings.

Des Moines, Iowa's capital, is located in central Iowa. The Des Moines market area encompasses Polk County and surrounding counties. ISB's main office is located in a high growth area just off I-80 at the intersection of two major streets in Urbandale. The West Des Moines office operates near a high-traffic intersection, across from a major shopping mall. The Ingersoll office is located near the heart of Des Moines, on a major thoroughfare, in a densely populated area. The Highland Park facility is located in a historical district approximately five minutes north of downtown Des Moines. The Des Moines metro area is one of the top three insurance centers in the world, with sixty-seven insurance company headquarters and over one hundred regional insurance offices. Major employers include Principal Life Insurance Company, Des Moines Community Schools, Central Iowa Hospital Corporation, Mercy Hospital Medical Center, Hy-Vee Food Stores, Inc., Wells Fargo Home Mortgage Inc., Pioneer Hi Bred International Inc., Bridgestone/Firestone, Communications Data Services Inc., and Meredith Corporation. Universities and colleges in the area include Des Moines Area Community College, Drake University, Simpson College, Des Moines University – Osteopathic Medical Center, Grand View College, AIB College of Business, and Upper Iowa University. The unemployment rate in the Des Moines metro area was 3.6% as of October 2004.

Sioux Falls is located at the crossroads of Interstates 29 and 90 in southeast South Dakota, 270 miles southwest of Minneapolis. The Sioux Falls market area encompasses Minnehaha and Lincoln counties. Sioux Falls ranks third in a national list of top cities to start a company according to a report by Cognetics, Inc. (Kiplinger Report, April 2001). Sioux Falls received an "A+" on Zero Population Growth's 2001 Kid-Friendly Cities Report Card, excelling in health, public safety, education, economics, environment, and community life; ranking third out of 140 cities. The city was called a "Diamond in the Rough" as a great smaller market for businesses to make a move. The magazine cited the community's growth rates as a huge opportunity and recognized the state's friendly tax laws. (Sales & Marketing Management April 2002.) The main branch is located at a high-traffic intersection of Minnesota and 33rd in the heart of Sioux Falls. The second branch, which opened in 2004, is located at the high-traffic intersection of 12th and Elmwood. The third branch, expected to open in 2005, is located at the high traffic intersection of 57th and Western. Major employers in the area include Sioux Valley Hospital, Avera McKennan Hospital, John Morrell & Company, Citibank (South Dakota), and Hy-Vee Food Stores. Sioux Falls is home to Augustana College with 2004 fall enrollment of 1,653 and The University of Sioux Falls with 2004 fall enrollment of 1,586. The unemployment rate in Sioux Falls was 2.7% as of November 2004.

Security's main office operates in Stuart, which is located in west-central Iowa on the border of Adair and Guthrie counties, approximately 40 miles west of Des Moines. Security's market area is highly dependent on farming and agriculture. Local businesses include Agri-Drain Corporation, Cardinal Glass, Rose Acre Farms, Wausau Supply and Schafer Systems, Inc. In addition, a large number of area residents commute to the Des Moines metro area for work. In recent years, efforts of the Midwest Partnership Corporation have resulted in significant development of new service-related businesses in the area, associated with the westward expansion of Des Moines and direct interstate highway access. Seven industrial parks exist in these two counties with rail access recently added to the Stuart area. This development provides economic diversity to Security's market area.

Several of the Company's market areas are dependant on agriculture-related businesses. Iowa land values are currently near the all-time high of 1981. Agriculture-related businesses in recent years have performed well due to a relatively stable agricultural environment in the Company's market area. Generally yields and commodity prices have been at reasonable levels for area farmers over the past few years; however, commodity prices have declined somewhat over the past year. Although there has been minimal effect observed to date, an extended period of low commodity prices could result in a reduced demand for goods and services provided by agriculture-related businesses, which could also affect other businesses in the Company's market area.

Lending Activities

General **.** Historically, the Company originated fixed-rate, one- to four-family mortgage loans. In the early 1980s, the Company began to focus on the origination of adjustable-rate mortgage ("ARM") loans and short-term loans for retention in its portfolio in order to increase the percentage of loans in its portfolio with more frequent repricing or shorter maturities, and in some cases higher yields, than fixed-rate residential mortgage loans. The Company, however, has continued to originate fixed-rate residential mortgage loans in response to consumer demand, although most such loans are generally sold in the secondary market. See "Management's Discussion and Analysis -- Asset/Liability Management" in the Annual Report.

More recently, the Company has focused its lending activities on the origination of commercial and multi-family real estate loans, commercial business loans, and commercial construction loans. The Company has increased its emphasis, both in absolute dollars and as a percentage of its gross loan portfolio, on all types of commercial lending. The Company also continues to originate one-to-four family mortgage loans, consumer loans and agriculturally related loans. The Company originates most of its loans in its primary market area. At September 30, 2004, the Company's net loan portfolio totaled $404.1 million, or 51.7% of the Company's total assets.

Loan applications are initially considered and approved at various levels of authority, depending on the type and amount of the loan. The Company has loan committees for each of the Banks. Loans in excess of certain amounts require the approval of at least two committee members of the senior loan committee by the Bank's Board loan committee or by the Bank's Board of Directors, which has responsibility for the overall supervision of the loan portfolio. The Company reserves the right to discontinue, adjust or create new lending programs to respond to its needs and to competitive factors.

At September 30, 2004, the Company's largest lending relationship to a single borrower or group of related borrowers totaled $9.5 million. This lending relationship has total borrowings outstanding with the Company of $27.6 million, with $18.1 million sold to other participants. The Company had twenty-nine other lending relationships in excess of $3.0 million as of September 30, 2004 with the average outstanding balance of such loans equal totaling approximately $4.6 million. At September 30, 2004, each of these loans was performing in accordance with its repayment terms.

Loan Portfolio Composition. The following table provides information about the composition of the Company's loan portfolio in dollar amounts and in percentages (before deductions for loans in process, deferred fees and discounts and allowances for losses) as of the dates indicated.

	September 30									
	2004		2003		2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real Estate Loans										
One- to four-family	$ 45,632	11.0%	$ 52,193	14.4%	$ 72,678	20.5%	$ 95,612	27.9%	$105,702	31.6%
Commercial and multi-family	196,774	47.2	171,791	47.2	151,806	42.9	123,636	36.0	103,595	31.0
Agricultural	12,880	3.0	11,639	3.2	12,067	3.4	11,729	3.4	10,895	3.3
Construction or development	29,732	7.1	19,435	5.3	25,745	7.3	21,884	6.4	31,301	9.4
Total real estate loans	285,018	68.3	255,058	70.1	262,296	74.1	252,861	73.7	251,493	75.3
Other Loans :										
Consumer Loans:										
Home equity	21,993	5.3	18,126	5.0	14,669	4.2	17,458	5.1	18,144	5.4
Automobile	2,975	0.7	3,271	0.9	3,287	0.9	4,160	1.2	2,596	.8
Other(1)	5,387	1.3	5,237	1.4	5,637	1.6	6,551	1.9	5,743	1.7
Total consumer loans	30,355	7.3	26,634	7.3	23,593	6.7	28,169	8.2	26,483	7.9
Agricultural operating	21,148	5.1	22,599	6.2	25,308	7.1	25,253	7.4	26,810	8.0
Commercial business	80,515	19.3	59,468	16.4	42,844	12.1	36,773	10.7	29,332	8.8
Total other loans	132,018	31.7	108,701	29.9	91,745	25.9	90,195	26.3	82,625	24.7
Total loans	417,036	100.0%	363,759	100.0%	354,041	100.0%	343,056	100.0%	334,118	100.0%
Less :										
Loans in process	7,342		8,895		7,155		5,859		5,424	
Deferred fees and discounts	272		210		256		266		401	
Allowance for losses	5,371		4,962		4,693		3,869		3,590	
Total loans receivable, net	$404,051		$349,692		$341,937		$333,062		$324,703	

(1) 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,									
	2004		2003		2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Fixed Rate Loans										
Real estate:										
One- to four-family	$ 33,917	8.1%	$ 36,655	10.1%	$ 45,387	12.8%	$ 55,521	16.2%	$ 50,813	15.2%
Commercial and multi-family	105,001	25.2	95,976	26.4	72,658	20.5	40,778	11.9	35,277	10.6
Agricultural	5,306	1.3	5,311	1.5	5,498	1.6	5,605	1.6	3,147	.9
Construction or development	15,221	3.6	11,528	3.1	2,788	0.8	5,545	1.6	4,001	1.2
Total fixed-rate real estate loans	159,445	38.2	149,470	41.1	126,331	35.7	107,449	31.3	93,238	27.9
Consumer	15,583	3.7	17,889	4.9	20,282	5.7	25,834	7.5	25,066	7.5
Agricultural operating	5,987	1.4	5,238	1.4	9,339	2.6	7,402	2.2	10,396	3.1
Commercial business	23,946	5.8	27,967	7.7	14,455	4.1	14,986	4.4	14,215	4.3
Total fixed-rate loans	204,961	49.1	200,564	55.1	170,407	48.1	155,671	45.4	142,915	42.8
Adjustable Rate Loans :										
Real estate:										
One- to four-family	11,715	2.8	15,538	4.3	27,291	7.7	40,091	11.7	54,889	16.4
Commercial and multi-family	91,773	22.0	75,815	20.8	79,148	22.4	82,858	20.5	68,318	20.5
Agricultural	7,574	1.8	6,328	1.7	6,569	1.9	6,124	1.8	7,748	2.3
Construction or development	14,511	3.5	7,907	2.2	22,957	6.5	16,339	4.8	27,300	8.2
Total adjustable-rate real estate loans	125,573	30.1	105,588	29.0	135,965	38.5	145,412	42.4	158,255	47.4
Consumer	14,772	3.5	8,745	2.4	3,311	0.9	2,335	.7	1,417	.4
Agricultural operating	15,161	3.6	17,361	4.8	15,969	4.5	17,851	5.2	16,414	4.9
Commercial business	56,569	13.7	31,501	8.7	28,389	8.0	21,787	6.4	15,117	4.5
Total adjustable rate loans	212,075	50.9	163,195	44.9	183,634	51.9	187,385	54.6	191,203	57.2
Total loans	417,036	100.0%	363,759	100.0%	354,041	100.0%	343,056	100.0%	334,118	100.0%
Less :										
Loans in process	7,342		8,895		7,155		5,859		5,424	
Deferred fees and discounts	272		210		256		266		401	
Allowance for losses	5,371		4,962		4,693		3,869		3,590	
Total loans receivable, net	$404,051		$349,692		$341,937		$333,062		$324,703	

The following table illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 2004. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract reprices. The table does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Real Estate											
	Mortgage(1)		Construction		Consumer		Agricultural Operating		Commercial Business		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 During Years *Ending September 30*												
2005(2)	$ 96,472	5.94%	$21,632	5.77%	$18,588	5.70%	$17,215	6.27%	$56,090	5.80%	$209,997	5.89%
2006-2009	125,726	6.00	5,671	5.66	8,464	7.01	3,864	6.27	22,606	5.42	166,331	5.97
2010 and following	33,088	5.97	2,429	5.18	3,303	7.02	69	5.50	1,819	5.82	40,708	6.00

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

(2) Includes demand loans, loans having no stated maturity and overdraft loans.

The total amount of loans due after September 30, 2005 which have predetermined interest rates is $149.6 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $124.1 million.

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 from real estate agents and builders. At September 30, 2004, the Company’s one- to four-family residential mortgage loan portfolio totaled $45.6 million, or 11.0% of the Company’s total gross loan portfolio. Approximately 8.2% of the Company’s one- to four-family mortgage loans or 0.9% of the Company’s gross loans have been purchased, generally from other financial institutions. The majority of these are ARM or balloon loans. See “Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities.” At September 30, 2004, the average outstanding principal balance of a one- to four-family residential mortgage loan was approximately $62,000.

The Company offers fixed-rate and ARM loans. During the year ended September 30, 2004, the Company originated $4.1 million of adjustable-rate loans and $23.0 million of fixed-rate loans secured by one- to four-family residential real estate, of which approximately $9.0 million was held in portfolio. The Company’s one- to four-family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas.

The Company originates one- to four-family residential mortgage loans with terms up to a maximum of 30-years and with loan-to-value ratios up to 97% of the lesser of the appraised value of the security property or the contract price. The Company generally requires that private mortgage insurance be obtained in an amount sufficient to reduce the Company’s exposure to at or below the 80% loan-to-value level or the loans are sold. Residential loans generally do not include prepayment penalties.

The Company currently offers one, three, five and seven year ARM loans. These loans have a fixed-rate for the stated period and, thereafter, such loans adjust annually. These loans generally provide for an annual cap of up to a 200 basis points and a lifetime cap of 600 basis points over the initial rate. As a consequence of using an initial fixed-rate and caps, the interest rates on these loans may not be as rate sensitive as is the Company’s cost of funds. The Company’s ARMs do not permit negative amortization of principal and are not convertible into a fixed rate loan. The Company’s delinquency experience on its ARM loans has generally been similar to its experience on fixed rate residential loans.

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, *i.e.* , Fannie Mae, Ginnie Mae, and Freddie Mac standards. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions. The Company currently sells most, but not all, of its fixed-rate loans with terms greater than 15 years. Historically, the Company had held in portfolio a higher percentage of its fixed rate mortgage loans.

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

Commercial and Multi-Family Real Estate Lending. The Company engages in commercial and multi-family real estate lending in its primary market area and surrounding areas and has purchased whole loan and participation interests in loans from other financial institutions. At September 30, 2004, the Company's commercial and multi-family real estate loan portfolio totaled $196.8 million, or 47.2% of the Company's total gross loan portfolio. The purchased loans and loan participation interests are generally secured by properties located in the Midwest and Northwest. See "Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." The Company, in order to supplement its loan portfolio and consistent with management's objectives to expand the Company's commercial and multi-family loan portfolio, purchased $25.7 million, $26.2 million, and $24.5 million of such loans during fiscal 2004, 2003 and 2002, respectively. At September 30, 2004, $399,000 or 0.2% of the Company's commercial and multi-family real estate loans were non-performing. See "Non-Performing Assets, Other Loans of Concern and Classified Assets."

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

At September 30, 2004, the Company's largest commercial and multi-family real estate loan was a $7.7 million loan secured by residential housing developments. The Company had twenty-two other commercial and/or multi-family loans in excess of $3.0 million at such date. All of these loans are currently performing in accordance with their terms. At September 30, 2004, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was approximately $466,000.

Multi-family and commercial 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 multi-family and commercial 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.

Construction Lending. The Company makes construction loans to individuals for the construction of their residences as well as to builders for the construction of one- to four-family residences and commercial and multi-family real estate. At September 30, 2004, the Company's construction loan portfolio totaled $29.7 million, or 7.1% of the Company's total gross loan portfolio.

Construction loans to individuals for their residences are structured to be converted to permanent loans at the end of the construction phase, which typically runs up to twelve months. These construction loans have rates and terms which generally match the one- to four-family loan rates then offered by the Company, except that during the construction phase the borrower pays interest only. Generally, the maximum loan-to-value ratio of owner occupied single family construction loans is 80% of appraised value. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential loans. At September 30, 2004, the Company had $2.8 million of construction loans to borrowers intending to live in the properties upon completion of construction.

Generally, construction loans to builders of one- to four-family residences require the payment of interest only for up to 12 months and have terms of up to 12 months. These loans may provide for the payment of interest and loan fees from loan proceeds and carry adjustable rates of interest. Loan fees charged in connection with the origination of such loans are generally 1%.

Construction loans on commercial and multi-family real estate projects may be secured by apartments, agricultural facilities, small office buildings, medical facilities, assisted living facilities, hotels or other property, and are generally structured to be converted to permanent loans at the end of the construction phase, which generally runs up to 18 months. During the construction phase the borrower pays interest only. These loans generally provide for the payment of interest and loan fees from loan proceeds. At September 30, 2004, the Company had approximately $26.9 million of loans for the construction of commercial and multi-family real estate. This amount consisted of seven loans totaling $3.7 million for the construction of non-owner occupied single family residences, one loan totaling $550,000 for the construction of a church, and twelve loans totaling $22.8 million for the construction of commercial facilities. All of these loans were performing in accordance with their terms at September 30, 2004.

Construction loans are obtained principally through continued business from builders who have previously borrowed from the Company and from existing customers who are building new facilities. The application process includes a submission to the Company of accurate plans, specifications, costs of the project to be constructed and projected revenues from the project. These items are also used as a basis to determine the appraised value of the subject property. Loans are based on the lesser of the appraised value of the property or the cost of construction (land plus building).

Construction loans to borrowers other than owner-occupants involve many of the same risks discussed above regarding multi-family and commercial real estate loans and tend to be more sensitive to general economic conditions than many other types of loans. Also, the funding of loan fees and interest during the construction phase makes the monitoring of the progress of the project particularly important, as customary early warning signals of project difficulties may not be present.

Agricultural Lending. The Company originates loans to finance the purchase of farmland, livestock, farm machinery and equipment, seed, fertilizer and for other farm related products. At September 30, 2004, the Company had agricultural real estate loans secured by farmland of $12.9 million or 3.0% of the Company’s gross loan portfolio. At the same date, $21.1 million, or 5.1% of the Company’s gross loan portfolio, consisted of secured loans related to agricultural operations.

Agricultural operating loans are originated at either an adjustable or fixed rate of interest for up to a one year term or, in the case of livestock, upon sale. Most agricultural operating loans have terms of one year or less. Such loans provide for payments of principal and interest at least annually, or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years. At September 30, 2004, the average outstanding principal balance of an agricultural operating loan held by the Company was $46,000. At September 30, 2004, $254,000, or 1.2%, of the Company’s agricultural operating loans were non-performing.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first one to five years, which then balloon or adjust annually thereafter. In addition, such loans generally amortize over a period of ten to 20 years. Adjustable-rate agricultural real estate loans provide for a margin over the yields on the corresponding U.S. Treasury Security or prime rate. Fixed-rate agricultural real estate loans generally have terms up to five years. Agricultural real estate loans are generally limited to 75% of the value of the property securing the loan. At September 30, 2004, none of the Company's agricultural real estate portfolio was non-performing.

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

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

Consumer Lending . The Company offers 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. The Company currently originates substantially all of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. At September 30, 2004, the Company's consumer loan portfolio totaled $30.4 million, or 7.3% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 2004, $15.6 million were short- and intermediate-term, fixed-rate loans, while $14.8 million were adjustable-rate loans.

The largest component of the Company's consumer loan portfolio consists 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 Company will lend amounts which, together with all prior liens, may be up to 100% of the appraised value of the property securing the loan. Home equity loans and lines of credit generally have maximum terms of five years.

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

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At September 30, 2004, 59,000, or 0.2%, of the Company’s consumer loan portfolio was non-performing.

Commercial Business Lending. The Company also originates commercial business loans. Most of the Company’s commercial business loans have been extended to finance local and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. At September 30, 2004, $80.5 million, or 19.3% of the Company’s total gross loan portfolio was comprised of commercial business loans.

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

The largest commercial business loan outstanding at September 30, 2004 was a $8.4 million warehouse line of credit secured primarily by the assignment of automobile contracts and new and used automobiles. The next largest commercial business loan outstanding at September 30, 2004 was a $4.1 million loan secured by all operating assets of the borrower. The Company had sixteen other commercial business loans outstanding in excess of $1.0 million at September 30, 2004. All of these loans are currently performing in accordance with their terms. At September 30, 2004, the average outstanding principal balance of a commercial business loan held by the Company was approximately $173,000.

Unlike residential mortgage loans, which generally are made on the basis of the borrower’s ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is likely to be dependent upon the general economic environment). The Company's commercial business loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At September 30, 2004, none of the Company's commercial business loan portfolio was non-performing.

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

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

The Company, from time to time, sells whole loans and loan participations generally without recourse. At September 30, 2004, there were no loans outstanding sold with recourse. When loans are sold the Company typically retains the responsibility for collecting and remitting loan payments, making certain that real estate tax payments are made on behalf of borrowers, and otherwise servicing the loans. The servicing fee is recognized as income over the life of the loans. The Company services loans that it originated and sold totaling $53.3 million at September 30, 2004, of which $25.8 million were sold to Fannie Mae and $27.5 million were sold to others.

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

The following table shows the loan origination (including undisbursed portions of loans in process), purchase and repayment activities of the Company for the periods indicated.

	September 30,		
	2004	2003	2002
	(Dollars in Thousands)		
Originations by type :			
Adjustable rate:			
Real estate – one- to four-family	$ 4,084	$ 1,748	$ 1,892
- commercial and multi-family	35,289	24,452	23,781
- agricultural real estate	5,418	5,861	3,807
Non-real estate – consumer	14,669	10,424	3,161
- commercial business	103,864	68,088	83,479
- agricultural operating	29,847	25,133	20,036
Total adjustable-rate	193,171	135,706	136,156
Fixed rate:			
Real estate – one- to four-family	22,969	76,215	49,493
- commercial and multi-family	43,875	52,282	50,848
- agricultural real estate	40	—	—
Non-real estate – consumer	8,288	12,578	13,823
- commercial business	21,324	33,405	33,277
- agricultural operating	5,839	14,502	16,265
Total fixed-rate:	102,335	188,982	163,706
Total loans originated	295,506	324,688	299,862
Purchases :			
Real estate- one-to-four-family	—	—	—
- commercial and multi-family	25,732	26,163	24,542
Non-real estate – commercial business	13,810	—	2,563
Total loans	39,542	26,163	27,105
Total mortgage-backed securities	46,004	428,753	128,494
Total purchased	85,546	454,916	155,599
Sales and Repayments :			
Sales:			
Real estate – one- to four family	18,043	46,418	21,486
Non-real estate – commercial business	—	—	—
Total loans	18,043	46,418	21,486
Mortgaged-backed securities	—	88,210	—
Total sales	18,043	134,628	21,486
Repayments:			
Loan principal repayments	265,934	294,761	293,241
Mortgage-backed securities repayments	88,588	185,621	48,519
Total principal repayments	354,792	480,382	341,760
Total reductions	372,835	615,010	363,246

Increase (decrease) in other items, net	(1,133)	(7,067)	(1,389)
Net increase (decrease)	$ 7,084	$ 157,527	$ 90,826

At September 30, 2004, approximately $91.7 million, or 22.0%, of the Company’s gross loan portfolio consisted of purchased loans. The Company believes that purchasing loans outside of its market area assists the Company in diversifying its portfolio and may lessen the adverse affects on the Company’s business or operations which could result in the event of a downturn or weakening of the local economy in which the Company conducts its operations. However, additional risks are associated with purchasing loans outside of the Company's market area, including the lack of knowledge of the local market and difficulty in monitoring and inspecting the property securing the loans. The Company does not record any adjustments to the allowance for loan losses as a result of these loan purchases.

The following table provides information regarding the Company's balance of wholly purchased real estate loans and real estate loan participations for each state in which the balance of such loans exceeded $1.0 million at September 30, 2004. Not included in the following table are purchased commercial business loans totaling $10.4, approximately 17.0% of which are located in the Company's market area.

	One- to four-Family Loans		Commercial and Multi-Family		Construction Loans		Total Purchased Loans	
Location	Balance	Number of Loans	Balance	Number of Loans	Balance	Number of Loans	Balance	Number of Loans
	(Dollars in Thousands)							
Arizona	$ —	—	$ 10,000	2	$ —	—	$ 10,000	2
California	—	—	2,570	2	—	—	2,570	2
Colorado	—	—	4,864	8	—	—	4,864	8
Iowa	273	9	2,890	3	5,000	1	8,163	13
Minnesota	—	—	6,019	5	3,000	1	9,019	6
Missouri	395	8	3,810	3	—	—	4,205	11
Montana	—	—	1,465	1	—	—	1,465	1
North Carolina	2,072	9	—	—	—	—	2,072	9
Oregon	—	—	—	—	3,000	1	3,000	1
South Dakota	50	3	3,663	3	—	—	3,713	6
Washington	284	1	22,828	10	2,244	5	25,356	16
Wisconsin	—	—	5,497	4	—	—	5,497	4
Other states	651	46	732	2	—	—	1,383	48
Total	$ 3,725	76	$ 64,338	43	$ 13,244	8	$ 81,307	127
Percent of loan portfolio	8.2%		32.7%		44.5%		19.5%	

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

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

Generally, when a loan becomes delinquent 90 days or more or when the collection of principal or interest becomes doubtful, the Company will place the loan on a non-accrual status and, as a result, previously accrued interest income on the loan is taken out of current income. The loan will remain on a non-accrual status until the loan becomes current.

The following table sets forth the Company's loan delinquencies by type, before allowance for loan losses, by amount and by percentage of type at September 30, 2004.

	Loans Delinquent For:								
	30-59 Days			60-89 Days			90 Days and Over		
	Number	Amount	Percent of Category	Number	Amount	Percent of Category	Number	Amount	Percent of Category
	(Dollars in Thousands)								
Real Estate:									
One- to four-family	2	$ 86	0.19%	—	$ —	—%	—	$ —	—%
Commercial and multi-family	1	951	0.48	—	—	—	1	399	0.20
Consumer	9	109	0.36	4	35	0.12	2	59	0.19
Agricultural operating	—	—	—	—	—	—	1	254	1.20
Commercial business	—	—	—	—	—	—	—	—	—
Total	12	$1,146	0.27%	4	$ 35	0.01%	4	$ 712	0.17%

Delinquencies 90 days and over constituted 0.17% of total loans and 0.09% of total assets.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Loans, with some exceptions, are typically placed on non-accrual status when the loan becomes 90 days or more delinquent or when the collection of principal and/or interest become doubtful. For all years presented, the Company's troubled debt restructurings (which involved forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates) are included in the table and were performing as agreed.

