

META FINANCIAL GROUP INC

FORM 10-K (Annual Report)

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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**
[No Fee Required]

For the fiscal year ended September 30, 1997

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
[No Fee Required]

For the transition period from _____ to _____

Commission file number 0-22140.

FIRST MIDWEST FINANCIAL, INC.

(Name of small business Issuer 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)

Issuer'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 \$.01 per share
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days. YES [X] NO []

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B 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-KSB or any amendment to this Form 10-KSB. [X]

Issuer's revenues for the most recent fiscal year ended were \$30.7 million

As of December 19, 1997, the Registrant had issued and outstanding 2,691,889 shares of Common Stock. 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 December 19, 1997, was \$45.6 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the Registrant that such person is an affiliate of the Registrant.)

DOCUMENTS INCORPORATED BY REFERENCE

PARTS II and IV of Form 10-K -- Portions of the Annual Report to Stockholders for the fiscal year ended September 30, 1997. PART III of Form 10-K -- Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held during January 1998.

Forward-Looking Statements

When used in this Form 10-K or future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made by or with the approval of an authorized executive officer, the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project", "believe" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company wishes to caution readers that such forward-looking statements speak only as of the date made, and that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit risks of lending activities, and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

PART I

Item 1. Description of Business

General

First Midwest Financial, Inc. ("First Midwest," and with its subsidiaries, the "Company") is a Delaware corporation, the principal assets of which are First Federal Savings Bank of the Midwest ("First Federal" or the "Bank") 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, the Company became a bank holding Company upon its acquisition of Security, as discussed below. All references to the Company prior to September 20, 1993, are to First Federal and its subsidiary on a consolidated basis.

Since the Conversion, the Company has been an active acquiror of financial institutions. On March 28, 1994, First Midwest acquired Brookings Federal Bank in Brookings, South Dakota ("Brookings"). On December 29, 1995, First Midwest acquired Iowa Savings Bank, FSB in Des Moines, Iowa ("Iowa Savings"). Brookings and Iowa Savings were both merged with and now operate as divisions of First Federal. Lastly, on September 30, 1996, First Midwest completed the acquisition of Central West Bancorporation ("CWB") for an aggregate merger consideration of approximately \$5.25 million. 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 its subsidiaries on a consolidated basis. See "Management's Discussion and Analysis -- Acquisitions Completed" in the Annual Report to Shareholders attached hereto as Exhibit 13 (the "Annual Report").

First Federal and Security (collectively, the "Banks") are the only operating 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 its subsidiary Banks, provides a full range of financial services. The principal business of First Federal historically has consisted of attracting retail deposits from the general public and investing those funds primarily in one- to four-family residential mortgage loans and, to a lesser extent, commercial and multi-family real estate, agricultural operating and real estate, construction, consumer and commercial business loans primarily in First Federal's market area. Recently, First Federal's lending activities have expanded to include an increased emphasis on originations and purchases of commercial and multi-family real estate loans. The principal business of Security has been and continues to be attracting retail deposits from the general public and investing those funds in agricultural real estate and operating loans and, to a lesser extent, one- to four-family residential, commercial business and consumer loans. The Banks also purchase mortgage-backed securities and invest in U.S. Government and agency obligations and other permissible investments. At September 30, 1997, the Company had total assets of \$404.6 million, deposits of \$246.1 million, and shareholders' equity of \$43.5 million.

The Company's revenues are derived primarily from interest on mortgage loans, mortgage-backed securities, investments, consumer loans, agricultural operating loans, commercial business loans, income from service charges and loan originations, loan servicing fee income, and income from the sale of mutual funds, insurance products, annuities and brokerage services through its service corporation subsidiaries.

First Federal, through its wholly-owned subsidiary, First Services Financial Limited ("First Services"), offers mutual funds and, in some locations, insurance products and annuities. In addition, Brookings Service Corporation (a subsidiary of First Services) offers full service brokerage services through PrimeVest Financial Services, Inc., a third party vendor.

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's main office is located at Fifth at Erie, Storm Lake, Iowa. First Federal also operates one branch office also located in Storm Lake, as well as seven additional branch offices located in the communities of Des Moines (two offices), Lake View, Laurens, Manson, Odebolt, Sac City, Iowa and two offices in Brookings, South Dakota. Security currently operates its business through three full service offices in Casey, Menlo and Stuart, Iowa. The Company's primary market area includes Adair, Buena Vista, Calhoun, Guthrie, Ida, Pocahontas, Polk and Sac Counties in Iowa and Brookings County in South Dakota.

Storm Lake is located in northwest Iowa approximately 150 miles northwest of Des Moines and 200 miles south of Minneapolis in Buena Vista County. Like much of the State of Iowa, Storm Lake and the Company's primary market area are highly dependent upon farming and agricultural markets. Major employers in the area include Buena Vista County Hospital, IBP, Inc. and Bil Mar Foods of Iowa. Storm Lake is also home to Buena Vista University.

Brookings is located in east central South Dakota, approximately 50 miles north of Sioux Falls and 200 miles west of Minneapolis in Brookings County. First Federal's market area in South Dakota 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 8,200 students enrolled for the 1997 fall term and employs 524 full-time professors. The community also has several manufacturing companies, including 3M, Larson Manufacturing, Daktronics, Falcon Plastics and Twin City Fan. The Brookings division operates from a main office located in downtown Brookings and one drive-up branch office also located in Brookings.

Des Moines, the capitol of Iowa, is centrally located in the state. First Federal's Des Moines market area encompasses Polk County and the surrounding counties in central Iowa. The West Des Moines office operates in a high-traffic area across from a major mall. The Highland Park office is located approximately five minutes north of downtown Des Moines. As of 1996, the Des Moines population was approximately 644,000, with an annual household growth rate of 1.02%. Des Moines is one of the top three insurance centers in the world, with sixty-seven insurance company headquarters and over one hundred regional insurance offices. Other major businesses include Hy-Vee Food Stores, Inc., Bridgestone-Firestone, Inc., Communication Data Services, Inc., Pioneer Hi-Bred, John Deere, and Meredith Corporation. Universities in the area include Drake University, Upper Iowa University, Simpson College, Grand View College, Hamilton College and the University of Osteopathic Medicine and Health Sciences.

Security's main office is in Stuart, which is located in west central Iowa approximately 40 miles west of Des Moines on the border of Adair and Guthrie counties. Security's market area is highly dependent on farming and agriculture-related businesses. In recent years, the westward expansion of Des Moines, combined with direct interstate highway access to Stuart, has resulted in significant development of new service-related businesses in the community. This development provides economic diversity to Security's market area.

Lending Activities

General. Historically, the Company has originated fixed-rate, one- to four-family mortgage loans. In the early 1980's, 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. See "Management's Discussion and Analysis -- Asset/Liability Management" in the Annual Report.

While the Company historically has focused its lending activities on the origination of loans secured by first mortgages on owner-occupied one- to four-family residences, it also originates and purchases commercial and multi-family real estate loans and originates consumer, commercial business, residential construction and agriculturally related loans. The Company originates most of its loans in its primary market area. More recently, the Company has increased its emphasis, both in absolute dollars and as a percentage of its gross loan portfolio, on these less traditional lending activities. At September 30, 1997, the Company's net loan portfolio totaled \$254.6 million, or 62.9% of the Company's total assets.

Loan applications are initially considered and approved at various levels of authority, depending on the type, amount and loan-to-value ratio of the loan. The Company has loan committees for each of the Banks comprised of officers of such Banks. Loans in excess of certain amounts require the approval of at least two committee members who must also be executive officers, or by such 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, 1997, the Company's largest lending relationship to a single borrower or group of related borrowers totaled \$4.8 million. The Company had eight other lending relationships in excess of \$2.5 million as of September 30, 1997 with the average outstanding balance of such loans totaling approximately \$3.1 million. At September 30, 1997, each of these loans was performing in accordance with its repayment terms, except for a \$4.0 million commercial real estate loan secured by four nursing homes which was 60 days delinquent at fiscal year end. See "Business -- Non-Performing Assets, Other Loans of Concern and Classified Assets."

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

	September 30,							
	1993		1994		1995		1996	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)							
Real Estate Loans								
One- to four-family.....	\$34,485	41.8%	\$ 55,162	34.3%	\$ 57,274	30.4%	\$ 78,476	31.6%
Commercial and multi-family.....	23,775	28.8	59,920	37.3	73,419	38.9	85,157	34.2
Agricultural.....	6,065	7.4	8,064	5.0	7,021	3.7	11,068	4.5
Construction or development.....	4,037	4.9	10,248	6.4	17,877	9.5	7,819	3.1
Total real estate loans.....	68,362	82.9	133,394	83.0	155,591	82.5	182,520	73.4
Other Loans:								
Consumer Loans:								
Home equity.....	2,158	2.6	3,784	2.4	4,906	2.6	7,823	3.1
Automobile.....	700	.9	2,944	1.8	3,663	1.9	5,356	2.2
Deposit account.....	1,421	1.7	385	.2	330	.2	666	.3
Student.....	268	.3	422	.3	382	.2	324	.1
Other (1).....	668	.8	3,063	1.9	3,727	2.0	6,259	2.5
Total consumer loans.....	5,215	6.3	10,598	6.6	13,008	6.9	20,428	8.2
Agricultural operating.....	7,817	9.5	7,784	4.8	11,905	6.3	30,364	12.2
Commercial business.....	1,089	1.3	8,931	5.6	8,173	4.3	15,468	6.2
Total other loans.....	14,121	17.1	27,313	17.0	33,086	17.5	66,260	26.6
Total loans.....	82,483	100.0%	160,707	100.0%	188,677	100.0%	248,780	100.0%
Less:								
Loans in process.....	1,345		3,425		8,071		2,240	
Deferred fees and discounts.....	88		343		404		650	
Allowance for losses.....	825		1,442		1,650		2,356	
Total loans receivable, net.....	\$80,225		\$155,497		\$178,552		\$243,534	

	September 30,	
	1997	
	Amount	Percent
Real Estate Loans		
One- to four-family.....	\$ 73,903	27.8%
Commercial and multi-family.....	74,870	28.1
Agricultural.....	11,732	4.4
Construction or development.....	21,264	8.0
Total real estate loans.....	181,769	68.3
Other Loans:		
Consumer Loans:		
Home equity.....	14,007	5.3
Automobile.....	6,106	2.3
Deposit account.....	533	.2
Student.....	383	.1
Other (1).....	6,369	2.4
Total consumer loans.....	27,398	10.3
Agricultural operating.....	38,650	14.5
Commercial business.....	18,456	6.9
Total other loans.....	84,504	31.7
Total loans.....	266,273	100.0%
		=====
Less:		
Loans in process.....	8,700	
Deferred fees and discounts.....	553	
Allowance for losses.....	2,379	
Total loans receivable, net.....	\$254,641	
	=====	

(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,							
	1993		1994		1995		1996	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	-----	-----	-----	-----	-----	-----	-----	-----
	(Dollars in Thousands)							
Fixed Rate Loans:								
Real estate:								
One- to four-family.....	\$14,991	18.2%	\$ 19,913	12.4%	\$22,875	12.1%	\$ 41,322	16.6%
Commercial and multi-family.....	7,955	9.6	13,340	8.3	14,262	7.6	14,036	5.6
Agricultural.....	1,144	1.4	1,806	1.1	5,536	2.9	4,250	1.7
Construction or development.....	155	.2	4,231	2.6	2,342	1.3	2,938	1.2
	-----	-----	-----	-----	-----	-----	-----	-----
Total fixed-rate real estate loans...	24,245	29.4	39,290	24.4	45,015	23.9	62,546	25.1
Consumer.....	4,676	5.7	10,022	6.2	12,303	6.5	19,145	7.7
Agricultural operating.....	2,159	2.6	5,945	3.7	7,335	3.9	14,998	6.1
Commercial business.....	730	.9	7,887	4.9	5,521	2.9	7,200	2.9
	-----	-----	-----	-----	-----	-----	-----	-----
Total fixed-rate loans.....	31,810	38.6	63,144	39.2	70,174	37.2	103,889	41.8
	-----	-----	-----	-----	-----	-----	-----	-----
Adjustable Rate Loans:								
Real estate:								
One- to four-family.....	19,494	23.6	35,249	21.9	34,399	18.2	37,154	14.9
Commercial and multi-family.....	15,820	19.2	46,580	29.0	59,157	31.4	71,121	28.6
Agricultural.....	4,921	6.0	6,258	3.9	1,485	.8	6,818	2.7
Construction or development.....	3,882	4.7	6,017	3.8	15,535	8.2	4,881	2.0
	-----	-----	-----	-----	-----	-----	-----	-----
Total adjustable-rate real estate loans.....	44,117	53.5	94,104	58.6	110,576	58.6	119,974	48.2
Consumer.....	539	.7	576	.4	705	.4	1,283	.5
Agricultural operating.....	5,658	6.8	1,839	1.1	4,570	2.4	15,366	6.2
Commercial business.....	359	.4	1,044	.7	2,652	1.4	8,268	3.3
	-----	-----	-----	-----	-----	-----	-----	-----
Total adjustable rate loans.....	50,673	61.4	97,563	60.8	118,503	62.8	144,891	58.2
	-----	-----	-----	-----	-----	-----	-----	-----
Total loans.....	82,483	100.0%	160,707	100.0%	188,677	100.0%	248,780	100.0%
		=====		=====		=====		=====
Less:								
Loans in process.....	1,345		3,425		8,071		2,240	
Deferred fees and discounts.....	88		343		404		650	
Allowance for loan losses.....	825		1,442		1,650		2,356	
	-----		-----		-----		-----	
Total loans, net.....	\$80,225		\$155,497		\$178,552		\$243,534	
	=====		=====		=====		=====	

September 30,		
1997		
	Amount	Percent
Fixed Rate Loans:		
Real estate:		
One- to four-family.....	\$ 33,369	12.5%
Commercial and multi-family.....	11,124	4.2
Agricultural.....	5,978	2.3
Construction or development.....	2,997	1.1
Total fixed-rate real estate loans...	53,468	20.1
Consumer.....	26,100	9.8
Agricultural operating.....	16,280	6.1
Commercial business.....	10,462	3.9
Total fixed-rate loans.....	106,310	39.9
Adjustable Rate Loans:		
Real estate:		
One- to four-family.....	40,534	15.2
Commercial and multi-family.....	63,746	23.9
Agricultural.....	5,754	2.2
Construction or development.....	18,267	6.9
Total adjustable-rate real estate loans.....	128,301	48.2
Consumer.....	1,298	.5
Agricultural operating.....	22,370	8.4
Commercial business.....	7,994	3.0
Total adjustable rate loans.....	159,963	60.1
Total loans.....	266,273	100.0 %
Less:		=====
Loans in process.....	8,700	
Deferred fees and discounts.....	553	
Allowance for loan losses.....	2,379	
Total loans, net.....	\$254,641	=====

The following table illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 1997. 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						Agricultural	
	Mortgage(1)		Construction		Consumer		Operating	
	Weighted		Weighted		Weighted		Weighted	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
	-----	----	-----	----	-----	----	-----	----
	(Dollars in Thousands)							
Due During								
Years Ending								
September 30,								
1998(2)	\$108,707	8.03%	\$ 8,781	9.39%	\$ 10,100	9.75%	\$ 34,663	9.67%
1999-2002	28,253	8.19	8,036	9.20	14,703	9.76	3,898	9.34
2002 and following	23,545	8.08	4,447	8.56	2,595	10.22	89	9.20
	Commercial		Total					
	Business							
	Weighted		Weighted					
	Average		Average					
	Rate		Rate					
	Amount	Rate	Amount	Rate				
	-----	----	-----	----				
Due During								
Years Ending								
September 30,								
1998(2)	\$ 15,614	9.65%	\$177,865	8.66%				
1999-2002	2,831	9.66	57,721	8.88				
2002 and following	11	10.73	30,687	8.34				

(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, 1998 which have predetermined interest rates is \$53.8 million, while the total amount of loans due after such date which have floating or adjustable interest rates is \$131.5 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, 1997, the Company's one- to four-family residential mortgage loan portfolio totaled \$73.9 million, or 27.8% of the Company's total gross loan portfolio. Approximately 12.6% of the Company's one- to four-family mortgage loans or 3.5% of the Company's gross loans have been purchased, generally from other financial institutions. See "--Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." At September 30, 1997, the average outstanding principal balance of a one- to four-family residential mortgage loan was \$41,000.

The Company offers fixed-rate and ARM loans. During the year ended September 30, 1997, the Company originated \$7.9 million of adjustable-rate loans and \$7.3 million of fixed-rate loans secured by one- to four-family residential real estate. The Company's one- to four-family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas.

The Company originates one- to four-family residential mortgage loans with terms up to a maximum of 30-years and with loan-to-value ratios up to 95% 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. Residential loans generally do not include prepayment penalties.

The Company currently offers one, three and five year ARM loans with an initial interest rate margin over the yield on the corresponding U.S. Treasury Security. These loans have a fixed-rate for the stated period and, thereafter, such loans adjust annually. These loans 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. From time to time the Company may permit ARM loans to be assumed by qualified borrowers upon payment of an assumption fee. The Company qualifies ARM loan borrowers at the fully indexed rate. 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., Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC") standards. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions. The Company historically retained its fixed-rate loans for its loan portfolio, however, in June 1996, the Company began selling, with servicing retained, most of its fixed-rate loans with terms of 15 years or greater to FNMA.

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, 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 is also engaged 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. The purchased loans and loan participation interests are generally secured by properties located in the Midwest and Northwest. During fiscal 1997, 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 \$26.8 million of such loans compared to \$18.2 million during fiscal 1996. However, due to a large number of prepayments and maturities of commercial and multi-family real estate loans during fiscal 1997 as a result of a favorable interest rate environment, at September 30, 1997, the Company had \$74.9 million of commercial and multi-family real estate loans compared to \$85.2 million at September 30, 1996. At September 30, 1997, \$1.7 million, or 2.3% 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, to a lesser extent, hotels and warehouses. Commercial and multi-family real estate loans generally have terms that do not exceed 25 years, loan-to-value ratios of up to 75% 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, 1997, the Company's largest commercial and multi-family real estate loan was a \$4.0 million loan secured by four nursing homes located in Minnesota. At fiscal year end this loan was 60 days delinquent. See "Business -- Non-Performing Assets, Other Loans of Concern and Classified Assets." The Company had six other commercial and/or multi-family loans in excess of \$2.5 million at such date. All of these loans are currently performing in accordance with their terms. At September 30, 1997, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was \$433,000.

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, 1997, the Company's construction loan portfolio totaled \$21.3 million, or 8.0% 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, 1997, the Company had \$1.5 million of construction loans to borrowers intending to live in the properties upon completion of construction.

Construction loans to builders of one- to four-family residences require the payment of interest only for up to 24 months and have terms of up to 24 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 range from 1% to 2%. At September 30, 1997, the Company did not have any construction loans to builders of one- to four-family residences.

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 structured to be converted to permanent loans at the end of the construction phase, which generally runs up to 18 months. These construction loans have rates and terms which match any permanent multi-family or commercial real estate loan then offered by the Company, except that 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, 1997, the Company had approximately \$19.7 million of loans for the construction of commercial and multi-family real estate. This amount consisted of four loans totaling \$4.7 million for the construction of apartment complexes, two loans totaling \$4.7 million for the construction of assisted living facilities, nine loans totaling \$8.5 million for the construction of commercial office buildings and one loan totaling \$1.8 million for the construction of a hotel. All of these loans were performing in accordance with their terms at September 30, 1997.

Construction loans are obtained principally through continued business from builders who have previously borrowed from the Company, as well as referrals from existing customers and walk-in customers. The application process includes a submission to the Company of accurate plans, specifications and costs of the project to be constructed. 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 current appraised value of the property or the cost of construction (land plus building).

Because of the uncertainties inherent in estimating construction costs and the market for the project upon completion, it is relatively difficult to evaluate accurately the total loan funds required to complete a project, the related loan-to-value ratios and the likelihood of ultimate success of the project. Construction loans to borrowers other than owner-occupants also 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, 1997, the Company had agricultural real estate loans secured by farmland of \$11.7 million or 4.4% of the Company's gross loan portfolio. At the same date, \$38.7 million, or 14.5% 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 five years. At September 30, 1997, the average outstanding principal balance of an agricultural operating loan held by the Company was \$34,000. At September 30, 1997, \$289,000, or .7%, 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 three years, adjusting annually thereafter. In addition, such loans generally provide for a ten year term based on a 20 year amortization schedule. Adjustable-rate agricultural real estate loans provide for a margin over the yields on the corresponding U.S. Treasury Security. Fixed-rate agricultural real estate loans generally have terms up to three years. Agricultural real estate loans are generally limited to 80% of the value of the property securing the loan. At September 30, 1997, 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 multi-peril crop insurance which can guarantee set yields to provide certainty of repayment. Unless the circumstances of the borrower merit otherwise, the Bank generally does not require its borrowers to procure multi-peril crop or hail insurance. However, recent changes in government support programs generally require that farmers procure multi-peril crop insurance to be eligible to participate in such programs.

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 provide a "floor" below which prices will not fall. The Company does not monitor or require the use by borrowers of future contracts or options.

Another risk is the uncertainty of government programs and other regulations. Some farmers rely on the income from government programs 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 automobile, boat, home equity, home improvement, federally guaranteed student loans, 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, 1997, the Company's consumer loan portfolio totaled \$27.4 million, or 10.3% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 1997, substantially all were short- and intermediate-term, fixed-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 have maximum terms of up to 15 years and 10 years respectively.

The Company currently originates automobile loans on a direct basis only. 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, 1997, \$246,000 or .9% of the Company's consumer loan portfolio was non-performing.

Commercial Business Lending. The Company also originates commercial business loans. The Company offers commercial business loans to service existing customers, to consolidate its banking relationships with these customers, and to further its asset/liability management goals. Most of the Company's commercial business loans have been extended to finance local 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, 1997, \$18.5 million, or 6.9% 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, 1997 was a \$3.0 million warehouse line of credit secured by the assignment of automobile contracts. The next largest commercial business loan outstanding at September 30, 1997 was a \$2.8 million participation loan secured by marketable securities and escrowed operating revenues with a remaining term to maturity of four years. These loans are currently performing in accordance with their terms. The Company had no other commercial business loans outstanding in excess of \$1.0 million at September 30, 1997. At September 30, 1997, the average outstanding principal balance of a commercial business loan held by the Company was \$44,000.

The Company also offers floorplan loans to three automobile dealers. A floor plan loan is a loan or line of credit provided to an auto dealership to finance the acquisition of the dealership's inventory for sale to the general public. The dealership repays the floorplan loan as vehicles financed under the loan are sold to consumers. At September 30, 1997, the maximum amount of funds committed by the Company pursuant to its floorplan arrangements was \$900,000, of which \$869,000 was outstanding at such date.

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, 1997, \$204,000 or 1.1% 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 environment.