	September 30,				
	2004	2003	2002	2001	2000
Non-accruing loans:					
One- to four-family	$ —	$ 156	$ 51	$ 168	$ 206
Commercial and multi-family	399	417	417	464	—
Agricultural real estate	—	—	41	—	37
Consumer	59	17	—	33	—
Agricultural operating	254	291	394	569	17
Commercial business	—	126	408	369	51
Total non-accruing loans	712	1,007	1,311	1,603	311
Accruing loans delinquent 90 days or more	—	—	819	—	—
Total non-performing loans	712	1,007	2,130	1,603	311
Restructured Loans:					
Consumer	—	—	—	10	—
Agricultural operating	9	28	9	14	918
Commercial business	8	31	71	—-	43
Total restructured loans	17	59	80	24	961
Foreclosed assets:					
One- to four-family	—	—	—	—	—
Commercial real estate	—	912	1,310	889	430
Consumer	—	4	18	51	15
Commercial business	—	193	—	—	—
Total	—	1,109	1,328	940	445
Less: Allowance for losses	—	—	—	—	—
Total foreclosed assets, net	—	1,109	1,328	940	445
Total non-performing assets	$ 729	$ 2,175	$ 3,538	$ 2,567	$ 1,717
Total as a percentage of total assets	.09%	.28%	.58%	.49%	.34%

For the year ended September 30, 2004, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately $129,000, of which none was included in interest income.

Non-accruing Loans . At September 30, 2004, the Company had $712,000 in non-accruing loans, which constituted 0.17% of the Company's gross loan portfolio. At such date, there were no non-accruing loans or aggregate non-accruing loans to one borrower in excess of $399,000 in net book value.

Accruing Loans Delinquent 90 Days or More. At September 30, 2004, the Company has no accruing loans delinquent 90 days or more.

Other Loans of Concern. At September 30, 2004, there were loans totaling $12.3 million not included in the table above where known information about the possible credit problems of borrowers caused management to have concern as to the ability of the borrower to comply with the present loan

repayment terms. This amount consisted of one one- to four-family residential mortgage loans totaling $26,000, seven commercial business loans totaling $912,000, four agricultural operating loans totaling $458,000, two consumer loans totaling $14,000 and four commercial real estate loans totaling $10.8 million.

Commercial real estate loans of concern at September 30, 2004 included a $4.1 million participation loan secured by a hotel located in Federal Way, Washington. A slow down in the travel industry after 9/11 contributed to delinquency issues with this loan during fiscal 2002. This property is continuing its recovery from the slowdown and the loan was current at September 30, 2004.

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

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

On the basis of management’s review of its assets, at September 30, 2004, the Company had classified a total of $12.9 million of its assets as substandard, $11,000 as doubtful and none as loss.

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

Current economic conditions in the agricultural sector of the Company’s market area are generally stable. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problem. Although the Company underwrites its agricultural loans based on the current level of commodity prices, an extended period of low commodity prices or adverse growing conditions could result in weakness in the agricultural loan portfolio and could create a need for the Company to increase its allowance for loan losses through increased charges to provision for loan losses.

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

Although management believes that it uses the best information available to determine the allowances, unforeseen market conditions could result in adjustments and net earnings could be significantly affected if circumstances differ substantially from the assumptions used in making the final determination. Future additions to the Company’s allowances will be the result of periodic loan, property and collateral reviews and thus cannot be predicted in advance.

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

	September 30 2004	2003	2002	2001	2000
	(Dollars in Thousands)				
Balance at beginning of period	$ 4,962	$ 4,693	$ 3,869	$ 3,590	$ 3,093
Charge-offs:					
One-to four family	(7)	(4)	(11)	(37)	(65)
Agricultural operating	—	—	(84)	(308)	—
Commercial and multi-family	—	(31)	—	—	(370)
Consumer	(19)	(49)	(139)	(61)	(104)
Commercial business	(83)	(29)	(86)	(76)	(731)
Total charge-offs	(109)	(113)	(320)	(482)	(1,270)
Recoveries:					
One-to-four family	2	2	2	2	—
Consumer	25	13	39	29	55
Commercial business	2	10	4	3	33
Commercial and multi-family	—	—	—	—	—
Agricultural operating	—	7	9	17	39
Total recoveries	29	32	54	51	127
Net charge-offs	(80)	(81)	(266)	(431)	(1,143)
Additions charged to operations	489	350	1,090	710	1,640
Balance at end of period	$ 5,371	$ 4,962	$ 4,693	$ 3,869	$ 3,590
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	.02%	.08%	.13%	.37%
Ratio of net charge-offs during the period to average non-performing assets	2.26%	2.50%	4.54%	16.04%	64.53%

For more information on the provision for loan losses, see "Management's Discussion and Analysis - Results of Operations" in the Annual Report.

The distribution of the Company's allowance for losses on loans at the dates indicated is summarized as follows:

	September 30,									
	2004		2003		2002		2001		2000	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)									
One- to four-family	$ 97	10.94%	$ 135	14.35%	$ 170	20.53%	$ 222	27.87%	$ 250	31.63%
Commercial and multi-family real estate	2,704	47.18	2,390	46.99	2,536	42.88	1,604	36.04	1,183	31.01
Agricultural real estate	178	7.13	116	3.20	131	3.41	128	3.42	124	3.26
Construction	130	3.09	122	5.58	129	7.27	88	6.38	125	9.37
Consumer	376	7.28	344	7.32	317	6.66	403	8.21	335	7.93
Agricultural operating	478	5.07	628	6.21	639	7.15	617	7.36	611	8.02
Commercial business	1,338	19.31	1,027	16.35	663	12.10	618	10.72	592	8.78
Unallocated	70	—	200	—	108	—	189	—	370	—
Total	$5,371	100.00%	$4,962	100.00%	$ 4,693	100.00%	$ 3,869	100.00%	$3,590	100.00%

Investment Activities

General. The investment policy of the Company generally is to invest funds among various categories of investments and maturities based upon the Company's need for liquidity, to achieve the proper balance between its desire to minimize risk and maximize yield, to provide collateral for borrowings, and to fulfill the Company's asset/liability management policies. The Company's investment and mortgage-backed securities portfolios are managed in accordance with a written investment policy adopted by the Board of Directors, which is implemented by members of the Bank's Investment Committee.

As of September 30, 2004, the Company's entire investment and mortgage-backed securities portfolios were classified as available for sale. For additional information regarding the Company's investment and mortgage-backed securities portfolios, see Notes 1 and 3 of the Notes to Consolidated Financial Statements in the Annual Report.

As of September 30, 2004, investment and mortgage-backed securities with amortized costs of approximately $204.9 million and fair values of approximately $203.9 million were pledged as collateral for FHLB advances and reverse repurchase agreements. For additional information regarding the Company's collateralization of borrowed money, see Notes 8 and 9 of the Notes to Consolidated Financial Statement in the Annual Report.

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

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

	September 30,		
	2004	2003	2002
	(Dollars in Thousands)		
Investment Securities:			
Trust preferred securities(1)	$ 25,992	$ 23,323	$ 24,128
Municipal bonds	482	606	764
Equity investments	514	494	660
Freddie Mac preferred stock	264	226	191
Fannie Mae common stock	127	140	156
Other	1053	1,001	—
Subtotal	28,432	25,790	25,899
FHLB stock	11,053	10,930	6,843
Total investment securities and FHLB stock	$ 39,485	$ 36,720	$ 32,742
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds sold	$ 7,345	$ 7,667	$ 6,051

(1) Within the trust preferred securities presented above, there are securities from individual issuers that exceed 10% of the Company's total equity. The name and the aggregate market value of securities of each individual issuer are as follows, as of September 30, 2004: Key Corp Capital I, $4.8 million; Bank Boston Capital Trust IV, $4.8 million; BankAmerica Capital III, $4.8 million; PNC Capital Trust, $4.7 million.

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

	September 30, 2004					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Mortgage-Backed Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Market Value
	(Dollars in Thousands)					
Trust preferred securities	$ —	$ —	$ —	$ 25,992	$ 26,752	$ 25,992
Municipal bonds	227	255	—	—	475	482
Other	—	1,053	—	—	999	1,053
Total investment securities	$ 227	$ 1,308	$ —	$ 25,992	$ 28,226	$ 27,527
Weighted average yield (1)	3.34%	5.31%	0.00%	2.83%	2.89%	2.95%

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

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

CMOs are special types of pass-through debt in which the stream of principal and interest payments on the underlying mortgages or mortgage-backed securities is used to create classes with different maturities and, in some cases, amortization schedules, as well as a residual interest, with each such class possessing different risk characteristics. At September 30, 2004, the Company held CMOs totaling $1.6 million, all of which were secured by underlying collateral issued under government-sponsored agency programs or residential real estate mortgage loans. Premiums associated with the purchase of these CMOs are not significant, therefore, the risk of significant yield adjustments because of accelerated prepayments is limited. Yield adjustments are encountered as interest rates rise or decline, which in turn slows or increases prepayment rates and affect the average lives of the CMOs.

At September 30, 2004, $278.9 million or 94.8% of the Company's mortgage-backed securities portfolio had fixed rates of interest and $15.2 million or 5.2% of such portfolio had adjustable rates of interest.

Mortgage-backed securities generally increase the quality of the Company’s assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. At September 30, 2004, $234.2 million or 79.6% of the Company’s mortgage-backed securities were pledged to secure various obligations of the Company.

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

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

	September 30,		
	2004	2003	2002
	(Dollars in Thousands)		
Ginnie Mae	$ 6,727	$ 12,548	$ 23,484
CMO	1,606	3,824	43,259
Freddie Mac	164,003	183,899	33,320
Fannie Mae	121,627	139,848	92,075
Privately Issued Mortgage Pass-Through Certificates	129	166	210
Total	$294,092	$340,285	$192,348

The following table sets forth the contractual maturities of the Company’s mortgage-backed securities at September 30, 2004. Not considered in the preparation of the table below is the effect of prepayments, periodic principal repayments and the adjustable-rate nature of these instruments.

	September 30, 2004					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Mortgage-Backed Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Market Value
	(Dollars in Thousands)					
Ginnie Mae	$ —	$ —	$ 7	$ 6,720	$ 6,376	$ 6,727
CMO	—	1,596	—	10	1,612	1,606
Freddie Mac	—	850	148,376	14,777	164,996	164,003
Fannie Mae	—	9,875	106,511	5,241	122,573	121,627
Privately Issued Mortgage Pass-Through Certificates(1)	—	—	—	129	115	129
Total investment securities	$ —	$ 12,321	$ 254,894	$ 26,877	$ 295,672	$ 294,092
Weighted average yield	0.00%	4.73%	3.68%	4.69%	3.81%	3.81%

(1) This security is rated Aaa by a nationally recognized rating agency.

At September 30, 2004, the contractual maturity of 9.1% of all of the Company’s mortgage-backed securities was in excess of ten years. The actual maturity of a mortgage-backed security is typically less than its stated maturity due to scheduled principal payments and prepayments of the underlying mortgages. Prepayments that are different than anticipated will affect the yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with generally accepted accounting principles, premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because to the extent that the Company's mortgage-backed securities amortize or prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate.

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, and funds provided from operations.

Borrowings, including Federal Home Loan Bank ("FHLB") of Des Moines advances, reverse repurchase agreements and retail repurchase agreements, 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 passbook savings accounts, money market savings accounts, NOW and regular checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 months. The Company only solicits deposits from its primary market area and does not currently use brokers to obtain deposits. The Company relies primarily on competitive pricing policies, advertising and high-quality customer service to attract and retain these deposits.

The 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 passbook savings, money market savings accounts, NOW and regular checking accounts are relatively stable sources of deposits. However, the ability of the Company to attract and maintain certificates of deposit and the rates paid on these deposits has been and will continue to be significantly affected by market conditions.

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

	September 30,		
	2004	2003	2002
	(Dollars in Thousands)		
Opening balance	$ 435,553	$ 355,780	$ 338,782
Deposits	2,065,429	1,528,054	978,256
Withdrawals	(2,031,449)	(1,457,277)	(972,856)
Sale of deposit	(16,103)	—	—
Interest credited	8,151	8,996	11,598
Ending balance	$ 461,581	$ 435,553	$ 355,780
Net increase	$ 26,028	$ 79,773	$ 16,998
Percent increase	5.98%	22.42%	5.02%

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

	September 30,					
	2004		2003		2002	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transactions and Savings Deposits :						
Commercial Demand	$ 19,537	4.23%	$ 17,458	4.01%	$ 11,935	3.35%
Passbook Accounts	45,666	9.89	21,323	4.89	15,064	4.23
NOW Accounts	27,657	5.99	24,603	5.65	20,088	5.65
Money Market Accounts	103,966	22.53	73,572	16.89	55,261	15.53
Total Non-Certificate	196,826	42.64	136,956	31.44	102,348	28.76
Certificates :						
Variable	2,053	0.44	2,210	0.51	2,169	0.61
0.00 – 1.99%	89,602	19.41	110,833	25.45	10,252	2.88
2.00 – 3.99%	129,447	28.05	130,236	29.90	134,446	37.79
4.00 – 5.99%	32,225	6.98	38,633	8.87	61,541	17.30
6.00 – 7.99%	11,428	2.48	16,685	3.83	45,024	12.66
Total Certificates	264,755	57.36	298,597	68.56	253,432	71.24
Total Deposits	$ 461,581	100.00%	$ 435,553	100.00%	$ 355,780	100.00%

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 2004.

	Variable	0.00 – 1.99%	2.00- 3.99%	4.00- 5.99%	6.00- 7.99%	Total	Percent of Total
	(Dollars in Thousands)						
Certificate accounts maturing in quarter ending :							
December 31, 2004	$ 209	$ 44,993	$ 15,513	$ 699	$ 1,936	$ 63,350	23.9%
March 31, 2005	349	15,483	11,365	705	1,324	29,226	11.0
June 30, 2005	694	13,052	27,870	1,442	2,765	45,823	17.3
September 30, 2005	299	5,624	9,107	655	1,052	16,737	6.3
December 31, 2005	304	4,556	13,105	364	3,835	22,164	8.4
March 31, 2006	198	2,647	7,967	462	219	11,493	4.4
June 30, 2006	—	2,465	6,733	862	297	10,357	3.9
September 30, 2006	—	726	8,168	721	—	9,615	3.6
December 31, 2006	—	10	2,065	790	—	2,865	1.1
March 31, 2007	—	24	10,939	5,784	—	16,747	6.3
June 30, 2007	—	22	3,512	6,234	—	9,768	3.7
September 30, 2007	—	—	2,149	4,459	—	6,608	2.5
Thereafter	—	—	10,954	9,048	—	20,002	7.6
Total	$ 2,053	$ 89,602	$ 129,447	$ 32,225	$ 11,428	$ 264,755	100.0%
Percent of total	0.78%	33.84%	48.89%	12.17%	4.32%	100.00%	

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, 2004.

	Maturity				
	3 Months or Less	After 3 to 6 Months	After 6 to 12 Months	After 12 Months	Total
	(In Thousands)				
Certificates of deposit less than $100,000	$ 22,579	$ 6,246	$ 59,180	$ 91,888	$ 179,893
Certificates of deposit of $100,000 or more	40,771	22,980	3,380	17,731	84,862
Total certificates of deposit(1)	$ 63,350	$ 29,226	$ 62,560	$ 109,619	$ 264,755

(1) Includes deposits from governmental and other public entities totaling $106.0 million.

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

The Company's borrowings historically have consisted primarily of advances from the FHLB of Des Moines 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, 2004, the Company had $226.3 million of advances from the FHLB of Des Moines and the ability to borrow up to an approximate additional $67.4 million. At September 30, 2004, advances totaling $101.0 million had terms to maturity of one year or less. The remaining $125.3 million had maturities ranging up to 5 years.

On July 16, 2001, the Company issued all of the 10,000 authorized shares of Company Obligated Mandatorily Redeemable Preferred Securities of First Midwest Financial Capital Trust I (preferred securities of subsidiary trust) holding solely subordinated debt securities. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a variable rate of LIBOR (as defined) plus 3.75%, not to exceed 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on July 25, 2031; however, the Company has the option to shorten the maturity date to a date not earlier than July 25, 2006. The redemption price is $1,000 per capital security plus any accrued and unpaid distributions to the date of redemption plus, if redeemed prior to July 25, 2011, a redemption premium as defined in the Indenture Agreement. Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Company’s indebtedness and senior to the Company’s common stock. The trust preferred securities have been includable in the Company’s capital calculations on a limited basis since they were issued. During calendar 2004, due to changes in accounting requirements, those limitations were increased. However, the degree to which the Company can include its trust preferred securities in its capital calculations has not been changed as a result of the change in limitations.

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, 2004, the Company had $294,000 of retail repurchase agreements outstanding.

Historically, the Company has entered into reverse repurchase agreements through nationally recognized broker-dealer firms. These agreements are accounted for as borrowings by the Company and are secured by certain of the Company’s investment and mortgage-backed securities. The broker-dealer takes possession of the securities during the period that the reverse repurchase agreement is outstanding. The terms of the agreements have usually ranged from 7 days to six months, but on occasion longer term agreements have been entered into. At September 30, 2004, the Company had $32.3 million of reverse repurchase agreements outstanding.

The following table sets forth the maximum month-end balance and average balance of FHLB advances, retail and reverse repurchase agreements and Preferred Securities of Subsidiary Trust for the periods indicated.

	September 30,		
	2004	**2003**	**2002**
	(Dollars in Thousands)		
Maximum Balance :			
FHLB advances	$ 226,250	$ 226,165	$ 125,090
Retail and reverse repurchase agreements	58,500	110,488	70,176
Subordinated debentures	10,310	—	—
Preferred securities of subsidiary trust	—	10,000	10,000
Average Balance :			
FHLB advances	$ 203,135	$ 176,961	$ 118,415
Retail and reverse repurchase agreements	38,977	78,209	39,288
Subordinated debentures	10,310	—	—
Preferred securities of subsidiary trust	—	10,000	10,000

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

	September 30,		
	2004	2003	2002
	(Dollars in Thousands)		
FHLB advances	$ 226,250	$ 223,784	$ 125,090
Retail and reverse repurchase agreements	32,549	57,702	70,176
Subordinated debentures	10,310	—	—
Preferred securities of subsidiary trust	—	10,000	10,000
Total borrowings	$ 269,109	$ 291,486	$ 205,266
Weighted average interest rate of FHLB advances	3.62%	3.40%	5.46%
Weighted average interest rate of retail and reverse repurchase agreements	2.49%	1.16%	1.90%
Weighted average interest rate of preferred securities of subsidiary trust	5.74%	4.90%	5.61%

Subsidiary Activities

The only subsidiaries of the Company are First Federal, Security, First Services Trust Company and First Midwest Financial Capital Trust I. First Federal has one service subsidiary, First Services Financial Limited ("First Services"). At September 30, 2004, the net book value of First Federal's investment in First Services was approximately $84,000. Security does not have any subsidiaries. First Federal organized First Services, its sole service corporation, in 1983. First Services has no active operations now that the Banks have affiliated with Bill Markve and Associates to provide insurance, mutual funds, annuities, bonds and other investments.

Stored Value Card Program

First Midwest, through its subsidiary First Federal, operating under the divisional name of Meta Payment Systems, has begun offering a stored value card program. The program targets banks, card processors and third party marketers to distribute the cards. Stored value products are segregated into three categories: reloadable cards for applications such as payroll and personal use; non-reloadable cards for one-time uses such as gifts or promotions; and, benefit cards for applications such as transportation and flexible-spending accounts. Stored value card programs are subject to certain fraud risks, including but not limited to, collusion between bank and merchant employees, and merchant employees and cardholders, counterfeiting, improper authorization, and system failure. Taking on prepaid funds from customers also subjects the Company to somewhat increased liquidity and interest rate risk.

While no guarantees can be made that the Company will not experience losses in its stored value card business, the Company believes that it has adopted policies and procedures to manage and monitor these risks. The executives who were engaged to manage the Company's stored value card program have years of experience in this line of business.

In commencing a stored value program, the bank also assumes compliance-related risks. The program must be adapted to changing regulatory requirements. For example, the Federal Deposit Insurance Corporation ("FDIC") has proposed to treat funds in prepaid programs as deposits if the bank holding the funds keeps records on the amounts owed to each cardholder. In the event of a bank failure, each cardholder's funds would be insured by the FDIC up to $100,000. If the proposal is adopted, treatment of prepaid funds as deposits will increase the bank's obligations for deposit insurance and reserve requirements.

Regulation

Recent Legislation - The Financial Services Modernization Act. On November 12, 1999, the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA") was signed into law. The purpose of this legislation was to modernize the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. Generally, the Act:

(a) repealed the historical restrictions and eliminates many federal and state law barriers to affiliations among banks, securities firms, insurance companies and other financial service providers;

(b) provided a uniform framework for the functional regulation of the activities of banks, savings institutions and their holding companies;

(c) broadened the activities that may be conducted by national banks, banking subsidiaries of bank holding companies and their financial subsidiaries;

(d) provided an enhanced framework for protecting the privacy of consumer information; and

(e) addressed a variety of other legal and regulatory issues affecting day-to-day operations and long-term activities of financial institutions.

The GLBA also imposes certain obligations on financial institutions to develop privacy policies, restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request, and establish procedures and practices to protect and secure customer data. These privacy provisions were implemented by regulations that were effective on November 12, 2000. Compliance with the privacy provisions was required by July 1, 2001.

USA Patriot Act of 2001 . In October 2001, the USA Patriot Act of 2001 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 requirements, Title III of the USA Patriot Act imposes the following requirements:

- All financial institutions must establish anti-money laundering programs that include (i) internal policies, procedures and controls, (ii) specific designation of an anti-money laundering compliance officer, (iii) ongoing employee training programs and (iv) an independent audit function to test the anti-money laundering program.

- Financial institutions that establish, maintain, administer, or manage private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives must establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

- Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks that do not have a physical presence in any country, and will be subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

- Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

Our policies and procedures have been updated to reflect the requirements of the USA Patriot Act.

Sarbanes-Oxley Act of 2002. On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, or the SOA. The SOA is the most far-reaching U.S. securities legislation enacted in many years, and includes many substantive and disclosure-based requirements. The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Exchange Act"). Given the extensive and continuing SEC role in implementing rules relating to many of the SOA's new requirements, the effects of these requirements remain to be determined, although it is likely that the Company's costs will increase as a result of SOA implementation.

General. Bank holding companies, such as First Midwest, are subject to comprehensive regulation by the FRB under the BHCA and the regulations of the FRB. As a bank holding company, First Midwest is required to file reports with the FRB and such additional information as the FRB may require, and is subject to regular inspections by the FRB. The FRB also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Under FRB policy, a bank holding company must serve as a source of strength for its subsidiary banks. Under this policy the FRB may require a holding company to contribute additional capital to an undercapitalized subsidiary bank.

Under the BHCA, a bank holding company must obtain FRB approval before: (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares (unless it already owns or controls the majority of such shares); (ii) acquiring all or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company.

The BHCA prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities which, by statute or by FRB regulation or order, have been identified as activities closely related to the business of banking or managing or controlling banks. The list of activities permitted by the FRB includes, among other things, operating a savings institution (such as First Federal), mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; real estate and personal property appraising; and, subject to certain limitations, providing securities brokerage services for customers. The scope of permissible activities may be expanded from time to time by the FRB. Such activities may also be affected by federal legislation.

First Midwest currently has four wholly-owned subsidiaries, First Federal, a federally-chartered thrift institution, Security, an Iowa-chartered commercial bank, First Midwest Financial Capital Trust I, a statutory business trust organized under the Delaware Business Trust Act and First Services Trust Company, a South Dakota corporation that provides trust services. First Federal is subject to extensive regulation, supervision and examination by the OTS, as its chartering authority and primary federal regulator, and by the Federal Deposit Insurance Corporation (the “FDIC”), which insures its deposits up to applicable limits. First Federal is a member of the FHLB System and is subject to certain limited regulation by the FRB. Such regulation and supervision governs the activities in which an institution can engage and the manner in which such activities are conducted, and is intended primarily for the protection of the insurance fund and depositors. Security is subject to extensive regulation, supervision and examination by the Iowa Superintendent of Banking (the “ISB”) and the FRB, which are its state and primary federal regulators, respectively. It is also subject to regulation by the FDIC, which insures its deposits up to applicable limits. As with First Federal, such regulation and supervision governs the activities in which Security can engage and the manner in which such activities are conducted and is intended primarily for the protection of the insurance fund and depositors.

First Midwest is regulated as a bank holding company by the FRB. Bank holding companies are subject to comprehensive regulation and supervision by the FRB under the Bank Holding Company Act of 1956, as amended (the “BHCA”) and the regulations of the FRB. As a bank holding company, First Midwest must file reports with the FRB and such additional information as the FRB may require, and is subject to regular inspections by the FRB. First Midwest is subject to the activity limitations imposed under the BHCA and in general may engage in only those activities that the FRB has determined to be closely related to banking.

Regulatory authorities have been granted extensive discretion in connection with their supervisory and enforcement activities which are intended to strengthen the financial condition of the banking industry, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution’s allowance for loan losses. Any change in the nature of such regulation and oversight, whether by the OTS, the FDIC, the FRB or legislatively by Congress, could have a material impact on First Midwest, First Federal or Security and their respective operations.

Certain of these regulatory requirements and restrictions are discussed below or elsewhere in this document.

Federal Regulation of Financial Institutions. The OTS has extensive supervisory and regulatory authority over the operations of savings associations. As part of this authority, First Federal is required to file periodic reports with the OTS and is subject to periodic examination by the OTS and the FDIC. The last regular OTS examination of First Federal was as of June 28, 2004. Security is subject to similar regulation and oversight by the ISB and the FRB and was last examined as of June 30, 2004.

Each federal and state banking regulator also has extensive enforcement authority over its regulated institutions. This enforcement authority includes, among other things, the power to compel higher reserves, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports. Except under certain circumstances, public disclosure of final enforcement actions by the regulator is required. The federal banking agencies have adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan.

In addition, the investment, lending and branching authority of First Federal is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by such laws. Security is subject to such restrictions under state law as administered by the ISB. Federal savings associations are generally authorized to branch nationwide, whereas Iowa chartered banks, such as Security, are limited to establishing branches in the counties contiguous to or cornering upon the county where their home office is located.

Both First Federal's and Security'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). Security is subject to similar restrictions. At September 30, 2004, First Federal's and Security's lending limit under these restrictions was $8.0 million and $969,000, respectively. First Federal and Security are in compliance with their lending limits.