The Company, from time to time, sells whole loans and loan participations generally without recourse. At September 30, 1997, there were no loans outstanding sold with recourse. When loans are sold, with the exception of student loans, 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 mortgage loans that it originated and sold totaling \$5.9 million at September 30, 1997, of which \$4.9 million were sold to FNMA and \$1.0 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.

	1995	Year Ended September 30, 1996	1997
		(In Thousands)	
Originations by type:			
Adjustable rate:			
Real estate - one- to four-family	\$ 8,359	\$ 10,554	\$ 7,875
- commercial and multi-family	5,044	2,869	4,873
- agricultural real estate ..	1,399	2,244	--
Non-real estate - consumer	480	948	931
- commercial business ...	2,814	2,629	9,998
- agricultural operating	9,553	12,052	27,469
	-----	-----	-----
Total adjustable-rate	27,649	31,296	51,146
Fixed rate:			
Real estate - one- to four-family	6,372	6,213	7,260
- commercial and multi-family	601	3,065	4,214
- agricultural real estate ..	78	1,561	2,581
Non-real estate - consumer	11,931	16,899	23,688
- commercial business ...	12,167	8,812	19,127
- agricultural operating	5,229	22,781	27,635
	-----	-----	-----
Total fixed-rate	36,378	59,331	84,505
	-----	-----	-----
Total loans originated	64,027	90,627	135,651
Purchases:			
Real estate - commercial and multi-family	19,212	18,252	26,766
- agricultural real estate ..	500	--	--
Non-real estate - commercial business ...	7,959	6,723	3,053
- agricultural operating	373	--	--
	-----	-----	-----
	28,044	24,975	29,819
Loans from Iowa Savings acquisition	--	16,734	--
Loans from Security acquisition	--	21,005	--
	-----	-----	-----
Total loans	28,044	62,714	29,819
Total mortgage-backed securities	--	23,406	16,417
	-----	-----	-----
Total purchased	28,044	86,120	46,236

Sales and Repayments:

Real estate - one- to four-family	--	560	3,324
Non-real estate - consumer	129	504	268
	-----	-----	-----
Total loans	129	1,064	3,592
Mortgage-backed securities	47,934	--	--
	-----	-----	-----
Total sales	48,063	1,064	3,592
	-----	-----	-----
Loan principal repayments	63,985	91,900	144,364
Mortgage-backed securities repayments ...	3,524	8,834	7,969
	-----	-----	-----
Total principal repayments	67,509	100,734	152,333
	-----	-----	-----
Total reductions	115,572	101,798	155,925
Increase (decrease) in other items, net ...	999	(673)	370
	-----	-----	-----
Net increase (decrease)	\$ (22,502)	\$ 74,276	\$ 26,332
	=====	=====	=====

The following table shows the Company's purchased whole real estate loans and real estate loan participations by state and amount held in the loan portfolio at September 30, 1997. The Company also purchases commercial business loans. At September 30, 1997, the Company's portfolio of purchased commercial business loans totaled \$5.2 million.

Location	One- to Four-Family Loans			Commercial and Multi-Family			Total Purchased Loans		
	Balance	Number of Loans	Percent of total One-to Four Family	Balance	Number of Loans	Percent of total Commercial and Multi-Family Loans	Balance	Number of Loans	Percent of Total Loans
				(Dollars in Thousands)					
Arizona	\$ 166	6	0.22%	\$ 1,200	1	1.60%	\$ 1,366	7	0.51%
California .	252	17	0.34	--	--	--	252	17	0.09
Colorado ...	46	5	0.06	1,492	2	1.99	1,538	7	0.58
Connecticut	1,205	51	1.63	--	--	--	1,205	51	0.45
Florida	20	2	0.03	--	--	--	20	2	0.01
Illinois ...	--	--	--	1,548	5	2.07	1,548	5	0.58
Indiana	--	--	--	2,579	2	3.45	2,579	2	0.97
Iowa	676	50	0.91	4,795	6	6.41	5,471	56	2.05
Kansas	--	--	--	250	1	0.33	250	1	0.09
Minnesota ..	--	--	--	8,636	14	11.54	8,636	14	3.24
Missouri ...	1,514	25	2.05	1,315	8	1.76	2,829	33	1.06
Nebraska ...	181	9	0.24	3,647	3	4.87	3,828	12	1.44
Nevada	--	--	--	1,264	1	1.69	1,264	1	0.47
New York ...	2,297	110	3.11	317	1	0.42	2,614	111	0.98
North Dakota	185	21	0.25	5,027	12	6.71	5,212	33	1.96
Ohio	130	4	0.18	--	--	--	130	4	0.05
Oregon	--	--	--	2,827	1	3.78	2,827	1	1.06
South Dakota	941	46	1.27	2,335	6	3.12	3,276	52	1.23
Texas	1,575	36	2.13	303	1	0.40	1,878	37	0.71
Washington .	--	--	--	13,800	6	18.43	13,800	6	5.18
Wisconsin ..	--	--	--	15,178	21	20.27	15,178	21	5.70
Wyoming	150	9	0.20	--	--	--	150	9	0.06
	-----	----	-----	-----	----	-----	-----	----	-----
Total	\$ 9,338	391	12.62%	\$66,513	91	88.84%	\$75,851	482	28.47%
	=====	=====	=====	=====	=====	=====	=====	=====	=====

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 institutes collection procedures by mailing a delinquency notice. The customer is contacted again, by notice or telephone, when the payment is 45 days past due and again before 75 days past due. In most cases, delinquencies are cured promptly; however, if a loan secured by real estate or other collateral 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, 1997.

	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.....	73	\$3,018	4.08%	33	\$1,055	1.43%	9	\$ 526	.71%
Commercial and multi-family.....	2	276	.37	4	5,070	6.77	1	1,623	2.17
Agricultural real estate.....	1	9	.08	1	60	.51	---	---	---
Consumer.....	60	402	1.47	34	234	.85	55	295	1.08
Agricultural operating.....	22	508	1.31	15	1,575	4.08	6	313	.81
Commercial business.....	12	961	5.21	10	275	1.49	3	145	.79
	----	-----		---	-----		----	-----	
Total.....	170	\$5,174	1.94%	97	\$8,269	3.11%	74	\$2,902	1.09%
	=====	=====		===	=====		=====	=====	

Delinquencies 90 days and over constituted 1.09% of total loans and .72% 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 has had no troubled debt restructuring (which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates). Foreclosed assets include assets acquired in settlement of loans.

	September 30,				
	1993	1994	1995	1996	1997
	-----	-----	-----	-----	-----
	(Dollars in Thousands)				
Non-accruing loans:					
One- to four-family	\$ 30	\$ 311	\$ 127	\$ 347	\$ 444
Commercial and multi-family .	--	302	199	1,623	1,692
Agricultural real estate	1,190	137	46	127	--
Consumer	4	105	206	331	246
Agricultural operating	21	78	100	184	289
Commercial business	16	38	48	33	204
	-----	-----	-----	-----	-----
Total	1,261	971	726	2,645	2,875
Less: Allowance for losses ..	--	30	15	--	--
	-----	-----	-----	-----	-----
Total non-accruing loans .	1,261	941	711	2,645	2,875
	-----	-----	-----	-----	-----
Accruing loans delinquent					
90 days or more(1)	--	--	--	177	282
	-----	-----	-----	-----	-----
Total non-performing loans	1,261	941	711	2,822	3,157
	-----	-----	-----	-----	-----
Foreclosed assets:					
One- to four-family	11	--	48	75	85
Commercial real estate	--	--	--	--	67
Consumer	--	--	--	8	--
Commercial business	--	--	--	9	4
	-----	-----	-----	-----	-----
Total	11	--	48	92	156
Less: Allowance for losses ..	11	--	--	5	--
	-----	-----	-----	-----	-----
Total	--	--	48	87	156
	-----	-----	-----	-----	-----
Total non-performing assets ...	\$1,261	\$ 941	\$ 759	\$2,909	\$3,313
	=====	=====	=====	=====	=====
Total as a percentage of total					
assets78%	.34%	.29%	.75%	.82%
	=====	=====	=====	=====	=====

(1) These loans were acquired by the company in connection with the Security acquisition.

For the year ended September 30, 1997, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately \$229,000 of which none was included in interest income.

Other Loans of Concern. At September 30, 1997, there were loans totaling \$7.2 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 ten commercial real estate loans totaling \$6.2 million, ten one- to four-family residential mortgage loans totaling \$438,000, five commercial business loans totaling \$136,000, four agricultural operating loans totaling \$192,000 and 31 consumer loans totaling \$243,000.

Included in the \$6.2 million of commercial real estate loans of concern at September 30, 1997 was a \$4.0 million loan secured by four nursing homes located in Minnesota and a \$819,000 loan secured by an apartment complex in Madison, Wisconsin. At September 30, 1997, the nursing home loan was 60 days delinquent. The delinquency was attributable to internal control weaknesses that caused a disruption in cash flows. The borrower has corrected these weaknesses and is in the process of bringing the loan current.

The \$819,000 apartment complex loan was delinquent 60 days at September 30, 1997 due to decreased occupancy rates resulting from lack of management oversight. The borrower has focused on correcting these problems and occupancy rates have subsequently increased to a level that will support the properties current debt service.

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, 1997, the Company had classified a total of \$5.6 million of its assets as substandard, \$79,000 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.

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.

	Year Ended September 30,				
	1993	1994	1995	1996	1997
	(Dollars in Thousands)				
Balance at beginning of period.....	\$ 600	\$ 825	\$ 1,442	\$1,650	\$2,356
Brookings acquisition.....	---	518	---	---	---
Iowa Savings acquisition.....	---	---	---	132	---
Security acquisition.....	---	---	---	563	---
Charge-offs:					
Commercial and multi family.....	---	---	(30)	(35)	(2)
Consumer.....	---	(6)	(12)	(54)	(66)
Commercial business.....	---	---	---	---	(55)
Total charge-offs.....	---	(6)	(42)	(89)	(123)
Recoveries:					
Commercial and multi family.....	---	---	---	---	2
Agricultural operating.....	---	---	---	---	24
Total recoveries.....	---	---	---	---	26
Net charge-offs.....	---	(6)	(42)	(89)	(97)
Additions charged to operations.....	225	105	250	100	120
Balance at end of period.....	\$ 825	\$1,442	\$ 1,650	\$2,356	\$2,379
	=====	=====	=====	=====	=====
Ratio of net charge-offs during the period to average loans outstanding during the period.....	---% =====	.01% =====	.03% =====	.04% =====	(.04%) =====
Ratio of net charge-offs during the period to average non- performing assets.....	---% =====	.54% =====	5.08% =====	5.30% =====	4.46% =====

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

September 30,								
1993			1994			1995		1996
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount (Dollars in Thousands)	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
One- to four-family.....	\$ 104	41.80%	\$ 166	34.32%	\$ 172	30.36%	\$ 235	31.54%
Commercial and multi- family real estate.....	178	28.80	449	37.29	551	38.92	639	34.23
Agricultural real estate...	286	7.40	81	5.02	70	3.72	138	4.45
Construction.....	30	4.90	77	6.38	134	9.47	59	3.14
Consumer.....	39	6.30	106	6.59	145	6.89	270	8.21
Agricultural operating.....	117	9.50	166	4.84	208	6.31	531	12.21
Commercial business.....	16	1.30	134	5.56	123	4.33	271	6.22
Unallocated.....	55	---	263	---	247	---	213	---
Total.....	\$ 825	100.00%	\$1,442	100.00%	\$ 1,650	100.00%	\$2,356	100.00%

=====								
1997								

	Amount	Percent of Loans in Each Category to Total Loans						
One- to four-family.....	\$ 222	27.75%						
Commercial and multi- family real estate.....	712	28.12						
Agricultural real estate...	117	4.41						
Construction.....	106	7.99						
Consumer.....	289	10.29						
Agricultural operating.....	580	14.51						
Commercial business.....	277	6.93						
Unallocated.....	76	---						
Total.....	\$2,379	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, 1997, 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.

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, short-term 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,		
	1995	1996	1997
	-----	-----	-----
	(In Thousands)		
Investment Securities:			
U.S. government securities	\$ 372	\$ 6,178	\$ 2,956
Federal agency obligations	44,900	63,032	65,529
Corporate bonds	1,058	202	--
Municipal bonds	240	1,392	1,390
Equity investments	695	1,433	1,255
FHLMC preferred stock	1,512	1,598	336
FNMA common stock	52	70	94
	-----	-----	-----
Subtotal	48,829	73,905	71,560
	-----	-----	-----
FHLB stock	3,915	5,525	5,629
	-----	-----	-----
Total investment securities and FHLB stock	\$52,744	\$79,430	\$77,189
	=====	=====	=====
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions			
and Federal Funds sold	\$ 4,162	\$13,892	\$12,177
	=====	=====	=====

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, 1997						
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Market Value
	-----	-----	-----	-----	-----	-----
	(Dollars in Thousands)					
Municipal bonds.....	\$ 56	\$ 874	\$ 460	\$ ---	\$ 1,367	\$ 1,390
U.S. government securities.....	2,200	756	---	---	2,943	2,956
Federal agency obligations.....	13,336	21,854	30,339	---	65,186	65,529
	-----	-----	-----	-----	-----	-----
Total investment securities.....	\$15,592	\$23,484	\$30,799	\$ ---	\$69,496	\$69,875
	=====	=====	=====	=====	=====	=====
Weighted average yield.....	6.16%	6.27%	7.13%	---%	6.63%	6.63%

The Company's investment securities portfolio at September 30, 1997, contained no securities of any one issuer with an aggregate book value in excess of 10% of the Company's shareholders' equity, excluding those issued by the United States Government, or its agencies.

Mortgage-Backed Securities. The Company's mortgage-backed and related securities portfolio consists primarily of securities issued under government-sponsored agency programs, including those of the GNMA, FNMA and FHLMC. The Company also holds Collateralized Mortgage Obligations ("CMOs"), as well as a limited amount of privately issued mortgage pass-through certificates. The GNMA, FNMA and FHLMC 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. FNMA and FHLMC generally provide the certificate holder a guarantee of timely payments of interest, whether or not collected. GNMA'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, 1997, the

Company held CMOs totaling \$3.8 million, all of which were secured by underlying collateral issued under government-sponsored agency programs. 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, 1997, \$31.4 million or 70.7% of the Company's mortgage-backed securities portfolio had fixed rates of interest and \$13.0 million or 29.3% 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, 1997, \$39.0 million or 87.9% 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,		
	1995	1996	1997
	-----	-----	-----
	(In Thousands)		
GNMA.....	\$ 7,484	\$ 6,392	\$20,925
CMO.....	5,210	4,637	3,832
FHLMC.....	3,967	4,740	3,813
FNMA.....	3,426	18,711	14,939
Privately Issued Mortgage Pass-Through Certificates.....	1,316	1,106	916
	-----	-----	-----
Total.....	\$21,403	\$35,586	\$44,425
	=====	=====	=====

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 1997. 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.

	1 Year or Less	Due in			September 30, 1997 Balance Outstanding
		After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	
		(Dollars in Thousands)			
GNMA.....	\$ ---	\$ ---	\$ ---	\$20,925	\$20,925
CMO.....	---	---	1,483	2,349	3,832
FHLMC.....	113	346	737	2,617	3,813
FNMA.....	75	977	96	13,791	14,939
Privately Issued Mortgage Pass-Through Certificates(1).....	---	---	---	916	916
Total.....	\$188 ====	\$1,323 =====	\$2,316 =====	\$40,598 =====	\$44,425 =====
Weighted average yield.....	5.73%	8.23%	7.92%	7.29%	7.34%

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

At September 30, 1997, the contractual maturity of 91.4% 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 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 (including interest earned on mortgage-backed securities), 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 and Federal Reserve Bank of Chicago ("FRB") 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 use brokers to obtain deposits. The Company relies primarily on competitive pricing policies, advertising and 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 has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. 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.

	Year Ended September 30,		
	1995	1996	1997
	-----	-----	-----
	(Dollars in Thousands)		
Opening balance.....	\$ 176,167	\$171,793	\$233,406
Deposits acquired from:			
Iowa Savings.....	---	15,642	---
Security.....	---	27,718	---
Deposits.....	261,345	360,606	543,824
Withdrawals.....	(273,066)	(350,626)	(541,351)
Interest credited.....	7,347	8,273	10,237
Deposits sold.....	---	---	---
	-----	-----	-----
Ending balance.....	\$ 171,793	\$233,406	\$246,116
	=====	=====	=====
Net increase (decrease).....	\$ (4,374)	\$ 61,613	\$ 12,710
	=====	=====	=====
Percent increase (decrease).....	(2.48)%	35.86%	5.45%
	=====	=====	=====

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.

	Year Ended September 30,					
	1995		1996		1997	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transactions and Savings Deposits:						
Commercial Demand.....	\$ 2,077	1.21%	\$ 5,453	2.34%	\$ 5,572	2.26%
Passbook Accounts.....	12,112	7.05	18,278	7.83	21,562	8.76
NOW Accounts.....	13,459	7.83	16,087	6.89	16,408	6.67
Money Market Accounts.....	14,836	8.64	14,994	6.42	11,869	4.82
	-----	-----	-----	-----	-----	-----
Total Non-Certificate.....	42,484	24.73	54,812	23.48	55,411	22.51
	-----	-----	-----	-----	-----	-----
Certificates:						
Variable.....	1,498	.87	3,154	1.35	1,259	.51
0.00 - 3.99%.....	1,593	.93	342	.15	202	.08
4.00 - 5.99%.....	67,944	39.55	123,835	53.06	129,409	52.58
6.00 - 7.99%.....	54,322	31.62	47,987	20.56	56,515	22.97
8.00 - 9.99%.....	3,709	2.16	3,276	1.40	3,320	1.35
10.00 - 11.99%.....	243	.14	---	---	---	---
	-----	-----	-----	-----	-----	-----
Total Certificates.....	129,309	75.27	178,594	76.52	190,705	77.49
	-----	-----	-----	-----	-----	-----
Total Deposits.....	\$171,793	100.00%	\$233,406	100.00%	\$246,116	100.00%
	=====	=====	=====	=====	=====	=====

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 1997.

	Variable	0.00- 3.99%	4.00- 5.99%	6.00- 7.99%	8.00- 9.99%	Total	Percent of Total
	-----	-----	-----	-----	-----	-----	-----
(Dollars in Thousands)							
Certificate accounts maturing in quarter ending:							
December 31, 1997.....	\$ 221	\$196	\$ 25,153	\$ 3,361	\$ 390	\$ 29,321	15.4%
March 31, 1998.....	142	3	27,391	4,087	858	32,481	17.0
June 30, 1998.....	212	---	21,703	17,677	184	39,776	20.9
September 30, 1998.....	321	---	10,859	5,618	200	16,998	8.9
December 31, 1998.....	199	---	16,773	3,882	382	21,236	11.1
March 31, 1999.....	164	---	7,907	2,676	967	11,714	6.2
June 30, 1999.....	---	---	4,207	4,303	300	8,810	4.6
September 30, 1999.....	---	---	5,578	6,369	37	11,984	6.3
December 31, 1999.....	---	---	1,809	4,343	2	6,154	3.2
March 31, 2000.....	---	---	5,039	1,121	---	6,160	3.2
June 30, 2000.....	---	---	437	1,893	---	2,330	1.2
September 30, 2000.....	---	---	701	139	---	840	0.5
Thereafter.....	---	3	1,852	1,046	---	2,901	1.5
	-----	-----	-----	-----	-----	-----	-----
Total.....	\$1,259 =====	\$202 =====	\$129,409 =====	\$56,515 =====	\$3,320 =====	\$190,705 =====	100.00% =====
Percent of total.....	0.66 % =====	0.11% =====	67.86% =====	29.63% =====	1.74% =====	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, 1997.

	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.....	\$23,218	\$30,265	\$50,623	\$67,334	\$171,440
Certificates of deposit of \$100,000 or more.....	6,103	2,216	6,151	4,795	19,265
	-----	-----	-----	-----	-----
Total certificates of deposit.....	\$29,321 =====	\$32,481 =====	\$56,774 =====	\$72,129 =====	\$190,705 (1) =====

(1) Includes deposits from governmental and other public entities totaling \$7.5 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 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, 1997, the Company had \$107.4 million of advances from the FHLB of Des Moines and the ability to borrow up to an additional \$31.9 million. All of the Company's advances currently carry fixed rates, except a \$10 million line of credit which adjusts daily. At September 30, 1997, advances totaling \$42.5 million (including the line of credit) had terms to maturity of one year or less. The remaining \$64.9 million had maturities ranging up to 9 years.

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, 1997, the Company had approximately \$1.8 million of retail repurchase agreements outstanding.

The Company has also, from time to time, 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 typically ranged from 30 days to a maximum of six months. The Company has not entered into any reverse repurchase agreements in the past five years.

The following table sets forth the maximum month-end balance and average balance of FHLB advances, retail repurchase agreements and other borrowings (consisting of FRB advances) for the periods indicated.

	Year Ended September 30,		
	1995	1996	1997
	----	----	----
	(In Thousands)		
Maximum Balance:			
FHLB advances.....	\$78,305	\$110,491	\$107,426
Retail repurchase agreements.....	1,312	2,790	2,790
Other borrowings.....	---	1,400 (1)	2,900
Average Balance:			
FHLB advances.....	\$56,820	69,265	80,685
Retail repurchase agreements.....	1,159	2,198	2,285
Other borrowings.....	---	---	1,258

(1) Acquired on September 30, 1996 in connection with the acquisition of Security.

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

	At September 30,		
	1995	1996	1997
	(Dollars in Thousands)		
FHLB advances.....	\$51,098	\$102,288	\$107,426
Retail repurchase agreements.....	1,150	2,790	1,800
Other borrowings.....	---	1,400	2,900
	-----	-----	-----
Total borrowings.....	\$52,248	\$106,478	\$112,126
	=====	=====	=====
Weighted average interest rate of FHLB advances.....	6.14%	5.81%	5.86%
Weighted average interest rate of retail repurchase agreements.....	5.75%	5.52%	5.79%
Weighted average interest rate of other borrowings.....	---	5.40%	5.55%

Subsidiary Activities

The only subsidiaries of the Company are First Federal and Security. First Federal has one service subsidiary, First Services Financial Limited ("First Services"). At September 30, 1997, the net book value of First Federal's investment in First Services was approximately \$65,000. Security does not have any subsidiaries.

First Federal organized First Services, its sole service corporation, in 1983. First Services is located in Storm Lake, Iowa and offers mutual funds and, in some locations, insurance products and annuities. In addition, Brookings Service Corporation ("BSC"), a subsidiary of First Services, offers full brokerage services through PrimeVest Financial Services, Inc., a third party vendor. First Services, together with its subsidiary BSC, recognized a net loss of \$20,000 during fiscal 1997.

Regulation

General. First Midwest currently has two wholly-owned subsidiaries, First Federal, a federally-chartered thrift institution and Security, an Iowa-chartered commercial bank. 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 it 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 (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 such regulation and oversight, whether by the OTS, the FDIC, the FRB or the 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 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 May 19, 1997. When these examinations are conducted by the OTS, the examiners may require First Federal to provide for higher general or specific loan loss reserves. Security is subject to similar regulation and oversight by the ISB and the FRB and was last examined as of January 31, 1997.

Each federal banking regulator has extensive enforcement authority over its regulated institutions. This enforcement authority includes, among other things, 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.

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 also generally authorized to branch nationwide whereas Iowa chartered banks such as Security are limited to establishing branches in the counties contiguous to the county where their home office is located. At September 30, 1997, First Federal and Security were in compliance with the noted restrictions.

First Federal's general permissible lending limit for loans-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, 1997, First Federal's and Security's lending limit under these restrictions was \$4.7 million and \$996,000, respectively. First Federal and Security are in compliance with the loans-to-one-borrower limitation.

The federal banking agencies have adopted guidelines establishing safety and soundness standards on such matters such 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. A failure to submit a plan or to comply with an approved plan will subject the institution to further enforcement action.

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% of 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, 1997, each of First Federal and Security met the capital requirements of a "well capitalized" institution and were not subject to any assessments. See Note 14 of Notes to Consolidated Financial Statements in the Annual Report.

The FDIC is authorized to increase assessment rates, on a semiannual basis, if it determines that the reserve ratio of the SAIF or the BIF, as the case may be, will be less than the designated reserve ratio of 1.25% of SAIF or BIF insured deposits, respectively. In setting these increased assessments, the FDIC must seek to restore the reserve ratio to that designated reserve level, or such higher reserve ratio as established by the FDIC. Premiums for both BIF and SAIF insured institutions are also subject to change in future periods depending upon an institution's risk classification.

Prior to the enactment of the legislation recapitalizing the SAIF in 1996, a portion of the SAIF assessment imposed on savings associations was used to repay obligations issued by a federally chartered corporation to provide financing for resolving the thrift crisis in the 1980s. Although the legislation also now requires assessments to be made on BIF-assessable deposits for this purpose, effective January 1, 1997, that assessment will be limited to 20% of the rate imposed on SAIF assessable deposits until the earlier of December 31, 1999 or when no savings association continues to exist, thereby imposing a greater burden on SAIF member institutions such as First Federal. Thereafter, however, assessments on BIF-member institutions will be made on the same basis as SAIF-member institutions. The rates established by the FDIC to implement this requirement for all FDIC-insured institutions are a 6.7 basis points assessment on SAIF deposits and 1.5 basis points assessment on BIF deposits until BIF insured institutions participate fully in the assessment.

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%. First Federal also has a tangible capital ratio requirement of 1.5%. Capital requirements in excess of these standards may be imposed on individual institutions on a case-by-case basis. See Note 14 of Notes to Consolidated Financial Statements in the Annual Report.

An FDIC-insured institution's primary federal regulator is also authorized and, under certain circumstances required, to take certain actions against an "undercapitalized institution" (generally defined to be one with less than either a 4% core capital ratio, a 4% Tier 1 risk-based capital ratio or an 8% risk-based capital ratio). Any such institution must submit a capital restoration plan and until such plan is approved by the OTS 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 primary federal regulator is also authorized, and with respect to institution's whose capital is further depleted, required to impose additional restrictions that can affect all aspects of the institution's operations, including the appointment of a receiver for a "critically undercapitalized" institution (i.e., one with a tangible capital ratio of 2% or less). As a condition to the approval of the capital restoration plan, any company controlling an undercapitalized institution must agree that it will enter into a limited capital maintenance guarantee with respect to the institution's achievement of its capital requirements.

The imposition of any of these measures on First Federal or Security may have a substantial adverse effect on 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 stockholders percentage of ownership of First Midwest.

Limitations on Dividends and Other Capital Distributions. OTS regulations impose 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. Generally, savings associations, such as First Federal,

that before and after the proposed distribution meet their capital requirements, may make capital distributions during any calendar year equal to the greater of 100% of net income for the year-to-date plus 50% of the amount by which the lesser of the association's tangible, core or risk-based capital exceeds its capital requirement for such capital component, as measured at the beginning of the calendar year, or 75% of its net income for the most recent four quarter period. However, an association deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. First Federal may pay dividends in accordance with this general authority.

Savings associations proposing to make any capital distribution need only submit written notice to the OTS 30 days prior to such distribution. Savings associations that do not, or would not meet their current minimum capital requirements following a proposed capital distribution, however, must obtain OTS, as well as FDIC, approval prior to making such distribution. The OTS may object to the distribution during that 30-day period notice based on safety and soundness concerns. See "- Regulatory Capital Requirements."

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, 1997, 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 and thereafter remains a QTL. If an association does not requalify and converts to a national bank charter, it must remain SAIF-insured until the FDIC permits it to transfer to the BIF. If such an association has not yet requalified or converted to a national bank, its new investments and activities are limited to those permissible for both a savings association and a national bank, and it is limited to national bank branching rights in its home state. In addition, the association is immediately ineligible to receive any new FHLB borrowings and is subject to national bank limits for payment of dividends. 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. In addition, it must repay promptly any outstanding FHLB borrowings, which may result in prepayment penalties.

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.

The federal banking agencies have recently revised the CRA regulations and the methodology for determining an institution's compliance with the CRA. Due to the heightened attention being given to the CRA in the past few years, First Federal and Security may be required to devote additional funds for investment and lending in their local community. First Federal was examined for CRA compliance in May 1997 and Security was examined in April 1996 and both received a rating of "satisfactory."

Transactions with Affiliates. Generally, transactions between an FDIC-insured institution or its subsidiaries and its affiliates are required to be on terms as favorable to the institution as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the institution's capital. Affiliates of First Federal and Security include First Midwest and any other company which is under common control with First Federal and Security. Directors, officers or controlling persons are also subject to regulations that restrict 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, except if the loans are made pursuant to an employee benefit plan. At September 30, 1997, First Federal and Security were in compliance with the above restrictions.

Bank Holding Company Regulation

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, and has required in the past, 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.

Interstate Banking and Branching. In 1994, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") was enacted to ease restrictions on interstate banking. Effective September 29, 1995, the Riegle-Neal Act allows the FRB to 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. 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 Riegle-Neal Act does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit.

Additionally, since June 1, 1997, the federal banking agencies have been authorized to approve interstate merger transactions without regard to whether such transaction is prohibited by the law of any state, unless the home state of one of the banks opts out of the Riegle-Neal Act by adopting a law after the date of enactment of the Riegle-Neal Act and prior to June 1, 1997 which applies equally to all out-of-state banks and expressly prohibits merger transactions involving out-of-state banks. States were also permitted to allow such transactions before such time by enacting authorizing legislation. 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.

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.

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

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 is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. 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 are required to provide funds 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, 1997, the Banks had in the aggregate \$5.6 million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 1997, dividends paid by the FHLB of Des Moines to First Federal and Security totaled \$386,000. Over the past five calendar years such dividends have averaged 7.5% and were 7.0% for the first three quarters of the calendar year 1997.

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 First Federal's FHLB stock may result in a corresponding reduction in First Federal's capital.

Federal and State Taxation

Federal Taxation. Savings banks such as First Federal that meet certain definitional tests relating to the composition of assets and other conditions prescribed by the Internal Revenue Code of 1986, as amended (the "Code"), are permitted to establish reserves for bad debts and to make annual additions thereto which may, within specified formula limits, be taken as a deduction in computing taxable income for federal income tax purposes. The amount of the bad debt reserve deduction for "non-qualifying loans" is computed under the experience method. The amount of the bad debt reserve deduction for "qualifying real property loans" (generally loans secured by improved real estate) may be computed under either the experience method or the percentage of taxable income method (based on an annual election).

Under the experience method, the bad debt reserve deduction is an amount determined under a formula based generally upon the bad debts actually sustained by the savings bank over a period of years.

The percentage of specially computed taxable income that is used to compute a savings bank's bad debt reserve deduction under the percentage of taxable income method (the "percentage bad debt deduction") is 8%. The percentage bad debt deduction thus computed is reduced by the amount permitted as a deduction for non-qualifying loans under the experience method. The availability of the percentage of taxable income method permits qualifying savings banks to be taxed at a lower effective federal income tax rate than that applicable to corporations generally (approximately 31.3% assuming the maximum percentage bad debt deduction).

Under the percentage of taxable income method, the percentage bad debt deduction cannot exceed the amount necessary to increase the balance in the reserve for "qualifying real property loans" to an amount equal to 6% of such loans outstanding at the end of the taxable year or the greater of (i) the amount deductible under the experience method or (ii) the amount which when added to the bad debt deduction for "non-qualifying loans" equals the amount by which 12% of the amount comprising savings accounts at year-end exceeds the sum of surplus, undivided profits and reserves at the beginning of the year.

In August 1996, legislation was enacted that repeals the above-described reserve method of accounting (including the percentage of taxable income method) used by many thrift institutions to calculate their bad debt reserve for federal income tax purposes. Thrift institutions with \$500 million or less in assets may, however, continue to use the experience method. As a result, First Federal must recapture that portion of the reserve that exceeds the amount that could have been taken under the experience method for

post-1987 tax years. At September 30, 1997, First Federal's post-1987 excess reserves amounted to approximately \$1.5 million. The recapture will occur over a six-year period, the commencement of which will be delayed until the first taxable year beginning after December 31, 1997. The legislation also requires thrift institutions to account for bad debts for federal income tax purposes on the same basis as commercial banks for tax years beginning after December 31, 1995.

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. For taxable years beginning after 1986 and before 1996, corporations, including savings banks such as First Federal, are also subject to an environmental tax equal to 0.12% of the excess of alternative minimum taxable income for the taxable year (determined without regard to net operating losses and the deduction for the environmental tax) over \$2.0 million.

To the extent earnings appropriated to a savings bank's bad debt reserves for "qualifying real property loans" 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, 1997, First Federal's Excess for tax purposes totaled approximately \$6.7 million.

First Midwest and its subsidiaries file consolidated federal income tax returns on a fiscal year basis using the accrual method of accounting. Savings banks, such as First Federal, that file federal income tax returns as part of a consolidated group are required by applicable Treasury regulations to reduce their taxable income for purposes of computing the percentage bad debt deduction for losses attributable to activities of the non-savings bank members of the consolidated group that are functionally related to the activities of the savings bank member.

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 subsidiary file Iowa corporation tax returns 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.

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 excluded 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. 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.

South Dakota Taxation. First Federal files a South Dakota franchise tax return due to the operations of its Brookings division. The South Dakota franchise tax is imposed only on depository institutions. 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 a depository institution 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, bad debt deductions are determined on the basis of actual charge-offs, 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, Calhoun, Guthrie, Ida, Pocahontas, Polk and Sac counties in Iowa and Brookings County in South Dakota. There are 32 commercial banks, three savings banks, other than First Federal, and one credit union which compete for deposits and loans in the First Federal's primary market area in northwest Iowa and eight commercial banks, one savings bank, other than First Federal, and one credit union which compete for deposits and loans in First Federal's market area in South Dakota. In addition, there are twelve commercial banks in Security's primary market area in west central Iowa. First Federal recently entered the Des Moines, Iowa market area as a result of the acquisition of Iowa Savings and competes for deposits and loans with numerous financial institutions located throughout the metropolitan area.

Employees

At September 30, 1997, the Company and its subsidiaries had a total of 112 employees, including 15 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.

Fred A. Stevens - Mr. Stevens, age 50, is President of the Storm Lake Division and Trust Officer for First Federal. In addition, Mr. Stevens serves as President and a director of First Services Financial Limited and is a Brookings Service Corporation director. Mr. Stevens is primarily responsible for the daily operation of First Midwest and First Federal, including lending, deposit and trust operations, branch administration, and human resources and compliance. Mr. Stevens joined First Federal in 1974 as a loan officer, was elected Vice President in 1982, and Senior Vice President in 1986. He was elected Executive Vice President and Chief Operating Officer in 1989, Corporate Secretary in 1990, and Trust Officer in 1992. Mr. Stevens was elected to his current position in September 1997. Mr. Stevens is a former President of the Storm Lake Chamber of Commerce and the Storm Lake Rotary Club. Mr. Stevens received his Bachelor of Science degree from Westmar College, Le Mars, Iowa.

Donald J. Winchell - Mr. Winchell, age 45, serves as Vice President, Treasurer and Chief Financial Officer of First Midwest and Senior Vice President, Treasurer and Chief Financial Officer of First Federal, and is responsible for the formulation and implementation of policies and objectives for First Federal's finance, accounting and audit functions. His duties include financial planning, interest rate risk management, accounting, investments, financial policy development and compliance, budgeting, asset/liability management, internal controls, and data processing systems and procedures. Mr.

Winchell also serves as Treasurer of First Services Financial Limited and Brookings Service Corporation. Mr. Winchell joined First Federal in 1989 as Vice President and Chief Financial Officer, was appointed Treasurer in 1990, and Senior Vice President in 1992. Prior to joining First Federal, Mr. Winchell served as Senior Vice President and Chief Financial Officer of Midwest Federal Savings and Loan Association of Nebraska City, Nebraska since 1981. Mr. Winchell received a Bachelor of Science degree and a Bachelor of Business Administration degree from Washburn University, Topeka, Kansas. Mr. Winchell is a certified public accountant.

Item 2. Description of Property

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 two offices in Brookings, South Dakota, through the Company's Brookings Federal Bank division of the Bank; two offices in Des Moines, Iowa, through the Company's Iowa Savings Bank 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 office located at Storm Lake Plaza, Storm Lake, Iowa 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, 1997 was \$4.2 million. See Note 7 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. In November 1996, the Company purchased an existing building located in West Des Moines, Iowa. In March 1997, the facility opened as an additional office of the Iowa Savings Bank Division of First Federal.

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, 1997 was approximately \$288,000.

Item 3. Legal Proceedings

The Company is involved as plaintiff or defendant in various legal actions arising in the normal course of its business. While the ultimate outcome of these proceedings cannot be predicted with certainty, it is the opinion of management, after consultation with counsel representing Company in the proceedings, that the resolution of these proceedings should not have a material effect on Company's consolidated financial position or results of operations.

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, 1997.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Page 48 of the attached 1997 Annual Report to Stockholders is herein incorporated by reference.

Item 6. Selected Financial Data

Page 10 of the attached 1997 Annual Report to Stockholders is herein incorporated by reference.

Item 7. Management's Discussion and Analysis or Financial Condition and Results of Operation

Pages 11 through 20 of the attached 1997 Annual Report to Stockholders are herein incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Pages 17 and 18 of the attached 1997 Annual Report to Stockholders are herein incorporated by reference.

Item 8. Financial Statements and Supplementary Data

Pages 21 through 45 of the attached 1997 Annual Report to Stockholders are herein incorporated by reference.

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

On May 17, 1996, the Company dismissed Deloitte & Touche LLP ("D&T") as their independent accountants. The reports of D&T on the financial statements for the two years ended September 30, 1995 and 1994 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The change of independent accountants was recommended by the Audit Committee and subsequently approved by the Board of Directors.

In connection with its audits for years ended September 30, 1994 and 1995, and through May 17, 1996, there were no disagreements with D&T on any matter of accounting principles or practices, financial statement disclosure, or auditing scope of procedure, which disagreements, if not resolved to the satisfaction of D&T, would have caused them to make reference thereto in their report on the financial statements for such years. During such same periods, there have been no reportable events (as defined in Regulation S-K Item 304(a)(1)(v)) with D&T.

On May 17, 1996, the Company engaged the firm of Crowe, Chizek and Company LLP as independent certified accountants for the fiscal year ending September 30, 1996.

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 Stockholders held in January 1998, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Executive Officers

Information concerning executive officers of the Company is set forth under the caption "Executive Officers" 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% stockholders 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, 1997, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

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 Stockholders to be held in January 1998, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held in January 1998, a copy of which will be filed not later than 120 days after the close of the fiscal year.

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 Stockholders to be held in January 1998, a copy of which will be filed not later than 120 days after the close of the fiscal year.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

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

(1) 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, 1997 and 1996.
3. Consolidated Statements of Income for the Years Ended September 30, 1997, 1996 and 1995.
4. Consolidated Statements of Changes in Shareholders' Equity for the Years Ended September 30, 1997, 1996 and 1995.
5. Consolidated Statements of Cash Flows for the Years Ended September 30, 1997, 1996 and 1995.
6. Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

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

(3) Exhibits:

See Index of Exhibits.

(b) Reports on Form 8-K:

There have been no Current Reports on Form 8-K filed within the three month period ended September 30, 1997.

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 26, 1997

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

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

Date: December 26, 1997

By: /s/ Jeanne Partlow

Jeanne Partlow, Director

Date: December 26, 1997

By: /s/ E. Thurman Gaskill

E. Thurman Gaskill, Director

Date: December 26, 1997

By: /s/ Rodney G. Muilenburg

Rodney G. Muilenburg, Director

Date: December 26, 1997

By: /s/ J. Tyler Haahr

J. Tyler Haahr, Director, Senior
Vice President, Secretary and
Chief Operating Officer

Date: December 26, 1997

By: /s/ E. Wayne Cooley

E. Wayne Cooley, Director

Date: December 26, 1997

By: /s/ Donald J. Winchell

Donald J. Winchell, Vice President
Chief Financial Officer and Treasurer
(Principal Financial and Accounting
Officer)

Date: December 26, 1997

By: /s/ G. Mark Mickelson

G. Mark Mickelson, Director

Date: December 26, 1997

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 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.
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	Employment agreement between First Federal Savings Bank of the Midwest and J. Tyler Haahr
10.4	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.
10.5	Employment agreements between First Federal Savings Bankn of the Midwest and James S. Haahr, Fred A. Stevens 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.
10.6	Registrant's Executive Officer Compensation Program
10.7	Registrant's Executive Officer Incentive Stock Option Plan for Mergers and Acquisitions.
11	Statement re: computation of per share earnings (included under Note 1 of Notes to Consolidated Financial Statements in the Annual Report to Shareholders' attached hereto as Exhibit 13)
13	Annual Report to Stockholders
21	Subsidiaries of the Registrant
23	Consents of Experts
27	Financial Data Schedule (electronic filing only)
99	Independent Audit Report of former Accountants

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and is hereby effective as of this 27th day of January , 1997, by and between FIRST FEDERAL SAVINGS BANK OF THE MIDWEST, Fifth and Erie Streets, Storm Lake, Iowa 50588 (hereinafter referred to as the "Bank") and J. Tyler Haahr (the "Employee").

WHEREAS, the Employee will serve as Executive Vice President and Trust Officer of the Bank; and

WHEREAS, the Board of Directors of the Bank recognizes that, as is the case with publicly held corporations generally, the possibility of a change in control of the Holding Company and/or the Bank may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of key management personnel to the detriment of the Bank, the Holding Company and its stockholders; and

WHEREAS, the Board of Directors of the Bank believes it is in the best interests of the Bank to enter into this Agreement with the Employee in order to assure continuity of management of the Bank and to reinforce and encourage the continued attention and dedication of the Employee to his assigned duties without distraction in the face of potentially disruptive circumstances arising from the possibility of a change in control of the Holding Company, although no such change is now contemplated; and

WHEREAS, the Board of Directors of the Bank has approved and authorized the execution of this Agreement with the Employee to take effect as stated in
Section 4 hereof;

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties herein contained, it is AGREED as follows:

1. Employment. The Employee will be employed as Executive Vice President and Trust Officer of the Bank. As such, Employee shall render administrative and management services as are customarily performed by persons situated in similar executive capacities, and shall have other powers and duties as may from time to time be prescribed by the Board, provided that such duties are consistent with the Employee's position. The Employee shall continue to devote his best efforts and substantially all his business time and attention to the business and affairs of the Bank and its subsidiaries and affiliated companies.

2. Compensation.

(a) Salary. The Bank agrees to pay the Employee during the term of this Agreement a salary established by the Board of Directors. The salary hereunder shall be at least equal to \$140,000.00 per year commencing on the first date of employment with the Bank. The salary provided for herein shall be payable not less frequently than biweekly in accordance with the practices of the Bank, provided, however, that no such salary is required to be paid by the terms of this Agreement in respect of any month or portion thereof subsequent to the termination of this Agreement and provided further, that the amount of such salary shall be reviewed by the Board of Directors not less often than annually and may be increased (but not decreased) from time to time in such amounts as the Board of Directors in its discretion may decide, subject to the customary withholding tax and other employee taxes as required with respect to compensation paid by a corporation to an employee.

(b) Discretionary Bonuses. The Employee shall be entitled to participate in an equitable manner with all other executive officers of the Bank in discretionary bonuses as authorized and declared by the Board of Directors of the Bank to its executive employees. No other compensation provided for in this Agreement shall be deemed a substitute for the Employee's right to participate in such bonuses when and as declared by the Board of Directors.

(c) Expenses. During the term of his employment hereunder, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by him (in accordance with policies and procedures at least as favorable to the Employee as those presently applicable to the senior executive officers of the Bank) in performing services hereunder, provided that the Employee properly accounts therefor in accordance with Bank policy.

3. Benefits.

(a) Participation in Retirement and Employee Benefit Plans. The Employee shall be entitled while employed hereunder to participate in, and receive benefits under, all plans relating to stock options, stock purchases, pension, thrift, profit-sharing, group life insurance, medical coverage, education, cash or stock bonuses, and other retirement or employee benefits or combinations thereof, that are now or hereafter maintained for the benefit of the Bank's executive employees or for its employees generally.

(b) Fringe Benefits. The Employee shall be eligible while employed hereunder to participate in, and receive benefits under, any other fringe benefits which are or may become applicable to the Bank's executive employees or to its employees generally.

4. Term. The term of employment under this Agreement shall be the period commencing on March 25, 1997, or such other date as agreed to by the parties of this Agreement, through September 19, 1999, subject to earlier termination as provided herein. Beginning on September 20, 1997, and on each September 20 thereafter, the term of employment under this Agreement shall be extended for a period of one year unless either the Bank or the Employee gives contrary written notice to the other not less than 90 days in advance of the date on which the term of employment under this Agreement would otherwise be extended, provided that such term will not be automatically extended unless, prior thereto, such extension is approved by the Board of Directors following the Board's review of a formal performance evaluation of the Employee performed by the disinterested members of the Board of Directors of the Bank and reflected in the minutes of the Board of Directors. Reference herein to the term of employment under this Agreement shall refer to both such initial term and such extended terms.

5. Vacations. The Employee shall be entitled, without loss of pay, to absent himself voluntarily from the performance of his employment under this Agreement, all such voluntary absences to count as vacation time, provided that:

(a) The Employee shall be entitled to an annual vacation of not less than three weeks per year;

(b) the timing of vacations shall be scheduled in a reasonable manner by the Employee; and

(c) solely at the Employee's request, the Board of Directors shall be entitled to grant to the Employee a leave or leaves of absence with or without pay at such time or times and upon such terms and conditions as the Board, in its discretion, may determine.