Insurance of Accounts and Regulation by the FDIC. First Federal is a member of the Savings Association Insurance Fund (the "SAIF") and Security is a member of the Bank Insurance Fund (the "BIF"), each of which is administered by the FDIC. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the SAIF or the BIF. The FDIC also has the authority to initiate enforcement actions against any FDIC insured institution after giving its primary federal regulator the opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. The current assessment rates range from zero to .27% per $100 of assessable deposits. Risk classification of all insured institutions will be made by the FDIC for each semi-annual assessment period. Institutions that are well-capitalized and have a high supervisory rating are subject to the lowest assessment rate. At September 30, 2004, both First Federal and Security met the capital requirements of a "well capitalized" institution and were not subject to any assessment. See Note 13 of Notes to Consolidated Financial Statements in the Annual Report.

Since January 1, 1997, the premium schedule for BIF and SAIF insured institutions has ranged from 0 to 27 basis points. However, SAIF- and BIF-insured institutions are required to pay a Financing Corporation assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s equal to approximately 1.5 basis points for each $100 in domestic deposits annually. These assessments, which may be revised based upon the level of BIF and SAIF deposits, will continue until the bonds mature.

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

Regulatory Capital Requirements. Federally insured financial institutions, such as First Federal and Security, are required to maintain a minimum level of regulatory capital. These capital requirements mandate that an institution maintain at least the following ratios: (1) a core (or Tier 1) capital to adjusted total assets ratio of 4% (which can be reduced to 3% for highly rated institutions); (2) a Tier 1 capital to risk-weighted assets ratio of 4% and (3) a risk-based capital to risk-weighted assets ratio of 8%. Capital requirements in excess of these standards may be imposed on individual institutions on a case-by-case basis. As of September 30, 2004, both Banks were in compliance with all capital standards applicable to them and were designated a "well-capitalized" under federal guidelines. See Note 13 of Notes to Consolidated Financial Statements in the Annual Report.

Prompt Corrective Action. Federal banking regulators are authorized and, under certain circumstances required, to take certain actions against banks that fail to meet their capital requirements. Effective December 19, 1992, the federal banking agencies were given additional enforcement authority over undercapitalized depository institutions. They are generally required to take action to restrict the activities of an "undercapitalized" bank (generally defined to be one with less than either a four percent core capital ratio, a four percent Tier 1 risked-based capital ratio or an eight percent risk-based capital ratio). Any such bank must submit a capital restoration plan and until such plan is approved 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 the additional restrictions, discussed below, that are applicable to significantly undercapitalized institutions.

Any institution that fails to comply with its capital plan or is "significantly undercapitalized" (*i.e* ., Tier 1 risk-based or core capital ratios of less than three percent or a risk-based capital ratio of less than six percent) must be made subject to one or more of additional specified actions and operating restrictions mandated by FDICIA. These actions and restrictions include requiring the issuance of additional voting securities; limitations on asset growth; mandated asset reduction; changes in senior management; divestiture, merger or acquisition of the association; restrictions on executive compensation; and any other action the OTS deems appropriate. An institution that becomes "critically undercapitalized" (*i.e* ., a tangible capital ratio of two percent or less) 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 concurrence of the FDIC) 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.

Though not expected, the imposition of any of these measures on the Banks may have a substantial adverse effect on them and on the Company's operations and profitability. First Midwest shareholders do not have preemptive rights, and therefore, if First Midwest is directed by the OTS, the FRB or the FDIC to issue additional shares of Common Stock, such issuance may result in the dilution in shareholders percentage of ownership of First Midwest.

Limitations on Dividends and Other Capital Distributions. The OTS imposes various restrictions on savings associations with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. The OTS also prohibits a savings association from declaring or paying any dividends or from repurchasing any of its stock if, as a result of such action, the regulatory capital of the association would be reduced below the amount required to be maintained for the liquidation account established in connection with the association's mutual to stock conversion.

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

Security may pay dividends, in cash or property, only out of its undivided profits. In addition, FRB regulations prohibit the payment of dividends by a state member bank if losses have at any time been sustained by such bank that equal or exceed its undivided profits then on hand, unless (i) the prior approval of the FRB has been obtained and (ii) at least two-thirds of the shares of each class of stock outstanding have approved the dividend payment. FRB regulations also prohibit the payment of any dividend by a state member bank without the prior approval of the FRB if the total of all dividends declared by the bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the previous two calendar years (minus any required transfers to a surplus or to a fund for the retirement of any preferred stock).

Qualified Thrift Lender Test. All savings associations, including First Federal, 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 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 loans and investments. At September 30, 2004, First Federal met the test and has always met the test since its effectiveness.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it requalifies 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 of all investments and cease all activities not permissible for a national bank.

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), every FDIC insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OTS and the FRB, in connection with the examination of First Federal and Security, respectively, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the institution. An unsatisfactory rating may be used as the basis for the denial of such an application. First Federal was examined for CRA compliance in July 2004 and Security was examined in June2003 and both received a rating of "satisfactory."

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

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

Holding Company Dividends. The FRB has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the FRB's view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the FRB, the FRB may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

Bank holding companies are required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of their consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, FRB order, or any condition imposed by, or written agreement with, the FRB. This notification requirement does not apply to any company that meets the well-capitalized standard for commercial banks, has a safety and soundness examination rating of at least a "2" and is not subject to any unresolved supervisory issues.

Holding Company Capital Requirements. The FRB has established capital requirements for bank holding companies that generally parallel the capital requirements for federal thrift institutions and commercial banks such as First Federal and Security. First Midwest is in compliance with these requirements.

Transactions with Affiliates. The Banks must comply with Sections 23A and 23B of the Federal Reserve Act relative to transactions with affiliates. Generally, transactions between an institution or its subsidiaries and its affiliates are required to be on terms as favorable to the bank as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the institutions' capital. Affiliates of the Banks include the Corporation and any company that is under common control with the Banks. In addition, a savings institution may not lend to any affiliate engaged in activities not permissible for a savings and loan holding company or acquire the securities of most affiliates. The OTS has the discretion to treat subsidiaries of savings institutions as affiliates on a case-by-case basis.

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

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.

Federal Home Loan Bank System. First Federal and Security are both members of the FHLB of Des Moines, which is one of 12 regional FHLBs, that administers the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. These policies and procedures are subject to the regulation and oversight of the Federal Housing Finance Board. 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, First Federal and Security are required to purchase and maintain stock in the FHLB of Des Moines. At September 30, 2004, the Banks had in the aggregate $11.1 million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 2004, dividends paid by the FHLB of Des Moines to First Federal and Security totaled $222,000. Over the past five calendar years such dividends have averaged 4.8% and were 1.9% for the first three quarters of the calendar year 2004.

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 Banks' FHLB stock may result in a corresponding reduction in the Banks' capital. Recent legislative changes have required the FHLB to change the characteristics and amount of FHLB stock held by its members. It is also anticipated that these changes will restrict the ability of FHLB members to redeem their shares of FHLB stock. In addition, the federal agency that regulates the FHLBs has required each FHLB to register its stock with the SEC, which will increase the costs of each FHLB and may have other effects that are not possible to predict at this time.

Federal Securities Law. The common stock of First Midwest is registered with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange

Act”). First Midwest is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

First Midwest’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 First Midwest 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.

Federal and State Taxation

Federal Taxation. First Midwest and its subsidiaries file consolidated federal income tax returns on a fiscal year basis using the accrual method of accounting. In addition to the regular income tax, corporations, including savings banks such as First Federal, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation’s regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation’s regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income.

To the extent earnings appropriated to a savings bank’s bad debt reserves and deducted for federal income tax purposes exceed the allowable amount of such reserves computed under the experience method and to the extent of the bank’s supplemental reserves for losses on loans (“Excess”), such Excess may not, without adverse tax consequences, be utilized for the payment of cash dividends or other distributions to a shareholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 2004, First Federal’s Excess for tax purposes totaled approximately $6.7 million.

First Midwest and its consolidated subsidiaries have not been audited by the IRS within the past ten years. In the opinion of management, any examination of still open returns (including returns of subsidiaries and predecessors of, or entities merged into, First Midwest) would not result in a deficiency which could have a material adverse effect on the financial condition of First Midwest and its subsidiaries.

Iowa Taxation. First Federal and Security file Iowa franchise tax returns. First Midwest and First Federal’s Iowa subsidiary file a consolidated Iowa corporation tax return on a fiscal year-end basis.

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

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

South Dakota Taxation. First Federal and First Services Trust Company file a consolidated South Dakota franchise tax return due to their operations in Sioux Falls and Brookings. The South Dakota franchise tax is imposed on depository institutions and trust companies. First Midwest, Security and First Federal's subsidiaries are therefore not subject to the South Dakota franchise tax.

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

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

Competition

The Company 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, 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 attracts all of its 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 serves Adair, Buena Vista, Dallas, Guthrie, Pocahontas, Polk and Sac counties in Iowa and Brookings, Lincoln and Minnehaha counties in South Dakota. There are twenty-three commercial banks, one savings bank, other than First Federal, and two credit union which compete for deposits and loans in First Federal's primary market area in northwest Iowa and ten commercial banks, one savings bank, other than First Federal, and two credit unions which compete for deposits and loans in First Federal's market area in Brookings, South Dakota. In addition, there are twelve commercial banks in Security's primary market area in west central Iowa. First Federal competes for deposits and loans with numerous financial institutions located throughout the metropolitan market areas of Des Moines, Iowa and Sioux Falls, South Dakota.

Employees

At September 30, 2004, the Company and its subsidiaries had a total of 196 employees, including 19 part-time employees. The Company's employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

Executive Officers of the Company Who Are Not Directors

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

On December 5, 2003, Mr. Ronald J. Walters was hired to assume the position of Chief Financial Officer in the place of Mr. Donald J. Winchell, who left the company effective January 9, 2004 to pursue other interests. Mr. Walters, age 55, joined First Midwest as Senior Vice President. Prior to joining the Company, Mr. Walters served as Vice President, Treasurer and Chief Financial Officer of Kankakee Bancorp, Inc. of Kankakee, Illinois, (now known as Centrue Financial Corporation), having worked for the company since 1984. Mr. Walters received a Bachelor of Science degree from the University of Illinois, Chicago, Illinois. Mr. Walters is a certified public accountant.

Item 2. *Properties*

The Company conducts its business at its main office and branch office in Storm Lake, Iowa, and five other locations in its primary market area in Northwest Iowa. The Company also operates one office in Brookings, South Dakota, through the Company's Brookings division of the Bank; four offices in Des Moines, Iowa, through the Company's Central Iowa division of the Bank; two offices in Sioux Falls, South Dakota, through the Company's Sioux Empire division of the Bank; and three offices in West Central Iowa through the Company's Security State Bank subsidiary.

The Company owns all of its offices, except for the branch offices located at Storm Lake Plaza, Storm Lake, Iowa, West Des Moines, Iowa and West 12th Street in Sioux Falls, South Dakota, as to which the land is leased. The total net book value of the Company's premises and equipment (including land, building and leasehold improvements and furniture, fixtures and equipment) at September 30, 2004 was $11.7 million. See Note 6 of Notes to Consolidated Financial Statements in the Annual Report.

The Company believes that its current facilities are adequate to meet the present and foreseeable needs of the Company and the Banks, but the Company will continue to add additional branches in the future. The Company plans to add a fifth Des Moines, Iowa area branch and a third Sioux Falls, South Dakota branch in 2005.

The Bank maintains an on-line data base with a service bureau, whose primary business is providing such services to financial institutions. The net book value of the data processing and computer equipment utilized by the Company at September 30, 2004 was approximately $705,000.

Item 3. *Legal Proceedings*

On June 11, 2004, the Sioux Falls School District filed suit in the Second Judicial Circuit Court, alleging that First Federal Savings Bank of the Midwest, a wholly-owned subsidiary of the Company, improperly allowed funds, which belonged to the school district, to be deposited into, and subsequently withdrawn from, a corporate account established by an employee of the school district. The school district is seeking in excess of $600,000. First Federal has submitted the claim to its insurance carrier, and is working with counsel to vigorously contest the suit. There are no other material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended September 30, 2004.

PART II

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

Page 44 of the attached 2004 Annual Report to Shareholders is herein incorporated by reference.

The following table provides information about purchases by the Company during the quarter ended September 30, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicity Announced Plans or Programs	(d) Maximum Number (or Appropriate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1)
July 1, 2004 through July 31, 2004	6,172	$ 22.99	6,172	—
August 1, 2004 through August 31, 2004	—	—	—	—
September 1, 2004 through September 30, 2004	—	—	—	—
Total	6,172	$ 22.99	6,172	—

(1) The active repurchase program expired on July 31, 2004.

Item 6. ***Selected Financial Data***

Page 10 of the attached 2004 Annual Report to Shareholders is herein incorporated by reference.

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

Pages 11 through 20 of the attached 2004 Annual Report to Shareholders are herein incorporated by reference.

Item 7A. ***Quantitative and Qualitative Disclosure About Market Risk***

Pages 16 through 18 of the attached 2004 Annual Report to Shareholders are herein incorporated by reference.

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

Pages 21 through 41 of the attached 2004 Annual Report to Shareholders are herein incorporated by reference.

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

Not applicable.

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

Any control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that its objectives will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Disclosure Controls and Procedures

The Corporation's management, with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act.

Internal Control Over Financial Reporting

There have not been any changes in the Corporation's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal year to which this report relates that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and annually report on their systems of internal control over financial reporting. In addition, next year our independent accountants must report on management's evaluation. We are in the process of evaluating, documenting and testing our system of internal control over financial reporting to provide the basis for our report that will, for the first time, be a required part of our annual report on Form 10-K for the fiscal year ending September 30, 2005. Due to the ongoing evaluation and testing of our internal controls, there can be no assurance that if any control deficiencies are identified they will be corrected before the end of the 2005 fiscal year, or that there may not be significant deficiencies or material weaknesses that would be required to be reported. In addition, we expect the evaluation process and any required remediation, if applicable, to increase our accounting, legal and other costs and divert management resources from core business operations.

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Directors

Information concerning directors of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2005 filed on December 15, 2004.

The Company has adopted a Code of Ethics that applies to its principal executive officer and principal financial officers of the Company. A copy of the Code of Ethics, included as an exhibit to this Form 10-K and filed with the Securities and Exchange Commission, may also be found on the Company's website at www.fmficash.com.

Executive Officers

Information concerning the executive officers of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2005, filed on December 15, 2004 and from the information set forth under the caption "Executive Officers of the Company Who Are Not Directors" contained in Part I of this Form 10-K.

Compliance with Section 16(a)

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the SEC reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended September 30, 2004, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

Audit Committee Financial Expert

Information regarding the audit committee of the Company's Board of Directors, including information regarding G. Mark Mickelson, the audit committee financial expert serving on the audit committee, is presented under the headings "Meetings and Commitees", Audit Committee matters" and under "Election of Directors" which contains Mr. Mickelson's biography, in the Company's definitive Proxy Statement for the 2004 Annual Meeting of Stockholders to be held on January 26, 2005, which was filed with the SEC on December 15, 2004, and is incorporated herein by reference.

Code of Ethics

We have adopted a written code of ethics within the meaning of Item 406 of SEC Regulation S-K that applies to our principal executive officer and senior financial officers, a copy of which is available free of charge by contacting Lisa Binder, our Investor Relations Officer, at 800.792.6815 or from our internet website (www.metacash.com).

Item 11. ***Executive Compensation***

Information concerning executive compensation is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2005, filed on December 15, 2004.

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

(a) Security Ownership of Certain Beneficial Owners

The information required by this item under the sections captioned "Voting Rights; Vote Required", "Voting of Proxies; Revocability of Proxies: Proxy Solicitation Costs" and Stock Ownership" on pages 1 through 5 of the Proxy Statement filed with the SEC on December 15, 2004 is incorporated herein by reference.

(b) Security Ownership of Management

The information required by this item under the section captioned "Stock Ownership" on pages 3 through 5 of the Proxy Statement filed with the SEC on December 15, 2004 is incorporated herein by reference.

(c) 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.

(d) Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued under the Company's omnibus incentive plans. The Company does not have any equity compensation plan that was not approved by shareholders, except for its employee stock ownership.

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 shareholders	250,483	$ 17.04	307,358
Equity Compensation plans not approved by shareholders	N/A	N/A	N/A

Item 13. ***Certain Relationships and Related Transactions***

Information concerning certain relationships and transactions is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 2005, filed on December 15, 2004.

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

Audit Fees

Fees paid to McGladrey & Pullen, LLP and its associated entity, RSM McGladrey, Inc., for each of the last two fiscal years are set forth below.

Fiscal Year	Audit Fees	Audit-Related Fees	Tax Fees	All Other Fees
2004	$ 83,000	$ 7,000	$ 13,000	$ —
2003	$ 80,000	$ 7,000	$ 12,000	$ —

Audit fees include fees for services performed to comply with generally accepted auditing standards, including the recurring audit of the Company's consolidated financial statements. This category also includes fees for audits provided in connection with statutory filings or services that generally only the principal auditor reasonably can provide to a client, such as procedures related to audit of income tax provisions and related reserves, consents and assistance with and review of documents filed with the Securities and Exchange Commission.

Audit-related fees include fees associated with assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements. This category includes fees related to assistance in financial due diligence related to mergers and acquisitions, consultations regarding generally accepted accounting principles, reviews and evaluations of the impact of new regulatory pronouncements, general assistance with implementation of the new SEC and Sarbanes-Oxley Act of 2002 requirements and audit services not required by statute or regulation. Audit-related fees also include audits of employee benefit plans, as well as the review of information systems and general internal controls unrelated to the audit of the financial statements.

Tax fees primarily include fees associated with tax audits, tax compliance, tax consulting, as well as tax planning. This category also includes services related to tax disclosure and filing requirements.

The Audit Committee has not authorized any non-audit services by the independent auditor. The Audit Committee must approve any such services prior to the services being performed. The Audit Committee's considerations would include whether such services are consistent with the SEC's rules on auditor independence.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

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

(a) Financial Statements:

The following financial statements are incorporated by reference under Part II, Item 8 of this Form 10-K:

1. Report of Independent Auditors.
2. Consolidated Balance Sheets as of September 30, 2004 and 2003.
3. Consolidated Statements of Income for the Years Ended September 30, 2004, 2003 and 2002.
4. Consolidated Statements of Changes in Shareholders' Equity for the Years Ended September 30, 2004, 2003 and 2002.
5. Consolidated Statements of Cash Flows for the Years Ended September 30, 2004, 2003 and 2002.
6. Notes to Consolidated Financial Statements.

(b) Exhibits :

See Index of 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.

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.

FIRST MIDWEST FINANCIAL, INC.

Date: December 22, 2004

By: /s/ James S. Haahr

James S. Haahr
(Duly Authorized Representative)

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/ James S. Haahr — Date: December 22, 2004

James S. Haahr, Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

By: /s/ J. Tyler Haahr — Date: December 22, 2004

J. Tyler Haahr, Director, President and Chief Operating Officer

By: /s/ E. Wayne Cooley — Date: December 22, 2004

E. Wayne Cooley, Director

By: /s/ E. Thurman Gaskill — Date: December 22, 2004

E. Thurman Gaskill, Director

By: /s/ Rodney G. Muilenburg — Date: December 22, 2004

Rodney G. Muilenburg, Director

By: /s/ Jeanne Partlow — Date: December 22, 2004

Jeanne Partlow, Director

By: /s/ G. Mark Mickelson — Date: December 22, 2004

G. Mark Mickelson, Director

By: /s/ Ronald J. Walters — Date: December 22, 2004

Ronald J. Walters, Senior Vice President, Secretary, Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description
3(i)	Registrant’s Articles of Incorporation as currently in effect, filed on June 17, 1993 as an exhibit to the Registrant’s registration statement on Form S-1 (Commission File No. 33- 64654), are incorporated herein by reference.
3(ii)	Registrant’s Bylaws, as amended and restated, filed as Exhibit 3(ii) to Registrant’s Report on Form 10-K for the fiscal year ended September 30, 1998 (Commission File No. 0- 22140), is incorporated herein by reference.
4	Registrant’s Specimen Stock Certificate, filed on June 17, 1993 as an exhibit to the Registrant’s registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.1	Registrant’s 1995 Stock Option and Incentive Plan, filed as Exhibit 10.1 to Registrant’s Report on Form 10-KSB for the fiscal year ended September 30, 1996 (Commission File No. 0-22140), is incorporated herein by reference.
10.2	Registrant’s 1993 Stock Option and Incentive Plan, filed on June 17, 1993 as an exhibit to the Registrant’s registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.3	Registrant’s Recognition and Retention Plan, filed on June 17, 1993 as an exhibit to the Registrant’s registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.4	Employment agreement between First Federal Savings Bank of the Midwest and J. Tyler Haahr, filed as an exhibit to Registrant’s Report on Form 10-K for the fiscal year ended September 30, 1997 (Commission File No. 0-22140), is incorporated herein by reference.
10.5	Registrant’s Supplemental Employees’Investment Plan, filed as an exhibit to Registrant’s Report on Form 10-KSB for the fiscal year ended September 30, 1994 (Commission File No. 0-22140), is incorporated herein by reference.
10.6	Employment agreements between First Federal Savings Bank of the Midwest and James S. Haahr and Donald J. Winchell, filed on June 17, 1993 as an exhibit to the Registrant’s registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.7	Registrant’s Executive Officer Compensation Program, filed as Exhibit 10.6 to Registrant’s Report on Form 10-K for the fiscal year ended September 30, 1998 (Commission File No. 0-22140), is incorporated herein by reference.

10.8 Registrant's Executive Officer Incentive Stock Option Plan for Mergers and Acquisitions, filed as Exhibit 10.7 to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1998 (Commission File No. 0-22140), is incorporated herein by reference.

10.9 Registrant's 2002 Omnibus Incentive Plan, filed as Exhibit 10.9 to Registrant's Report on Form 10-K for the fiscal year ended September 30, 2003 (Commission File No. 0-22140), is incorporated herein by reference.

11 Statement re: computation of per share earnings (included under Note 2 of Notes to Consolidated Financial Statements in the Annual Report to Shareholders' attached hereto as Exhibit 13).

13 Annual Report to Shareholders.

21 Subsidiaries of the Registrant.

23 Consent of McGladrey & Pullen, LLP.

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.

32.1 Certification of the CEO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SAME PEOPLE. SAME COMPANY. NEW NAME.

2004 ANNUAL REPORT

First Midwest Financial, Inc.
People helping people

First Federal Building
Fifth at Erie
P.O. Box 1307
Storm Lake, Iowa 50588
www.fmficash.com or **metacash.com**

Invest in us. Bank with us.

See how easy money management can be.

www.fmficash.com or **metacash.com**

We make money management easy.

CONTENTS

FINANCIAL HIGHLIGHTS

(Dollars in Thousands except Per Share Data)	2004	2003	2002	2001	2000
AT SEPTEMBER 30					
Total assets	$ 780,799	$ 772,285	$ 607,648	$ 523,183	$ 505,590
Total loans, net	404,051	349,692	341,937	333,062	324,703
Total deposits	461,581	435,553	355,780	338,782	318,654
Shareholders’ equity	47,274	43,031	44,588	43,727	40,035
Book value per common share	$ 18.98	$ 17.25	$ 18.06	$ 17.71	$ 16.48
Total equity to assets	6.05%	5.57%	7.34%	8.36%	7.93%
FOR THE FISCAL YEAR					
Net interest income	$ 17,769	$ 15,728	$ 13,700	$ 12,833	$ 14,177
Net income	3,987	3,397	2,157	1,910	2,328
Diluted earnings per share	$ 1.57	$ 1.36	$ 0.87	$ 0.78	$ 0.93
Return on average assets	.51%	.47%	.38%	.37%	.46%
Return on average equity	8.69%	7.57%	4.95%	4.57%	5.98%
Net yield on interest-earning assets	2.40%	2.31%	2.56%	2.59%	2.86%

The Company and its subsidiaries exceed regulatory capital requirements.
Banks are Members FDIC and Equal Housing Lenders.

LETTER TO SHAREHOLDERS

To Our Shareholders

THE SUCCESS WE HAVE ACHIEVED AS A COMMUNITY BANK IS A DIRECT RESULT OF OUR COMMITMENT TO PROVIDE BOTH HANDS-ON SERVICE AND ONLINE OPTIONS THAT MAKE CORE BANKING EASIER FOR OUR CUSTOMERS.

J. TYLER HAAHR
President and Chief Operating Officer

OUR NUMBERS TELL A STORY. IN LESS THAN TEN YEARS, WE HAVE MORE THAN DOUBLED OUR ASSET SIZE. MORE IMPORTANTLY, WE HAVE DONE IT PROFITABLY. THE GROWTH IN KEY BANKING AREAS, SUCH AS LOW-COST DEPOSITS AND QUALITY LOANS, CONTRIBUTES TO OUR NET INCOME AND OVERALL PROFITABILITY. THE EXPANSION IN OUR MARKETS AND IN NEW BUSINESS VENTURES HAVE OR ARE BEGINNING TO SHOW RETURNS. OUR STORY LOOKS PROMISING IN YEARS TO COME.

FUN FACTS: BORN ON FRIDAY THE 13TH. SERVED ON THE FIESTA BOWL COMMITTEE. COACHES KIDS IN MULTIPLE SPORTS.

WE ARE PLEASED TO REPORT First Midwest Financial’s 2004 performance and the momentum that is building within our organization. The Company produced another year of double-digit loan and low-cost deposit growth, stellar loan quality, and an increase in overall profitability. We also announced our entrance into the prepaid debit card industry, a new alliance with a top midwestern insurance and investment firm, and plans for more banks united under one name.

Earnings rose 17.4 percent, with net income of $4.0 million or $1.57 per diluted share for the fiscal year ended September 30, 2004. This compares to $3.4 million or $1.36 per diluted share the previous year. The 17.4 percent increase follows growth of 57.5 percent and 12.9 percent the previous two years.

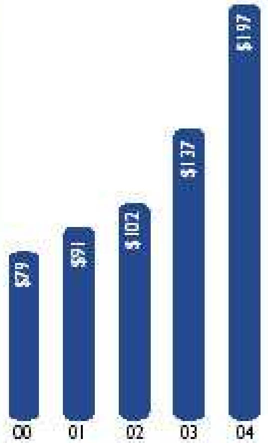
The Company’s sale of its Manson, Iowa branch office and the start-up costs associated with its new prepaid card division, Meta Payment Systems, affected 2004 earnings. The Manson branch sale in January 2004 provided a net gain, after income taxes, of $699 thousand. Earnings per diluted share increased by $.28 for the year as a result of the sale. Conversely, earnings were reduced by $490 thousand or $.20 per diluted share due to the start-up costs associated with the Company’s entry into the prepaid card industry.

Excluding the profit from our Manson branch sale and the Meta Payment Systems start-up costs, net income would have been $3.8 million for the year ended September 30, 2004 or a 11.2 percent increase from the previous fiscal year.

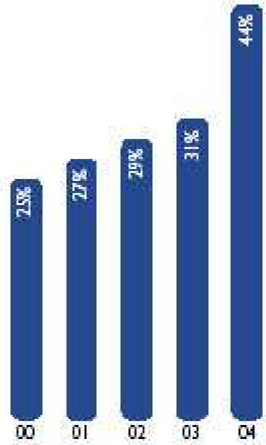
Net interest income rose 13.0 percent, or $2.0 million, compared to the previous fiscal year. Loan-to-deposit interest rate spreads were wider in 2004 due, in part, to our growth in low-cost deposit balances (checking, money market, and savings accounts) and in originated commercial loans.

Low-cost deposit balances grew a record 48.4 percent and total deposit balances grew 9.7 percent the past year, excluding the impact of our Manson branch sale. The Company’s drive to increase low-cost deposits is not new. During the past five years, the Company has achieved a 151.8 percent increase in low-cost deposit balances and a 56.7 percent increase in total deposit balances, excluding the Manson branch sale.

Our commitment to attract low-cost deposits has shifted the percentage of low-cost funds from 24.7 percent of total deposits to 43.7 percent during the past five years. The shift directly improves loan-to-deposit interest rate spreads and enhances the Company’s ability to cultivate banking relationships that start from core services.



LOW-COST
DEPOSIT BALANCES
In millions



LOW-COST
DEPOSIT BALANCES
As a percentage of
total deposit balances

LETTER TO SHAREHOLDERS

	FMFI	NAT	NAB	IAB
LOAN QUALITY AND ALLOWANCE COMPARISON				
Delinquent Loans 30 Days to Total Loans	0.28%	NA	NA	NA
Non-Performing Loans to Total Loans	0.18%	0.59%	0.96%	0.64%
Non-Performing Assets to Total Assets	0.09%	0.48%	0.62%	0.49%
Net Charge-Offs to Average Loans (Fiscal Year Annualized)	0.02%	0.27%	0.68%	0.14%
Allowance for Loan Losses to Total Loans	1.31%	0.77%	1.62%	1.27%
Allowance for Loan Losses to Non-Performing Loans	754%	130%	169%	198%

FMFI (First Midwest Financial, Inc.) statistics are as of September 30, 2004. The most current statistics available for NAT (National Average Thrift), NAB (National Average Bank), and IAB (Iowa Average Bank) are as of June 30, 2004. Peer group data, institutions with assets greater than $100 million, is taken from the FDIC.

As our concentration and volume of originated commercial loans increase, the Company benefits with the related deposit accounts, better loan-to-deposit spreads, less interest rate sensitivity, and more fee income. Originated commercial loans grew $33.6 million, or 19.3 percent, during fiscal 2004. This follows 43.5 percent and 67.5 percent increases in 2003 and 2002 respectively.

Credit quality ratios outpaced the Company's state and national peer group for the fourth consecutive year.(1) Our diligent emphasis on credit quality resulted in less than $80 thousand of net loan charge offs and lower non-performing loans during fiscal 2004. Exceptional credit quality combined with a rapidly growing loan portfolio position the Company for more success.

The Company announced its entrance into the prepaid debit card industry in May 2004. Meta Payment Systems, a division of First Federal Savings Bank of the Midwest, will issue prepaid cards through turnkey solutions for banks, card processors, and third-party distributors across the country. This new venture for the Company opens the door for profitable growth opportunities in the expanding area of prepaid cards and related payment systems services.

We are pleased to work with Brad Hanson, a pioneer in the prepaid card industry, and members of the Meta Payment Systems team who have proven track records for creating value and profitability in this emerging market. The division's start-up operations are progressing, and it issued its first cards in August 2004.

In June 2004, First Midwest Financial announced its alliance with Bill Markve and Associates (BM&A), one of the Midwest's leading full-service insurance and investment firms. The Company's affiliation with BM&A offers customers an opportunity to purchase stocks; bonds; fixed and variable annuities; mutual funds; and a wider array of insurance options such as life, disability, long-term care, property and casualty, and group and individual health insurance.

In November 2004, director John Thune was elected to the United States Senate from the State of South Dakota. Due to his election and new responsibilities, Senator-elect Thune resigned from our board effective November 12, 2004. We thank him for his dedicated service to our company and wish him well as he serves South Dakota and our country in the United States Senate.

JAMES S. HAAHR
Chairman of the Board and Chief Executive Officer

OUR COMPANY HAS A STRONG HISTORY OF HELPING PEOPLE. ONE OF THE MOST REWARDING PARTS OF MY JOB TODAY IS TO SEE OTHERS SUCCEED. IT IS GRATIFYING TO SEE A BANK ASSOCIATE EARN A PROMOTION OR TO SEE CUSTOMERS REACH THEIR FINANCIAL GOALS. I FIRMLY BELIEVE THAT EACH OF US CAN MAKE A DIFFERENCE IN THE LIVES OF OTHERS.

FUN FACTS: TAUGHT GRANDCHILDREN HOW TO PLAY “TRAP AND CHASE” GAME. HAD FIRST HOLE- IN-ONE IN 2001. ENJOYS ATTENDING MAJOR SPORTING EVENTS WITH FAMILY.

(1) Based on reports distributed by the FDIC.

LETTER TO SHAREHOLDERS

Looking Ahead

ELLEN MOORE
Senior Vice President of Marketing and Sales

WHAT AN OPPORTUNE TIME TO BE A CUSTOMER, AN EMPLOYEE, AND A SHAREHOLDER. THANKS TO YEARS OF PROGRESS, EACH OF US IS BENEFITING FROM STREAMLINED OPERATIONS, A BETTER AND CONSISTENT PRODUCT MIX, NEW BUSINESS VENTURES, AND MORE LOCATIONS AND SERVICES— SOON TO BE UNITED UNDER ONE META NAME. IT IS REWARDING TO EXPERIENCE FIRST-HAND THE TEAMWORK AND MOMENTUM THAT CONTINUES TO BUILD WITHIN OUR ORGANIZATION.

FUN FACTS: AVID RUNNER. LIKES TO PLAY HIDE-N-SEEK WITH HER TWO CHILDREN. EXPECTING TWINS BEFORE YEAR END.

DURING THE FIRST HALF OF 2005, First Midwest Financial, Inc. will become Meta Financial Group, Inc., pending shareholder approval. Meta Financial Group, Inc. will be marketed under the trade name Meta Financial Group. The name change will not affect the ownership of the Company. We will keep our ticker symbol “CASH,” and shareholders who possess physical stock certificates will be able to keep them.

The “Meta” name change fits within the Company’s long-term strategic plan and is symbolic of positive change. It will unify our affiliates under one common identifying name: MetaBank, MetaBank West Central, Meta Trust, and Meta Payment Systems. We are excited about the opportunities ahead. First, one name allows us to create a consistent brand image throughout all affiliates that makes it easier for customers to identify us and differentiate us from competitors. Second, we improve operating efficiencies that impact the bottom line and will improve shareholder value over time. Third, when the transition is completed, our customers benefit by being able to transact business in any MetaBank office.

The Company continues to expand banking operations in Sioux Falls, South Dakota and in the Des Moines, Iowa metropolitan area. The Company opened a second full-service bank facility in Sioux Falls, ahead of schedule and on budget, in May 2004. A third full-service retail bank is expected to open in Sioux Falls in late 2005 while a fifth full-service bank facility is expected to open in West Des Moines in mid 2005.

At First Midwest Financial, we understand that growth and success do not happen by chance. Our talented team of associates has carefully planned and implemented key initiatives to get us where we are today. It is this team that will drive future success and carry forward a simple credo that our founder, Stanley H. Haahr, believed when he opened the doors more than fifty years ago: “Take care of the people.”

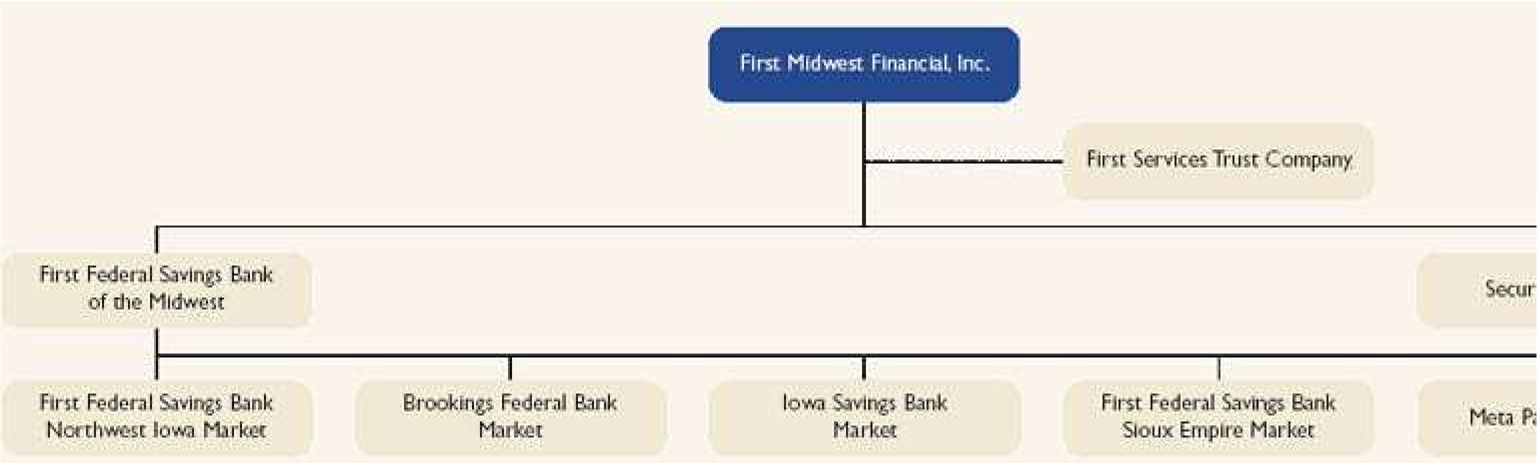
Our goal is to make money management easy for customers through every life change. We know banking is not just about money. It is about making money work so customers have more time for what is really important in life.

Our team remains dedicated to increasing shareholder value and enhancing your return. Thank you for investing in our company.

JAMES S. HAAHR	**J. TYLER HAAHR**
Chairman of the Board & CEO	President & COO

COMPANY STRUCTURE AND PROFILE

COMPANY STRUCTURE



COMPANY PROFILE

First Midwest Financial, Inc. is a $781 million bank holding company for First Federal Savings Bank of the Midwest and Security State Bank. Headquartered in Storm Lake, Iowa, the Company converted from mutual ownership to stock ownership in 1993. In June 2004, the Company announced plans to change its name to Meta Financial Group, Inc. during the first half of 2005, pending shareholder approval. Its primary business is marketing deposits, loans, and other financial services and products to meet the needs of its commercial, agricultural, and retail customers.

First Midwest operates under a super-community banking philosophy that allows the Company to grow while maintaining its community bank roots, with local decision making and customer service. Administrative functions, transparent to the customer, are centralized to enhance the banks' operational efficiencies and to improve customer service capabilities.

First Federal Savings Bank of the Midwest is a federally charted thrift with five divisions: First Federal Savings Bank Northwest Iowa Market, Brookings Federal Bank Market, Iowa Savings Bank Market, First Federal Savings Bank Sioux Empire Market, and Meta Payment Systems. Security State Bank is a state-chartered commercial bank. Seventeen offices support customers in Brookings and Sioux Falls, South Dakota, and throughout central and northwest Iowa. The banks plan to operate under the MetaBank signature during the first half of 2005.

First Services Trust Company, a subsidiary of First Midwest Financial, Inc., provides professional trust services. First Services Trust Company will change its name to Meta Trust in 2005.

The Company is affiliated with Bill Markve and Associates to offer a wide range of non-insured investment and insurance products to customers through Ameritas Investment Corporation and other companies.

VISION

Provide a financial services home that customers appreciate, return to, and refer friends with confidence.

MISSION

Make money management easy for customers through every life change.

BANK HIGHLIGHTS

Life changes. Bank easy.

PEOPLE HELPING PEOPLE.

CORRINE PALMER
Assistant Cashier,
Customer Service Representative Supervisor

I AM PROUD TO WORK FOR A COMPANY THAT CARES SO MUCH ABOUT ITS CUSTOMERS AND THE COMMUNITIES IT SERVES. WE ARE ALWAYS LOOKING FOR WAYS TO MAKE BANKING EASIER. WHEN I SEE CUSTOMERS AT LOCAL BALL GAMES OR COMMUNITY EVENTS, I FEEL ASSURED THAT WE PROVIDE THEM WITH THE BEST SERVICE AND FINANCIAL RESOURCES AVAILABLE.

FUN FACTS: ENJOYS CAMPING WITH HER HUSBAND, TWO CHILDREN, AND HER SHIH TZU PUPPY NAMED EMMA. VOLUNTEERED 214 HOURS IN THE COMMUNITY THIS YEAR. ELECTED OFFICER OF THE GUTHRIE COUNTY YOUTH FOUNDATION.

"TAKE CARE OF THE PEOPLE" is a core philosophy our founder, Stan Haahr, shared with employees back in 1954—and still shares today when he visits with bank associates. This basic principal has flourished into programs and training dedicated to building long-term relationships based on trust, integrity, and old-fashioned hard work.

Our Integrity Selling program trains bank associates to actively listen to customers' needs and proactively offer products and services designed to meet those needs—all with each customer's best interest in mind. We know that customers are the reason we are in business.

We also respect the special connection we have to our communities just by the nature of our business. Lending money for a first home, a new business, and other life events are ways our banks work to enhance people's lives.

Our company actively participates in the federal Community Reinvestment Act (CRA) to meet the credit needs in our communities. Your business with us is reinvested back into our neighborhoods to make them better places to live, work and play.

Employee time and bank resources are dedicated to make positive changes in our communities. Here are a few examples:

- This year 130 employees volunteered more than 18,650 hours of service to 565 local community groups and projects.
- Touchdown Scholarship programs are established at local schools. To date we have donated a total of $18,500 to help students fund higher education.
- We initiated an annual charity cookout that has raised more than $53,000 for local charities and schools during the past five years.
- Our bank associates have educated more than 6,000 students through *Teach Children to Save* and *In Charge Credit* presentations during the past five years.
- This year we received city and state recognition for our Habitat for Humanity Holiday Loan program and the volunteer efforts associated with it. We donated more than $5,000 and volunteered 170 hours within a two-month period.

When you get right down to it, we are in the business of helping people. Our success comes from the efforts of talented people working together to do the right things right—for our customers, for our communities, and for each other.

BANK HIGHLIGHTS

Life changes. Bank easy.

MAKING YOUR MONEY WORK FOR YOU.

THE ONLY CONSTANT IN LIFE IS CHANGE. Whether you are focused on buying a home or planning for retirement, our mission is to make money management easy for you through every life change. That means offering unique resources and hands-on service that guide you through whatever life throws your way.

Our Life Change Specialists are trained to do just that. From graduation, to a new baby, to retirement, we offer detailed checklists and experts who can personally assist you with more than just financial matters. That is because our people truly care.

We know banking is not just about money. It is about you. A great bank gives you choices, and has people ready to work with you every step of the way. Our company puts your money to work, no matter where you are in life, so you have less worries and more time for what is really important… living life.

HOW CAN WE MAKE MONEY MANAGEMENT EASIER FOR YOU?

PERSONAL FINANCIAL SERVICES
Checking Choices
Check Imaging
Online Express Check Reorder
Online Banking
Online Bill Payment
24-Hour Telephone Banking
Overdraft Protection
Privileged Status PhotoSecure™ Debit Card
Privileged Status ATM Card
Money Market
Silver Savings
Moola Moola Kids Savings Club
Certificates of Deposit
Change Kit
Commercial Lending
Mortgage Lending
Agricultural Lending
Consumer Lending
Lines of Credit
Ready Reserve
24-Hour Online Loan Applications
Credit Cards
Retirement Planning
Credit Life and Disability Insurance
Mortgage Life and Disability Insurance
Direct Deposits
Automatic Payment
Safe Deposit Boxes
Notary Service and Signature Guarantee
Travelers Cheques
Cashier’s Checks
American Express Gift Checks
Award-Winning Web Sites

INVESTMENT AND INSURANCE SERVICES(1)
Stocks
Bonds
Mutual Funds
Fixed and Variable Annuities
Property and Casualty Insurance
Life Insurance
Disability Insurance

Long-term Care Insurance
Retirement Planning
Tax-advantaged Investments

TRUST SERVICES
Trust and Estate Planning
Investment Management Services
Custody Services
Retirement Planning
Employee Benefit Services

PHYLLIS WHEELER
Assistant Branch Manager

WHAT I LIKE MOST ABOUT OUR COMPANY IS THAT WE REALLY GET TO KNOW OUR CUSTOMERS. I GREW UP IN THE HIGHLAND PARK NEIGHBORHOOD AND WHEN CUSTOMERS CALL OR STOP IN OUR OFFICE, I KNOW THEM BY NAME. AT THE END OF THE DAY, IT IS REWARDING TO KNOW THAT I MAKE THEIR LIVES A LITTLE BETTER BY PROVIDING FINANCIAL SERVICES DESIGNED TO FIT THEIR LIFESTYLES.

FUN FACTS: MAKES DELICIOUS EGG ROLLS—WHICH RARELY LAST THROUGH BANK GATHERINGS. ENJOYS READING AND HISTORY. MEMBER OF THE HIGHLAND PARK BUSINESS CLUB.

(1) Non-traditional bank products offered through Bill Markve and Associates via Ameritas Investment Corporation are not FDIC insured, nor are they guaranteed by the banks of First Midwest or any affiliate.

BANK HIGHLIGHTS

Life changes. Bank easy.

MAKING YOUR BUSINESS BETTER.

GARY G. SIEVERDING
Vice President
Business Banking

IN MY TWENTY-ONE YEARS OF BANKING, THE BEST JOB REWARD IS TO SEE CUSTOMERS HAVE SUCCESS AND TO SEE THEIR NET WORTH GROW. OUR BUSINESS CUSTOMERS KNOW THAT WHEN THEY CALL WITH QUESTIONS OR REQUESTS, THEY GET ANSWERS. MAYBE THAT IS WHY WE CONTINUE TO SEE OUR BUSINESS BANKING REFERRALS AND ACCOUNTS GROW.

FUN FACTS: 25-YEAR CHURCH CANTOR AND CHOIR MEMBER. HOSTED FOREIGN EXCHANGE STUDENTS FROM HUNGARY AND POLAND. ACTIVE IN THE SIOUX FALLS HUMAN RELATIONS COMMISSION AND DOWNTOWN LIONS CLUB.

IT TAKES MORE THAN JUST A GOOD IDEA AND HARD WORK TO RUN A SUCCESSFUL BUSINESS. You need the right people, the right product, and the right location. Now, more than ever before, you also need the right financial partner.

We know that as your business changes, so do your financial needs. From business start ups to multi-market expansions, our hometown know-how and big bank resources can give your business the financial backing it needs to reach its true potential.

Let us roll up our sleeves and work with you every step of the way. We keep it simple so you have more time and more money to get down to business.

HOW CAN WE MAKE MONEY MANAGEMENT EASIER FOR YOUR BUSINESS?

BUSINESS FINANCING SERVICES
Commercial Real Estate Loans
Lines of Credit
Term Loans
Equipment Financing
Construction Lending
Management Buyouts
Employee Stock Ownership Plan Financing
Specialized Industries
Small Business Administration (SBA) Lending
Beginning Farmer Loan Programs
Crop Loans and Insurance
Livestock Loans
Alternative Lending Options
Letters of Credit

CASH MANAGEMENT SOLUTIONS
Business Advantage Checking
Monthly, Quarterly, or Annual Analysis

Business Money Market Accounts
Interest Advantage Accounts for Non-Profit Entities
Check Imaging
Online Balance and Activity Reporting
Loan and Investment Sweeps
Zero Balance Accounts
Online Services and Administration
Automated Clearinghouse Origination
Automated Payroll Services
Domestic and International Wire Transfers
Federal Tax Payments
Ready Reserve Overdraft Protection
Cash Concentration Services

OTHER SERVICES
Business Retirement Planning
Personal Trust Services
Merchant Credit Card Processing
Business Credit Cards
Online Business Resource Center
Business and Cash Management Planning
Award-Winning Web Sites

FINANCIAL CONTENTS

First Midwest Financial, Inc. and Subsidiaries

SELECTED CONSOLIDATED FINANCIAL INFORMATION

SEPTEMBER 30,	2004	2003	2002	2001	2000
SELECTED FINANCIAL CONDITION DATA *(In Thousands)*					
Total assets	$ 780,799	$ 772,285	$ 607,648	$ 523,183	$ 505,590
Loans receivable, net	404,051	349,692	341,937	333,062	324,703
Securities available for sale	322,524	366,075	218,247	145,374	147,479
Excess of cost over net assets acquired, net	3,403	3,403	3,403	3,403	3,768
Deposits	461,581	435,553	355,780	338,782	318,654
Total borrowings	269,109	291,486	205,266	138,344	143,993
Shareholders' equity	47,274	43,031	44,588	43,727	40,035

YEAR ENDED SEPTEMBER 30,

SELECTED OPERATIONS DATA *(In Thousands, Except Per Share Data)*					
Total interest income	$ 36,180	$ 35,179	$ 35,434	$ 38,224	$ 38,755
Total interest expense	18,411	19,451	21,734	25,391	24,578
Net interest income	17,769	15,728	13,700	12,833	14,177
Provision for loan losses	489	350	1,090	710	1,640
Net interest income after provision for loan losses	17,280	15,378	12,610	12,123	12,537
Total noninterest income	3,596	3,555	2,781	1,492	782
Total noninterest expense	14,830	13,858	12,268	10,695	9,408
Income before income taxes	6,046	5,075	3,123	2,920	3,911
Income tax expense	2,059	1,678	966	1,010	1,583
Net income	$ 3,987	$ 3,397	$ 2,157	$ 1,910	$ 2,328
Earnings per common and common equivalent share:					
Basic earnings per share	$ 1.61	$ 1.37	$ 0.88	$ 0.79	$ 0.95
Diluted earnings per share	$ 1.57	$ 1.36	$ 0.87	$ 0.78	$ 0.93

YEAR ENDED SEPTEMBER 30,

SELECTED FINANCIAL RATIOS AND OTHER DATA

PERFORMANCE RATIOS					
Return on average assets	0.51%	0.47%	0.38%	0.37%	0.46%
Return on average shareholders' equity	8.69%	7.57%	4.95%	4.57%	5.98%
Interest rate spread information:					
Average during the year	2.27%	2.18%	2.37%	2.24%	2.46%
End of year	2.28%	1.90%	2.53%	2.21%	2.32%
Net yield on average interest-earning assets	2.40%	2.31%	2.56%	2.59%	2.86%
Ratio of operating expense to average total assets	1.91%	1.93%	2.16%	2.09%	1.85%

QUALITY RATIOS

Non-performing assets to total assets at end of year	0.09%	0.28%	0.58%	0.49%	0.34%
Allowance for loan losses to non-performing loans	754.35%	492.75%	220.33%	240.02%	1,156.13%
CAPITAL RATIOS					
Shareholders’ equity to total assets at end of period	6.05%	5.57%	7.34%	8.36%	7.93%
Average shareholders’ equity to average assets	5.91%	6.25%	7.68%	8.17%	7.67%
Ratio of average interest-earning assets to average interest-bearing liabilities	105.01%	104.53%	104.86%	106.90%	108.02%
OTHER DATA					
Book value per common share outstanding.	$ 18.98	$ 17.25	$ 18.06	$ 17.71	$ 16.48
Dividends declared per share	$ 0.52	$ 0.52	$ 0.52	$ 0.52	$ 0.52
Dividend payout ratio	32%	38%	59%	65%	55%
Number of full-service offices	17	16	15	14	14

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

First Midwest Financial, Inc. (the "Company" or "First Midwest") is a bank holding company whose primary subsidiaries are First Federal Savings Bank of the Midwest ("First Federal") and Security State Bank ("Security"). The Company was incorporated in 1993 as a unitary non-diversified savings and loan holding company and, on September 20, 1993, acquired all of the capital stock of First Federal in connection with First Federal's conversion from mutual to stock form of ownership. On September 30, 1996, the Company became a bank holding company in conjunction with the acquisition of Security.

The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial service needs of the communities in its market area. The Company's primary market area includes the following counties: Adair, Buena Vista, Dallas, Guthrie, Pocahontas, Polk, and Sac located in Iowa, and the counties of Brookings, Lincoln and Minnehaha located in east central South Dakota. The Company attracts retail deposits from the general public and uses those deposits, together with other borrowed funds, to originate and purchase residential and commercial mortgage loans, to make consumer loans, and to provide financing for agricultural and other commercial business purposes.

The Company's basic mission is to maintain and enhance core earnings while serving its primary market area. As such, the Board of Directors has adopted a business strategy designed to (i) maintain the Company's tangible capital in excess of regulatory requirements, (ii) maintain the quality of the Company's assets, (iii) control operating expenses, (iv) maintain and, as possible, increase the Company's interest rate spread, and (v) manage the Company's exposure to changes in interest rates.

CORPORATE DEVELOPMENTS IN FISCAL 2004

On January 9, 2004, the Company announced that First Federal completed the sale of its branch office in Manson, Iowa, which had been announced on October 6, 2003. Deposits totaling $16,103,000, loans totaling $731,000, and office building and equipment were transferred to the purchaser. The transaction resulted in a gain of $1,113,000, which, net of income taxes, amounted to $699,000.