6. Termination of Employment; Death.

(a) The Board of Directors may terminate the Employee's employment at any time, but any termination by the Bank's Board of Directors, other than termination for cause, shall not prejudice the Employee's right to compensation or other benefits under the Agreement. If the employment of the Employee is involuntarily terminated, other than for "cause" as provided in this

Section 6(a) or pursuant to any of Sections 6(d) through 6(g), or by reason of death or disability as provided in Sections 6(c) or 7, the Employee shall be entitled to receive, (i) his then applicable salary for the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof, payable in such manner and at such times as such salary would have been payable to the Employee under Section 2 had he remained in the employ of the Bank, and (ii) health insurance benefits as maintained by the Bank for the benefit of its senior executive employees or its employees generally over the then-remaining term of the Agreement as calculated in accordance with Section 4 hereof.

The terms "termination" or "involuntarily terminated" in this Agreement shall refer to the termination of the employment of Employee without his express written consent. The Employee shall be considered to be involuntarily terminated

(1) if the employment of the Employee is involuntarily terminated for any reason other than for "cause" as provided in this Section 6(a), pursuant to any of Sections 6(d) through 6(g) or by reason of death or disability as provided in Sections 6(c) and 7; or (2) there occurs a material diminution of or interference with the Employee's duties, responsibilities and benefits as Executive Vice President and Trust Officer of the Bank. By way of example and not by way of limitation, any of the following actions, if unreasonable or materially adverse to the Employee, shall constitute such diminution or interference unless consented to in writing by the Employee: (i) a change in the principal workplace of the Employee to a location more than fifty (50) miles from the Bank's main office; (ii) a material demotion of the Employee, a reduction in the number or seniority of other Bank personnel reporting to the Employee, or a reduction in the frequency with which, or in the nature of the matters with respect to which, such personnel are to report to the Employee, other than as part of a Bank or Holding Company-wide reduction in staff; or

(iii) a reduction or adverse change in the salary, perquisites, benefits, contingent benefits or vacation time which had theretofore been provided to the Employee, other than as part of an overall program applied uniformly and with equitable effect to all members of the senior management of the Bank or the Holding Company.

In case of termination of the Employee's employment for cause, the Bank shall pay the Employee his salary through the date of termination, and the Bank shall have no further obligation to the Employee under this Agreement. The Employee shall have no right to receive compensation or other benefits for any period after termination for cause. For purposes of this Agreement, termination for "cause" shall include termination because of the Employee's personal dishonesty, incompetence, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, or material breach of any provision of this Agreement. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated for cause unless and until there shall have been delivered to the Employee a copy of a resolution, duly adopted by the affirmative vote of not less than a majority of the disinterested members of the

Board of Directors of the Bank at a meeting of the Board called and held for such purpose (after reasonable notice to the Employee and an opportunity for the Employee, together with the Employee's counsel, to be heard before the Board), stating that in the good faith opinion of the Board the Employee was guilty of conduct constituting "cause" as set forth above and specifying the particulars thereof in detail.

(b) The Employee's employment may be voluntarily terminated by the Employee at any time upon 90 days written notice to the Bank or upon such shorter period as may be agreed upon between the Employee and the Board of Directors of the Bank. In the event of such voluntary termination, the Bank shall be obligated to continue to pay the Employee his salary only through the date of termination, at the time such payments are due, and the Bank shall have no further obligation to the Employee under this Agreement.

(c) In the event of the death of the Employee during the term of employment under this Agreement and prior to any termination hereunder, the Employee's estate, or such person as the Employee may have previously designated in writing, shall be entitled to receive from the Bank the salary of the Employee through the last day of the calendar month in which his death shall have occurred, and the term of employment under this Agreement shall end on such last day of the month.

(d) If the Employee is suspended from office and/or temporarily prohibited from participating in the conduct of the Bank's affairs by a notice served under Section 8(e) (3) or (g) (1) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. ss. 1818(e)(3); (g)(1), the Bank's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Bank may in its discretion (i) pay the Employee all or part of the compensation withheld while its obligations under this Agreement were suspended and (ii) reinstate in whole or in part any of the obligations which were suspended.

(e) If the Employee is removed from office and/or permanently prohibited from participating in the conduct of the Bank's affairs by an order issued under Section 8(e) (4) or (g)(1) of the FDIA, 12 U.S.C. ss. 1818(e)(4); (g)(1), all obligations of the Bank under this Agreement shall terminate, as of the effective date of the order, but vested rights of the parties shall not be affected.

(f) If the Bank becomes in default (as defined in Section 3(x)(1) of the FDIA, 12 U.S.C. ss. 1813(x)(1)), all obligations under this Agreement shall terminate as of the date of default, but this provision shall not affect any vested rights of the parties.

(g) All obligations under this Agreement shall be terminated, except to the extent determined that continuation of this Agreement is necessary for the continued operation of the Bank: (i) by the Director of the Office of Thrift Supervision ("OTS") or his or her designee at the time the Federal Deposit Insurance Corporation or the Resolution Trust Corporation enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) of the FDIA, 12 U.S.C. ss. 1823(c); or (ii) by the Director of the OTS or his or her designee at the time the Director of the OTS or his or her designee approves a supervisory merger to resolve problems related to operation of the Bank or when the Bank is determined by the Director of the OTS to be in an unsafe or unsound condition.

Any rights of the parties that have already vested, however, shall not be affected by any such action.

(h) In the event the Bank purports to terminate the Employee for cause, but it is determined by a court of competent jurisdiction or by an arbitrator pursuant to Section 17 that cause did not exist for such termination, or if in any event it is determined by any such court or arbitrator that the Bank has failed to make timely payment of any amounts owed to the Employee under this Agreement, the Employee shall be entitled to reimbursement for all reasonable costs, including attorneys' fees, incurred in challenging such termination or collecting such amounts. Such reimbursement shall be in addition to all rights to which the Employee is otherwise entitled under this Agreement.

7. Disability. If during the term of employment hereunder the Employee shall become disabled or incapacitated to the extent that he is unable to perform the duties of the Executive Vice President and Trust Officer, he shall be entitled to receive disability benefits of the type provided for other executive employees of the Bank.

8. Change in Control.

(a) Involuntary Termination. If the Employee's employment is involuntarily terminated (other than for cause or pursuant to any of Sections 6(c) through 6(g) or Section 7 of this Agreement) in connection with or within 12 months after a change in control which occurs at any time during the term of employment under this Agreement, in addition to any payments under Section 6(a) of this Agreement, the Bank shall pay to the Employee in a lump sum in cash within 25 business days after the Date of Termination (as hereinafter defined) of employment an amount equal to 299% of the Employee's "base amount" of compensation as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code").

(b) Definitions. For purposes of Section 8, 9 and 11 of this Agreement, "Date of Termination" means the earlier of (i) the date upon which the Bank gives notice to the Employee of the termination of his employment with the Bank, or (ii) the date upon which the Employee ceases to serve as an Employee of the Bank; and "change in control" is defined solely as any acquisition of control (other than by a trustee or other fiduciary holding securities under an employee benefit plan of the Holding Company or a subsidiary of the Holding Company), as defined in 12 C.F.R. ss. 574.4, or any successor regulation, of the Bank or Holding Company which would require the filing of an application for acquisition of control or notice of change in control in a manner as set forth in 12 C.F.R. ss. 574.3, or any successor regulation.

9. Certain Reduction of Payments by the Bank.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Bank to or for the benefit of the Employee (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be nondeductible (in whole or part) by the Bank for Federal income tax purposes because of Section 280G of the Code, then the aggregate present value of amounts payable or distributable to or for the benefit of the Employee pursuant to this Agreement (such amounts payable or distributable pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced to the Reduced Amount. The "Reduced Amount" shall be an amount, not less than zero, expressed in present value which

maximizes the aggregate present value of Agreement Payments without causing any Payment to be nondeductible by the Bank because of Section 280G of the Code. For purposes of this Section 9, present value shall be determined in accordance with Section 280G(d)(4) of the Code.

(b) All determinations required to be made under this Section 9 shall be made by the Bank's independent auditors, or at the election of such auditors by such other firm or individuals of recognized expertise as such auditors may select (such auditors or, if applicable, such other firm or individual, are hereinafter referred to as the "Advisory Firm"). The Advisory Firm shall within ten business days of the Date of Termination, or at such earlier time as is requested by the Bank, provide to both the Bank and the Employee an opinion (and detailed supporting calculations) that the Bank has substantial authority to deduct for federal income tax purposes the full amount of the Agreement Payments and that the Employee has substantial authority not to report on his federal income tax return any excise tax imposed by Section 4999 of the Code with respect to the Agreement Payments. Any such determination and opinion by the Advisory Firm shall be binding upon the Bank and the Employee. The Employee shall determine which and how much, if any, of the Agreement Payments shall be eliminated or reduced consistent with the requirements of this

Section 9, provided that, if the Employee does not make such determination within ten business days of the receipt of the calculations made by the Advisory Firm, the Bank shall elect which and how much, if any, of the Agreement Payments shall be eliminated or reduced consistent with the requirements of this Section 9 and shall notify the Employee promptly of such election. Within five business days of the earlier of (i) the Bank's receipt of the Employee's determination pursuant to the immediately preceding sentence of this Agreement or (ii) the Bank's election in lieu of such determination, the Bank shall pay to or distribute to or for the benefit of the Employee such amounts as are then due the Employee under this Agreement. The Bank and the Employee shall cooperate fully with the Advisory Firm, including without limitation providing to the Advisory Firm all information and materials reasonably requested by it, in connection with the making of the determinations required under this Section 9.

(c) As a result of uncertainty in application of Section 280G of the Code at the time of the initial determination by the Advisory Firm hereunder, it is possible that Agreement Payments will have been made by the Bank which should not have been made ("Overpayment") or that additional Agreement Payments will not have been made by the Bank which should have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. In the event that the Advisory Firm, based upon the assertion by the Internal Revenue Service against the Employee of a deficiency which the Advisory Firm believes has a high probability of success determines that an Overpayment has been made, any such Overpayment paid or distributed by the Bank to or for the benefit of Employee shall be treated for all purposes as a loan ab initio which the Employee shall repay to the Bank together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no such loan shall be deemed to have been made and no amount shall be payable by the Employee to the Bank if and to the extent such deemed loan and payment would not either reduce the amount on which the Employee is subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. In the event that the Advisory Firm, based upon controlling preceding or other substantial authority, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Bank to or for the benefit of the Employee together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code.

(d) The total of payments to the Employee in the event of involuntary termination of employment under Section 6(a) and Section 8(a) shall not exceed three times his average annual compensation from the Bank over the five most recent taxable years (or, if employed by the Bank for a shorter period, over the period of his employment by the Bank).

(e) Any payments made to the Employee pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 U.S.C. 1828(k) and any regulations promulgated thereunder.

10. Non-competition.

(a) Upon the expiration of the term of the Employee's employment hereunder or in the event the Employee's employment hereunder terminates prior thereto for any reason whatsoever, the Employee shall not, for a period of one (1) year after the occurrence of such event, for himself, or as the agent of, on behalf of, or in conjunction with, any person or entity, solicit or attempt to solicit, whether directly or indirectly: (i) any employee of the Bank to terminate such employee's employment relationship with the Bank; or (ii) any savings and loan, banking or similar business from any person of entity that is or was a client, employee, or customer of the Bank and had dealt with the Employee or any other employee of the Bank under the supervision of the Employee.

(b) In the event Employee voluntarily resigns pursuant to Section 6(b) of this Agreement, or in the event the Employee's employment hereunder is terminated for cause, the Employee shall not, for a period of one

(1) year from the date of termination, directly or indirectly, own, manage, operate or control, or participate in the ownership, management, operation or control of, or be employed by or connected in any manner with, any financial institution having an office located within fifty (50) miles of any office of the Bank as of the date of termination.

(c) The provisions of subsections (a) and (b) hereof shall not prevent the Employee from purchasing, solely for investment, not more than five percent (5%) of any financial institution's stock or other securities which are traded on any national or regional securities exchange or are actively traded in the over-the-counter market and registered under Section 12(g) of the Securities Exchange Act of 1934.

(d) The provisions of this Section shall survive the termination of the Employee's employment hereunder whether by expiration of the term thereof or otherwise.

11. No Assignments.

(a) This Agreement is personal to each of the parties hereto, and neither party may assign or delegate any of its rights or obligations hereunder without first obtaining the written consent of the other party; provided, however, that the Bank will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Bank, by an assumption agreement in form and substance satisfactory to the Employee, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Bank would be required to perform it if no such succession or

assignment had taken place. Failure of the Bank to obtain such an assumption agreement prior to the effectiveness of any such succession or assignment shall be a breach of this Agreement and shall entitle the Employee to compensation from the Bank in the same amount and on the same terms as the compensation pursuant to Section 8(a) hereof. For purposes of implementing the provisions of this Section 11(a), the date on which any such succession becomes effective shall be deemed the Date of Termination.

(b) This Agreement and all rights of the Employee hereunder shall inure to the benefit of and be enforceable by the Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Employee should die while any amounts would still be payable to the Employee hereunder if the Employee had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Employee's devisee, legatee or other designee or if there is no such designee, to the Employee's estate.

12. Notice. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, addressed to the Bank at its main office to the attention of the Board of Directors (with a copy to the Secretary of the Bank), and in the case of the Employee, to him at his home address most recently provided to the Bank, or to such other address as either party may have furnished to the other in writing in accordance herewith.

13. Amendments. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties, except as herein otherwise provided.

14. Paragraph Headings. The paragraph headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

15. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

16. Governing Law. This Agreement shall be governed by the laws of the United States to the extent applicable and otherwise by the laws of the State of Iowa.

17. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

**THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE
ENFORCED BY THE PARTIES.**

FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

*By: /s/ James S. Haahr

 James S. Haahr, President
 and Chief Executive Officer*

EMPLOYEE

*By: /s/ J. Tyler Haahr

 J. Tyler Haahr*

FIRST FEDERAL SAVINGS BANK OF THE MIDWEST
Executive Officer Compensation Program

Statement of Policy

It is the policy of First Federal Savings Bank of the Midwest to attract and retain competent and qualified executive officers who will provide the leadership and management skills required to attain the long range goals of the institution. The Board of Directors recognizes the importance of a compensation program which encourages and rewards achievement and provides incentives for continued performance excellence. As such, First Federal will recognize an executive officer's demonstrated commitment to the long-term objectives of the Bank through a program which consistently rewards performance at the upper level of comparable institutions.

General

Executive officer compensation is comprised of two components, base compensation and incentive compensation. Base compensation shall be established at a level which is commensurate with the level of responsibility of the position and an acceptable level of performance by the incumbent. Incentive compensation shall be used as the method to reward quantifiable performance which exceeds that which is expected within the general responsibilities of the position. For purposes of this compensation program, the two components of compensation are discussed separately.

Base Compensation

It is the policy of First Federal to provide a level of base compensation which is commensurate with the position and the demonstrated abilities of the individual executive officer. As such, a base compensation range has been established that provides a minimum and a maximum level considered appropriate for each executive officer position covered by this policy, see Appendix A. The individual level of base compensation within each range is considered a function of the position and the past experience, level of achievement and the anticipation of continued performance of the officer. The base compensation ranges shall be reviewed by the Board of Directors at least annually and revised as considered appropriate.

On an annual basis, the Board shall determine the level of base compensation for each executive officer within the guidelines outlined in former FHLBB R #42 Memoranda (Exhibit 1) and Section 310.3 of the Office of Thrift Supervision Thrift Activities Regulatory Handbook (Exhibit 2). All relevant supporting information relied on by the Board in determining such levels shall be retained and available for future reference.

Comparative compensation information shall be derived from such comprehensive sources as SNL Securities, MCS Associates, Savings and Community Bankers of America, The American Banker and major accounting firms. Use of comparative sources shall not be limited to those listed. Information shall be utilized which is considered pertinent, taking into consideration the operations of this institution.

A review of individual performance shall also include factors which demonstrate conformity with the responsibility for the safe and sound operation of the Bank. The relevance of specific factors will vary based on the individual position and will include such items as compliance with internal policies, accepted business practices and regulatory requirements; observed leadership and

administrative abilities; the level of technical competence demonstrated in carrying out the responsibilities of the position; and the ability to plan and respond to changing circumstances. Quantitative goals are not established for these factors in the determination of base compensation; however, such goals are to be used in the determination of incentive compensation where applicable. The goals and objectives as outlined in the Bank's strategic business plan shall also be a factor in the measurement of individual performance.

Incentive Compensation

A program of incentive compensation has been established to reward those officers who provide a level of performance for the Bank which warrants recognition in the form of compensation above base compensation amounts.

On an annual basis, the Board of Directors shall award incentive compensation to those individual executive officers for which such compensation is considered appropriate. The Board is not required to authorize incentive compensation to eligible executive officers even if all guidelines are met, if in the Board's discretion, the officer's performance does not warrant such award. The Board shall follow the guidelines listed below as a basis for its decision to award such incentive compensation.

Guidelines for Incentive Compensation

1. The Bank must, at fiscal year end, have a level of capital which is at least 125% of the regulatory minimum for each of the capital requirements.
2. The Bank's return on average assets must be at least equal to 1.00%. In the event that an acquisition, or other significant non-routine occurrence, were to cause this requirement not to be met, the Board is authorized to exercise discretion in the award of incentive compensation, provided that all other requirements have been met. For purposes of determining compliance with this requirement, net non-operating income shall not account for greater than 25% of total income.
3. The Bank's return on average equity must be at least equal to 9.00%. For purposes of determining compliance with this guideline, return on equity shall be determined based either on an assumed capitalization of the Bank at 8.00% of average assets, or on actual capitalization if less than 8.00%. Also for purposes of this guideline, earnings shall be reduced by the assumed earnings on capital in excess of 8.00% (net of tax, and based on the average earning asset yield for the period) and shall be increased by the amount of any amortization of goodwill.

In the event that an acquisition, or other significant non-routine occurrence, were to cause this requirement not to be met, the Board is authorized to exercise discretion in the award of incentive compensation, provided that all other requirements have been met. For purposes of determining compliance with this requirement, net non-operating income shall not account for greater than 25% of total income.
4. The Bank's ratio of classified assets to tangible capital must not exceed 35%. Classified assets are defined as those assets classified, under current policies and regulations, as substandard and doubtful as reported on the appropriate lines of the quarterly thrift financial report.

5. The Bank's interest rate risk exposure, as determined quarterly by the Office of Thrift Supervision and based on Thrift Bulletin No. 13 guidelines for the measurement of interest rate risk exposure, must not allow the Bank's capital position to fall below minimum capital requirements.
6. The composite CAMEL rating, as reported to the Bank by the Office of Thrift Supervision, reflects the regulatory perception of the institution's overall strength and compliance with regulatory requirements. As such, a CAMEL rating of 1 or 2 is considered acceptable to allow consideration of incentive compensation.
7. Prior to the approval of any incentive compensation, the Board shall have reviewed all independent audit reports, Office of Thrift Supervision reports of examination, Federal Deposit Insurance Corporation reports of examination and any relevant documents related to such audits and examinations which have occurred during the period for which the incentive compensation is considered. The Board's review of those documents should be directed toward a determination of management's safe and sound implementation and compliance with policies and procedures, and the frequency and significance of any violation of law or regulation.

As part of the documentation in support of awarding incentive compensation, the Board shall include its summary conclusions in regard to the review of these reports.

Amount of Incentive Compensation

If the foregoing criteria have been met and individual performance is considered to warrant, the following schedule shall be used to determine the allowable incentive compensation to be paid to executive officers.

If Return on Average Equity Equals or Exceeds: -----	Incentive Compensation Award as a % of Base Compensation -----	
	Cash ----	Stock Options -----
9.00 %	10%	-
9.25%	11%	-
9.50%	12%	-
9.75%	14%	-
10.00%	16%	10%
10.25%	18%	12%
10.50%	20%	14%
10.75%	22%	16%
11.00%	24%	18%
11.25%	26%	20%
11.50%	28%	20%
11.75%	30%	20%
12.00%	32%	20%

In the event that return on average equity exceeds 12.25%, incentive compensation awards shall be determined at the discretion of the Board of Directors, with the cash award not to exceed 50% of the individual executive officer's base compensation.

The award of stock options under this plan is subject to the approval of such awards by the First Midwest Financial, Inc. Stock Option Committee, and is dependent on the availability of such stock options. In the event that stock options are not available in amounts sufficient to meet total awards, the available stock options will be awarded on a pro-rata basis to recipients. The number of stock options to be awarded shall be determined by taking the indicated percentage times base compensation, divided by a fixed price of \$6.6667 per share, such fixed price to be adjusted for any subsequent change in outstanding shares by reason of reorganization, recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation or any change in corporate structure. The exercise price of stock options awarded under this plan shall be the closing average bid/ask market price on the effective date of grant.

Review and Authorization

The executive officer compensation program shall be reviewed by the Board of Directors on an annual basis and will be revised as considered necessary. The minutes of the meeting of the Board shall reflect the review and the nature of any revisions.

Authorization for changes in base compensation and the payment of incentive compensation shall be documented in the minutes of the meeting at which the Board makes such authorization. Information used in support of such authorization shall be made a part of the board minutes.

Appendix A

Schedule of Base Compensation Ranges Executive Officer Positions

Position -----	Minimum -----	Midpoint -----	Maximum -----
Chairman of the Board, President & CEO	\$138,400	\$173,000	\$207,600
Executive Vice President, Secretary & COO	\$120,800	\$151,000	\$181,200
Senior Vice President, Treasurer & CFO	\$ 84,800	\$106,000	\$127,200

Exhibit 1

[INTENTIONALLY OMITTED]

Exhibit 2

[INTENTIONALLY OMITTED]

FIRST MIDWEST FINANCIAL, INC.

Executive Officer Incentive Stock Option Plan for Mergers and Acquisitions

Statement of Policy

It is the policy of First Midwest Financial, Inc. (the "Company") to maintain a program by which the executive officers of the Company are awarded incentive stock options in accordance with the Company's long-term objective of growth through mergers and acquisitions. As such, the Company shall award incentive stock options to executive officers of the Company upon the consummation of mergers and acquisitions according to the criteria listed below.