On May 6, 2004, the Company announced that First Federal had started the process of forming of a new operating division to position the Company to take advantage of opportunities in the growing area of prepaid debit cards and related systems and services. On May 4, 2004, the first five members of the management group leading this new division joined First Federal. These individuals have extensive experience and a proven track record for creating value and profitability in this emerging market. As of September 30, 2004, the division had a total of seventeen (17) employees, operating under the name Meta Payment Systems. The first cards for the operation were issued during the fourth quarter of the fiscal year ended September 30, 2004. As the development process continues, it is anticipated that additional staffing will be needed over the next twelve (12) to eighteen (18) months. The division is based in Sioux Falls, South Dakota, where First Federal recently opened a second banking office. While results are subject to change and cannot be predicted with certainty, it is expected the first twelve months of operations will result in an operating loss of approximately $1.1 million, net of income taxes, and the second year of operations will be break-even, or result in a small profit, net of income taxes. It is anticipated the third year will result in income, net of income taxes, sufficient for the three-year cumulative operations of the division to become positive. Actual results for the division through September 30, 2004 produced an operating loss of $490,000, net of income taxes, which reduced diluted earnings per share for the fiscal year by $.20 per share.

On May 26, 2004, the First Federal opened its second office in Sioux Falls, South Dakota. Construction of the facility, which had been announced earlier in the fiscal year, was completed ahead of schedule. As a result of opening a new branch office, additional expenses were incurred, primarily in compensation and benefits, and in costs associated with owning, operating and maintaining an office building.

On June 30, 2004, the Company announced that First Federal's wholly-owned subsidiary, First Services Financial Limited, had entered into an agreement with Bill Markve and Associates to provide non-insured investment services and full-line insurance services in First Federal's branch locations. Previously, First Services Financial Limited had offered similar services through its own staff in an agreement with a securities firm.

During the third quarter of the fiscal year, the Company announced that it will change its name to Meta Financial Group during the first half of calendar 2005, subject to shareholder approval. The Company's subsidiary bank divisions will all change to a form of the name MetaBank and First Services Trust Corporation will become MetaTrust. The Meta name is symbolic of positive change and expands on the existing operating philosophy of the Company and its subsidiaries to make money management easy for individuals and businesses through every life change. The Company's stock will continue to trade on the NASDAQ National Market under the symbol "CASH".

During the fourth quarter of fiscal year 2004, the First Federal received approval to establish two new office facilities. One will be the third location in Sioux Falls, South Dakota, and the other will be in West Des Moines, Iowa, the fifth location in the Des Moines metropolitan area. Construction on both offices is expected to begin in the fourth quarter of calendar 2004, weather permitting. It is anticipated that the West Des

Moines office will open late in the second quarter or early in the third quarter of calendar 2005, while the Sioux Falls location will open for business late in the third quarter or early in the fourth quarter of calendar 2005. Funds for capital improvements of this type will come from the normal operations of the Company.

FINANCIAL CONDITION

The following discussion of the Company's consolidated financial condition should be read in conjunction with the Selected Consolidated Financial Information and Consolidated Financial Statements and the related notes included elsewhere herein.

The Company's total assets at September 30, 2004 were $780.8 million, an increase of $8.5 million, or 1.1%, from $772.3 million at September 30, 2003. The increase in assets was due primarily to an increase in net loans receivable, which was funded primarily by a decrease in securities available for sale, and increases in deposits and advances from the FHLB, offset in part by a decrease in securities sold under agreements to repurchase.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's portfolio of securities available for sale decreased $43.6 million, or 11.9%, to $322.5 million at September 30, 2004 from $366.1 million at September 30, 2003. The Company's portfolio of securities available for sale consists primarily of mortgage-backed securities, most with balloon maturities, which have relatively short expected average lives and limited maturity extension. During fiscal 2004, purchases of securities available for sale decreased to $46.2 million from $431.7 million in 2003. While repayment and prepayment of principal also decreased, to $89.2 million in 2004 from $185.8 million in 2003, such payments exceeded new purchases. Excess funds provided by repayment of securities were used to fund loan growth. (See Note 3 of Notes to Consolidated Financial Statements.)

The Company's portfolio of net loans receivable increased by $54.4 million, or 15.5%, to $404.1 million at September 30, 2004 from $349.7 million at September 30, 2003. The increase is net of $731,000 of loan balances that were transferred to the purchaser of the Manson, Iowa branch office. Net loans receivable increased as a result of the increased origination of commercial and multi-family real estate loans on existing and newly constructed properties and the increased origination of commercial business loans. In addition, the increase reflects an increase in consumer loans. Conventional one to four family residential mortgage loans declined as existing originated and purchased loans were repaid in amounts greater than new originations retained in portfolio during the period. (See Note 4 of Notes to Consolidated Financial Statements.)

The Company's investment in FHLB stock increased $122,000, or 1.1%, to $11.1 million at September 30, 2004 from $10.9 million at September 30, 2003. The increase is due to an increase in the level of borrowings from the FHLB, which require a calculated level of stock investment based on a formula determined by the FHLB.

Customer deposit balances increased by $26.0 million, or 6.0%, to $461.6 million at September 30, 2004 from $435.6 million at September 30, 2003. This increase is net of $16.1 million in deposit balances that were transferred to the purchaser of the Manson, Iowa branch office. The increase in deposits reflects the opening of a new office in Sioux Falls, South Dakota and management's continued efforts to enhance deposit product design and marketing programs. Deposit balances increased for non-interest-bearing demand accounts and interest-bearing transaction accounts, which include savings, NOW and money market demand accounts, in the amounts of $2.0 million and $57.8 million, respectively. These increases were partially offset by a decrease of $33.8 million in certificates of deposit. Included in the decrease in certificates of deposit is a $24.5 million decrease in jumbo certificates of deposit. The overall increase in deposits, along with the net decrease in securities available for sale, was used to reduce securities sold under agreements to repurchase and fund loan growth during the period. (See Note 7 of Notes to Consolidated Financial Statements.)

The Company's borrowings from the Federal Home Loan Bank increased by $2.5 million, or 1.1%, to $226.3 million at September 30, 2004 from $223.8 million at September 30, 2003. The balance in securities sold under agreements to repurchase decreased by $25.2 million, or 43.6%, to $32.5 million at September 30, 2004 from $57.7 million at September 30, 2003. The overall decrease in borrowings was more than offset by the increase in deposits. (See Notes 8 and 9 of Notes to Consolidated Financial Statements.)

Shareholders' equity increased $4.2 million, or 9.9%, to $47.3 million at September 30, 2004 from $43.0 million at September 30, 2003. The increase in shareholders' equity was primarily due to net income and a decrease in unrealized loss on securities available for sale in accordance with SFAS 115, which were partially offset by dividends paid to shareholders and the purchase of treasury stock during the period. (See Note 15 of Notes to Consolidated Financial Statements.)

RESULTS OF OPERATIONS

The following discussion of the Company's results of operations should be read in conjunction with the Selected Consolidated Financial Information and Consolidated Financial Statements and the related notes included elsewhere herein.

The Company's results of operations are primarily dependent on net interest income, non-interest income, operating expenses and income tax expense. Net interest income is the difference, or spread, between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand, and deposit flows. The Company, like other financial institutions, is subject to interest rate risk to the extent that its interest-earning assets mature or reprice at different times, or on a different basis, than its interest-bearing liabilities.

The Company's non-interest income consists primarily of fees charged on transaction accounts, which help offset the costs associated with establishing and maintaining these deposit accounts. In addition, non-interest income is derived from gains or losses on the sale of loans and securities available for sale. Additionally, non-interest income has been derived from the activities of First Federal's wholly-owned subsidiary, First Services Financial Limited, which was engaged in the sale of various non-insured investment products, and the activities of First Services Trust Company, a wholly-owned subsidiary of First Midwest, that provides a variety of professional trust services. The products and services previously offered directly by First Services Financial Limited are now being offered through an arrangement with Bill Markve and Associates.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND SEPTEMBER 30, 2003

GENERAL

Net income for the year ended September 30, 2004 increased $590,000, or 17.4%, to $3,987,000, from $3,397,000 for the year ended September 30, 2003. The increase in net income reflects an increase in net interest income and a small increase in non-interest income, which were partially offset by an increase in non-interest expense and a small increase in provision for loan losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table sets forth the weighted average effective interest rate on interest-earning assets and interest-bearing liabilities at the end of each of the years presented.

AT SEPTEMBER 30,	2004	2003	2002
WEIGHTED AVERAGE YIELD ON			
Loans receivable	6.04%	6.17%	7.02%
Mortgage-backed securities available for sale	3.81	2.87	5.29
Securities available for sale	2.50	2.23	2.85
FHLB stock	2.25	3.00	3.00
Combined weighted average yield on interest-earning assets	4.94	4.42	6.16
WEIGHTED AVERAGE RATE PAID ON			
Demand, NOW and money market demand deposits	1.22	0.83	1.27
Savings deposits	1.32	1.14	1.46
Time deposits	2.81	2.78	4.07
FHLB advances	3.62	3.40	5.46
Other borrowed money	3.23	1.71	2.36
Combined weighted average rate paid on interest-bearing liabilities	2.66	2.52	3.63
Spread	2.28	1.90	2.53

RATE/VOLUME ANALYSIS

The following schedule presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes in interest income or expense related to changes in outstanding balances and those 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.

YEAR ENDED SEPTEMBER 30,	2004 VS. 2003			2003 VS. 2002		
(in Thousands)	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)
INTEREST-EARNING ASSETS						
Loans receivable	$ 1,981	$ (1,820)	$ 161	$ 360	$ (1,575)	$ (1,215)
Mortgage-backed securities available for sale	991	(20)	971	4,876	(3,355)	1,521
Securities available for sale	6	(72)	(66)	(84)	(535)	(619)
FHLB stock	25	(90)	(65)	72	(14)	58
Total interest-earning assets	$ 3,003	$ (2,002)	$ 1,001	$ 5,224	$ (5,479)	$ (255)
INTEREST-BEARING LIABILITIES						
Demand, NOW and money market deposits	$ 202	$ (12)	$ 190	$ 236	$ (398)	$ (162)
Savings deposits	249	19	268	32	(63)	(31)
Time deposits	805	(2,115)	(1,310)	693	(3,468)	(2,775)
FHLB advances	973	(721)	252	2,414	(2,008)	406
Other borrowed money	(966)	526	(440)	734	(455)	279
Total interest-bearing liabilities	$ 1,263	$ (2,303)	$ (1,040)	$ 4,109	$ (6,392)	$ (2,283)
Net effect on net interest income	$ 1,740	$ 301	$ 2,041	$ 1,115	$ 913	$ 2,028

First Midwest Financial, Inc. and Subsidiaries

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments have been made. Non-accruing loans have been included in the table as loans carrying a zero yield.

YEAR ENDED SEPTEMBER 30,	2004			2003			2002		
(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
INTEREST-EARNING ASSETS									
Loans receivable(1)	$374,450	$24,260	6.48%	$343,879	$24,099	7.01%	$338,736	$25,314	7.47%
Mortgage-backed securities available for sale	317,489	10,871	3.42	288,560	9,900	3.43	146,435	8,379	5.72
Securities available for sale	38,886	828	2.13	38,623	894	2.31	42,273	1,513	3.58
FHLB stock	10,362	221	2.13	9,188	286	3.11	6,861	228	3.32
Total interest-earning assets	741,187	$36,180	4.88%	680,250	$35,179	5.17%	534,305	$35,434	6.63%
Non-interest-earning assets	34,477			37,737			32,374		
Total assets	$775,664			$717,987			$566,679		
INTEREST-BEARING LIABILITIES									
Demand, NOW and money market demand deposits	$112,817	$ 1,289	1.14%	$95,118	$ 1,099	1.16%	$74,656	$ 1,261	1.69%
Savings deposits	36,236	475	1.31	17,239	207	1.20	14,582	238	1.63
Time deposits	304,322	7,875	2.59	273,214	9,185	3.36	252,606	11,960	4.73
FHLB advances	203,135	7,549	3.72	176,961	7,297	4.12	118,415	6,891	5.82
Other borrowed money	49,287	1,223	2.48	88,209	1,663	1.89	49,288	1,384	2.81
Total interest-bearing liabilities	705,797	$18,411	2.61%	650,741	$19,451	2.99%	509,547	$21,734	4.27%
Non-interest-bearing:									
Deposits	19,419			15,375			10,105		
Liabilities	4,582			6,978			3,501		
Total liabilities	729,798			673,094			523,153		
Shareholders' equity	45,866			44,893			43,526		
Total liabilities and shareholders' equity	$775,664			$717,987			$566,679		
Net interest-earning assets	$ 35,390			$ 29,509			$ 24,758		
Net interest income		$17,769			$15,728			$13,700	
Net interest rate spread			2.27%			2.18%			2.37%
Net yield on average interest-earning assets			2.40%			2.31%			2.56%
Average interest-earning assets to average interest-bearing liabilities	105.01%			104.53%			104.86%		

(1) Calculated net of deferred loan fees (which are not material), loan discounts, loans in process and allowance for loan losses.

NET INTEREST INCOME

Net interest income for the year ended September 30, 2004 increased by $2,041,000, or 13.0%, to $17,769,000 compared to $15,728,000 for the period ended September 30, 2003. The increase in net interest income reflects a $60.9 million increase in the average balance of interest-earning assets, and an increase in the net yield on average earning assets. The net yield on average earning assets increased to 2.40% for the period ended September 30, 2004 from 2.31% for the same period in 2003. The increase in net yield on average earning assets was due primarily to balance sheet growth during the year as the result of the growth in loans receivable. The average interest rate spread between loans and deposits increased to 4.35% for the fiscal year ended September 30, 2004 from 4.29% for the previous year. The increase in spread reflects a reduction in the average cost of deposits due to an increase in the level of lower cost transactional deposit accounts and an increased percentage of originated commercial loans at relatively higher yields during the period. Interest rates, particularly at the shorter end of the yield curve, increased during the last half of fiscal 2004. Management believes interest rates in fiscal 2005 will more likely increase than decrease. This should result in an increase in both interest income and in interest expense during the coming year, which combined with continued growth in shorter term adjustable loans and lower cost deposits, would increase net interest income.

INTEREST AND DIVIDEND INCOME

Interest and dividend income for the year ended September 30, 2004 increased $1,001,000, or 2.8%, to $36,180,000 from $35,179,000 for the same period in 2003. The increase was due primarily to an increase of $840,000 in interest and dividends on investments which was the result of an increase of $30,366,000 in the average balance of these assets during the period. Additionally, there was an increase of $161,000 in interest income from loans receivable which was the result of an increase of $30,571,000 in the average balance of loans receivable during the period. The yield on loans receivable decreased by .53% during the period, which partially offset the increase in income from the higher average balance.

INTEREST EXPENSE

Interest expense decreased $1,040,000, or 5.3%, to $18,411,000 for the year ended September 30, 2004 from $19,451,000 for the 2003. Interest expense on deposits decreased by $851,000 due primarily to a decrease in the average rates paid on deposits during the period from 2.72% to 2.13%, which was partially offset by a $67,804,000 increase in the average balance of deposits between the periods. Interest expense on FHLB advances and other borrowings decreased by $188,000 during the period, due to a decrease of $12,748,000 in the average balance outstanding during the period, which was partially offset by an increase in the average cost from 3.38% to 3.48%.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the year ended September 30, 2004 was $489,000 compared to $350,000 for the same period in 2003. Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, growth of the loan portfolio, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate allowance against probable losses from the loan portfolio at such date.

Economic conditions in the agricultural sector of the Company's market area are currently stable due to record yields and modest deterioration in commodity prices. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problem. However, an extended period of low commodity prices could result in weakness of the Company's agricultural loan portfolio and could create a need for the Company to increase its allowance for loan losses through increased charges to provision for loan losses.

During recent years, the Company has increased its origination and purchase of multi-family and commercial real estate loans and has increased its origination of commercial business loans. The Company anticipates activity in this type of lending to continue in future years. While generally carrying higher rates, this lending activity is considered to carry a higher level of risk due to the nature of the collateral and the size of individual loans. As such, the Company anticipates continued increases in its allowance for loan losses as a result of this lending activity.

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

NON-INTEREST INCOME

Non-interest income increased by $41,000, or 1.1%, to $3,596,000 for the year ended September 30, 2004 from $3,555,000 for the same period in 2003. The increase in non-interest income is the result of the sale of the Company's branch office in Manson, Iowa, which resulted in a profit of $1,113,000. This profit was substantially offset by decrease in gain on the sale of loans, gain on sales of securities available for sale, deposit service charges and other income, which decreased by $661,000, $242,000, $49,000 and $57,000, respectively. The decrease in gain on the sale of loans reflects a lower volume of originations of 1-to-4 family, fixed rate loans during the year due to the slow down in the mortgage-refinancing market. The decrease in the gain on sale of securities available for sale is due to no security sales having taken place during the year. The decrease in other non-interest income was the result of a non-recurring gain of $177,000 during the previous fiscal year on the sale of a building formerly used as a drive up facility. It is anticipated that fiscal 2005 will produce additional deposit related service charges with continued growth in checking balances and higher levels of gains on the sale of loans due to an increase in one-to-four family lending activity.

NON-INTEREST EXPENSE

Non-interest expense increased by $972,000, or 7.0%, to $14,831,000 for the year ended September 30, 2004 from $13,858,000 for the same period in 2003. The increase in non-interest expense primarily reflects the costs associated with the start-up of operations for Meta Payment Systems, opening of the second banking office in Sioux Falls, South Dakota, and additional staffing in the lending departments. These increases were partially offset by $501,000 in prepayment fees associated with the early extinguishment of FHLB advances incurred in fiscal 2003, which did not recur in fiscal 2004.

INCOME TAX EXPENSE

Income tax expense increased by $380,000, or 22.7%, to $2,059,000 for the year ended September 30, 2004 from $1,678,000 for the same period in 2003. The increase in income tax expense reflects the increase in the level of taxable income between the comparable periods.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2002

GENERAL

Net income for the year ended September 30, 2003 increased $1,240,000, or 57.5%, to $3,397,000, from $2,157,000 for the same period ended September 30, 2002. The increase in net income reflects an increase in net interest income, an increase in non-interest income and a decrease in provision for loan losses, which were partially offset by an increase in non-interest expense.

NET INTEREST INCOME

Net interest income for the year ended September 30, 2003 increased by $2,029,000, or 14.8%, to $15,728,000 compared to $13,699,000 for the period ended September 30, 2002. The increase in net interest income reflects a $145.9 million increase in the average balance of interest-earning assets, which was partially offset by a decrease in the net yield on average earning assets. The net yield on average earning assets decreased to 2.31% for the period ended September 30, 2003 from 2.56% for the same period in 2002. The decrease in net yield on average earning assets was due primarily to balance sheet growth during the year through the purchase of securities available for sale funded primarily with borrowings, which provided a net interest spread relatively lower than the spread received on the Company’s loans and deposits. The average interest rate spread between loans and deposits increased to 4.29% for the fiscal year ended September 30, 2003 from 3.53% for the previous year. This increase reflects a reduction in the average cost of deposits due to an increase in the level of transactional deposit accounts and an increased percentage of originated commercial loans at relatively higher yields during the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTEREST AND DIVIDEND INCOME

Interest and dividend income for the year ended September 30, 2003 decreased $254,000, or 0.7%, to $35,179,000 from $35,433,000 for the same period in 2002. The decrease is due primarily to a $1,215,000 decline in interest income from loans receivable as a result of a decrease in the average yield on these assets during the period. The decrease was partially offset by a $902,000 increase in interest income on securities available for sale due to a higher average balance of these assets during the period.

INTEREST EXPENSE

Interest expense decreased $2,283,000 or 10.5%, to $19,451,000 for the year ended September 30, 2003 from $21,734,000 for the same period in 2002. Interest expense was reduced due primarily to a $2,968,000 decrease in interest expense on deposits as a result of a decline in the average rates paid on deposits during the period. The decrease was partially offset by a $685,000 increase in interest expense on FHLB advances and other borrowings due to an increase in the average balance outstanding during the period.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the year ended September 30, 2003 was $350,000 compared to $1,090,000 for the same period in 2002. Management believes that, based on a detailed review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate allowance against probable losses from the loan portfolio at such date.

NON-INTEREST INCOME

Non-interest income increased by $774,000, or 27.8%, to $3,555,000 for the year ended September 30, 2003 from $2,781,000 for the same period in 2002. The increase in non-interest income reflects a $168,000 increase in service charges collected on deposit accounts, and a $334,000 increase in gain on sales of loans. The increase also reflects a gain on sale of securities available for sale in the amount of $243,000 during fiscal 2003 compared to a gain on sale of $86,000 in the previous year. Other non-interest income increased $177,000 for the year ended September 30, 2003 compared to the previous year due primarily to a gain on the sale of a building formerly used as a drive-up branch facility.

NON-INTEREST EXPENSE

Non-interest expense increased by $1,590,000, or 13.0%, to $13,858,000 for the year ended September 30, 2003 from $12,268,000 for the same period in 2002. The increase in non-interest expense primarily reflects the costs associated with opening new offices during the period. In November 2001, the Company opened its third Des Moines, Iowa, location and in November 2002, the Company opened its newly constructed facility in Urbandale, Iowa, which serves as the Company's Des Moines area main office. Non-interest expense also increased by $501,000 due to prepayment fees associated with the early extinguishment of FHLB advances that were repaid in conjunction with the sale of securities available for sale and early repayments received on loans.

INCOME TAX EXPENSE

Income tax expense increased by $712,000, or 73.7%, to $1,678,000 for the year ended September 30, 2003 from $966,000 for the same period in 2002. The increase in income tax expense reflects the increase in the level of taxable income between the comparable periods.

CRITICAL ACCOUNTING POLICY

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policies to be that related to the allowance for loan losses and asset impairment judgements including the recoverability of goodwill.

The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio, it will enhance its methodology accordingly. Management may report a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "Asset Quality." Although management believes the levels of the allowance as of both September 30, 2004 and September 30, 2003 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 represents the excess of acquisition costs over the fair value of the net assets acquired in a purchase acquisition. Goodwill is tested for impairment at least annually.

ASSET/LIABILITY MANAGEMENT AND MARKET RISK

QUALITATIVE ASPECTS OF MARKET RISK

As stated above, the Company derives its income primarily 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 institution holding companies and 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 as defined in rules adopted by the Securities and Exchange Commission.

QUANTITATIVE ASPECTS OF MARKET RISK

In an attempt to manage the Company's exposure to changes in interest rates and comply with applicable regulations, we monitor the Company's interest rate risk. In monitoring interest rate risk, we analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If the Company's assets mature or reprice more rapidly or to a greater extent than its liabilities, then net portfolio value and net interest income would tend to increase during periods of rising rates and decrease during periods of falling interest rates. Conversely, if the Company's assets mature or reprice more slowly or to a lesser extent than its liabilities, then net portfolio value and net interest income would tend to decrease during periods of rising interest rates and increase during periods of falling interest rates.

The Company currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate and fixed-rate loan products with short to intermediate terms to maturity, generally 5 years or less. This theoretically allows the Company to maintain a portfolio of loans that will be relatively sensitive 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 the liquidity necessary to meet the funding needs of the loan portfolio. The investment portfolio is also used in the ongoing management of changes to the Company's asset/liability mix, while contributing to profitability through earnings flow. 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 a portion of its borrowed funds. Consequently, the results of operations are generally influenced by the level of short-term interest rates. The Company offers a range of maturities on its deposit products at competitive rates and monitors the maturities on an ongoing basis. The Company uses borrowed funds for both the purchase of investment securities and for day-to-day cash management.

The Company emphasizes and promotes its savings, money market, demand and NOW accounts and, subject to market conditions, certificates of deposit with maturities of three months through five years, principally in its primary market area. The savings and NOW accounts tend to be less susceptible to rapid changes in interest rates.

In managing its asset/liability mix, the Company, at times, depending on the relationship between long- and short-term interest rates, market conditions, and consumer preference, may place somewhat greater emphasis on maximizing its net interest margin than on strictly matching the interest rate sensitivity of its assets and liabilities. Management believes the increased net income that may result from an acceptable mismatch in the actual maturity or repricing of its asset and liability portfolios can, at times, provide sufficient returns to justify the increased exposure to sudden and unexpected increases in interest rates that may result from such a mismatch. The Company has established limits, which may change from time to time, on the level of acceptable interest rate risk. 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.

NET PORTFOLIO VALUE

The Company uses a net portfolio value ("NPV") approach to the quantification of interest rate risk. This approach calculates the difference between the present value of expected cash flows from assets and the present value of expected cash flows from liabilities, as well as cash flows from off-balance-sheet contracts. Management of the Company's assets and liabilities is performed within the context of the marketplace, but also within limits established by the Board of Directors on the amount of change in NPV that is acceptable given certain interest rate changes.

Presented below, as of September 30, 2004 and 2003, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points. As illustrated in the table, the Company's NPV at September 30, 2004 was more sensitive to decreasing interest rates than to rising interest rates. This reflects management's efforts to maintain the Company's interest rate sensitivity in light of the events of the last six months. During this period market interest rates first increased, particularly at the longer end of the yield curve, from historically low levels, due to concerns over near-term future increases in inflation. Then, while the Federal Open Market Committee began to increase short-term interest rates, back to a more normal level, longer term rates moderated creating a flattening in the yield curve. While management does not anticipate a significant shift in market interest rates in the near future, it does believe that there is less risk from declining interest rates than from rising interest rates, and interest rate risk management has reflected this belief.

Change in Interest Rate (Basis Points)	Board Limit % Change	$ Change	At September 30, 2004 % Change	$ Change	At September 30, 2003 % Change
Dollars In Thousands					
+200 bp	(40)%	$ (5,473)	(12)%	$ (6,062)	(19)%
+100 bp	(25)	(1,580)	(3)	(2,451)	(8)
0	—	—	—	—	—
- 100 bp	(25)	(3,130)	(7)	1,085	3
- 200 bp	(40)	(5,631)	(12)	925	8

MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain shortcomings are inherent in the method of analysis presented in the table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market 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. Further, in the event of a change in interest rates, prepayments and early withdrawal 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 Company considers all of these factors in monitoring its exposure to interest rate risk.

Management reviews the OTS measurements and related peer reports on NPV and interest rate risk on a quarterly basis. In addition to monitoring selected measures of NPV, management also monitors the effects on net interest income resulting from increases or decreases in interest rates. This measure is used in conjunction with NPV measures to identify excessive interest rate risk.

ASSET QUALITY

It is management's belief, based on information available at fiscal year end, that the Company's current asset quality is satisfactory. At September 30, 2004, non-performing assets, consisting of non-accruing loans, accruing loans delinquent 90 days or more, restructured loans, foreclosed real estate, and repossessed consumer property, totaled $729,000, or 0.09% of total assets, compared to $2,175,000, or 0.28% of total assets, for the fiscal year ended 2003.

Non-accruing loans at September 30, 2004 include, among others, a commercial real estate loan in the amount of $417,000 secured by a casino and an agricultural operating loan in the amount of $291,000 secured by agricultural land.

There were no foreclosed properties or repossessed assets on the Company's books at September 30, 2004.

The Company maintains an allowance for loan losses because of the potential that some loans may not be repaid in full. (See Note 1 of Notes to Consolidated Financial Statements.) At September 30, 2004, the Company had an allowance for loan losses in the amount of $5,371,000 as compared to $4,962,000 at September 30, 2003. Management's periodic review of the adequacy of the allowance for loan losses is based on various subjective and objective factors including the Company's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. While management may allocate portions of the allowance for specifically identified problem loan situations, the majority of the allowance is based on judgmental factors related to the overall loan portfolio and is available for any loan charge-offs that may occur.

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

At September 30, 2004, $197,000 of the allowance for loan losses was allocated to impaired loans (See Note 4 of Notes to Consolidated Financial Statements), $1,256,000 was allocated to identified problem loan situations, and $3,918,000 was allocated as a reserve against losses from the overall loan portfolio based on historical loss experience and general economic conditions. At September 30, 2003, $312,000 of the allowance for loan losses was allocated to impaired loans, $1,522,000 was allocated to identified problem loan situations, and $3,128,000 was allocated as a reserve against losses from the overall loan portfolio based on historical loss experience and general economic conditions.

The September 30, 2004 allowance for loan losses that was allocated to impaired loans was $197,000, which is 30.2% of impaired loans as of that date. The September 30, 2003 allowance allocated to impaired loans was $312,000, which is 39.5% of impaired loans at that date. The decrease in the dollar amount and percentage of the allocated allowance is a result of the resolution of a number of impaired loans during the year and specific analysis performed on a loan-by-loan basis as described above.

The September 30, 2004 allowance allocated to other identified problem loan situations was $1,256,000 as compared to $1,522,000 at September 30, 2003, a decrease of $266,000. The decrease in the dollar amount of the allocated allowance is due to a relative decrease in identified problem loan situations between the periods and is the result of a specific analysis performed on a loan-by-loan basis as described above.

The portion of the September 30, 2004 allowance that was not specifically allocated to individual loans was $3,918,000 as compared to $3,128,000 at September 30, 2003, an increase of $790,000. The increase primarily reflects overall growth in the loan portfolio and a change in the composition of the loan portfolio, which reduced one-to-four family residential mortgage loans and increased commercial and multi-family real estate loans and operating loans.

LIQUIDITY AND SOURCES OF FUNDS

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

The Company relies on competitive pricing policies, advertising and customer service to attract and retain its deposits and only solicits these deposits from its primary market area. Based on its experience, the Company believes that its passbook savings, money market savings accounts, NOW and regular checking accounts are relatively stable sources of deposits. The Company’s ability to attract and retain time deposits has been, and will continue to be, significantly affected by market conditions. However, the Company does not foresee significant funding issues resulting from disintermediation of its portfolio of time deposits.

MANAGEMENT'S DISCUSSION AND ANALYSIS

First Federal and Security are required by regulation to maintain sufficient liquidity to assure their safe and sound operation. In the opinion of management, both First Federal and Security are in compliance with this requirement.

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

The primary investing activities of the Company are the origination and purchase of loans and the purchase of securities. During the years ended September 30, 2004, 2003 and 2002, the Company originated loans totaling $295.5 million, $324.7 million and $299.9 million, respectively. Purchases of loans totaled $39.5 million, $26.2 million and $27.1 million during the years ended September 30, 2004, 2003 and 2002, respectively. During both fiscal 2004 and fiscal 2003, the mix of loans outstanding changed, with commercial and multi-family real estate loans, commercial business loans and consumer loans increasing while one-to-four family residential mortgage loans and agricultural loans decreased. (See Note 4 of Notes to Consolidated Financial Statements.) During the years ended September 30, 2004, 2003 and 2002, the Company purchased mortgage-backed securities and other securities available for sale in the amount of $46.2 million, $431.7 million and $135.5 million, respectively. (See Note 3 of Notes to Consolidated Financial Statements.)

At September 30, 2004, the Company had outstanding commitments to originate and purchase loans of $60.2 million. (See Note 14 of Notes to Consolidated Financial Statements.) Certificates of deposit scheduled to mature in one year or less from September 30, 2004 total $155.1 million. Based on its historical experience, management believes that a significant portion of such deposits will remain with the Company, however, there can be no assurance that the Company can retain all such deposits. Management believes that loan repayment and other sources of funds will be adequate to meet the Company's foreseeable short- and long-term liquidity needs.

The following table summarizes the Company's significant contractual obligations at September 30, 2004 (in thousands):

Contractual Obligations	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Time deposits	$ 264,756	$ 155,136	$ 89,617	$ 18,953	$ 1,050
Long-term debt	258,799	113,594	54,205	55,000	36,000
Operating leases	739	125	199	192	223
Subordinated debentures					
Issued to capital trust	10,310	—	—	—	10,310
Data processing services	2,748	576	1,152	1,020	—
Total	$ 537,352	$ 269,431	$ 145,173	$ 75,165	$ 47,583

During July 2001, the Company's unconsolidated trust subsidiary, First Midwest Financial Capital Trust I, sold $10 million in floating rate cumulative preferred securities. Proceeds from the sale were used to purchase subordinated debentures of First Midwest, which mature in the year 2031, and are redeemable at any time after five years. The Company used the proceeds for general corporate purposes.

On September 20, 1993, the Bank converted from a federally chartered mutual savings and loan association to a federally chartered stock savings bank. At that time, a liquidation account was established for the benefit of eligible account holders who continue to maintain their account with the Bank after the conversion. The liquidation account is reduced annually to the extent that eligible account holders have reduced their qualifying deposits. At September 30, 2004, the remaining liquidation account balance was approximately $2.2 million, compared to $2.6 million one year earlier.

The Company, First Federal and Security are in compliance with their capital requirements and are considered "well capitalized" under current regulatory guidelines. (See Note 13 of Notes to Consolidated Financial Statements.) The Company does not anticipate any significant changes to its capital structure.

On July 7, 2003, the Company announced a stock repurchase plan authorizing the purchase of up to 150,000 shares, or approximately 6% of the Company's outstanding shares, through open market and privately negotiated transactions. On August 3, 2004 the Company announced the expiration of the plan. A total of 17,042 shares of stock were purchased under the plan at a total cost of $384,000. On August 23, 2004, the

Company announced that the Board of Directors had authorized the Company's ESOP to purchase up to 40,000 shares of the Company's stock through open market and privately negotiated transactions. The stock will be used in future distributions to participants in the Company's ESOP. Through October 31, 2004, 24,100 shares had been purchased under the program at a total cost of $535,000.

The payment of dividends and repurchase of shares has the effect of reducing stockholders' equity. Prior to authorizing such transactions, the Board of Directors considers the effect the dividend or repurchase of shares would have on liquidity and capital ratios. The Banks and the Company may not declare or pay cash dividends if the effect thereof would cause equity to be reduced below applicable regulatory capital requirements, which include, in the case of First Federal, consideration of the liquidation balance.

MANAGEMENT’S DISCUSSION AND ANALYSIS

IMPACT OF INFLATION AND CHANGING PRICES

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

IMPACT OF NEW ACCOUNTING STANDARDS

The Accounting Standards Executive Committee has issued Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. This Statement applies to all loans acquired in a transfer, including those acquired in the acquisition of a bank or a branch, and provides that such loans be accounted for at fair value with no allowance for loan losses, or other valuation allowance, permitted at the time of acquisition. The difference between cash flows expected at the acquisition date and the investment in the loan should be recognized as interest income over the life of the loan. If contractually required payments for principal and interest are less than expected cash flows, this amount should not be recognized as a yield adjustment, a loss accrual, or a valuation allowance. For the Company, this Statement is effective for fiscal year 2006 and, early adoption, although permitted, is not planned. No significant impact is expected on the Company’s consolidated financial statements at the time of adoption.

SEC Staff Accounting Bulletin (“SAB”) No. 105, Application of Accounting Principles to Loan Commitments, was released in March 2004. This release summarizes the SEC staff position regarding the application of GAAP to loan commitments accounted for as derivative instruments. The Company accounts for interest rate lock commitments issued on mortgage loans that will be held for sale as derivative instruments. Consistent with SAB No. 105, the Company considers the fair value of these commitments to be zero at the commitment date, with subsequent changes in fair value determined solely on changes in market interest rates. The Company’s adoption of this bulletin had no impact on the consolidated financial statements.

At the March 17-18, 2004 Emerging Issues Task Force (“EITF”) meeting, the Task Force reached a consensus on Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. EITF 03-1 provides guidance for determining the meaning of “other-than-temporarily impaired” and its application to certain debt and equity securities within the scope of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (“SFAS 115”) and investments accounted for under the cost method. The guidance set forth in the Statement was originally to be effective for the Company in the September 30, 2004 consolidated financial statements. However, in September 2004, the effective dates of certain parts of the Statement were delayed. Management is currently assessing the impact of Issue 03-1 on the consolidated financial statements.

In March 2004, the Financial Accounting Standards Board (“FASB”) issued an Exposure Draft, Share-Base Payment—an amendment of Statements No. 123 and 95. This Statement amends SFAS Statement No. 123, Accounting for Stock-Based Compensation, SFAS Statement No. 95, Statement of Cash Flows, and APB Opinion No. 125, Accounting for Stock Issued to Employees. The objective of the amendment to SFAS No. 123 is to recognize in the financial statements the cost of employee services received in exchange for equity instruments and liabilities incurred as the result of such transactions. The grant-date fair value of stock options would be determined using an option-pricing model, and expense would be recognized over the vesting period. In October 2004, the FASB postponed the effective date of the this proposed standard from fiscal years beginning after December 15, 2004 to periods beginning after June 15, 2005. Management is reviewing the proposed standard to determine the impact on the financial statements.

FORWARD-LOOKING STATEMENTS

The Company, and its wholly-owned subsidiaries First Federal and Security, may from time to time make written or oral “forward-looking statements,” including statements contained in its filings with the Securities and Exchange Commission, in this its annual report to shareholders, in other reports to shareholders, and in other communications by the Company, which are made in good faith by the Company pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company’s beliefs, expectations, estimates, and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company’s control. Such statements address the following subjects: future operating results; customer growth and retention; loan and other product demand; earnings growth and expectations; new products and services; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company’s financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users; the impact of changes in financial services' laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS
FIRST MIDWEST FINANCIAL, INC. AND SUBSIDIARIES
STORM LAKE, IOWA

We have audited the accompanying consolidated balance sheets of First Midwest Financial, Inc. and Subsidiaries as of September 30, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended September 30, 2004. 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 First Midwest Financial, Inc. and Subsidiaries as of September 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2004, in conformity with U.S. generally accepted accounting principles.

McGladrey & Pullen, LLP

Des Moines, Iowa
October 21, 2004

First Midwest Financial, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2004 AND 2003

	2004	2003
ASSETS		
Cash and due from banks	$ 1,591,982	$ 2,090,221
Interest-bearing deposits in other financial institutions	7,344,587	7,666,594
Total cash and cash equivalents	8,936,569	9,756,815
Securities available for sale	322,523,577	366,075,033
Loans receivable, net of allowance for loan losses of $5,370,994 in 2004 and $4,961,777 in 2003	404,051,379	349,691,995
Loans held for sale	270,000	1,126,310
Federal Home Loan Bank (FHLB) stock, at cost	11,052,700	10,930,300
Accrued interest receivable	3,849,215	3,932,076
Premises and equipment, net	11,690,437	11,353,365
Foreclosed real estate	—	1,109,338
Bank owned life insurance	11,847,420	11,301,390
Other assets	6,577,227	7,008,505
Total assets	$780,798,524	$772,285,127
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing demand deposits	$ 19,537,370	$ 17,457,662
Savings, NOW and money market demand deposits	177,287,972	119,497,887
Time certificates of deposit	264,755,535	298,597,193
Total deposits	461,580,877	435,552,742
Advances from FHLB	226,250,000	223,784,394
Securities sold under agreements to repurchase	32,549,377	57,702,034
Trust preferred securities	—	10,000,000
Subordinated debentures	10,310,000	—
Advances from borrowers for taxes and insurance	216,331	268,682
Accrued interest payable	473,426	506,861
Accrued expenses and other liabilities	2,144,248	1,439,615
Total liabilities	733,524,259	729,254,328
COMMITMENTS AND CONTINGENCIES (NOTE 14)		
SHAREHOLDERS' EQUITY		
Preferred stock, 800,000 shares authorized; none issued	—	—
Common stock, $.01 par value; 5,200,000 shares authorized;2,957,999 shares issued and 2,491,025 shares outstanding at September 30, 2004; 2,957,999 shares issued and 2,493,949 shares outstanding at September 30, 2003	29,580	29,580
Additional paid-in capital	20,678,644	20,538,879
Retained earnings—substantially restricted	36,758,258	34,057,741
Accumulated other comprehensive (loss)	(1,240,338)	(3,028,762)
Unearned Employee Stock Ownership Plan shares	(394,766)	(401,676)
Treasury stock, 466,974 and 464,050 common shares, at cost, at September 30, 2004 and 2003, respectively	(8,557,113)	(8,164,963)
Total shareholders' equity	47,274,265	43,030,799
Total liabilities and shareholders' equity	$780,798,524	$772,285,127

See Notes to Consolidated Financial Statements.

First Midwest Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED SEPTEMBER 30, 2004, 2003 AND 2002

	2004	2003	2002
Interest and dividend income:			
Loans receivable, including fees	$24,259,727	$24,098,700	$25,313,828
Securities available for sale	11,698,933	10,794,142	9,891,529
Dividends on FHLB stock	221,596	286,311	228,137
	36,180,256	35,179,153	35,433,494
Interest expense:			
Deposits	9,639,441	10,490,920	13,458,794
FHLB advances and other borrowings	8,771,744	8,959,831	8,275,256
	18,411,185	19,450,751	21,734,050
Net interest income	17,769,071	15,728,402	13,699,444
Provision for loan losses	488,500	350,000	1,090,000
Net interest income after provision for loan losses	17,280,571	15,378,402	12,609,444
Noninterest income:			
Deposit service charges and other fees	1,275,452	1,324,769	1,157,217
Gain on sales of loans, net	293,994	955,469	621,491
Bank owned life insurance	596,018	628,957	671,136
Gain on sales of securities available for sale, net	—	242,562	86,194
Gain on sale of branch office	1,113,230	—	—
(Loss) on sales of foreclosed real estate, net	(8,752)	(5,372)	(42,866)
Brokerage commissions	98,466	125,374	181,296
Other income	227,361	283,297	106,481
	3,595,769	3,555,056	2,780,949
Noninterest expense:			
Employee compensation and benefits	9,473,684	8,400,501	7,528,999
Occupancy and equipment expense	2,369,623	2,154,355	2,077,885
Deposit insurance premium	66,480	61,950	61,508
Data processing expense	723,568	634,098	563,485
Prepayment fee on FHLB advances	—	500,674	—
Other expense	2,197,237	2,106,590	2,036,006
	14,830,592	13,858,168	12,267,883
Net income before income tax expense	6,045,748	5,075,290	3,122,510
Income tax expense	2,058,698	1,678,286	965,882
Net income	$ 3,987,050	$ 3,397,004	$ 2,156,628
Earnings per common and common equivalent share:			
Basic earnings per common share	$ 1.61	$ 1.37	$ 0.88
Diluted earnings per common share	1.57	1.36	0.87

See Notes to Consolidated Financial Statements.

First Midwest Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED SEPTEMBER 30, 2004, 2003 AND 2002

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance, September 30, 2001	$29,580	$20,863,379	$31,066,643	$ 338,427	$(180,000)	$(8,390,819)	$43,727,210
Comprehensive income:							
Net income for the year ended September 30, 2002	—	—	2,156,628	—	—	—	2,156,628
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	—	—	—	156,407	—	—	156,407
Total comprehensive income							2,313,035
Purchase of 62,447 common shares of treasury stock	—	—	—	—	—	(843,327)	(843,327)
Purchase of 10,238 common shares for ESOP	—	—	—	—	(145,892)	—	(145,892)
22,000 common shares committed to be released under the ESOP	—	24,718	—	—	279,750	—	304,468
Issuance of 61,524 common shares from treasury stock due to exercise of stock options	—	(369,364)	—	—	—	809,224	439,860
Tax benefit from exercise of stock options	—	75,035	—	—	—	—	75,035
Cash dividends declared on common stock ($.52 per share)	—	—	(1,282,623)	—	—	—	(1,282,623)
Balance, September 30, 2002	$29,580	$20,593,768	$31,940,648	$ 494,834	$ (46,142)	$(8,424,922)	$44,587,766
Balance, September 30, 2002	$29,580	$20,593,768	$31,940,648	$ 494,834	$ (46,142)	$(8,424,922)	$44,587,766
Comprehensive income:							
Net income for the year ended September 30, 2003	—	—	3,397,004	—	—	—	3,397,004
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	—	—	—	(3,523,596)	—	—	(3,523,596)
Total comprehensive (loss)							(126,592)
Purchase of 10,147 common shares of treasury stock	—	—	—	—	—	(165,092)	(165,092)
Purchase of 35,574 common shares for ESOP	—	—	—	—	(608,584)	—	(608,584)
15,000 common shares committed to be released under the ESOP	—	10,005	—	—	253,050	—	263,055
Issuance of 35,292 common shares from treasury stock due to exercise of stock options	—	(189,770)	—	—	—	425,051	235,281
Tax benefit from exercise of stock options	—	124,876	—	—	—	—	124,876
Cash dividends declared on common stock ($.52 per share)	—	—	(1,279,911)	—	—	—	(1,279,911)
Balance, September 30, 2003	$29,580	$20,538,879	$34,057,741	$ (3,028,762)	$(401,676)	$(8,164,963)	$43,030,799

Balance, September 30, 2003	$29,580	$20,538,879	$34,057,741	$ (3,028,762)	$(401,676)	$(8,164,963)	$43,030,799
Comprehensive income:							
Net income for the year ended September 30, 2004	—	—	3,987,050	—	—	—	3,987,050
Net change in net unrealized gains and losses on securities available for sale, net of reclassification adjustments and tax effects	—	—	—	1,788,424	—	—	1,788,424
Total comprehensive income							5,775,474
Purchase of 39,470 common shares of treasury stock	—	—	—	—	—	(906,650)	(906,650)
Purchase of 10,000 common shares for ESOP	—	—	—	—	(212,400)	—	(212,400)
13,000 common shares committed to be released under the ESOP	—	71,708	—	—	219,310	—	291,018
Issuance of 36,546 common shares from treasury stock due to exercise of stock options	—	68,057	—	—	—	514,500	582,557
Cash dividends declared on common stock ($.52 per share)	—	—	(1,286,533)	—	—	—	(1,286,533)
Balance, September 30, 2004	$29,580	$20,678,644	$36,758,258	$ (1,240,338)	$(394,766)	$(8,557,113)	$47,274,265

See Notes to Consolidated Financial Statements.

First Midwest Financial, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2004, 2003 AND 2002

	2004	2003	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,987,050	$ 3,397,004	$ 2,15
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion, net	4,656,312	3,380,213	2,18
Provision for loan losses	488,500	350,000	1,09
Prepayment fee on FHLB advances	—	500,674	
(Gain) on sales of securities available for sale, net	—	(242,562)	(8
(Gain) on sales of branch office	(1,113,230)	—	
(Gain) on sales of office property, net	—	(134,700)	
Proceeds from sales of loans held for sale	18,043,207	76,465,663	22,10
Originations of loans held for sale	(16,892,903)	(75,381,542)	(22,74
(Gain) on sales of loans, net	(293,994)	(955,469)	(62
(Gain) loss on sales of foreclosed real estate, net	8,752	5,372	4
Net change in:			
Accrued interest receivable	77,343	388,438	43
Other assets	(864,592)	(809,716)	(83
Accrued interest payable	(33,435)	(164,172)	(19
Accrued expenses and other liabilities	710,759	451,818	4
Net cash provided by operating activities	8,773,769	7,251,021	3,57
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available for sale	(46,204,355)	(431,711,574)	(135,49
Proceeds from sales of securities available for sale	—	90,473,567	7,46
Proceeds from maturities and principal repayments of securities available for sale	89,167,761	185,761,348	54,27
Loans purchased	(39,542,108)	(26,162,845)	(27,10
Net change in loans	(16,106,777)	17,696,050	16,40
Proceeds from sales of foreclosed real estate	1,158,935	631,156	31
Proceeds from sale of office building	—	197,169	
Cash transferred to buyer on sale of branch	(14,154,359)	—	
Purchase of shares by ESOP	(212,400)	(608,584)	
Purchase of FHLB stock	(7,879,200)	(7,786,600)	(44
Proceeds from redemption of FHLB stock	7,756,800	3,698,900	
Purchase of premises and equipment	(1,364,922)	(1,254,819)	(2,53
Net cash (used in) investing activities	(27,380,625)	(169,066,232)	(87,11
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in noninterest-bearing demand, savings, NOW and money market demand deposits	66,183,859	34,607,349	11,69
Net change in time deposits	(24,052,970)	45,165,640	5,29
Proceeds from advances from FHLB	2,414,190,000	1,219,200,000	275,52
Repayments of advances from FHLB	(2,411,724,394)	(1,121,006,279)	(276,78
Net change in securities sold under agreements to repurchase	(25,152,657)	(12,474,194)	68,18
Net change in advances from borrowers for taxes and insurance	(46,602)	(87,202)	(9
Cash dividends paid	(1,286,533)	(1,279,911)	(1,28
Proceeds from exercise of stock options	582,557	235,281	43
Purchase of treasury stock	(906,650)	(165,092)	(84
Net cash provided by financing activities	17,786,610	164,195,592	82,14
Net change in cash and cash equivalents	(820,246)	2,380,381	(1,38

CASH AND CASH EQUIVALENTS

Beginning of year	9,756,815	7,376,434	8,76
End of year	$ 8,936,569	$ 9,756,815	$ 7,37
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 18,444,620	$ 19,614,923	$ 21,93
Income taxes	2,213,428	1,757,440	88
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES			
Loans transferred to foreclosed real estate	$ 58,349	$ 418,064	$ 74
SALE OF BRANCH			
Assets disposed:			
Loans	$ (730,704)		
Accrued interest receivable	(5,518)		
Premises and equipment	(110,818)		
Liabilities assumed by buyer:			
Noninterest bearing demand, savings, NOW and money market demand accounts	6,314,066		
Time deposits	9,788,688		
Advances from borrowers for taxes and insurance	5,749		
Other liabilities	6,126		
Gain on sale of branch office	(1,113,230)		
Cash paid	$ 14,154,359		

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 First Midwest Financial, Inc. (the Company) a bank holding company located in Storm Lake, Iowa, and its wholly-owned subsidiaries which include First Federal Savings Bank of the Midwest (the Bank or First Federal), a federally chartered savings bank whose primary regulator is the Office of Thrift Supervision, Security State Bank (Security), a state chartered commercial bank whose primary regulator is the Federal Reserve, First Services Financial Limited and Brookings Service Corporation, which offer brokerage services and non-insured investment products, First Services Trust Company, which offers various trust services, and, for 2003 and 2002, First Midwest Financial Capital Trust I, which was capitalized in July 2001, for the purpose of issuing trust preferred securities (See Note 10). All significant intercompany balances and transactions have been eliminated.

NATURE OF BUSINESS, CONCENTRATION OF CREDIT RISK 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. See Note 4 for a discussion of concentrations of credit risk. The Company accepts deposits from customers in the normal course of business primarily in northwest and central Iowa and eastern South Dakota. The Company operates primarily in the banking industry which accounts for more than 90% of its revenues, operating income and assets. While the Company's management monitors the revenue streams of the various Company products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment.

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 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

The allowance for loan losses and fair values of securities and other financial instruments involve certain significant estimates made by management. These estimates are reviewed by management regularly and it is reasonably possible that circumstances that exist at September 30, 2004, may change in the near-term future and that the effect could be material to the consolidated financial statements.

CASH AND CASH EQUIVALENTS

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 net cash flows for customer loan transactions, deposit transactions, and securities sold under agreements to repurchase.

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 and 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.

Unrealized losses on securities determined to be other than temporary are charged to operations.

LOANS HELD FOR SALE

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income.

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.

Premiums or discounts on purchased loans are amortized to income using the level yield method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

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 ORIGINATION FEES, COMMITMENT FEES, AND RELATED COSTS

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.

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 whole 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.

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. Nonaccrual loans are often also considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

FORECLOSED REAL ESTATE

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value at the date of acquisition, 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 adjusted through a charge to income for changes in fair value or 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. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

PREMISES AND EQUIPMENT

Land is carried at cost. Buildings, furniture, fixtures 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 and 3 to 7 years for furniture, fixtures and equipment. These assets are reviewed for impairment under Statement of Financial Accounting Standards (SFAS) No. 144 when events indicate the carrying amount may not be recoverable.

BANK OWNED LIFE INSURANCE

Bank owned life insurance consists 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 unearned 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. A summary of these commitments is disclosed in Note 14.