Guidelines for Award of Incentive Stock Options

1. The award of incentive stock options shall be effective upon the closure of a merger or acquisition of a financial institution.
2. The recipient shall be immediately 100% vested as of the effective date of grant in the incentive stock options awarded under this plan .
3. The award of incentive stock options under this plan shall be subject to the availability of such stock options. In the event that stock options are not available in amounts sufficient to meet the total award under this plan, the available stock options will be awarded on a pro-rata basis to the recipients.
4. The exercise price of the incentive stock options awarded under this plan shall be the closing average bid/ask market price on the effective date of grant.
5. The total number of incentive stock options awarded under this plan shall be allocated as follows:

James S. Haahr	40%
To be determined by the Board of Directors	60%

Amount of Incentive Stock Options Awarded

Dollar Amount of Assets Acquired: -----	Total Number of Incentive Stock Options -----
Under \$100 million	22,500
\$100-\$150 million	30,000
\$150-\$200 million	37,500
\$200-\$250 million	45,000
\$250-\$300 million	52,500
\$300-\$400 million	60,000
\$400-\$500 million	67,500
Over \$500 million	75,000

EXHIBIT 13

ANNUAL REPORT TO STOCKHOLDERS

First Midwest Financial, Inc. is the holding company for First Federal Savings Bank of the Midwest and Security State Bank. First Federal Savings Bank has its main bank office in Storm Lake, Iowa, and six branch offices in a four-county area of Northwest Iowa. It also includes two Brookings Federal Bank Division offices in Brookings, South Dakota, and two Iowa Savings Bank Division offices in Des Moines and West Des Moines, Iowa. Security State Bank, with offices in Stuart, Casey and Menlo, Iowa, operates as a commercial bank chartered by the State of Iowa.

The Company's primary business is marketing financial deposit and loan products to meet the needs of its retail bank customers.

LaSalle St. Securities, Inc., Ameritas Investment Corporation, and Cross America, through contracts with First Services Financial Limited, a subsidiary of First Federal, offer discount brokerage service and noninsured investment products.

PrimeVest Investment Center, operating through Brookings Service Corporation, a subsidiary of First Services, offers full service brokerage and a wide range of noninsured investment products.

ANNUAL REPORT**Financial Highlights**

At September 30	1993	1994	1995	1996	1997
<hr/>					
	(Dollars in Thousands except Per Share Data)				
Total assets	\$160,827	\$274,115	\$264,213	\$388,008	\$404,589
Total loans	80,224	155,497	178,552	243,534	254,641
Total deposits	122,813	176,167	171,793	233,406	246,116
Stockholders' equity	33,438	34,683	38,013	43,210	43,477
Book value per common share(1)	\$ 11.21	\$ 12.46	\$ 14.13	\$ 14.81	\$ 16.11
Total equity to assets	20.79%	12.65%	14.39%	11.14%	10.75%
<hr/>					
For the Fiscal Year	1993	1994	1995	1996	1997
<hr/>					
	(Dollars in Thousands except Per Share Data)				
Net interest income	\$ 5,077	\$ 7,870	\$ 9,405	\$ 10,359	\$ 11,946
Net income	1,352	2,729	3,544	2,414(3)	3,642
Net income per share(1)	\$ 0.44(2)	\$ 0.91	\$ 1.33	\$ 0.89(3)	\$ 1.27
Net yield on interest-earning assets	3.21%	3.94%	3.63%	3.47%	3.38%
Return on average assets	.84%	1.29%	1.31%	.76%(3)	.98%
Return on average equity	7.10%	7.89%	9.86%	6.18%(3)	8.41%

[GRAPHIC-GRAPHS DEPICTING TOTAL ASSETS, NET INCOME, TOTAL DEPOSITS, NET INTEREST INCOME]

- (1) Amounts reported have been adjusted for the three for two stock split paid January 2, 1997 in the form of a 50 percent stock dividend.
- (2) Net income per share is based on the assumption that the weighted average shares outstanding at September 30, 1993, were outstanding the entire year.
- (3) Reflects the one-time industry wide special assessment to recapitalize the Savings Association Insurance Fund. Excluding the special assessment, Net income, Net income per share, Return on average assets, and Return on average equity would have been \$3,209,000, \$1.18, 1.01%, and 8.22%, respectively.

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Chairman's Letter -- To Our Stockholders

First Midwest Financial, Inc. has continued its growth trend since becoming a publicly traded company in 1993, and I am confident profitable growth will continue. September 30, 1993, assets were \$161 million compared to \$405 million at September 30, 1997. This represents an increase of more than 150 percent.

[GRAPHIC-PHOTO OF CHAIRMAN]

Our company reported net income of \$3,642,000, or \$1.27 per share, for the fiscal year ended September 30, 1997. During the fourth quarter 1997, net income was \$927,000, or \$.33 per share.

During fiscal 1996, First Midwest recognized a \$1,266,000 pre-tax charge as a result of federal legislation that required all institutions insured by the Savings Association Insurance Fund (SAIF) to pay a one-time special assessment to restore the SAIF to its statutory reserve level. The charge was \$795,000, or \$.29 per share on an after-tax basis. Excluding the special assessment, First Midwest's per share net income for the 1996 fiscal year and fourth quarter would have been \$1.18 and \$.30, respectively.

Retail operations provide the company with ample growth opportunities. Fiscal year 1997 earnings were enhanced by a 15 percent increase in net interest income. This was due in part to an \$11.1 million increase in our loan portfolio, and to an overall increase in the yield on interest-earning assets. The loan portfolio increase was primarily funded by a \$12.7 million increase in retail deposits.

First Midwest invested \$4.3 million in its own stock during the 1997 fiscal year; repurchasing shares at an average price of \$16.68. Since initiating the first stock repurchase program in 1994, our company has invested a total of \$7.9 million for shares that are worth over \$12 million today. These shares were repurchased at an average price of \$13.30 per share (adjusted for a stock dividend), thereby creating additional value for shareholders. On June 25, 1997, we announced our intention to repurchase an additional 5 percent of outstanding shares and, at fiscal year end, had 102,000 shares remaining to be repurchased under this program.

At September 30, 1997, assets were \$405 million, compared to \$388 million at the beginning of the fiscal year. At that date, stockholders' equity totaled \$43.5 million, or \$16.11 per common share outstanding. Both First Federal and Security State Bank significantly exceed their regulatory capital requirements.

A 33 percent increase in the company's quarterly cash dividend from 9 cents per share to 12 cents per share was announced on November 24, 1997. This dividend is payable on or about January 2, 1998 to stockholders of record on December 15, 1997. First Midwest is pleased to pay this increased cash dividend to its stockholders.

Our company maintains its niche as a super-community organization. Each division is committed to its local community, while benefiting from the financial strength and improved efficiencies of the holding company. This approach has proven to be an important strategy to maintain local identity and customer loyalty in a consolidating financial industry.

First Midwest is focused on consolidating administrative functions to improve employee efficiency. The first companywide promotion proved to be a tremendous success, surpassing expectations and providing substantial deposit growth. The notable First Midwest logo, highlighted on our cover, was introduced as the official emblem at each division. This is symbolic of the improved continuity across the company.

J. Tyler Haahr and Ellen E. H. Moore were welcomed as new members of the executive management team in March of 1997. Both join the company with strong educational backgrounds, practical business experience, and proven leadership skills. First Midwest has already benefited from their contributions.

Four key values were initiated in 1997 to provide focus for employees. These values are guiding individuals to "do the right things right" and are positively impacting the direction of our company. The values are as follows:

CUSTOMER SERVICE

Outstanding customer service is the foundation to our success. Properly meeting customers' financial needs and exceeding expectations contributes to our customers' satisfaction and to our success. We strive to:

- Listen carefully to customer needs.
- Know product features and benefits.
- Utilize selling skills to cross-sell products based on needs.
- Deliver competitive products and services.
- Clearly communicate intentions and expectations.
- Make it simple to work with us.
- Smile, work efficiently, and say "Thank you."

CONTINUOUS IMPROVEMENT

To succeed, we must embrace change in order to improve our effectiveness and efficiency. Quality is key.

We strive to:

- Assume ownership for improvement areas.
- Listen to all ideas and viewpoints.
- Learn from our successes and mistakes.
- Properly plan, fund, and staff projects.
- Focus on quality.
- Take pride in our work.
- Clearly communicate intentions and expectations.

GREAT WORK ENVIRONMENT Team work is instrumental to our success. We strive to:

- Be professional, open, and direct.
- Respect and trust each other.
- Recognize and reward accomplishments.
- Be an asset to the community.
- Have fun!

RESULTS

We are results and goal-oriented.

We strive to:

- Set challenging and competitive goals.
- Take action and track progress toward goals.
- Assume ownership -- make and meet commitments.
- Pay attention to detail.
- Be proactive problem solvers.

LOOKING AHEAD

The upcoming fiscal year promises to be an exciting one for First Midwest. Our company is seeking additional opportunities to acquire savings banks, commercial banks, and other related-service companies in our geographic area. Other capital management strategies, such as dividends and stock repurchases also will be considered. Each opportunity will be evaluated carefully. First Midwest is committed to increasing return on equity that will in turn, positively impact stockholder value.

In addition to capital management strategies, First Midwest is dedicated to consolidating administrative functions, utilizing technology to improve efficiencies, and meeting customers' ever-changing financial needs. Watch for our new web site and other technological advances coming in 1998.

In the retail environment, First Midwest's implementation of explicit product, pricing, promotion, and distribution strategies across its divisions has begun. The objective is to increase market share while enhancing the deposit base with lower costing money accounts. New product introductions, QUICKcard Cash & Check, Timeless Checking, and Automated Clearing House (ACH) origination fit into that strategic objective. These products, and others, will provide our customers with value-added product packages that meet their needs while differentiating us from the competition.

We are confident that our commitment to profitable, long-term growth will benefit you through increased stockholder value. We appreciate your support and look forward to an exciting and profitable 1998.

Sincerely,

/s/JAMES S. HAAHR

JAMES S. HAAHR
Chairman of the Board,
President & CEO
December 15, 1997

First Federal Savings Bank

The Storm Lake Division of First Federal Savings Bank of the Midwest has grown in profitability and efficiency since becoming a publicly traded company. Sharing best practices between bank divisions and implementing smart changes have positively impacted all divisions.

[GRAPHIC-PHOTO OF FIRST FEDERAL SAVINGS BANK]

First Federal Savings Bank of the Midwest, Main Bank Office, Fifth at Erie, Storm Lake, Iowa.

[GRAPHIC-PHOTO]	Fred A. Stevens
	President and Trust Officer
	Storm Lake Division of
	First Federal Savings
	Bank of the Midwest

ECONOMIC DATA

Average Land Value as of
September, 1997
High-quality farmland in
northwest Iowa: \$2,519 per acre

Building Permits 1996
Storm Lake
Residential -- \$4,003,946
Commercial -- \$3,843,377

Taxable Retail Sales 1996
Storm Lake -- \$111,123,460

Unemployment Rate
as of June, 1997
Buena Vista County -- 2.3%

First Federal's dedication to the company values has given employees a renewed focus on "doing the right things right" in their everyday work. Accountability has increased as employees utilize development plans focused on goals and performance relating to the company values. The First Federal team is committed to profitable growth and improved efficiency. The Main Bank Office houses many companywide administrative functions. Centralized account services, marketing, purchasing, computer systems, and other functions are improving internal and external customer service, enhancing communication, and reducing expenses. First Federal offers all types of loans, with an increased emphasis on consumer and agricultural lending. Financing for start-up and existing operations of any size is available. Home lending for purchase, new construction, refinancing, and home improvements provide a valuable cross-selling link to other bank products and services.

Timeless Checking's relationship banking focus establishes cross-selling opportunities for deposit customers. Savings products also are available to satisfy deposit customers' needs. This past year, the bank realized excellent deposit growth due to competitive pricing on both long-term and short-term certificates of deposit.

The Retirement and Trust Department provides customers with money-saving opportunities for their retirement dollars. A full range of investment choices is available for Individual Retirement Accounts (IRAs), Simplified Employee Pension Plans (SEPPs), and Keogh (KEO) plans.

The bank understands customers' needs to invest in non-traditional bank products. LaSalle St. Securities, Inc., Ameritas Investment Corporation, and Cross America, through contracts with First Services Financial Limited, a subsidiary of First Federal, offer alternative investment products and discount brokerage services to satisfy customer needs. These products are not FDIC-insured, nor guaranteed by First Federal or any affiliates.

DIRECTORS OF FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

JAMES S. HAAHR

Chairman of the Board, President & CEO for First Midwest Financial, Inc., and First Federal Savings Bank of the Midwest

J. TYLER HAAHR

Senior Vice President, Secretary & COO for First Midwest Financial, Inc. and Executive Vice President, Secretary & COO for First Federal Savings Bank of the Midwest

E. WAYNE COOLEY

Executive Secretary, Iowa Girls' High School Athletic Union, Des Moines, Iowa

E. THURMAN GASKILL

Owner, Grain Farming Operation
Corwith, Iowa

G. Mark Mickelson

Vice President of Acquisitions, Northwestern Growth Corporation, Sioux Falls, South Dakota

RODNEY G. MULENBURG

Dairy Specialist, Sioux City Division Purina Mills, Inc., Storm Lake, Iowa

Brookings Federal Bank
[GRAPHIC-Photo of Brookings Federal Bank] Brookings Federal Bank, Main Office, 600 Main Avenue, Brookings, South Dakota

Brookings Federal Bank, a Division of First Federal Savings Bank of the Midwest since 1994, recognized its most profitable year in history. Contributing greatly to First Midwest's earnings, Brookings Federal is a leader in both lending and savings products.

[GRAPHIC - PHOTO]

James C. Winterboer
President
Brookings Federal Bank
Division of First Federal
Savings Bank of the
Midwest

ECONOMIC DATA

Average Land Value as of
September, 1997
High-productivity, non-irrigated cropland in east-central
South Dakota: \$930 per acre
(as of February, 1997)

Building Permits 1996
Brookings
Residential -- \$5,488,640
Commercial -- \$5,555,650

Taxable Retail Sales 1996 Brookings -- \$144,939,780

Unemployment Rate as of June, 1997 Brookings -- 1.7%

Agricultural lending significantly impacted the division's overall loan portfolio growth in 1997. A focused marketing approach, competitive loan structuring, and an experienced team of lending professionals provide the groundwork for agricultural growth. Consumer and mortgage lending also prove to be expanding areas for Brookings Federal. With loan discounts tied to Timeless Checking accounts, cross-selling is a successful component of relationship banking. Various types of mortgage loans are available to customers, including construction loans, Federal National Mortgage Association fixed-rate mortgages, and adjustable-rate mortgages. Brookings Federal is involved with special assistance lending and can provide first-time home buyers and low-income borrowers with a low-interest South Dakota Housing Development Authority loan. Since its introduction in 1993, Timeless Checking has significantly increased Brookings Federal's checking deposits. Because of this growth and the accounts' ability to provide packaged value and brand recognition to customers, all divisions under First Midwest Financial, Inc. introduced Timeless Checking this fall. The QUICKcard Cash & Check is a complementary product of Timeless Checking.

Brookings Federal is finalizing plans to remodel its main office and expand branch hours to provide better service to its customers. In addition to updated facilities, customers will appreciate a new automated teller machine and future product introductions. "This is an exciting time for us," states President Jim Winterboer. "We continue to embrace change and search for opportunities to better serve our customers." As well as offering traditional banking services, Brookings Service Corporation provides customers with a wide range of alternative investing opportunities. PrimeVest Investment Center, operating through Brookings Service Corporation (a subsidiary of First Services Financial Limited), teams with Brookings Federal Bank to support customers' expanding financial needs. These products are not FDIC insured nor guaranteed by First Federal or any affiliates.

BROOKINGS FEDERAL BANK ADVISORY BOARD

O. DALE LARSON

Chairman of the Advisory Board
Owner, Larson Manufacturing

FRED J. RITTERSHAUS

Vice Chairman of the Advisory Board Consulting Engineer and Partner,
Banner and Associates, Inc.

VIRGIL G. ELLERBRUCH

Assistant Dean of Engineering,
South Dakota State University

J. TYLER HAAHR

Senior Vice President, Secretary & COO for First Midwest Financial, Inc. and Executive Vice President, Secretary & COO for First Federal Savings Bank of the Midwest

Earl R. Rue

Consulting Manager, Running Fleet and Farm

JAMES C. WINTERBOER

President, Brookings Federal Bank

Iowa Savings Bank

[GRAPHIC-PHOTO]

Iowa Savings Bank, Main Office, 3448 Westown Parkway, West Des Moines, Iowa

[GRAPHIC-PHOTO]

Iowa Savings Bank, Highland Park Office, 3624 Sixth Avenue, Des Moines, Iowa

Iowa Savings Bank, a Division of First Federal Savings Bank of the Midwest since 1995, opened its second location in the expanding West Des Moines area. Remodeled, professionally landscaped, and strategically situated on a high-traffic corner across from a major mall, the newest office has attracted a significant number of new customers since opening in March, 1997. New products and services help distinguish Iowa Savings Bank from nearby competitors, while a characteristic blue roof promises to become a recognizable landmark in the area.

[GRAPHIC-PHOTO]

Jeanne Partlow
President

Iowa Savings Bank Division
of First Federal Savings
Bank of the Midwest

ECONOMIC DATA

Average Land Value as of
September, 1997

High-quality farmland in central Iowa: \$2,724 per acre

Building Permits 1996 Greater Des Moines Residential -- \$233,257,396 Commercial -- \$5,555,650

Taxable Retail Sales 1996 Greater Des Moines -- \$3,844,208,882

Unemployment Rate as of June, 1997 Polk County -- 2.5%

The original Iowa Savings Bank office, located in the historic Highland Park area of Des Moines since 1925, continues as an established, growing branch. Loyal Des Moines and West Des Moines customers are pleased to have the convenience two locations provide. Iowa Savings Bank made a significant contribution to First Midwest's deposit growth this past year. During the first companywide certificate of deposit "Summer CD Celebra-tion" promotion, Iowa Savings Bank produced several million dollars in new money toward deposit growth. This gain in deposits allowed for an increase in First Midwest's loan portfolio.

Established savings and single-family home loan products provide the bank with a solid foundation of financial service offerings. The Iowa Savings Bank team is breaking new ground with Timeless Checking Clubs, the QUICKcard Cash & Check, consumer loans, residential loans, and commercial loans. Cross-selling efforts are the key to developing broader-based financial relationships with existing customers, and to offering new customers more product and service options.

Alternative investments are now available to Iowa Savings Bank customers who seek non-traditional bank products. Ameritas Investment Corporation and Cross America, through contracts with First Services Financial Limited, a subsidiary of First Federal Savings Bank of the Midwest, offer alternative investment products and discount brokerage services. These products are not FDIC-insured, nor guaranteed by First Federal or any affiliates.

A successful grand opening event in the fall of 1997 helped position Iowa Savings Bank as a notable competitor in the Des Moines and West Des Moines markets. Improved product structure, aggressive pricing, and increased promotion will enable Iowa Savings Bank to achieve its challenging growth and profitability goals in the next fiscal year.

Security State Bank

Security State Bank, a Subsidiary of First Midwest Financial, Inc. since September 30, 1996, provides the company with the benefits of being a commercial bank, chartered by the State of Iowa. First Midwest has capitalized on the charter differences to increase profitability of the company and increase stockholder value.

[GRAPHIC-PHOTO]

Security State Bank, Main Office, 615 South Division
Street, Stuart, Iowa

ECONOMIC DATA

Average Land Value as of
September, 1997
High-quality farmland in west-
central Iowa: \$2,611 per acre

Building Permits 1996
Stuart
Residential -- N/A
Commercial -- N/A

Taxable Retail Sales 1996
Stuart -- \$7,736,939

Unemployment Rate
as of June, 1997
Guthrie County -- 2.8%

Security State Bank has locations in Stuart, Casey, and Menlo -- a growing consumer population located just west of Des Moines. The new Stuart office is strategically placed near a growing interstate exit commercial area, while the Casey and Menlo offices remain in well-established main street locations.

Security State Bank is reliant on agriculture and agricultural business. A successful 1997 harvest season promises to positively impact the local economy and this division. Agricultural lending continues to expand the bank's loan portfolio as loyal customers appreciate the well-structured loans and knowledge provided by Security State Bank's lending professionals. Borrowers typically use variable rate revolving lines of credit to assist in managing their farming or agri-business operations. This loan product has been well received by customers over the past few years and is geared toward seasonal borrowing that is normal in agricultural lending.

To better balance total portfolio risk, Security State Bank has increased its commitment to commercial, consumer, and real estate lending. This past fiscal year, the bank's lending in these areas has increased as a percentage of total business. This growth is expected to continue as the division remains focused on increasing market share and improving earnings.

Security State Bank offers a full line of bank deposit products. Beginning in the fall of 1997, the bank expanded its free and tiered interest checking account offerings to include "Better Than Free" Timeless Checking. The bank utilizes its numerous automated teller machines to promote the new complementary QUICKcard Cash & Check, which provides more convenience and service to customers.

DIRECTORS OF SECURITY STATE BANK

JAMES S. HAAHR

Chairman of the Board, President & CEO for First Midwest Financial, Inc., and First Federal Savings Bank of the Midwest

JEFFREY N. BUMP

Partner, Bump and Bump Law Offices
Stuart and Panora, Iowa

E. WAYNE COOLEY

Executive Secretary, Iowa Girls' High School Athletic Union, Des Moines, Iowa

E. THURMAN GASKILL

Owner, Grain Farming Operation
Corwith, Iowa

J. TYLER HAAHR

Senior Vice President, Secretary & COO for First Midwest Financial, Inc. and Executive Vice President, Secretary & COO for First Federal Savings Bank of the Midwest

RODNEY G. MUILENBURG

Dairy Specialist, Sioux City Division Purina Mills, Inc., Storm Lake, Iowa

Bank Locations

[GRAPHIC-MAP SHOWING BANK LOCATIONS]

First Federal Savings Bank of the Midwest Office Locations

STORM LAKE

DIVISION

Main Bank Office

Fifth at Erie

P.O. Box 1307

Storm Lake, Iowa 50588

712-732-4117

800-792-6815

Storm Lake Plaza Office

1415 North Lake Avenue

Storm Lake, Iowa 50588

712-732-6655

Lake View Office

Fifth at Main

Lake View, Iowa 51450

712-657-2721

Laurens Office

104 North Third Street

Laurens, Iowa 50554

712-845-2588

Manson Office

Eleventh at Main

Manson, Iowa 50563

712-469-3319

Odebolt Office

219 South Main Street

Odebolt, Iowa 51458

712-668-4881

Sac City Office

518 Audubon Street

Sac City, Iowa 50583

712-662-7195

BROOKINGS FEDERAL

BANK DIVISION

Main Office 600 Main Avenue

Brookings, South Dakota 57006

605-692-2314

800-842-7452

Eastbrook Office

425 22nd Avenue South

Brookings, South Dakota 57006

605-692-2314

**IOWA SAVINGS
BANK DIVISION**

Main Office
3448 Westown Parkway
West Des Moines, Iowa 50266
515-226-8474

Highland Park Office
3624 Sixth Avenue
Des Moines, Iowa 50313
515-288-4866

**Security State Bank
Office Locations**

Main Office
615 South Division
P.O. Box 606
Stuart, Iowa 50250
515-523-2203
800-523-8003

Casey Office
101 East Logan
P.O. Box 97
Casey, Iowa 50048
515-746-3366
800-746-3367

Menlo Office
501 Sherman
P.O. Box 36
Menlo, Iowa 50164
515-524-4521

Financial Contents

Selected Consolidated Financial
Information

Management's Discussion and
Analysis

Report of Independent
Auditors

Consolidated Balance Sheets
at September 30, 1997 and
1996

Consolidated Statements of Income
for the Years Ended September 30, 1997,
1996 and 1995

Consolidated Statements of Changes in
Shareholders' Equity for the Years Ended September 30, 1997, 1996 and 1995

Consolidated Statements of Cash Flows
for the Years Ended September 30, 1997,
1996 and 1995

Notes to Consolidated
Financial Statements

First Midwest Financial, Inc. and Subsidiaries

SELECTED CONSOLIDATED FINANCIAL INFORMATION

September 30, (In Thousands)	1997	1996	1995	1994	1993
Selected Financial Condition Data:					
Total assets	\$ 404,589	\$ 388,008	\$ 264,213	\$ 274,115	\$ 160,827
Loans receivable, net	254,641	243,534	178,552	155,497	80,224
Securities available for sale	115,985	109,492	70,232	37,180	20
Securities held to maturity	--	--	--	65,917	56,085
Excess of cost over net assets acquired, net	4,863	5,091	1,690	1,815	--
Deposits	246,116	233,406	171,793	176,167	122,813
Total borrowings	112,126	106,478	52,248	61,218	3,115
Shareholders' equity	43,477	43,210	38,013	34,683	33,438
Year Ended September 30,	1997	1996	1995	1994	1993
(In Thousands, Except Per Share Data)					
Selected Operations Data:					
Total interest income	\$ 29,005	\$ 24,337	\$ 21,054	\$ 15,153	\$ 11,586
Total interest expense	17,059	13,978	11,649	7,283	6,509

Net interest income	11,946	10,359	9,405	7,870	5,077
Provision for loan losses	120	100	250	105	225

Net interest income after provision for loan losses .	11,826	10,259	9,155	7,765	4,852
Total noninterest income	1,700	1,419	2,286	1,078	1,555
Total noninterest expense	7,382	7,568(3)	5,576	4,938	3,725

Income before income taxes, extraordinary items and cumulative effect of changes in accounting principles	6,144	4,110	5,865	3,905	2,682
Income tax expense	2,502	1,696	2,321	1,433	1,045
Extraordinary items-- net of taxes	--	--	--	--	(285)
Cumulative effect of changes in accounting principles	--	--	--	257	--

Net income	\$ 3,642	\$ 2,414(3)	\$ 3,544	\$ 2,729	\$ 1,352
=====					
Earnings per share (fully diluted):					
Income before extraordinary items and cumulative effect of changes in accounting principles(1)	\$ 1.27	\$ 0.89(3)	\$ 1.33	\$ 0.83	\$ 0.53
Net income(1)	\$ 1.27	\$ 0.89(3)	\$ 1.33	\$ 0.91	\$ 0.44

Year Ended September 30, Selected Financial Ratios and Other Data:	1997	1996	1995	1994	1993
Performance Ratios:					
Return on assets (ratio of net income to average total assets)(2)	0.98%	0.76%(3)	1.31%	1.29%	0.84%
Return on shareholders' equity (ratio of net income to average equity)(2)	8.41	6.18(3)	9.86	7.89	7.10
Interest rate spread information:					
Average during year	2.90	2.88	3.13	3.25	2.69
End of year	2.75	2.84	2.85	2.96	2.88
Net yield on average interest-earning assets	3.38	3.47	3.63	3.94	3.21
Ratio of operating expense to average total assets ..	2.00	2.40	2.06	2.30	2.31
Quality Ratios:					
Non-performing assets to total assets at end of year	.75	.70	.29	.34	.78
Allowance for loan losses to non-performing loans ...	78.49	89.04	227.21	148.51	65.42
Capital Ratios:					
Shareholders' equity to total assets at end of period	10.75	11.14	14.39	12.65	20.79
Average shareholders' equity to average assets	11.63	12.45	13.28	20.52	11.83
Ratio of average interest-earning assets to average interest-bearing liabilities	109.96%	112.58%	111.35%	119.04%	112.69%
Other Data:					
Book value per common share outstanding(1)	\$ 16.11	\$ 14.81	\$ 14.13	\$ 12.46	\$ 11.21
Dividends declared per share(1)	0.36	0.29	0.20	--	--
Dividend payout ratio	26.41%	30.90%	14.53%	--	--
Number of full-service offices	13	12	8	8	7

(1) Amounts reported have been adjusted for the three for two stock split paid January 2, 1997 in the form of a 50% stock dividend.

(2) Return on assets and return on equity for fiscal year 1994 is 1.17% and 7.54%, respectively, excluding the cumulative effects of changes in accounting principles.

(3) Reflects the one-time industry-wide special assessment to recapitalize the Savings Association Insurance Fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General

First Midwest Financial, Inc. (the "Company" or "First Midwest") is a bank holding company whose primary assets 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. All references to the Company prior to September 20, 1993, except where otherwise indicated, are to First Federal and its subsidiary on a consolidated basis.

The Company focuses on establishing and maintaining long-term relationships with customers, and is committed to serving the financial services needs of the communities in its market area. The Company's primary market area includes the counties of Adair, Buena Vista, Calhoun, Ida, Guthrie, Pocahontas, Polk and Sac located in Iowa, and Brookings county 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.

Acquisitions Completed

On September 30, 1996, First Midwest completed the acquisition of Central West Bancorporation ("Central West"), and its wholly-owned subsidiary, Security State Bank located in Stuart, Iowa. Upon acquisition, Central West was merged into First Midwest, and Security became a wholly-owned stand-alone subsidiary of First Midwest. Security operates offices in Stuart, Menlo and Casey, Iowa. At the date of acquisition, Central West had assets of approximately \$33 million and equity of \$2.6 million. Central West shareholders received cash of \$18.04 and 2.3528 shares of the common stock of First Midwest for each Central West share held, totaling an aggregate consideration of approximately \$5.2 million. The acquisition was accounted for as a purchase, and the accompanying consolidated financial statements reflect the combined results since the date of acquisition. The excess of cost over the estimated fair value of the assets acquired and liabilities assumed, totaling approximately \$2.8 million, is being amortized over a fifteen year period (see Notes 1 and 2 to the Consolidated Financial Statements). On December 29, 1995, First Midwest completed the acquisition of Iowa Bancorp, Inc. ("Iowa Bancorp"), and its wholly-owned subsidiary, Iowa Savings Bank, a federal savings bank, ("Iowa Savings") located in Des Moines, Iowa. Upon acquisition, Iowa Bancorp was merged into the Company and Iowa Savings was merged into First Federal. The two Iowa Savings offices operate as the Iowa Savings Bank Division of First Federal Savings Bank of the Midwest. At the date of acquisition, Iowa Bancorp had assets of approximately \$25 million and equity of \$7.2 million. The Company purchased all of Iowa Bancorp's 379,980 outstanding

shares and 36,537 shares subject to option for a cash payment of \$20.39 per share less the exercise price of shares subject to option, for a total net purchase price of \$8.0 million. The acquisition was accounted for as a purchase, and the accompanying consolidated financial statements reflect the combined results since the date of acquisition. The excess of cost over the estimated fair value of the assets acquired and liabilities assumed, totaling approximately \$760,000, is being amortized over a fifteen year period (see Notes 1 and 2 to the Consolidated Financial Statements).

On March 28, 1994, the Company acquired Community Financial Systems, Inc. ("Community") and its wholly-owned subsidiary, Brookings Federal Bank, a federal savings bank, ("Brookings Federal") located in Brookings, South Dakota. Upon acquisition, Community was merged into First Midwest and Brookings Federal was merged into First Federal. The Company paid a cash price of \$31.38 per share to acquire all of the 333,513 shares of Community's outstanding common stock, for a total purchase price of approximately \$10.5 million. At the date of acquisition, Brookings Federal had assets of approximately \$69 million and deposits of approximately \$57 million. The two offices of Brookings Federal operate as the Brookings Federal Bank Division of First Federal Savings Bank of the Midwest. The acquisition was accounted for as a purchase and, accordingly, the accompanying consolidated financial statements reflect the combined operating results since the date of acquisition. The excess of cost over the estimated fair value of the assets acquired and liabilities assumed, totaling approximately \$1.8 million, is being amortized over a fifteen year period (see Notes 1 and 2 to the Consolidated Financial Statements).

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, 1997 were \$404.6 million, an increase of \$16.6 million, or 4.3%, from \$388.0 million at September 30, 1996. The increase in assets was due primarily to the increased origination and purchase of loans, and to the purchase of mortgage-backed securities during the period.

The Company's portfolio of securities available-for-sale, excluding mortgage-backed securities, decreased \$2.3 million, or 3.2%, to \$71.6 million at September 30, 1997 from \$73.9 million at September 30, 1996. The decrease in securities available for sale was the result of securities purchased in an amount somewhat less than the amount of securities that matured or were called and sold during the period.

The balance in mortgage-backed securities available-for-sale increased by \$8.8 million, or 24.8%, from \$35.6 million at September 30, 1996, to \$44.4 million at September 30, 1997. The increase resulted from the purchase of fixed-rate mortgage-backed securities in an amount greater than repayments on existing mortgage-backed securities. The purchase of mortgage-backed securities were generally funded by fixed-rate borrowings from the Federal Home Loan Bank of Des Moines.

The Company's net portfolio of loans receivable increased by \$11.1 million, or 4.6%, to \$254.6 million at September 30, 1997 from \$243.5 million at September 30, 1996. The increase in net loans receivable was due to increased origination of consumer loans, commercial business loans and agricultural related loans, and to increased purchases of commercial and multi-family construction loans. Residential and commercial real estate loan balances declined as a result of significant early repayments received during the period that exceeded originations and purchases of these types of loans.

The balance of customer deposits increased by \$12.7 million, or 5.4%, from \$233.4 million at September 30, 1996 to \$246.1 million at September 30, 1997. The increase in deposits resulted from management's continued efforts to monitor and enhance deposit product design and marketing programs.

The Company's borrowings from the Federal Home Loan Bank of Des Moines increased by \$5.1 million, from \$102.3 million at September 30, 1996 to \$107.4 million at September 30, 1997. The increased borrowings were used primarily in the purchase of securities, including mortgage-backed securities, and to fund growth of the Company's loan portfolio.

Stockholders' equity increased \$267,000, or 0.6%, to \$43.5 million at September 30, 1997 from \$43.2 million at September 30, 1996. The increase is the result of net earnings for the period, which were mostly offset by the effect of stock repurchases and the payment of cash dividends on common stock.

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, noninterest income and the Company's ability to manage operating expenses. Net interest income is a function of 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 noninterest income consists primarily of fees charged on transaction accounts and for the origination of loans, both of which help to offset the costs associated with establishing and maintaining these deposit and loan accounts. In addition, noninterest income is derived from the activities of First Federal's wholly-owned subsidiaries, First Services Financial, Limited, and Brookings Service Corporation, which engage in the sale of various non-insured investment products. Historically, the Company has not derived significant income as a result of gains on the sale of securities and other assets. However, during the year ended September 30, 1995, a \$1.1 million gain was recorded as a result of the sale of mortgage-backed securities.

On September 30, 1996, federal legislation was signed into law requiring that all thrift institutions pay a one-time assessment to restore the Savings Association Insurance Fund ("SAIF") to its statutory reserve level of at least 1.25% of insured depositor accounts. The assessment was 0.657% of First Federal's insured deposits as of March 31, 1995, including those held by Iowa Savings at that date. As a result of the special assessment, the Company recognized a pre-tax charge of \$1.27 million, or \$795,000 net of related income taxes, as of the September 30, 1996 effective date of the legislation. As of January 1, 1997, the legislation reduced First Federal's annual deposit insurance premium from 0.23% to 0.064% of insured deposits, which includes a payment to finance FICO bonds.

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,	1997	1996	1995
Weighted Average Yield On:			
Loans receivable	8.84%	8.74%	8.58%
Mortgage-backed securities	7.34	7.06	7.97
Securities available for sale	6.63	5.99	6.79
Other interest-earning assets	5.57	5.04	5.44
Combined weighted average yield on interest-earning assets	8.12	7.87	8.13
Weighted Average Rate Paid On:			
Demand, NOW deposits and Money Market	2.11	2.35	2.55
Savings deposits	3.65	3.22	3.00
Time deposits	5.87	5.78	5.80
FHLB advances	5.86	5.81	6.14
Other borrowed money	5.64	5.48	5.75
Combined weighted average rate paid on interest-bearing liabilities	5.37	5.03	5.28
Spread	2.75%	2.84%	2.85%

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase related to higher outstanding balances and that due to the levels and volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to

(i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

Year Ended September 30,	Increase (Decrease) Due to Volume	1997 VS. 1996 Increase (Decrease) Due to Rate	Total Increase (Decrease)	Increase (Decrease) Due to Volume	1996 VS. 1995 Increase (Decrease) Due to Rate	Total Increase (Decrease)
(In Thousands)						
Interest-Earning Assets:						
Loans receivable	\$ 3,700	\$ 166	\$ 3,866	\$ 4,170	\$ 629	\$ 4,799
Mortgage-backed securities ..	(115)	(65)	(180)	(1,251)	(133)	(1,384)
Securities available for sale	836	93	929	500	(695)	(195)
FHLB stock	63	(10)	53	66	(3)	63
Total interest-earning assets	\$ 4,484	\$ 184	\$ 4,668	\$ 3,485	\$ (202)	\$ 3,283
Interest-Bearing Liabilities:						
Demand and NOW deposits	\$ 151	\$ 3	\$ 154	\$ (41)	\$ (34)	\$ (75)
Savings deposits	140	(36)	104	121	4	125
Time deposits	1,825	134	1,959	953	518	1,471
FHLB advances	688	111	799	732	11	743
Other borrowed money	80	(16)	64	60	6	66
Total interest-bearing liabilities	\$ 2,884	\$ 196	\$ 3,080	\$ 1,825	\$ 505	\$ 2,330
Net effect on net interest income	\$ 1,600	\$ (12)	\$ 1,588	\$ 1,660	\$ (707)	\$ 953
	=====	=====	=====	=====	=====	=====

Average Balances, Interest Rates and Yields The following table presents for the periods indicated the total dollar amount of interest earned from average interest-earning assets and the resultant yields, as well as the dollar amount of interest paid on average interest-bearing liabilities and the resultant rates. No tax equivalent adjustments have been made. All average balances are quarterly average balances. Non-accruing loans have been included in the table as loans carrying a zero yield.

Year Ended September 30,	1997			1996			1995		
	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate
	-----	-----	-----	-----	-----	-----	-----	-----	-----
	(Dollars in Thousands)								
Interest Earning Assets:									
Loans receivable(1)	\$249,076	\$ 22,433	9.01%	\$207,983	\$18,567	8.93%	\$161,243	\$ 13,768	8.54%
Mortgage-backed securities	32,618	2,341	7.18	34,213	2,521	7.37	51,157	3,905	7.63
Securities available for sale	65,843	3,845	5.84	51,494	2,916	5.66	42,674	3,111	7.29
FHLB stock	5,546	386	6.96	4,644	333	7.17	3,720	270	7.26
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total interest-earning assets	\$353,083	\$ 29,005	8.21%	\$298,334	\$24,337	8.16%	\$258,794	\$ 21,054	8.14%
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Interest-Bearing Liabilities:									
Demand and NOW deposits	\$ 36,017	\$ 815	2.26%	\$ 29,377	\$ 661	2.25%	\$ 31,139	\$ 736	2.36%
Savings deposits	20,538	506	2.46	14,906	402	2.70	10,431	277	2.66
Time deposits	180,088	10,662	5.92	149,247	8,703	5.83	132,856	7,232	5.44
FHLB advances	80,685	4,886	6.06	69,265	4,087	5.90	56,820	3,344	5.88
Other borrowed money	3,786	90	5.02	2,198	126	5.73	1,159	60	5.18
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total interest-bearing liabilities	\$321,114	\$ 17,059	5.31%	\$264,993	\$13,979	5.28%	\$232,405	\$ 11,649	5.01%
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Net interest-earning assets	\$ 31,969			\$ 33,341			\$ 26,389		
	=====			=====			=====		
Net interest income		\$ 11,946			\$10,358			\$ 9,405	
		=====			=====			=====	
Net interest rate spread			2.90%			2.88%			3.13%
			=====			=====			=====
Net yield on average interest-earning assets			3.38%			3.47%			3.63%
			=====			=====			=====
Average interest-earning assets to average interest-bearing liabilities	109.96%			112.58%			111.35%		
	=====			=====			=====		

(1) Calculated net of deferred loan fees, loan discounts, loans in process and loss reserves.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND SEPTEMBER 30, 1996

General

Net income for the year ended September 30, 1997 increased \$1.23 million, or 50.9%, to \$3.64 million, from \$2.41 million for the same period in 1996. The increase in net income reflects increases in net interest income and noninterest income. Previous year net income reflects the one-time special assessment to recapitalize SAIF, which reduced net income by \$795,000, net of income taxes. Net income for the year ended September 30, 1997 compared to the same period in 1996, without the SAIF assessment, increased \$433,000, or 13.5%

Net Interest Income

The Company's net interest income for the year ended September 30, 1997 increased by \$1.59 million, or 15.3%, to \$11.95 million compared to \$10.36 million for the same period in 1996. The increase in net interest income reflects an overall increase in average net interest-earning assets during the period resulting from the acquisition of Central West at September 30, 1996, and internal increases in the portfolio of loans and securities. The net yield on average interest-earning assets decreased to 3.38% for the period ended September 30, 1997 from 3.47% for the same period in 1996. The decrease in net yield is due primarily to a decline in net average interest-earning assets resulting from an increase in the average balance of non-accruing loans during the 1997 period.

During recent years, the Company has increased its origination and purchase of multi-family and commercial real estate loans, including construction loans on such property types, and has increased its origination of consumer, commercial business and agricultural business loans. The Company anticipates activity in this type of lending to continue in future years. Net interest income is expected to continue to trend upward as a result of this lending activity as interest rate yields are generally higher on this type of loan product compared to yields provided by conventional single-family residential real estate loans. 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.

Interest Income

Interest income for the year ended September 30, 1997 increased \$4.67 million, or 19.2%, to \$29.00 million from \$24.34 million for the same period in 1996. The increase was primarily due to a \$3.87 million increase in interest earned on the loan portfolio, to \$22.43 million for the year ended September 30, 1997, from \$18.57 million in fiscal 1996. The increase in loan interest income resulted from higher average loan portfolio balances due to internal growth of the loan portfolio and the acquisition of Central West and, to a lesser extent, to a higher average yield on the loan portfolio during the period.

Interest Expense

Interest expense increased \$3.08 million, or 22.0%, to \$17.06 million for the period ended September 30, 1997 from \$13.98 million for the same period in 1996. The increase in interest expense is due to increases in the average outstanding balance of time deposits and FHLB advances during the year ended September 30, 1997, compared to the same period in 1996. The increase in the average balance of time deposits resulted from internal growth of the deposit portfolio and the acquisition of Central West. The average outstanding balance of FHLB advances increased due to borrowing activity throughout the period used primarily to fund growth of the loan portfolio and the purchase of securities. To a lesser extent, the increase in interest expense reflects higher interest rates paid on interest-bearing liabilities during the year ended September 30, 1997, compared to the previous year.

Provision for Loan Losses

The provision for loan losses for the year ended September 30, 1997 was \$120,000 compared to \$100,000 for the same period in 1996. Management believes, based on review of historic loan losses, current economic conditions, and other factors, that the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate reserve against potential losses from the loan portfolio. 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 the regulatory agencies, which can require the establishment of additional general or specific allowances.

Noninterest Income

Noninterest income for the year ended September 30, 1997 increased \$281,000, or 19.8%, to \$1.70 million from \$1.42 million for the same period in 1996. The increase in noninterest income reflects an increase from loan fees and service charges of \$278,000 for fiscal 1997 compared to the same period in 1996 as a result of increased lending activity and increased activity on transaction accounts subject to service charges. In addition, the gain on sales of securities available for sale increased \$137,000 for the year ended September 30, 1997 compared to 1996. Noninterest income was reduced for fiscal 1997 compared to 1996 due to a \$223,000 decline in brokerage commissions as a result of a decline in sales of non-insured investment products through First Federal's subsidiaries. The sales decline was due to a reduction in the number of brokers during fiscal 1997, and is expected to increase in fiscal 1998 as additional brokers are employed.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND SEPTEMBER 30, 1996 (continued)

Noninterest Expense

Noninterest expense decreased by \$186,000, or 2.5%, to \$7.38 million for the year ended September 30, 1997 compared to \$7.57 million for the same period in 1996. The decrease in noninterest expense reflects the fiscal 1996 payment of a one-time special assessment in the amount of \$1.27 million, pre-tax, for the recapitalization of SAIF. Noninterest expense without the SAIF assessment increased by \$1.08 million. Noninterest expense for employee compensation and benefits, and occupancy and equipment expense, increased during fiscal 1997 compared to the same period in 1996 as a result of the acquisition of Central West at September 30, 1996, and as a result of the opening of a new branch office in Des Moines, Iowa. The increase in noninterest expense was partially offset as a result of federal legislation that reduced deposit insurance premiums during the year ended September 30, 1997.

Income Tax Expense

Income tax expense increased by \$806,000, or 47.5%, to \$2.50 million for the year ended September 30, 1997 from \$1.70 million for the same period in 1996. The increase in income tax expense reflects the increase in the level of taxable income for the period ended September 30, 1997 compared to the same period in 1996.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND SEPTEMBER 30, 1995

General

Net income for the year ended September 30, 1996 decreased \$1.13 million, or 31.9%, to \$2.41 million, from \$3.54 million for the same period in 1995. The decrease in net income reflects the one-time special assessment to recapitalize SAIF, which totaled \$795,000, net of income taxes. In addition, the decrease in net income resulted from the previous year recognition of gains on the sale of securities available for sale resulting primarily from the restructure of the Company's mortgage-backed securities portfolio that increased fiscal year 1995 income by \$720,000, net of income taxes. Net income for the year ended September 30, 1996 compared to the same period in 1995, excluding the one-time SAIF assessment and non-recurring gains on the sales of securities available for sale, increased \$385,000, or 13.6%.

Net Interest Income

The Company's net interest income for the year ended in 1996 increased by \$954,000, or 10.1%, to \$10.36 million compared to \$9.40 million for the same period in 1995. The increase in net interest income reflects an overall increase in average net interest-earning assets during the period resulting from the acquisition of Iowa Bancorp during the first fiscal quarter, and internal increases in the portfolio of loans and securities. The net yield on average earning assets declined to 3.47% for the period ended September 30, 1996 from 3.63% for the same period in 1995. The reduction in net yield is due primarily to the increased cost of retail time deposits resulting from aggressive competition for such deposits during the period.