GOODWILL

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, on October 1, 2001. Prior to the adoption, the excess of cost over fair value of assets acquired was being amortized on a straight-line basis over its estimated useful life. The asset is evaluated by management for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable based on facts and circumstances related to the value of net assets acquired that gave rise to the asset. After the adoption date, Statement 142 requires that intangible assets with indefinite useful lives no longer be amortized, but instead evaluated for impairment at least annually in accordance with the provisions of Statement 142. The Company performed their annual impairment analysis during 2004 and determined the recorded goodwill of $3,403,019 was not impaired.

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 purchase identical securities are collateralized by assets which are held in safekeeping in the name of the Bank or Security 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.

EARNINGS PER COMMON SHARE

Basic earnings per common share is based on the net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for earnings per common share calculations as they are committed to be released; unearned ESOP shares are not considered outstanding. Diluted earnings per common share shows the dilutive effect of additional potential common shares issuable under stock options.

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 also recognized as a separate component of shareholders' equity.

STOCK COMPENSATION

Expense for employee compensation under stock option plans is based on Accounting Principles Board (APB) Opinion 25, with expense reported only if options are granted below market price at grant date.

SFAS No. 123, Accounting for Stock Based Compensation, requires proforma disclosures for companies that do not adopt its fair value accounting method for stock-based employee compensation for awards granted. Accordingly, the following proforma information presents net income and earnings per share had the fair value method been used to measure compensation cost for stock option plans. The exercise price of options granted is equivalent to the market value of underlying stock at the grant date. Accordingly, no compensation cost was actually recognized for stock options during 2004, 2003 and 2002.

	2004	2003	2002
Net income as reported	$3,987,050	$3,397,004	$2,156,628
Proforma net income	3,757,083	3,253,603	2,091,222
Reported earnings per common and common equivalent share:			
Basic	$ 1.61	$ 1.37	$ 0.88
Diluted	1.57	1.36	0.87
Proforma earnings per common and common equivalent share:			
Basic	$ 1.51	$ 1.32	$ 0.85
Diluted	1.48	1.30	0.84

The fair value of options granted during 2004, 2003 and 2002 is estimated using the following weighted-average information: risk-free interest rate of 4.12%, 3.53% and 3.57%, expected life of 7 years, expected dividends of 2.31%, 2.41% and 3.68% per year and expected stock price volatility of 21.94%, 22.54% and 21.36% per year, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

The Accounting Standards Executive Committee has issued Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. This Statement applies to all loans acquired in a transfer, including those acquired in the acquisition of a bank or a branch, and provides that such loans be accounted for at fair value with no allowance for loan losses, or other valuation allowance, permitted at the time of acquisition. The difference between cash flows expected at the acquisition date and the investment in the loan should be recognized as interest income over the life of the loan. If contractually required payments for principal and interest are less than expected cash flows, this amount should not be recognized as a yield adjustment, a loss accrual, or a valuation allowance. For the Company, this Statement is effective for fiscal year 2006 and, early adoption, although permitted, is not planned. No significant impact is expected on the Company's consolidated financial statements at the time of adoption.

SEC Staff Accounting Bulletin ("SAB") No. 105, Application of Accounting Principles to Loan Commitments, was released in March 2004. This release summarizes the SEC staff position regarding the application of GAAP to loan commitments accounted for as derivative instruments. The Company accounts for interest rate lock commitments issued on mortgage loans that will be held for sale as derivative instruments. Consistent with SAB No. 105, the Company considers the fair value of these commitments to be zero at the commitment date, with subsequent changes in fair value determined solely on changes in market interest rates. The Company's adoption of this bulletin had no impact on the consolidated financial statements.

At the March 17-18, 2004 Emerging Issues Task Force ("EITF") meeting, the Task Force reached a consensus on Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. EITF 03-1 provides guidance for determining the meaning of "other-than-temporarily impaired" and its application to certain debt and equity securities within the scope of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115") and investments accounted for under the cost method. The guidance set forth in the Statement was originally effective for the Company in the September 30, 2004 consolidated financial statements. However, in September 2004, the effective dates of certain parts of the Statement were delayed. Management is currently assessing the impact of Issue 03-1 on the consolidated financial statements.

In March 2004, the Financial Accounting Standards Board ("FASB") issued an Exposure Draft, Share-Base Payment—an amendment of Statements No. 123 and 95. This Statement amends SFAS Statement No. 123, Accounting for Stock-Based Compensation, SFAS Statement No. 95, Statement of Cash Flows, and APB Opinion No. 125, Accounting for Stock Issued to Employees. The objective of the amendment to SFAS No. 123 is to recognize in the financial statements the cost of employee services received in exchange for equity instruments and liabilities incurred as the result of such transactions. The grant-date fair value of stock options would be determined using an option-pricing model, and expense would be recognized over the vesting period. In October 2004, the FASB postponed the effective date of the proposed standard from fiscal years beginning after December 15, 2004 to periods beginning after June 15, 2005. Management is reviewing the proposed standard to determine the impact on the financial statements.

NOTE 2. EARNINGS PER COMMON SHARE

A reconciliation of the numerators and denominators used in the computation of basic earnings per common share and diluted earnings per common share is presented below:

	2004	2003	2002
Basic earnings per common share:			
Numerator, net income	$3,987,050	$3,397,004	$2,156,628
Denominator, weighted average common shares outstanding	2,498,403	2,485,088	2,461,402
Less weighted average unallocated ESOP shares	(16,724)	(13,797)	(8,294)
Weighted average common shares outstanding for basic earnings per common share	$2,481,679	$2,471,291	$2,453,108
Basic earnings per common share	$ 1.61	$ 1.37	$ 0.88
Diluted earnings per common share:			
Numerator, net income	$3,987,050	$3,397,004	$2,156,628
Denominator, weighted average common shares outstanding for basic earnings per common share	2,481,679	2,471,291	2,453,108
Add dilutive effects of assumed exercises of stock options, net of tax benefits	52,744	33,654	31,428
Weighted average common and dilutive potential common shares outstanding	$2,534,423	$2,504,945	$2,484,536
Diluted earnings per common share	$ 1.57	$ 1.36	$ 0.87

Stock options totaling 91,315 shares, 58,566 shares and 136,464 shares were not considered in computing diluted earnings per common share for the years ended September 30, 2004, 2003 and 2002, respectively, because they were not dilutive.

NOTE 3. SECURITIES

Year end securities available for sale were as follows:

2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Trust preferred securities	$ 26,751,966	$ 112,275	$ (872,231)	$ 25,992,010

Obligations of states and political subdivisions	475,502	6,432	—	481,934
Mortgage-backed securities	295,672,052	761,354	(2,341,122)	294,092,284
Other	998,659	54,141		1,052,800
	323,898,179	934,202	(3,213,353)	321,619,028
Marketable equity securities	602,331	302,218	—	904,549
	$324,500,510	$1,236,420	$(3,213,353)	$322,523,577

2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Trust preferred securities	$ 26,741,317	$ 120,200	$(3,538,252)	$ 23,323,265
Obligations of states and political subdivisions	585,000	21,395	—	606,395
Mortgage-backed securities	341,973,353	1,399,297	(3,088,061)	340,284,589
Other	998,229	2,711	—	1,000,940
	370,297,899	1,543,603	(6,626,313)	365,215,189
Marketable equity securities	602,331	263,942	(6,429)	859,844
	$370,900,230	$1,807,545	$(6,632,742)	$366,075,033

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, 2004 are as follows:

	LESS THAN 12 MONTHS		OVER 12 MONTHS		TOTAL	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2004						
Debt securities:						
Trust preferred securities	$ —	$ —	$ 23,879,735	$ (872,231)	$ 23,879,735	$ (872,231)
Mortgage-backed securities	34,755,362	(204,451)	196,459,639	(2,136,671)	231,215,001	(2,341,122)
	$34,755,362	$(204,451)	$220,339,374	$(3,008,902)	$255,094,736	$(3,213,353)

For all the above investment securities, the unrealized losses are generally due to changes in interest rates and, as such, are considered to be temporary, by the Company.

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 these securities are not included in the maturity categories in the following maturity summary.

SEPTEMBER 30, 2004

	Amortized Cost	Fair Value
Due in one year or less	$ 225,000	$ 227,425
Due after one year through five years	1,249,161	1,307,309
Due after five years through ten years	—	—
Due after ten years	26,751,966	25,992,010
	28,226,127	27,526,744
Mortgage-backed securities	295,672,052	294,092,284
	$323,898,179	$321,619,028

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

	2004	2003	2002
Proceeds from sales	$ —	$90,473,567	$7,464,706
Gross gains on sales	—	342,871	86,194
Gross (losses) on sales	—	(100,309)	—

NOTE 4. LOANS RECEIVABLE, NET

Year-end loans receivable were as follows:

	2004	2003

One to four family residential mortgage loans	$ 45,631,796	$ 52,192,827
Construction	29,732,204	19,435,319
Commercial and multi-family real estate loans	196,773,919	171,791,575
Agricultural real estate loans	12,879,821	11,638,780
Commercial business loans	80,515,547	59,467,802
Agricultural business loans	21,147,748	22,599,397
Consumer loans	30,355,326	26,633,610
	417,036,361	363,759,310
Less:		
Allowance for loan losses	(5,370,994)	(4,961,777)
Undistributed portion of loans in process	(7,342,268)	(8,895,047)
Net deferred loan origination fees	(271,720)	(210,491)
	$404,051,379	$349,691,995

Activity in the allowance for loan losses for the years ended September 30 was as follows:

	2004	2003	2002
Beginning balance	$4,961,777	$4,692,988	$3,868,664
Provision for loan losses	488,500	350,000	1,090,000
Recoveries	29,210	32,148	54,240
Charge-offs	(108,493)	(113,359)	(319,916)
Ending balance	$5,370,994	$4,961,777	$4,692,988

Virtually all of the Company's originated loans are to Iowa and South Dakota-based individuals and organizations. The Company's purchased loans totaled approximately $91,713,000 at September 30, 2004, and were secured by properties located, as a percentage of total loans, as follows: 6% in Washington, 1% in Colorado, 2% in Minnesota, 2% in Iowa, 1% in Wisconsin, 1% in South Dakota, 2% in Arizona, 1% in Missouri and the remaining 6% in 12 other states. The Company's purchased loans totaled approximately $76,269,000 at September 30, 2003, and were secured by properties located, as a percentage of total loans, as follows: 8% in Washington, 1% in Colorado, 1% in Minnesota, 2% in Iowa, 2% in Wisconsin, 1% in South Dakota, 2% in Arizona, 1% in Missouri and the remaining 3% in 14 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 approximately $39,409,000 of loans secured by hotel properties and $39,362,000 of multi-family at September 30, 2004. The remainder of the commercial real estate portfolio is diversified by industry. The Company's policy for requiring collateral and guarantees varies with the credit-worthiness of each borrower.

Impaired loans were as follows:

	2003	2002
Year-end loans with no allowance for loan losses allocated	$ —	$ —
Year-end loans with allowance for loan losses allocated	652,834	790,430
Amount of the allowance allocated	197,265	312,359
Average of impaired loans during the year	775,047	910,303
Interest income recognized during impairment	—	—

Cash interest collected on impaired loans was not material during the years ended September 30, 2004, 2003 and 2002.

NOTE 5. LOAN SERVICING

One to four family residential mortgage loans serviced for others are not reported as assets. The unpaid principal balances of these loans at year end were as follows:

	2004	2003
Mortgage loan portfolios serviced for FNMA	$25,804,000	$25,957,000
Other	27,460,000	22,095,000
	$53,264,000	$48,052,000

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $100,000 and $112,000 at September 30, 2004 and 2003, respectively.

NOTE 6. PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

	2004	2003
Land	$ 2,108,388	$ 2,120,000
Buildings	9,577,962	9,134,858
Furniture, fixtures and equipment	5,243,724	4,804,462
	16,930,074	16,059,320
Less accumulated depreciation	(5,239,637)	(4,705,955)
	$11,690,437	$11,353,365

Depreciation of premises and equipment included in occupancy and equipment expense was approximately $917,000, $893,000 and $825,000 for the years ended September 30, 2004, 2003 and 2002, respectively.

NOTE 7. DEPOSITS

Jumbo certificates of deposit in denominations of $100,000 or more were approximately $84,862,000 and $109,429,000 at September 30, 2004 and 2003, respectively.

At September 30, 2004, the scheduled maturities of certificates of deposit were as follows for the years ending September 30:

2005	$155,136,393
2006	53,629,074
2007	35,987,623
2008	12,388,912
2009	6,563,484
Thereafter	1,050,049
	$264,755,535

NOTE 8. ADVANCES FROM FEDERAL HOME LOAN BANK

At September 30, 2004 advances from the FHLB of Des Moines had fixed and variable rates ranging from 1.39% to 7.19% (weighted-average rate of 3.62%) are required to be repaid in the year ending September 30 as presented below. Advances totaling $49,700,000 contain call features which allow the FHLB to call for the prepayment of the borrowing prior to maturity.

2005	$101,045,000
2006	20,240,000
2007	13,965,000
2008	25,000,000
2009	30,000,000
Thereafter	36,000,000
	$226,250,000

First Federal and Security have executed blanket pledge agreements whereby First Federal and Security assign, transfer and pledge to the FHLB, and grant to the FHLB a security interest in all mortgage collateral and securities collateral. However, First Federal and Security have the right to use, commingle and dispose of the collateral they have assigned to the FHLB. Under the agreements, First Federal and Security must maintain “eligible collateral” that has a “lending value” at least equal to the “required collateral amount,” all as defined by the agreements.

At year end 2004 and 2003, First Federal and Security collectively pledged securities with amortized costs of $169,159,000 and $168,857,000, respectively, and fair values of approximately $167,922,000 and $167,899,000, respectively, against specific FHLB advances. In addition, qualifying mortgage loans of approximately $119,731,000 and $120,888,000 were pledged as collateral at September 30, 2004 and 2003, respectively.

NOTE 9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase totaled $32,549,377 and $57,702,034 at September 30, 2004 and 2003, respectively.

An analysis of securities sold under agreements to repurchase is as follows:

	2004	2003
Highest month-end balance	$58,500,000	$110,488,119
Average balance	38,977,080	78,208,576

Weighted average interest rate during the period	1.71%	1.42%
Weighted average interest rate at end of period	2.49%	1.16%

At year-end 2004, securities sold under agreements to repurchase had a weighted average maturity of less than 16 months.

The Company pledged securities with amortized costs of approximately $35,702,000 and $81,428,000 and fair values of approximately $36,022,000 and $81,612,000, respectively, at year-end 2004 and 2003 as collateral for securities sold under agreements to repurchase.

NOTE 10. TRUST PREFERRED SECURITIES AND SUBORDINATED DEBENTURES

The Company issued all of the 10,000 authorized shares of trust preferred securities of First Midwest Financial Capital Trust I holding solely subordinated debt securities. Distributions are paid semi-annually. Cumulative cash distributions are calculated at a variable rate of LIBOR (as defined) plus 3.75% (5.74% at September 30, 2004 and 4.90% at September 30, 2003), not to exceed 12.5%. The Company may, at one or more times, defer interest payments on the capital securities for up to 10 consecutive semi-annual periods, but not beyond July 25, 2031. At the end of any deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on July 25, 2031; however, the Company has the option to shorten the maturity date to a date not earlier than July 25, 2006. The redemption price is $1,000 per capital security plus any accrued and unpaid distributions
to the date of redemption plus, if redeemed prior to July 25, 2011, a redemption premium as defined in the Indenture agreement.

Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Company's indebtedness and senior to the Company's common stock.

Following generally accepted accounting principles in effect as of September 30, 2003, the financial statements of the Trust were consolidated with the Company and any intercompany transactions were eliminated. At September 30, 2004, generally accepted accounting principles now require that the financial statements of the Trust should not be consolidated with the Company's and intercompany transactions should not be eliminated. The result of this change is that the balance of subordinated debt/trust preferred securities has increased by $310,000, which represents debt issued by the Company to the Trust. In addition, other assets increased by $310,000 which represents the Company's investment in the common stock of the trust. The results of the Trust are recorded on the books of the Company using the equity method of accounting. There was no impact to net income as a result of this change. The terms of the subordinated debt are the same as the terms of the trust preferred securities described above.

NOTE 11. EMPLOYEE BENEFITS

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

Employee stock ownership plan (ESOP): The Company maintains an ESOP for eligible employees who have 1,000 hours of employment with the Bank, have worked one year at the Bank and who have attained age 21. In 2001, the ESOP borrowed $360,000 from the Company to purchase 30,000 shares of the Company's common stock. Final payment of this loan was received during the year ended September 30, 2002. In 2002, the ESOP borrowed $145,982 from the Company to purchase 10,238 shares of the Company's common stock. Final payment of this loan was received during the year ended September 30, 2004. In 2003, the ESOP borrowed $608,584 from the Company to purchase 35,574 shares of the Company's common stock. In 2004, the ESOP borrowed $212,400 from the Company to purchase 10,000 shares of the Company's common stock. Shares purchased by the ESOP are held in suspense for allocation among participants as the loan is repaid. ESOP expense of $291,018, $263,055 and $304,468 was recorded for the years ended September 30, 2004, 2003 and 2002, respectively. Contributions of $219,310, $253,050 and $279,750 were made to the ESOP during the years ended September 30, 2004, 2003 and 2002, respectively.

Contributions to the ESOP and shares released from suspense in an amount proportional to the repayment of the ESOP loan 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, 2004, 2003 and 2002, 13,000, 15,000 and 22,000 shares with an average fair value of $22.37, $17.54 and $13.84 per share, respectively, were committed to be released. Also for the years ended September 30, 2004, 2003 and 2002, allocated shares and total ESOP shares reflect 15,056, 4,865, and 12,629 shares, respectively, withdrawn from the ESOP by participants who are no longer with the Company and 5,426, 6,569 and 7,760 shares, respectively, purchased for dividend reinvestment.

Year-end ESOP shares are as follows:

	2004	2003	2002
Allocated shares	255,818	252,448	235,744
Unallocated shares	20,812	23,812	3,238
Total ESOP shares	276,630	276,260	238,982
Fair value of unearned shares	$ 462,859	$ 525,055	$ 46,142

STOCK OPTIONS AND INCENTIVE PLANS

Stock options and incentive plans: Certain officers and directors of the Company have been granted options to purchase common stock of the Company pursuant to stock option plans. Stock option plans are used to reward directors, officers and employees and provide them with an additional equity interest. Options are issued for 10 year periods, with 100% vesting generally occurring either at grant date or 48 months after grant date. At September 30, 2004, 113,962 shares were authorized for future grants. Information about option grants follows:

	Number of Options	Weighted-Average Exercise Price
Outstanding, September 30, 2001	288,056	$ 12.40
Granted	27,641	14.27
Exercised	(61,524)	7.14
Forfeited	(3,000)	13.22
Outstanding, September 30, 2002	251,173	13.88

Granted	36,708	21.45
Exercised	(35,292)	6.67
Forfeited	—	—
Outstanding, September 30, 2003	252,589	15.99
Granted	93,315	22.46
Exercised	(36,546)	15.94
Forfeited	(2,000)	15.92
Outstanding, September 30, 2004	307,358	$ 17.96

The weighted-average fair value per option for options granted in 2004, 2003 and 2002 was $5.37, $4.81 and $2.41, respectively. At September 30, 2004, options outstanding were as follows:

Exercise Price	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Options
$9.63 - $9.99	$ 9.63	6.00	20,824
$10.00 - $14.99	13.70	6.69	66,604
$15.00 - $19.99	16.91	2.46	89,117
$20.00 - $23.81	22.17	9.25	130,813
	$17.96	6.51	307,358

Options exercisable at year end are as follows:

	Number of Options	Weighted-Average Exercise Price
2002	237,048	13.95
2003	236,464	15.99
2004	250,483	17.04

PROFIT SHARING PLAN

The Company has a profit sharing plan covering substantially all full-time employees. Contribution expense for the years ended September 30, 2004, 2003 and 2002, was $276,923, $283,212 and $244,927, respectively.

NOTE 12. INCOME TAXES

The Company, the Bank and its subsidiaries and Security file a consolidated federal income tax return on a fiscal year basis.

The provision for income taxes consists of:

	2004	2003	2002
Federal:			
Current	$2,120,464	$1,430,109	$ 904,539
Deferred	(333,905)	(23,962)	(64,787)
	1,786,559	1,406,147	839,752
State:			
Current	288,432	278,015	153,170
Deferred	(16,293)	(5,876)	(27,040)
	272,139	272,139	126,130
Income tax expense	$2,058,698	$1,678,286	$ 965,882

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

	2004	2003	2002
Income taxes at 34% federal tax rate	$2,056,000	$1,726,000	$1,062,000
Increase (decrease) resulting from:			
State income taxes—net of federal benefit	191,000	141,000	97,000
Nontaxable buildup in cash surrender value	(186,000)	(190,000)	(217,000)
Other, net	(2,302)	1,286	23,882
Total income tax expense	$2,058,698	$1,678,286	$ 965,882

Year-end deferred tax assets and liabilities consist of:

	2004	2003
Deferred tax assets:		
Bad debts	$ 1,885,000	$ 1,640,000
Net unrealized losses on securities available for sale	736,595	1,796,435
Other	145,863	—
	2,767,458	3,436,435
Deferred tax liabilities:		
Federal Home Loan Bank stock dividend	(452,000)	(452,000)
Premises and equipment	(461,000)	(342,000)
Deferred loan fees	(168,000)	(148,000)
Other	—	(98,335)
	(1,081,000)	(1,040,335)
Net deferred tax assets	$ 1,686,458	$ 2,396,100

Federal income tax laws provided savings banks with additional bad debt deductions through September 30, 1987, totaling $6,744,000 for the Bank. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total approximately $2,300,000 at September 30, 2004 and 2003. If the Bank were liquidated or otherwise ceases to be a bank or if tax laws were to change, the $2,300,000 would be recorded as expense.

NOTE 13. CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Company has two primary subsidiaries, First Federal and Security. First Federal and Security are subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory or discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, First Federal and Security must meet specific quantitative capital guidelines using their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The requirements are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require First Federal and Security to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2004, that First Federal and Security meet the capital adequacy requirements.

First Federal's and Security's actual capital and required capital amounts and ratios are presented below:

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
AS OF SEPTEMBER 30, 2004:						
Total capital (to risk-weighted assets):						
First Federal	$ 53,716	11.2%	$ 38,480	8.0%	$ 48,099	10.0%
Security	4,646	14.5	2,570	8.0	3,213	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	48,493	10.1	19,240	4.0	28,860	6.0
Security	4,419	13.8	1,285	4.0	1,928	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	48,493	6.8	28,470	4.0	35,588	5.0
Security	4,419	7.1	2,485	4.0	3,106	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	48,493	6.8	28,655	4.0	35,819	5.0
AS OF SEPTEMBER 30, 2003:						
Total capital (to risk-weighted assets):						
First Federal	$ 50,794	12.1%	$ 33,721	8.0%	$ 42,152	10.0%
Security	4,588	15.5	2,366	8.0	2,957	10.0
Tier 1 (Core) capital (to risk-weighted assets):						
First Federal	46,058	10.9	16,861	4.0	25,291	6.0
Security	4,294	14.5	1,183	4.0	1,774	6.0
Tier 1 (Core) capital (to average total assets):						
First Federal	46,058	7.1	26,108	4.0	32,634	5.0
Security	4,294	6.7	2,549	4.0	3,186	5.0
Tier 1 (Core) capital (to total assets),						
First Federal	46,058	6.5	28,222	4.0	35,277	5.0

Regulations limit the amount of dividends and other capital distributions that may be paid by a financial institution without prior approval of its primary regulator. The regulatory restriction is based on a three-tiered system with the greatest flexibility being afforded to well-capitalized (Tier 1) institutions. First Federal and Security are currently Tier 1 institutions. Accordingly, First Federal and Security can make, without prior regulatory approval, distributions during a calendar year up to 100% of their retained net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid) as long as they remain well-capitalized, as defined in prompt corrective action regulations, following the proposed distribution. Accordingly, at September 30, 2004, approximately $7,269,000 of First Federal's retained earnings and $332,000 of Security's retained earnings were potentially available for distribution to the Company.

NOTE 14. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company's subsidiary banks make various commitments to extend credit which are not reflected in the accompanying consolidated financial statements.

At September 30, 2004 and 2003, loan commitments approximated $60,244,000 and $63,421,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 2004 included commitments to originate fixed-rate loans with interest rates ranging from 4% to 9% totaling $8,150,000 and adjustable-rate loan commitments with interest rates ranging from 3.88% to 18% totaling $50,094,000. The Company also had commitments to purchase a fixed-rate loan of $2,000,000 with interest rate of 6.5%. Loan commitments at September 30, 2003 included commitments to originate fixed-rate loans with interest rates ranging from 4% to 10% totaling $13,208,000 and adjustable-rate loan commitments with interest rates ranging from 3% to 18% totaling $30,663,000. The Company also had commitments to purchase adjustable rate loans of $14,000,000 with interest rates ranging from 5% to 5.79% and fixed-rate loans of $5,550,000 with interest rates ranging from 5.38% to 8%. Commitments, which are disbursed subject to certain limitations, extend over various periods of time. Generally, unused commitments are canceled upon expiration of the commitment term as outlined in each individual contract.

The exposure to credit loss in the event of nonperformance 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.

Since certain commitments to make loans and to fund lines of credit and loans in process 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 amortized costs of approximately $47,201,000 and $31,349,000 and fair values of approximately $46,098,000 and $27,858,000 at September 30, 2004 and 2003, respectively, were pledged as collateral for public funds on deposit.

Securities with amortized costs of approximately $10,255,000 and $6,040,000 and fair values of approximately $10,296,000 and $6,220,000 at September 30, 2004 and 2003, respectively, were pledged as collateral for individual, trust and estate deposits.

Under employment agreements with certain executive officers, certain events leading to separation from the Company could result in cash payments totaling approximately $2,209,000 as of September 30, 2004.

The Company and its subsidiaries are subject to certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position or results of operations of the Company.