Interest Income

Interest income for the year ended September 30, 1996 increased \$3.28 million, or 15.6%, to \$24.34 million from \$21.05 million for the same period in 1995. The increase is primarily due to a \$4.80 million increase in interest earned on the loan portfolio, to \$18.57 million for the year ended September 30, 1996, from \$13.77 million in 1995. The increase in loan interest income resulted from

higher average loan portfolio balances due to internal growth of the loan portfolio and the acquisition of Iowa Bancorp and, to a lesser extent, to a higher average yield on the loan portfolio during the period. Interest income from mortgage-backed securities declined \$1.38 million for the year ended September 30, 1996 to \$2.52 million from \$3.90 million in 1995 due primarily to the reduction in the average portfolio balance during the period.

Interest Expense

Interest expense increased \$2.33 million, or 20.0%, to \$13.98 million for the period ended September 30, 1996 from \$11.65 million for the same period in 1995. The increase in interest expense was due to an increase in the average outstanding balance of time deposits and FHLB advances during the year ended September 30, 1996, compared to the same period in 1995. The increase in the average balance of time deposits resulted from internal growth of the deposit portfolio and the acquisition of Iowa Bancorp. The average outstanding balance of FHLB advances increased due to borrowing activity throughout the period used primarily to fund growth of the loan portfolio and the purchase of securities. To a lesser extent, the increase in interest expense reflects higher interest rates paid on interest-bearing liabilities during the year ended September 30, 1996, compared to the previous year.

Provision for Loan Losses

The provision for loan losses for the year ended September 30, 1996 was \$100,000 compared to \$250,000 for the same period in 1995. The comparatively higher provision for loan losses during the previous year resulted from management's election to increase the balance in the allowance for loan losses in conjunction with growth of the loan portfolio during that period.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND SEPTEMBER 30, 1995 (continued)

Noninterest Income

Noninterest income for the year ended September 30, 1996 decreased \$867,000, or 37.9%, to \$1.42 million from \$2.29 million for the same period in 1995. Noninterest income for the previous fiscal year included gains on the sale of securities available for sale of \$1.07 million, compared to \$79,000 for year ended September 30, 1996. Noninterest income from loan fees and service charges increased by \$118,000 for fiscal 1996 compared to the same period in 1995 as a result of increased lending activity and increased activity on transaction accounts subject to service charges.

Noninterest Expense

Noninterest expense increased by \$1.99 million, or 35.7%, to \$7.57 million for the year ended September 30, 1996 compared to \$5.58 million for the same period in 1995. The increase primarily reflects the one-time special assessment of \$1.27 million, pre-tax, for the recapitalization of SAIF. In addition, noninterest expense increased as a result of additional operating expenses associated with the acquisition of Iowa Bancorp during the first quarter of fiscal 1996.

Income Tax Expense

Income tax expense decreased by \$624,000, or 26.9%, to \$1.70 million for the year ended September 30, 1996 from \$2.32 million for the same period in 1995. The decrease in income tax expense reflects the reduction in the level of taxable income for the period ended September 30, 1996 compared to the same period in 1995.

Asset/Liability Management

The Company currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate loan products and fixed-rate loan products with relatively short terms to maturity, generally 15 years or less. This allows the Company to maintain a portfolio of loans which will be 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 loan funding needs. This portfolio is 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.

During the quarter ended June 30, 1995, all securities previously designated as held-to-maturity, including mortgage-backed securities, were reclassified to the available-for-sale category. The reclassification was performed after consideration by management of a pending regulatory policy clarification regarding the measurement of interest sensitivity of adjustable-rate mortgage-backed securities. It was management's opinion that the pending regulatory policy clarification provided sufficient potential risk to the market value of this type of security to warrant reclassification of the securities held by the Company to the available-for-sale designation. In accordance with the requirements of SFAS 115 (see Note 1 to the Consolidated Financial Statements), all other securities previously designated as held-to-maturity were also reclassified to available-for-sale. During the quarter ended June 30, 1995, the reclassified adjustable-rate mortgage-backed securities were sold.

The Company's cost of funds responds to changes in interest rates due to the relatively short-term nature of its deposit portfolio. Consequently, the results of operations are generally influenced by the levels 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 emphasizes and promotes its savings, money market, demand and NOW accounts and, subject to market conditions, certificates of deposit with maturities of six months through five years, principally from 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 that the increased net income which may result from an acceptable mismatch in the actual maturity or repricing of its asset and liability portfolios can, during periods of declining or stable interest rates, provide sufficient returns to justify the increased exposure to sudden and unexpected increases in interest rates which 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.

Asset/Liability Management (continued)

Net Portfolio Value

The Office of Thrift Supervision ("OTS") provides a Net Portfolio Value ("NPV") approach to the quantification of interest rate risk for thrift institutions such as First Federal. 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 First Federal'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 which is acceptable given certain interest rate changes.

The OTS issued a regulation which uses a net market value methodology to measure the interest rate risk exposure of thrift institutions. Under OTS regulations, an institution's "normal" level of interest rate risk in the event of an assumed 200 basis point change in interest rates is a decrease in the institution's NPV in an amount not to exceed two percent of the present value of its assets. Thrift institutions with greater than "normal" interest rate risk exposure must take a deduction from their total capital available to meet their risk-based capital requirement. The amount of that deduction is one-half of the difference between (a) the institution's actual calculated exposure to a 200 basis point interest rate increase or decrease (whichever results in the greater pro forma decrease in NPV) and (b) its "normal" level of exposure which is 2.00% of the present value of its assets. The regulation, however, will not become effective until the OTS evaluates the process by which thrift institutions may appeal an interest rate risk deduction determination. It is uncertain as to when this evaluation may be completed. Had such regulation been in effect at September 30, 1997, First Federal's interest rate risk would have been considered normal and no additional risk-based capital would have been required.

Presented below, as of September 30, 1997, is an analysis of First Federal'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 400 basis points, in accordance with OTS regulations. As illustrated in the table, First Federal's NPV is more sensitive to rising rate changes than declining rates. This occurs primarily because, as rates rise, the market value of fixed-rate loans declines due to both the rate increase and slowing prepayments. When rates decline, First Federal does not experience a significant rise in market value for these loans because borrowers prepay at relatively higher rates. The value of First Federal's deposits and borrowings change in approximately the same proportion in rising and falling rate scenarios.

At September 30, 1997

Change in Interest Rate (Basis Points)	Board Limit % Change	\$ Change (Dollars in Thousands)	% Change
+400 bp	(60)%	\$ (14,373)	(36)%
+300 bp	(50)	(10,634)	(26)
+200 bp	(40)	(6,886)	(17)
+100 bp	(25)	(3,193)	(8)
0 bp	-	-	-
- 100 bp	(10)	2,149	5
- 200 bp	(15)	3,855	10
- 300 bp	(20)	5,774	14
- 400 bp	(25)	8,366	21

Management reviews the OTS measurements and related peer reports on a quarterly basis. In addition to monitoring selected measures of NPV, management also monitors 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.

Certain shortcomings are inherent in the method of analysis presented in the foregoing tables. 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 which 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 tables. Finally, the ability of some borrowers to service their debt may decrease in the event of an interest rate increase. First Federal considers all of these factors in monitoring its exposure to interest rate risk.

Asset/Liability Management (continued)

Interest Sensitivity GAP Analysis Management of interest sensitivity of Security State Bank is accomplished by matching the maturities of interest-earning assets and interest-bearing liabilities. The following table illustrates the asset/(liability) funding gaps for selected maturity periods as of September 30, 1997.

At September 30, 1997					
	(Dollars in thousands)				
	Repriceable or Maturing Within				
	0 - 6	6 - 12	Total	Over	
	Months	Months	1 Year	1 Year	Total
	-----	-----	-----	-----	-----
Assets					
Interest-bearing deposits in					
other financial institutions	\$ 100	\$ --	\$ 100	\$ --	\$ 100
Securities available for sale	1,552	1,103	2,655	4,795	7,450
Loans receivable	10,390	1,683	12,073	12,526	24,599
	-----	-----	-----	-----	-----
Total interest-earning assets	\$ 12,042	2,786	\$ 14,828	\$ 17,321	32,149
	=====	=====	=====	=====	=====
Liabilities					
Interest-bearing deposits	\$ 11,428	\$ 5,012	\$ 16,440	\$ 8,664	\$ 25,104
Borrowed funds	2,900	--	2,900	--	2,900
	-----	-----	-----	-----	-----
Total interest-bearing liabilities	\$ 14,328	\$ 5,012	\$ 19,340	\$ 8,664	28,004
	=====	=====	=====	=====	=====
Asset/(Liability) funding GAP	\$ (2,286)	\$ (2,226)	\$ (4,512)	\$ 8,657	\$ 4,145
	=====	=====	=====	=====	=====
GAP ratio (assets/liabilities)	84%	56%	77%	200%	115%
	=====	=====	=====	=====	=====

Asset Quality

It is management's belief, based on information available, that the Company's historical level of asset quality has been satisfactory and that asset quality will continue to remain strong. At September 30, 1997, non-performing assets, consisting of non-accruing loans, real estate owned and repossessed consumer property, totaled \$3.0 million, or 0.75% of total assets, compared to \$2.7 million, or 0.70% of total assets, for the fiscal year ended 1996. The increase in non-performing assets is due primarily to increases in non-accruing one- to four-family mortgage loans and agricultural 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.

Federal regulations require First Federal to maintain minimum levels of liquid assets. Currently, First Federal is required to maintain liquid assets of at least 5% of the average daily balance of net withdrawable savings deposits and borrowings payable on demand in one year or less during the preceding calendar month, of which short-term liquid assets must comprise not less than 1%. Liquid assets for purposes of this ratio include cash, certain time

deposits, U.S. Government, governmental agency and corporate securities and obligations generally having remaining terms to maturity of less than five years, unless otherwise pledged. First Federal has historically maintained its liquidity ratio at levels in excess of those required. First Federal's regulatory liquidity ratios were 9.8%, 5.4% and 12.2% at September 30, 1997, 1996 and 1995, respectively.

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 in the Company's market area, (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 Federal Home Loan Bank of Des Moines and has collateral eligible for use with reverse repurchase agreements.

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, 1997, 1996 and 1995, the Company originated loans of \$135.7 million, \$95.8 million and \$65.3 million, respectively. The increase in loan originations is due primarily to the origination of commercial and agricultural business loans that are renewed more often due to their short-term nature. Purchases of loans totaled \$29.8 million, \$24.9 million and \$19.2 million during the years ended September 30, 1997, 1996 and

Liquidity and Sources of Funds (continued) 1995, respectively. During the years ended September 30, 1997, 1996 and 1995, the Company purchased mortgage-backed securities and other securities in the amount of \$67.6 million, \$121.0 million and \$43.5 million, respectively. At September 30, 1997, the Company had outstanding commitments to originate and purchase loans of \$15.8 million. Certificates of deposit scheduled to mature in one year or less from September 30, 1997 total \$118.1 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, however, that loan repayment and other sources of funds will be adequate to meet the Company's foreseeable short- and long-term liquidity needs.

During the fiscal year ended September 30, 1997, the Company completed the purchase and remodeling of an existing building for use as a branch office located in Des Moines, Iowa, at an approximate cost of \$752,000. During the fiscal year ended September 30, 1996, the Company completed a major remodeling of its main office building located in Storm Lake, Iowa, at an approximate cost of \$911,000. During the fiscal year ended September 30, 1995, the Company completed an upgrade of its data processing system at an approximate cost of \$300,000. The source of funds for capital improvements of this type is from the normal operations of the Company.

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, 1997, the liquidation account approximated \$3.2 million.

Under the Financial Institution's Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") and the Federal Deposit Insurance Act of 1991 ("FDICIA"), the capital requirements applicable to all financial institutions, including First Federal and Security, were substantially increased. First Federal and Security are in full compliance with the fully phased-in capital requirements. (See note 14 of Notes to Consolidated Financial Statements).

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

Several new accounting standards have been issued by the Financial Accounting Standards Board ("FASB") that will apply to the Company for the year ending September 30, 1998 or 1999.

SFAS No. 128, "Earnings Per Share," revises the accounting requirements for calculating earnings per share. Basic earnings per share for the quarter ended December 31, 1997 and later will be calculated solely on average common shares outstanding. Diluted earnings per share will reflect the potential dilution effect of stock options and other common stock equivalents. All prior

calculations will be restated to be comparable to the new methods. As the Company has dilution from stock options, the new calculation methods will increase basic earnings per share over what otherwise would have been reported as primary earnings per share, while there will be little effect on fully diluted earnings per share.

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income and its components (revenue, expenses, gains and losses) in a full set of general-purpose financial statements. This statement requires all items that are recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Income tax effects must also be shown. This statement is effective for fiscal years beginning after December 15, 1997. The adoption of SFAS No. 130 is not expected to have a material impact on the results of operations or financial condition of the Company.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. This statement is effective for financial statements for periods beginning after December 15, 1997. The adoption of SFAS No. 131 is not expected to have a material impact on the results of operations or financial condition of the Company.

Report of Independent Auditors

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 (the "Company") as of September 30, 1997 and 1996 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. 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. The consolidated financial statements of the Company for the year ended September 30, 1995 were audited by other auditors whose report dated November 17, 1995 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. 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 the Company as of September 30, 1997 and 1996 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Crowe, Chizek and Company LLP
South Bend, Indiana
October 10, 1997

First Midwest Financial, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

September 30, 1997 and 1996

Assets	1997	1996
Cash and due from banks	\$ 875,169	\$ 736,979
Interest-bearing deposits in other financial institutions - short-term.....	10,709,907	4,743,636
Federal funds sold.....	1,267,350	8,848,037
	-----	-----
Total cash and cash equivalents.....	12,852,426	14,328,652
Interest-bearing deposits in other financial institutions (cost approximates market value).....	200,000	300,000
Securities available for sale.....	115,985,045	109,491,558
Loans receivable, net of allowance for loan losses of \$2,379,091 in 1997 and \$2,356,113 in 1996.....	254,640,971	243,533,519
Federal Home Loan Bank (FHLB) stock, at cost.....	5,629,300	5,524,700
Accrued interest receivable.....	5,366,109	5,029,047
Premises and equipment, net.....	4,176,311	3,680,332
Foreclosed real estate, net of allowances of \$-0- in 1997 and \$5,000 in 1996.....	156,300	86,818
Other assets.....	5,582,116	6,033,672
	-----	-----
Total assets.....	\$404,588,578	\$388,008,298
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing demand deposits.....	\$ 5,572,296	\$ 5,452,911
Savings, NOW and money market demand deposits.....	49,838,735	49,358,478
Other time certificates of deposit.....	190,704,667	178,594,337
	-----	-----
Total deposits.....	246,115,698	233,405,726
Advances from FHLB.....	107,426,225	102,287,803
Securities sold under agreements to repurchase.....	1,800,000	2,789,918
Other borrowings.....	2,900,000	1,400,000
Advances from borrowers for taxes and insurance.....	449,487	490,243
Accrued interest payable.....	1,065,746	1,271,465
Accrued expenses and other liabilities.....	1,354,418	3,153,441
	-----	-----
Total liabilities.....	361,111,574	344,798,596

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 2,698,904 shares outstanding at September 30, 1997; 1,990,495 shares issued and 1,945,735 shares outstanding at September 30, 1996....	29,580	19,905
Additional paid-in capital.....	20,984,754	20,862,551
Retained earnings - substantially restricted.....	26,427,657	23,748,383
Net unrealized appreciation on securities available for sale, net of tax of \$568,013 in 1997 and \$18,324 in 1996....	960,371	28,698
Unearned Employee Stock Ownership Plan shares.....	(567,200)	(767,200)
Treasury stock, 259,095 and 44,760 common shares, at cost, at September 30, 1997 and 1996, respectively..	(4,358,158)	(682,635)
Total shareholders' equity.....	43,477,004	43,209,702
Total liabilities and shareholders' equity.....	\$ 404,588,578	\$388,008,298
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

First Midwest Financial, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

Years ended September 30, 1997, 1996 and 1995

	1997	1996	1995
Interest and dividend income			
Loans receivable, including fees.....	\$ 22,432,828	\$ 18,567,097	\$ 13,768,064
Securities available for sale.....	6,185,385	5,437,734	7,015,145
Dividends on FHLB stock.....	386,462	332,634	270,261
	-----	-----	-----
	29,004,675	24,337,465	21,053,470
Interest expense			
Deposits.....	11,982,913	9,766,586	8,245,227
FHLB advances and other borrowings.....	5,076,144	4,212,024	3,403,497
	-----	-----	-----
	17,059,057	13,978,610	11,648,724
Net interest income.....	11,945,618	10,358,855	9,404,746
Provision for loan losses.....	120,000	100,000	250,000
	-----	-----	-----
Net interest income after provision for loan losses..	11,825,618	10,258,855	9,154,746
Noninterest income			
Loan fees and service charges.....	1,108,233	830,256	712,345
Gain on sales of securities available for sale, net	216,614	79,317	1,070,247
Gain (loss) on sales of foreclosed real estate, net	(6,722)	(8,630)	-
Brokerage commissions.....	69,379	292,189	297,777
Other income.....	313,168	226,163	206,101
	-----	-----	-----
	1,700,672	1,419,295	2,286,470

Noninterest expense			
Employee compensation and benefits.....	4,341,038	3,732,839	3,400,190
Occupancy and equipment expense.....	1,006,190	668,784	432,571
SAIF deposit insurance special assessment.....	-	1,265,996	-
SAIF deposit insurance premium.....	220,849	433,367	404,306
Data processing expense.....	321,369	289,390	291,961
Other expense.....	1,492,819	1,177,886	1,047,149
	-----	-----	-----
	7,382,265	7,568,262	5,576,177
	-----	-----	-----
Income before income taxes.....	6,144,025	4,109,888	5,865,039
Income tax expense.....	2,502,069	1,696,323	2,320,687
	-----	-----	-----
Net income.....	\$ 3,641,956	\$ 2,413,565	\$ 3,544,352
	=====	=====	=====
Earnings per common and common equivalent share			
Primary and fully diluted:			
Net income.....	\$ 1.27	\$.89	\$ 1.33
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

First Midwest Financial, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended September 30, 1997, 1996 and 1995

				Net Unrealized Appreciation (Depreciation) on Securities Available For Sale, Net of Tax
	Common Stock	Additional Paid-in Capital	Retained Earnings	
Balance at October 1, 1994	\$ 19,915	\$ 18,955,192	\$ 19,051,322	\$ (86,964)
Purchase of 61,712 common shares of treasury stock	--	--	--	--
32,820 common shares committed to be released under the ESOP	--	87,789	--	--
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under plan	--	267,064	--	--
Cash dividends declared on common stock (\$.20 per share)	--	--	(515,095)	--
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of \$383,758	--	--	--	658,528
Net income for the year ended September 30, 1995	--	--	3,544,352	--
	-----	-----	-----	-----
Balance at September 30, 1995	19,915	19,310,045	22,080,579	571,564
Purchase of 41,910 common shares of treasury stock	--	--	--	--
Retirement of 958 common shares	(10)	10	--	--
30,000 common shares committed to be released under the ESOP	--	303,524	--	--
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan ...	--	168,120	--	--
Cash dividends declared on common stock (\$.29 per share)	--	--	(745,761)	--
Issuance of 171,158 common shares from treasury stock in connection with acquisition of Central West Bancorporation	--	1,192,990	--	--
Issuance of 9,450 common shares from treasury stock due to exercise of stock options	--	(112,138)	--	--
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of (\$321,866) ...	--	--	--	(542,866)
Net income for the year ended September 30, 1996	--	--	2,413,565	--
	-----	-----	-----	-----
Balance at September 30, 1996	19,905	20,862,551	23,748,383	28,698

	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance at October 1, 1994	\$ (1,186,000)	\$ (2,070,177)	\$ 34,683,288
Purchase of 61,712 common shares of treasury stock	--	(932,030)	(932,030)
32,820 common shares committed to be released under the ESOP	218,800	--	306,589
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under plan	--	--	267,064
Cash dividends declared on common stock (\$.20 per share)	--	--	(515,095)
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of \$383,758	--	--	658,528
Net income for the year ended September 30, 1995	--	--	3,544,352
	-----	-----	-----
Balance at September 30, 1995	(967,200)	(3,002,207)	38,012,696
Purchase of 41,910 common shares of treasury stock	--	(630,710)	(630,710)
Retirement of 958 common shares	--	--	--
30,000 common shares committed to be released under the ESOP	200,000	--	503,524
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan ...	--	--	168,120
Cash dividends declared on common stock (\$.29 per share)	--	--	(745,761)
Issuance of 171,158 common shares from treasury stock in connection with acquisition of Central West Bancorporation	--	2,743,644	3,936,634
Issuance of 9,450 common shares from treasury stock due to exercise of stock options	--	206,638	94,500
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of (\$321,866) ...	--	--	(542,866)
Net income for the year ended September 30, 1996	--	--	2,413,565
	-----	-----	-----
Balance at September 30, 1996	(767,200)	(682,635)	43,209,702

First Midwest Financial, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (continued)

Years ended September 30, 1997, 1996 and 1995

		Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Appreciation (Depreciation) on Securities Available For Sale, Net of Tax
Balance at September 30, 1996	\$	19,905	\$ 20,862,551	\$ 23,748,383	\$ 28,698
Purchase of 248,419 common shares of treasury stock		--	--	--	--
Retirement of 3,474 common shares		(35)	35	--	--
30,000 common shares committed to be released under the ESOP		--	295,740	--	--
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan		--	93,401	--	--
Cash dividends declared on common stock (\$.36 per share)		--	--	(961,849)	--
Issuance of 970,978 common shares for stock dividend declared on common stock, net of cash paid in lieu of fractional shares		9,710	(9,710)	(833)	--
Exchange of 7,263 common shares upon exercise of stock options		--	--	--	--
Issuance of 41,347 common shares from treasury stock due to exercise of stock options		--	(257,263)	--	--
Net change in unrealized appreciation on securities available for sale, net of tax of \$549,689		--	--	--	931,673
Net income for the year ended September 30, 1997		--	--	3,641,956	--
Balance at September 30, 1997	\$	29,580	\$ 20,984,754	\$ 26,427,657	\$ 960,371

	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1996	\$ (767,200)	\$ (682,635)	\$ 43,209,702
Purchase of 248,419 common shares of treasury stock	--	(4,268,777)	(4,268,777)
Retirement of 3,474 common shares	--	--	--
30,000 common shares committed to be released under the ESOP	200,000	--	495,740
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan	--	--	93,401
Cash dividends declared on common stock (\$.36 per share)	--	--	(961,849)
Issuance of 970,978 common shares for stock dividend declared on common stock, net of cash paid in lieu of fractional shares	--	--	(833)
Exchange of 7,263 common shares upon exercise of stock options	--	(175,445)	(175,445)
Issuance of 41,347 common shares from treasury stock due to exercise of stock options	--	768,699	511,436
Net change in unrealized appreciation on securities available for sale, net of tax of \$549,689	--	--	931,673
Net income for the year ended September 30, 1997	--	--	3,641,956
Balance at September 30, 1997	\$ (567,200) =====	\$ (4,358,158) =====	\$ 43,477,004 =====

The accompanying notes are an integral part of these consolidated financial statements.