NOTE 15. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) components and related taxes were as follows:

	2004	2003	2002
Net change in net unrealized gains and losses on securities available for sale:			
Unrealized gains (losses) arising during the year	$ 2,848,264	$(5,369,149)	$ 335,288
Reclassification adjustment for (gains) losses included in net income	—	(242,562)	(86,194)
Net change in unrealized gains and losses on securities available for sale	2,848,264	(5,611,711)	249,094
Tax effects	(1,059,840)	2,088,115	(92,687)
Other comprehensive income (loss)	$ 1,788,424	$(3,523,596)	$ 156,407

NOTE 16. LEASE COMMITMENT

The Company has leased property under various noncancelable operating lease agreements which expire at various times through October 2013, and require annual rentals ranging from $6,000 to $52,200 plus the payment of the property taxes, normal maintenance and insurance on the property.

The total minimum rental commitment at September 30, 2004, under the leases is as follows:

2005	$ 125,256
2006	99,140
2007	99,580
2008	99,015
2009	92,800
Thereafter	223,300
	$ 739,091

NOTE 17. PARENT COMPANY FINANCIAL STATEMENTS

Presented below are condensed financial statements for the parent company, First Midwest Financial, Inc.:

CONDENSED BALANCE SHEETS
SEPTEMBER 30, 2004 AND 2003

	2004	2003
ASSETS		
Cash and cash equivalents	$ 110,119	$ 138,017
Securities available for sale	2,625,894	2,613,771
Investment in subsidiaries	55,093,854	50,832,669
Loan receivable from ESOP	394,766	401,676
Loan receivable	1,261,188	1,307,259

Other assets	856,789	916,660
Total assets	$ 60,342,610	$ 56,210,052
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Loan payable to subsidiaries	$ 2,550,000	$ 2,900,000
Trust preferred securities	—	10,000,000
Subordinated debentures	10,310,000	—
Accrued expenses and other liabilities	208,345	279,253
Total liabilities	13,068,345	13,179,253
SHAREHOLDERS' EQUITY		
Common stock	29,580	29,580
Additional paid-in capital	20,678,644	20,538,879
Retained earnings, substantially restricted	36,758,258	34,057,741
Accumulated other comprehensive income (loss)	(1,240,338)	(3,028,762)
Unearned Employee Stock Ownership Plan shares	(394,766)	(401,676)
Treasury stock, at cost	(8,557,113)	(8,164,963)
Total shareholders' equity	47,274,265	43,030,799
Total liabilities and shareholders' equity	$ 60,342,610	$ 56,210,052

First Midwest Financial, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME
YEARS ENDED SEPTEMBER 30, 2004, 2003 AND 2002

	2004	2003	2002
Dividend income from subsidiaries	$ 2,300,000	$ 1,250,000	$ 245,000
Interest income	317,635	334,656	322,345
Gain on sales of securities available for sale, net	—	48,109	48,064
	2,617,635	1,632,765	615,409
Interest expense	634,083	644,385	682,134
Operating expenses	752,257	662,046	618,578
	1,386,340	1,306,431	1,300,712
Income (loss) before income taxes and equity in undistributed net income of subsidiaries	1,231,295	326,334	(685,303)
Income tax (benefit)	(354,000)	(304,000)	(304,000)
Income (loss) before equity in undistributed net income of subsidiaries	1,585,295	630,334	(381,303)
Equity in undistributed net income of subsidiaries	2,401,755	2,766,670	2,537,931
Net income	$ 3,987,050	$ 3,397,004	$ 2,156,628

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2004, 2003 AND 2002

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,987,009	$ 3,397,004	$ 2,156,628
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(2,401,755)	(2,766,670)	(2,537,931)
(Gain) loss on sales of securities available for sale, net	—	(48,109)	(48,064)
Change in other assets	365,401	(465,296)	436,856
Change in accrued expenses and other liabilities	(70,908)	233,718	75,539
Net cash provided by operating activities	1,879,747	350,647	83,028
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary	—	—	(250,000)
Repayment of securities	—	—	342
Purchase of securities available for sale	—	(48,325)	(1,000,000)
Proceeds from sales of securities available for sale	—	156,016	1,410,770
Loan to ESOP	(212,400)	(608,584)	(145,893)
Net change in loan receivable	46,071	42,284	(450,230)
Repayments on loan receivable from ESOP	219,310	253,050	279,751
Net cash (used in) investment activities	52,981	(205,559)	(155,260)

CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan payable to subsidiaries	2,325,000	1,975,000	1,755,000
Repayments on loan payable to subsidiaries	(2,675,000)	(830,000)	—
Cash dividends paid	(1,286,533)	(1,279,911)	(1,282,623)
Proceeds from exercise of stock options	582,557	235,281	439,860
Purchase of treasury stock	(906,650)	(165,092)	(843,327)
Net cash provided by (used in) financing activities	(1,960,626)	(64,722)	68,910
Net change in cash and cash equivalents	(27,898)	80,366	(3,322)
CASH AND CASH EQUIVALENTS			
Beginning of year	138,017	57,651	60,973
End of year	$ 110,119	$ 138,017	$ 57,651
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	$ 634,083	$ 644,385	$ 682,134

The extent to which the Company may pay cash dividends to shareholders will depend on the cash currently available at the Company, as well as the ability of the subsidiary banks to pay dividends to the Company (see Note 13).

NOTE 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	December 31	March 31	June 30	September 30
FISCAL YEAR 2004:				
Total interest income	$ 9,053,707	$ 8,890,641	$ 9,043,212	$ 9,192,696
Total interest expense	4,585,909	4,475,826	4,523,366	4,826,084
Net interest income	4,467,798	4,414,815	4,519,846	4,366,612
Provision for loan losses	101,000	56,000	167,500	164,000
Net income	976,942	1,675,397	836,609	498,102
Earnings per common and common equivalent share:				
Basic	$ 0.39	$ 0.67	$ 0.34	$ 0.20
Diluted	0.39	0.66	0.33	0.20
FISCAL YEAR 2003:				
Total interest income	$ 8,952,749	$ 9,001,683	$ 8,773,197	$ 8,451,524
Total interest expense	5,027,183	4,854,739	4,841,730	4,727,099
Net interest income	3,925,566	4,146,944	3,931,467	3,724,425
Provision for loan losses	175,000	108,000	67,000	—
Net income	844,256	915,186	892,407	745,155
Earnings per common and common equivalent share:				
Basic	$ 0.34	$ 0.37	$ 0.36	$ 0.30
Diluted	0.34	0.37	0.36	0.30
FISCAL YEAR 2002:				
Total interest income	$ 8,990,799	$ 8,633,888	$ 8,904,424	$ 8,904,383
Total interest expense	5,928,035	5,429,196	5,293,508	5,083,311
Net interest income	3,062,764	3,204,692	3,610,916	3,821,072
Provision for loan losses	299,000	136,000	280,000	375,000
Net income	436,785	448,123	528,458	743,262
Earnings per common and common equivalent share:				
Basic	$ 0.18	$ 0.18	$ 0.22	$ 0.30
Diluted	0.18	0.18	0.21	0.30

NOTE 19. FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosures About Fair Value of Financial Instruments, requires that the Company disclose estimated fair value amounts of its financial instruments. 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, 2004 and 2003, as more fully described below. It should be noted that 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 subsidiary banks' 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, 2004 and 2003. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	2004		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Selected assets:				
Cash and cash equivalents	$ 8,936,569	$ 8,937,000	$ 9,756,815	$ 9,757,000
Securities available for sale	322,523,577	322,524,000	366,075,033	366,075,000
Loans receivable, net	404,051,379	400,965,000	349,691,995	352,547,000
Loans held for sale	270,000	270,000	1,126,310	1,126,000
FHLB stock	11,052,700	11,053,000	10,930,300	10,930,000
Accrued interest receivable	3,849,215	3,849,000	3,932,076	3,932,000
Selected liabilities:				
Noninterest bearing demand deposits	(19,537,370)	(19,537,000)	(17,457,662)	(17,458,000)
Savings, NOW and money market demand deposits	(177,287,972)	(177,288,000)	(119,497,887)	(119,498,000)
Other time certificates of deposit	(264,755,535)	(265,836,000)	(298,597,193)	(303,189,000)
Total deposits	(461,580,877)	(462,661,000)	(435,552,742)	(440,145,000)
Advances from FHLB	(226,250,000)	(236,265,000)	(223,784,394)	(236,829,000)
Securities sold under agreements to repurchase	(32,549,377)	(33,074,000)	(57,702,034)	(57,703,000)
Trust Preferred Securities	—	—	(10,000,000)	(10,227,000)
Subordinated debentures	(10,310,000)	(10,339,000)	—	—
Advances from borrowers for taxes and insurance	(216,331)	(216,000)	(268,682)	(269,000)
Accrued interest payable	(473,426)	(473,000)	(506,861)	(507,000)
Off-balance-sheet instruments, loan commitments	—	—	—	—

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 2004 and 2003.

CASH AND CASH EQUIVALENTS

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

SECURITIES AVAILABLE FOR SALE

Quoted market prices or dealer quotes were used to determine the fair value of securities available for sale.

LOANS RECEIVABLE, NET

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 with similar credit ratings and for similar remaining maturities. When using the discounting method to determine fair value, loans were gathered by homogeneous groups with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers as of September 30, 2004 and 2003. In addition, when computing the estimated fair value for all loans, allowances for loan losses have been subtracted from the calculated fair value for consideration of credit issues.

LOANS HELD FOR SALE

Fair values are based on quoted market prices of similar loans sold on the secondary market.

FHLB STOCK

The fair value of such stock approximates book value since the Company is able to redeem this stock with the Federal Home Loan Bank at par value.

ACCRUED INTEREST RECEIVABLE

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

DEPOSITS

The fair value of deposits were determined as follows: (i) for noninterest bearing demand deposits, savings, NOW and money market demand deposits, since such deposits are immediately withdrawable, fair value is determined to approximate the carrying value (the amount payable on demand); (ii) for other time certificates of deposit, the fair value has been estimated by discounting expected future cash flows by the current rates offered as of September 30, 2004 and 2003, on certificates of deposit with similar remaining maturities. In accordance with SFAS No. 107. 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 SFAS No. 107.

ADVANCES FROM FHLB

The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates as of September 30, 2004 and 2003, for advances with similar terms and remaining maturities.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE, OTHER BORROWINGS, TRUST PREFERRED SECURITIES AND SUBORDINATED DEBENTURES

The fair value of these instruments was estimated by discounting the expected future cash flows using derived interest rates approximating market as of September 30, 2004 and 2003, over the contractual maturity of such borrowings.

ADVANCES FROM BORROWERS FOR TAXES AND INSURANCE

The carrying amount of advances from borrowers for taxes and insurance is assumed to approximate the fair value.

ACCRUED INTEREST PAYABLE

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

LOAN COMMITMENTS

The commitments to originate and purchase loans have terms that are consistent with current market terms. Accordingly, the Company estimates that the fair values of these commitments are not significant.

LIMITATIONS

It must be noted that 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.

OFFICE LOCATIONS

FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

First Federal Storm Lake, Main Office

FIRST FEDERAL SAVINGS BANK NORTHWEST IOWA MARKET

MAIN OFFICE
Fifth at Erie
P.O. Box 1307
Storm Lake, Iowa 50588
712.732.4117
800.792.6815
712.732.7105 fax

STORM LAKE PLAZA
1413 North Lake Avenue
Storm Lake, Iowa 50588
712.732.6655
712.732.7924 fax

LAKE VIEW
Fifth at Main
P.O. Box 649
Lake View, Iowa 51450
712.657.2721
712.657.2896 fax

LAURENS
104 North Third Street
Laurens, Iowa 50554
712.841.2588
712.841.2029 fax

ODEBOLT
219 South Main Street
P.O. Box 465
Odebolt, Iowa 51458
712.668.4881
712.668.4882 fax

SAC CITY
518 Audubon Street
Sac City, Iowa 50583
712.662.7195
712.662.7196 fax
efirstfed.com

Brookings Federal Bank

BROOKINGS FEDERAL BANK MARKET
600 Main Avenue
P.O. Box 98
Brookings, South Dakota 57006
605.692.2314
800.842.7452
605.692.7059 fax
brookingsfed.com

First Federal Sioux Falls, Main Office

FIRST FEDERAL SAVINGS BANK SIOUX EMPIRE MARKET

MAIN OFFICE
2500 South Minnesota Avenue
P.O. Box 520
Sioux Falls, South Dakota 57101
605.977.7500
605.977.7501 fax

WEST 12TH STREET
2104 West 12th Street
P.O. Box 520
Sioux Falls, South Dakota 57101
605.336.8900
605.336.8901 fax

WESTERN AVENUE
(coming soon)
4900 South Western Avenue
P.O. Box 520
Sioux Falls, South Dakota 57101
firstfedsf.com

Iowa Savings Bank, Main Office

IOWA SAVINGS BANK MARKET

MAIN OFFICE
4848 86th Street
Urbandale, Iowa 50322
515.309.9800
515.309.9801 fax

HIGHLAND PARK
3624 Sixth Avenue
Des Moines, Iowa 50313
515.288.4866
515.288.3104 fax

INGERSOLL
3401 Ingersoll Avenue
Des Moines, Iowa 50312
515.274.9674
515.274.9675 fax

WEST DES MOINES
3448 Westown Parkway
West Des Moines, Iowa 50266
515.226.8474
515.226.8475 fax

JORDAN CREEK
(coming soon)
68th & Coachlight Court
West Des Moines, Iowa 50266
iowasavings.com

SECURITY STATE BANK

Security State Bank, Main Office

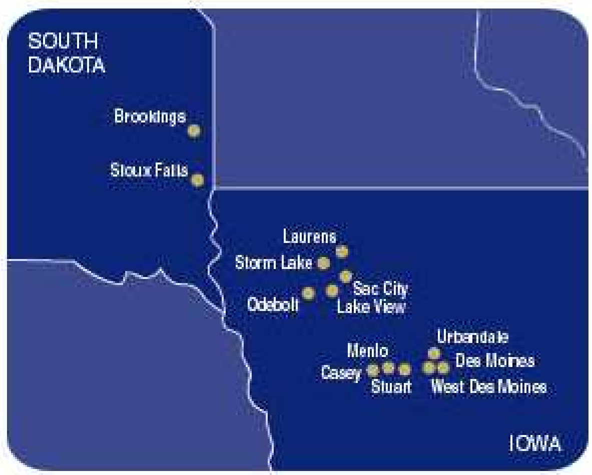
MAIN OFFICE
615 South Division
P.O. Box 606
Stuart, Iowa 50250
515.523.2203
800.523.8003
515.523.2460 fax

CASEY
101 East Logan
P.O. Box 97
Casey, Iowa 50048
641.746.3366
800.746.3367
641.746.2828 fax

MENLO
501 Sherman
P.O. Box 36
Menlo, Iowa 50164

641.524.4521
esecuritystate.com

META PAYMENT SYSTEMS
2329 North Career Avenue, Suite 205
Sioux Falls, South Dakota 57107
605.275.9555
605.275.8070 fax
metapay.com



BILL MARKVE AND ASSOCIATES and FIRST SERVICES TRUST COMPANY

Investment(1) and trust services available through all bank locations.

(1) Non-traditional bank products offered through Ameritas Investment Corporation are not FDIC insured, nor are they guaranteed by the banks of First Midwest or any affiliate.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

JAMES S. HAAHR
Chairman of the Board and Chief Executive Officer for First Midwest Financial, Inc. (FMFI) and First Federal Savings Bank of the Midwest (FFSBM); Chairman of the Board for Security State Bank (SSB)

E. WAYNE COOLEY
Consultant Emeritus of the Iowa Girls' High School Athletic Union

E. THURMAN GASKILL
Iowa State Senator and Owner of a Grain and Livestock Farming Operation

J. TYLER HAAHR
President and Chief Operating Officer for FMFI and FFSBM, Chief Executive Officer of SSB, and President of First Services Trust Company

G. MARK MICKELSON
Partner in Mickelson & Newell, LLC

RODNEY G. MUILENBURG
Retired Dairy Specialist Manager for Purina Mills, Inc.; Consultant for TransOva Genetics Dairy Division; and Director of sales and marketing for TransOva Genetics

JEANNE PARTLOW
Retired Chairman of the Board and President of Iowa Savings Bank

JOHN THUNE
United States Senator-Elect from the State of South Dakota (Resigned November 2004)

EXECUTIVE OFFICERS

JAMES S. HAAHR
J. TYLER HAAHR

RONALD J. WALTERS, CPA
Senior Vice President, Secretary, Treasurer and Chief Financial Officer for FMFI and FFSBM; and Secretary for SSB

ELLEN E. MOORE
Vice President of Marketing and Sales for FMFI and Senior Vice President of Marketing and Sales for FFSBM

BEN GUENTHER
President, First Federal Savings Bank Northwest Iowa Market

TIM D. HARVEY
President, Brookings Federal Bank Market

TROY MOORE
President, Iowa Savings Bank Market

TONY TRUSSELL
President, First Federal Savings Bank Sioux Empire Market

I. EUGENE RICHARDSON, JR.
President, Security State Bank

BRAD C. HANSON
President, Meta Payment Systems

CHARLES B. FRIEDERICHS
Senior Vice President and Chief Information Officer

JON GEISTFELD
Senior Vice President and Chief Lending Officer

SANDRA K. HEGLAND
Senior Vice President of Human Resources

SUSAN C. JESSE
Senior Vice President of Compliance and Operations

BANK DIRECTORS

FEDERAL SAVINGS BANK OF THE MIDWEST

James S. Haahr, Chairman
E. Wayne Cooley
E. Thurman Gaskill
J. Tyler Haahr
G. Mark Mickelson
Rodney G. Muilenburg
Jeanne Partlow
John Thune

SECURITY STATE BANK

James S. Haahr, Chairman
E. Wayne Cooley
E. Thurman Gaskill
J. Tyler Haahr
G. Mark Mickelson
Rodney G. Muilenburg
Jeanne Partlow
I. Eugene Richardson, Jr.
John Thune

BRAD C. HANSON
President,
Meta Payment Systems

THE META PAYMENT SYSTEMS (MPS) TEAM AND I ARE EXTREMELY PLEASED TO BE ASSOCIATED WITH SUCH A FORWARD THINKING COMPANY LIKE FIRST MIDWEST. MPS SERVES BANKS, CARD PROCESSORS AND THIRD-PARTY MARKETING COMPANIES NATIONWIDE BY OFFERING PREPAID CARD PROGRAMS TO THEIR CUSTOMERS. IN ADDITION, MPS BRINGS NEW OPPOR-TUNITIES FOR ACH (AUTOMATED CLEARING HOUSE) ORIGINATION, ATM SPONSORSHIP, CREDIT CARDS AND MERCHANT SERVICES. OUR GOAL IS TO CONTRIBUTE TO THE OVERALL SUCCESS OF FIRST MIDWEST BY EXPANDING ITS CAPABILITY AND REACH IN THE GROWING PAYMENTS INDUSTRY.

FUN FACTS: FLEW OVER 80,000 MILES FOR WORK AND PLEASURE DURING THE PAST YEAR. WAS A FEATURED SPEAKER AT VARIOUS INDUSTRY CONFERENCES.

LISA J. BINDER
Vice President of Marketing & Sales

FROM MY GRADUATION TO MY SONS' GRADUATIONS, OUR BANK HAS PROVIDED ME WITH VALUE-ADDED FINANCIAL SERVICES THROUGHOUT LIFE'S CHANGES. NOW, IT IS EXCITING TO BE A PART OF OUR COMPANY'S HISTORIC "LIFE CHANGE" TO META. AS A CUSTOMER, AN EMPLOYEE AND A SHAREHOLDER, I AM PROUD OF OUR HISTORY AND I LOOK FORWARD TO A STRONG, UNIFIED FUTURE AS THE META TEAM WORKS TO MAKE BANKING EASY FOR CUSTOMERS THROUGH EVERY LIFE CHANGE.

FUN FACTS: ENJOYS SINGING AND PLAYING THE GUITAR. SERVED AS THE 2004 CHAIRPERSON FOR IOWA BANKERS ASSOCIATION MARKETING COMMITTEE AND PRESENTED ON A PANEL DISCUSSION AT THE NATIONAL AMERICAN BANKERS ASSOCIATION MARKETING CONFERENCE.

INVESTOR INFORMATION

ANNUAL MEETING OF SHAREHOLDER

The Annual Meeting of Shareholders will convene at 1:00 pm on Monday, January 24, 2005. The meeting will be held in the Board Room of First Federal Savings Bank, Fifth at Erie, Storm Lake, Iowa. Further information with regard to this meeting can be found in the proxy statement.

GENERAL COUNSEL

Mack, Hansen, Gadd, Armstrong & Brown, P.C.
316 East Sixth Street
P.O. Box 278
Storm Lake, Iowa 50588

SPECIAL COUNSEL

Katten Muchin Zavis Rosenman
1025 Thomas Jefferson Street NW
East Lobby, Suite 700
Washington, D.C. 20007-5201

INDEPENDENT AUDITORS

McGladrey & Pullen LLP
400 Locust Street, Suite 640
Des Moines, Iowa 50309-2372

SHAREHOLDER SERVICES AND INVESTOR RELATIONS

Shareholders desiring to change the name, address, or ownership of stock; to report lost certificates; or to consolidate accounts, should contact the corporation's transfer agent:

REGISTRAR & TRANSFER COMPANY

10 Commerce Drive
Cranford, New Jersey 07016
Telephone: 800.368.5948
Email: invrelations@rtco.com
Website: www.rtco.com

FORM 10-K

Copies of the Company's Annual Report on Form 10-K for the year ended September 30, 2004 (excluding exhibits thereto) may be obtained without charge by contacting:

INVESTOR RELATIONS
First Midwest Financial, Inc.
First Federal Building, Fifth at Erie
P.O. Box 1307
Storm Lake, Iowa 50588
Telephone: 712.732.4117
Email: invrelations@fmficash.com
Website: www.fmficash.com or www.metacash.com

DIVIDEND AND STOCK MARKET INFORMATION

First Midwest Financial, Inc.'s common stock trades on the Nasdaq National Market under the symbol "CASH." The *Wall Street Journal* publishes daily trading information for the stock under the abbreviation, "FstMidwFnl," in the National Market Listing. Quarterly dividends for 2003 and 2004 were $0.13. The price range of the common stock, as reported on the Nasdaq System, was as follows:

	FISCAL YEAR 2004		FISCAL YEAR 2003	
	LOW	HIGH	LOW	HIGH
FIRST QUARTER	$ 21.50	$ 23.75	$ 14.16	$ 16.57
SECOND QUARTER	21.40	23.90	15.88	17.16
THIRD QUARTER	21.97	24.75	16.21	19.25
FOURTH QUARTER	20.26	24.22	18.37	24.50

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. Restrictions on dividend payments are described in Note 13 of the Notes to Consolidated Financial Statements included in this Annual Report.

As of September 30, 2004, First Midwest had 2,491,025 shares of common stock outstanding, which were held by 246 shareholders of record, and 307,358 shares subject to outstanding options. The shareholders of record number does not reflect approximately 413 persons or entities who hold their stock in nominee or "street" name.

The following securities firms indicated they were acting as market makers for First Midwest Financial, Inc. stock as of September 30, 2004: Brokerage America, LLC; Brut, LLC; Friedman Billings Ramsey & Co.; FTN Midwest Research Secs.; Goldman, Sachs & Co.; Hill Thompson Magid and Co.; Howe Barnes Investments, Inc.; Knight Equity Markets, L.P.; Sandler O'Neill & Partners; and Schwab Capital Markets.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARIES OF THE REGISTRANT

Parent	Subsidiary	Percentage of Ownership	State of Incorporation or Organization
First Midwest Financial, Inc.	First Federal Savings Bank of the Midwest	100%	Federal
First Midwest Financial, Inc.	Security State Bank	100%	Iowa
First Midwest Financial, Inc.	First Midwest Financial Capital Trust I	100%	Delaware
First Midwest Financial, Inc.	First Services Trust Company	100%	South Dakota
First Federal Savings Bank of the Midwest	First Services Financial Limited	100%	Iowa
First Services Financial Limited	Brookings Service Corporation	100%	South Dakota

The financial statements of First Midwest Financial, Inc. are consolidated with those of its subsidiaries.

EXHIBIT 23

CONSENT OF MCGLADREY & PULLEN, LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
First Midwest Financial, Inc.
Storm Lake, Iowa

We consent to the incorporation by reference in the First Midwest Financial, Inc. Registration Statements on Form S-8 of First Midwest Financial, Inc., pertaining to the First Midwest Financial, Inc. 1995 Stock Option and Incentive Plan and the First Midwest Financial, Inc. 2002 Omnibus Inventive Plan, of our report dated October 21, 2004, which appears in the annual report on Form 10-K of First Midwest Financial, Inc. and subsidiaries for the year ended September 30, 2004.

/s/ McGladrey & Pullen, LLP

McGladrey & Pullen, LLP

Des Moines, Iowa
December 21, 2004

EXHIBIT 31.1

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

Exhibit 31.1

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

I, James S. Haahr, certify that:

1. I have reviewed this annual report on Form 10-K of First Midwest Financial, 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)) for the registrant and have:

a) Designed 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) 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

c) 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 as 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: December 22, 2004

/s/ James S. Haahr

Chief Executive Officer

EXHIBIT 31.2

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

Exhibit 31.2

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

I, Ronald J. Walters, certify that:

1. I have reviewed this annual report on Form 10-K of First Midwest Financial, 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 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)) for the registrant and have:

a) Designed 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) 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

c) 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 as 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: December 22, 2004

/s/ Ronald J. Walters

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 32.1

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

In connection with the Annual Report First Midwest Financial, Inc. (the "Company") on Form 10-K for the year ended September 30, 2004, as filed with the Securities and Exchange Commission on the date of this Certification (the "Report"), I, James S. 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 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/ James S. Haahr
Name: James S. Haahr
Chief Executive Officer
December 22, 2004

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 32.2

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

In connection with the Annual Report First Midwest Financial, Inc. (the "Company") on Form 10-K for the year ended September 30, 2004, as filed with the Securities and Exchange Commission on the date of this Certification (the "Report"), I, Ronald J. Walters, 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 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/ Ronald J. Walters
Name: Ronald J. Walters
Chief Financial Officer
December 22, 2004