First Midwest Financial, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended September 30, 1997, 1996 and 1995

	1997	1996	1995
Cash flows from operating activities			
Net income	\$ 3,641,956	\$ 2,413,565	\$ 3,544,352
Adjustments to reconcile net income to net cash from operating activities			
Depreciation, amortization and accretion, net	1,092,782	907,721	697,879
Provision for loan losses	120,000	100,000	250,000
Provision for losses on foreclosed real estate	--	20,000	--
Gain on sales of securities available for sale, net	(216,614)	(79,317)	(1,070,247)
Proceeds from the sales of loans held for sale	3,592,055	1,064,000	--
Originations of loans held for sale	(3,592,055)	(1,064,000)	--
Stock dividends from FHLB stock	--	(78,900)	--
(Gain) loss on sales of office property, net	--	(24,739)	--
(Gain) loss on sales of foreclosed real estate, net	6,722	8,630	--
Net change in			
Interest receivable	(337,062)	(1,406,034)	(504,937)
Other assets	223,344	(399,200)	(55,643)
Accrued interest payable	(205,719)	348,940	(47,662)
Accrued expenses and other liabilities	(2,348,712)	1,689,497	(122,777)
Net cash from operating activities	1,976,697	3,500,163	2,690,965
Cash flows from investing activities			
Net change in interest-bearing deposits in other financial institutions	100,000	(300,000)	--
Purchase of securities available for sale	(67,569,576)	(120,994,759)	(31,580,132)
Purchase of securities held to maturity	--	--	(11,888,625)
Proceeds from sales of securities available for sale	804,067	366,829	49,445,258
Proceeds from maturities and principal repayment of securities available for sale	61,943,630	95,068,472	29,105,289
Proceeds from maturities and principal repayment of mortgage-backed securities held to maturity	--	--	27,205
Loans purchased	(29,819,316)	(24,975,540)	(19,211,940)
Net change in loans	18,519,590	(3,599,754)	(4,280,762)
Proceeds from sales of foreclosed real estate	93,453	132,842	78,738
Purchase of FHLB stock	(104,600)	(1,355,100)	(899,800)
Purchase of Iowa Bancorp, Inc., net of cash received	--	(5,217,265)	--
Purchase of Central West Bancorporation, net of cash received	--	(229,430)	--
Purchase of premises and equipment, net	(842,423)	(845,380)	(581,126)
Proceeds from sales of assets	--	72,925	--
Net cash from investing activities	(16,875,175)	(61,876,160)	10,214,105

First Midwest Financial, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended September 30, 1997, 1996 and 1995

	1997	1996	1995
Cash flows from financing activities			
Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits	\$ 599,642	\$ (295,265)	\$ (5,082,644)
Net change in other time deposits	12,110,330	18,548,037	708,934
Proceeds from advances from FHLB	143,000,000	210,000,000	246,000,000
Repayments of advances from FHLB	(137,861,578)	(160,510,585)	(255,209,677)
Net change in securities sold under agreements to repurchase	(989,918)	1,640,000	240,000
Net change in other borrowings	1,500,000	--	--
Net change in advances from borrowers for taxes and insurance	(40,756)	(11,279)	70,919
Cash dividends paid	(962,682)	(745,761)	(515,095)
Proceeds from exercise of stock options	335,991	94,500	--
Purchase of treasury stock	(4,268,777)	(630,710)	(932,030)
	-----	-----	-----
Net cash from financing activities	13,422,252	68,088,937	(14,719,593)
Net change in cash and cash equivalents	(1,476,226)	9,712,940	(1,814,523)
Cash and cash equivalents at beginning of year	14,328,652	4,615,712	6,430,235
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 12,852,426	\$ 14,328,652	\$ 4,615,712
	=====	=====	=====
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	\$ 17,264,776	\$ 13,629,670	\$ 11,696,386
Income taxes	2,415,042	1,736,192	2,366,886
Supplemental schedule of non-cash investing and financing activities			
Loans transferred to foreclosed real estate ..	\$ 169,657	\$ 220,474	\$ 129,408
Issuance of common stock for purchase of Central West Bancorporation	--	3,936,634	--

The accompanying notes are an integral part of these 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., a bank holding company located in Storm Lake, Iowa, (the "Company") and its wholly-owned subsidiaries which include First Federal Savings Bank of the Midwest (the "Bank" or "First Federal"), Security State Bank ("Security"), First Services Financial Limited, which offers brokerage services and non-insured investment products and Brookings Service Corporation. 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 the purchase or origination of commercial, 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.

Assets held in trust or fiduciary capacity are not assets of the Company and, accordingly, are not included in the accompanying consolidated financial statements. At September 30, 1997 and 1996, trust assets totaled approximately \$12,392,000 and \$10,172,000, respectively.

Use of Estimates in Preparing Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles 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, deferred income tax provisions, fair values of securities and other financial instruments, the determination and carrying value of impaired loans, goodwill amortization and depreciation of premises and equipment, involve certain significant estimates made by management. These estimates are reviewed by management routinely and it is reasonably possible that circumstances that exist at September 30, 1997 may change in the near-term future and that the effect could be material to the financial statements.

Certain Vulnerability Due to Certain Concentrations:

Management is of the opinion that no concentrations exist that make the Company vulnerable to the risk of near-term severe impact.

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, interest-bearing deposits in other financial institutions, and short-term borrowings with maturities of 90 days or less.

Securities:

The Company classifies securities into held to maturity, available for sale and trading categories. Held to maturity securities are those which the Company has the positive intent and ability to hold to maturity, and are reported at amortized cost. 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 unrealized gains and losses included as a separate component of shareholders' equity, net of tax. Trading securities are bought principally for sale in the near term, and are reported at fair value with unrealized gains and losses included in earnings.

In May 1995, all securities previously designated as held to maturity, including mortgage-backed securities, were transferred to the available for sale category. The Company does not have any securities classified as held to maturity or trading at September 30, 1997 or 1996. Although the Company does not have a current intent to sell the securities available for sale, and it is management's opinion that the Company has the ability to hold these securities to maturity, management considers the designation as available for sale to provide flexibility in adjusting the composition of the securities portfolio as may become desirable in the future.

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 earnings.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Loan Servicing Rights:**

Effective October 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 122, "Accounting for Mortgage Servicing Rights." This Statement changed the accounting for mortgage servicing rights retained by a loan originator. Under this standard, if the originator sells or securitizes mortgage loans and retains the related servicing rights, the total cost of the mortgage loan is allocated between the loan (without the servicing rights) and the servicing rights, based on their relative fair values. Under prior practice, all such costs were assigned to the loan. The costs allocated to mortgage servicing rights are now recorded as a separate asset and are amortized in proportion to, and over the life of, the net servicing income. The carrying value of the mortgage servicing rights are periodically evaluated for impairment. The effect of adopting the statement was not material.

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 adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased 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.

SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118, was adopted effective October 1, 1995 and requires recognition of loan impairment. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual loan terms. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for

loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as a component of the provision for loan losses. The effect of adopting these standards was not material to the consolidated financial statements.

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 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. The nature of disclosures for impaired loans is considered generally comparable to prior nonaccrual and renegotiated loans and non-performing and past due asset disclosures.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 ranging from 3 to 40 years. These assets are reviewed for impairment under SFAS No. 121 when events indicate the carrying amount may not be recoverable.

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 are not paid on unearned ESOP shares.

ESOP shares are considered outstanding for earnings per share calculations as they are committed to be released; unearned shares are not considered outstanding.

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 financial statements. A summary of these commitments is disclosed in Note 15.

Intangible Assets:

Goodwill arising from the acquisition of subsidiary banks is amortized over 15 years using the straight-line method. As of September 30, 1997 and 1996, unamortized goodwill totaled approximately \$4,862,747 and \$5,090,958, respectively. Amortization expense was \$363,923, \$170,070 and \$125,160 for the years ended September 30, 1997, 1996 and 1995.

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 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.

Stock Dividends:

Common share amounts related to the ESOP plan, stock compensation plans and earnings and dividends per share disclosures have been restated for the three for two stock split effected in the form of a 50% stock dividend which was paid on January 2, 1997.

Earnings Per Share:

Earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding and common share equivalents which would arise from considering dilutive stock options, less ESOP shares not committed to be released. The difference between primary and fully diluted earnings per share is not material. The weighted average number of shares for calculating fully diluted earnings per common share is:

	Year ended September 30,	1997	1996	1995
Fully diluted		2,878,718	2,698,459	2,670,888

Reclassifications:

Certain amounts in the 1996 and 1995 consolidated financial statements were reclassified to conform with the 1997 presentation.

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. If applicable, disclosures of net income and earnings per share are provided as if the fair value method of SFAS No. 123 were used for stock-based compensation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impact of New Accounting Standards:**

SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities. Several transactions common to banking are affected by SFAS No. 125, including servicing of loans and other financial assets, repurchase agreements, loan participations, asset securitizations, and transfers of receivables with recourse. This statement was effective for some transactions occurring after December 31, 1996, and will be effective for others in 1998. The impact of partial adoption in 1997 was not material to the 1997 consolidated financial statements and the impact of the complete adoption in 1998 is also not expected to be material to the Company's consolidated financial statements.

NOTE 2 - ACQUISITIONS

On December 29, 1995, the Company acquired 100% of the common stock of Iowa Bancorp, Inc. ("Iowa Bancorp"), and its wholly-owned subsidiary, Iowa Savings Bank, a federal savings bank, in a purchase transaction with \$25 million in assets. Each share of Iowa Bancorp's common stock was exchanged for \$20.39 in cash. The Company paid approximately \$8 million. Iowa Bancorp's results of operations are included in the consolidated income statement of the Company beginning as of the purchase date.

Presented below are the consolidated proforma results of operations of the Company for the years ended September 30, 1996 and 1995, assuming the Iowa Bancorp acquisition had occurred as of the beginning of each fiscal year.

	1996	1995
Net interest income	\$ 10,467,578	\$ 9,872,849
Net income	2,268,794	3,569,052
Earnings per common and common equivalent share		
Fully diluted:		
Net income	\$.84	\$1.33

On September 30, 1996, the Company acquired 100% of the common stock of Central West Bancorporation ("Central West"), and its wholly-owned subsidiary, Security State Bank, in a purchase transaction with \$33 million in assets. Each share of Central West's common stock was exchanged for \$18.04 in cash and 2.3528 shares of the Company's common stock. The Company paid approximately \$1.3 million and issued 171,158 common shares valued at \$23 per share for a total value of \$3,936,634. Central West's results of operations are included in the consolidated income statement of the Company beginning as of the purchase date.

Presented below are the consolidated proforma results of operations of the Company for the years ended September 30, 1996 and 1995, assuming the Central West acquisition had occurred as of the beginning of each fiscal year.

	1996	1995
Net interest income	\$ 11,326,730	\$ 10,265,360
Net income	2,410,218	3,481,751
Earnings per common and common equivalent share		
Fully diluted:		
Net income	\$.81	\$1.19

NOTE 3 - SECURITIES

Year end securities available for sale were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
1997				
Debt securities				
Obligations of states and political subdivisions	\$ 1,367,421	\$ 26,299	\$ (3,775)	\$ 1,389,945
U.S. Government and federal agencies	68,129,132	543,889	(188,059)	68,484,962
Mortgage-backed securities	43,644,377	882,930	(102,162)	44,425,145
	-----	-----	-----	-----
	113,140,930	1,453,118	(293,996)	114,300,052
Marketable equity securities	1,315,731	369,652	(390)	1,684,993
	-----	-----	-----	-----
	\$ 114,456,661	\$ 1,822,770	\$ (294,386)	\$ 115,985,045
	=====	=====	=====	=====

NOTE 3 - SECURITIES (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
1996				
Debt securities				
Obligations of states and political subdivisions	\$ 1,392,354	\$ -	\$ -	\$ 1,392,354
U.S. Government and federal agencies	69,595,584	63,693	(450,111)	69,209,166
Corporate obligations	199,971	2,466	-	202,437
Mortgage-backed securities	35,278,943	633,751	(326,380)	35,586,314
	-----	-----	-----	-----
	106,466,852	699,910	(776,491)	106,390,271
Marketable equity securities	2,977,684	125,983	(2,380)	3,101,287
	-----	-----	-----	-----
	\$ 109,444,536	\$ 825,893	\$ (778,871)	\$ 109,491,558
	=====	=====	=====	=====

The amortized cost and fair value of debt securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 1997		
	Amortized Cost	Fair Value
Due in one year or less	\$ 15,544,879	\$ 15,591,657
Due after one year through five years	23,537,354	23,483,675
Due after five years through ten years	30,414,320	30,799,575
	-----	-----
	69,496,553	69,874,907
Mortgage-backed securities	43,644,377	44,425,145
	-----	-----
	\$ 113,140,930	\$ 114,300,052
	=====	=====

Activities related to the sale of securities available for sale and mortgage-backed securities available for sale are summarized as follows:

September 30, 1997			
	1997	1996	1995
Proceeds from sales	\$ 804,067	\$ 366,829	\$ 49,445,258
Gross gains on sales	216,614	79,317	1,070,247

In May 1995, the Company reclassified all securities, including mortgage-backed securities, previously designated as held to maturity to the available for sale category. The reclassification was performed after consideration by management of a pending regulatory policy clarification in regard to the measurement of interest sensitivity of floating-rate mortgage-backed securities. It was management's opinion that the pending regulatory policy clarification provided sufficient potential risk to the market value of this type of security to warrant reclassification of the securities held by the Company to the available for sale designation. The amortized cost and approximate fair value of securities and mortgage-backed securities that were transferred to the available for sale category were \$77,832,845 and \$78,948,854, respectively.

NOTE 4 - LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

	1997	1996
One to four family residential mortgage loans:		
Insured by FHA or guaranteed by VA	\$ 388,589	\$ 502,786
Conventional	73,514,864	77,973,057
Construction	21,263,847	7,819,129
Commercial and multi-family real estate loans	74,869,777	85,157,278
Agricultural real estate loans	11,732,395	11,068,059
Commercial business loans	18,456,004	15,468,175
Agricultural business loans	38,650,322	30,364,235
Consumer loans	27,397,629	20,427,632
	-----	-----
	266,273,427	248,780,351
Less: Allowance for loan losses	(2,379,091)	(2,356,113)
Undistributed portion of loans in process	(8,700,400)	(2,240,373)
Net deferred loan origination fees	(552,965)	(650,346)
	-----	-----
	\$ 254,640,971	\$ 243,533,519
	=====	=====

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

	1997	1996	1995
Beginning balance	\$ 2,356,113	\$ 1,649,520	\$ 1,442,077
Provision for loan losses	120,000	100,000	250,000
Recoveries	25,638	-	-
Iowa Bancorp allowance at acquisition date	-	132,500	-
Central West allowance at acquisition date	-	563,310	-
Charge-offs	(122,660)	(89,217)	(42,557)
	-----	-----	-----
Ending balance	\$ 2,379,091	\$ 2,356,113	\$ 1,649,520
	=====	=====	=====

Virtually all of the Company's originated loans are to Iowa and South Dakota-based individuals and organizations. The Company's purchased loans totalled approximately \$75,851,000 at September 30, 1997 and were secured by properties located, as a percentage of total loans, as follows: 6% in Wisconsin, 5% in Washington, 3% in Minnesota, 2% in Iowa, 2% in North Dakota, and the remaining 10% in seventeen other states. The Company's purchased loans totalled approximately \$76,444,000 at September 30, 1996 and were secured by properties located, as a percentage of total loans, as follows: 8% in Wisconsin, 5% in Minnesota, 4% in Iowa, 2% in South Dakota, 2% in New York, 2% in Nebraska, 2% in North Dakota and the remaining 7% in thirteen 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 \$10,776,000 and \$8,766,000 of loans secured by nursing homes at September 30, 1997 and 1996, respectively. The remainder of the commercial real estate portfolio is diversified by industry. The Company's policy for requiring collateral and guarantees varies with the creditworthiness of each borrower.

The amount of restructured and related party loans as of September 30, 1997 and 1996 were not significant. The amount of non-accruing loans as of September 30, 1997 and 1996 were \$2,875,000 and \$2,646,000, respectively.

Impaired loans were as follows:

	1997	1996
Year end loans with no allowance for loan losses allocated	\$ -	\$ 1,623,000
Year end loans with allowance for loan losses allocated	2,131,692	-
Amount of the allowance allocated	337,600	-
Average of impaired loans during the year	1,707,690	405,000
Interest income recognized during impairment	49,000	78,000
Cash-basis interest income recognized	49,000	78,000

NOTE 5 - FORECLOSED REAL ESTATE

Year end foreclosed real estate was as follows:

	1997	1996
Foreclosed real estate	\$ 156,300	\$ 91,818
Less: Allowance for foreclosed real estate losses	-	(5,000)
	-----	-----
	\$ 156,300	\$ 86,818
	=====	=====

Activity in the allowance for foreclosed real estate losses for the years ended September 30 was as follows:

	1997	1996	1995
Balance, beginning of period	\$ 5,000	\$ -	\$ -
Provision for losses on foreclosed real estate	-	20,000	-
Less: Losses charged against allowance	(5,000)	(15,000)	-
	-----	-----	-----
Balance, end of period	\$ -	\$ 5,000	\$ -
	=====	=====	=====

NOTE 6 - LOAN SERVICING

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

	1997	1996
Mortgage loan portfolios serviced for FNMA....	\$ 4,884,000	\$ 1,748,000
	=====	=====

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately \$19,000 and \$48,000 at September 30, 1997 and 1996, respectively.

NOTE 7 - PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

	1997	1996
Land	\$ 535,233	\$ 535,233
Buildings	4,607,698	3,979,312
Furniture, fixtures and equipment	2,292,295	2,078,258
	-----	-----
	7,435,226	6,592,803
Less accumulated depreciation	(3,258,915)	(2,912,471)
	-----	-----
	\$ 4,176,311	\$ 3,680,332
	=====	=====

Depreciation of premises and equipment included in occupancy and equipment expense was \$346,444, \$214,201 and \$134,733 for the years ended September 30, 1997, 1996 and 1995.

NOTE 8 - DEPOSITS

Short-term jumbo certificates of deposit in denominations of \$100,000 or more was approximately \$14,472,000 and \$12,463,000 at year end 1997 and 1996.

At September 30, 1997, the scheduled maturities of certificates of deposit were as follows for the years ended September 30:

1998	\$ 118,117,383
1999	51,100,428
2000	19,125,371
2001	1,871,026
2002 and thereafter	490,459

	\$ 190,704,667
	=====

NOTE 9 - ADVANCES FROM FEDERAL HOME LOAN BANK

At September 30, 1997, advances from the FHLB of Des Moines with fixed and variable rates ranging from 4.96% to 7.82% mature in the year ending September 30 as follows:

1998	\$ 57,550,000
1999	12,200,000
2000	14,600,000
2001	7,200,000
2002 and thereafter	15,876,225

	\$107,426,225
	=====

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

At year end 1997 and 1996, the Bank pledged securities with amortized costs of approximately \$83,544,000 and \$61,163,000 and fair values of approximately \$84,261,000 and \$60,605,000 against specific FHLB advances. In addition, qualifying mortgage loans of approximately \$65,305,000 and \$69,296,000 were pledged as collateral at year end 1997 and 1996.

NOTE 10 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Year end securities sold under agreements to repurchase totaled \$1,800,000 and \$2,789,918 for 1997 and 1996. An analysis of securities sold under agreements to repurchase is as follows:

	Years ended	
	1997	1996
Highest month-end balance	\$ 2,789,918	\$ 2,789,918
Average balance	2,284,590	2,197,611
Weighted average interest rate during the period	5.62%	5.56%
Weighted average interest rate at end of period	5.79%	5.52%

At year end 1997, securities sold under agreements to repurchase had maturities ranging from 1 to 57 months with a weighted average maturity of 10 months.

The Company pledged securities with amortized costs of approximately \$2,267,000 and \$3,045,000 and fair values of approximately \$2,380,000 and \$3,117,000, respectively, at year end 1997 and 1996 as collateral for securities sold under agreements to repurchase.

NOTE 11 - OTHER BORROWINGS

Other borrowings at year end 1997 and 1996 consisted of \$2,900,000 and \$1,400,000 of advances from the Federal Reserve Bank of Chicago. The advances outstanding at year end 1997 had a 5.55% interest rate and were due October 1, 1997. The Company pledged securities with amortized costs of approximately \$3,491,000 and \$1,983,000 and fair values of approximately \$3,507,000 and \$1,982,000 at year end 1997 and 1996 as collateral for other borrowings.

NOTE 12 - EMPLOYEE BENEFITS**Profit Sharing Plan:**

The profit sharing plan covers substantially all full-time employees and provides for the Company, at its option and subject to a percentage of employee earnings limitation imposed by the Internal Revenue Code, to contribute to a trust created by the plan. Related expense for years ended September 30, 1997, 1996 and 1995 was \$-0-, \$-0- and \$106,188, respectively.

Employee Stock Ownership Plan (ESOP):

The Company maintains an ESOP for eligible employees who have 1,000 hours of employment with the Bank and who have attained age 21. The ESOP borrowed \$1,534,100 from the Company to purchase 230,115 shares of the Company's common stock. Collateral for the loan is the unearned shares of common stock purchased with the loan proceeds by the ESOP. The loan will be repaid principally from the Bank's discretionary contributions to the ESOP over a period of 8 years. The interest rate for the loan is 8%. Shares purchased by the ESOP are held in suspense for allocation among participants as the loan is repaid. ESOP expense of \$495,740,

NOTE 12 - EMPLOYEE BENEFITS (continued)

\$451,500 and \$358,613 was recorded for the years ended September 30, 1997, 1996 and 1995. Contributions of \$200,000, \$200,000 and \$218,800 were made to the ESOP during the years ended September 30, 1997, 1996 and 1995.

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, normal retirement, 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.

ESOP participants are entitled to receive distributions from their ESOP accounts only upon termination of service.

For the years ended September 30, 1997, 1996 and 1995, 30,000, 30,000 and 32,820 shares with an average fair value of \$16.52, \$15.05 and \$10.93 per share, respectively, were committed to be released. Also, for the years ended September 30, 1997, 1996 and 1995, 4,517, 2,858 and 1,915 shares were withdrawn from the ESOP by participants who are no longer with the company.

Year end ESOP shares are as follows:

	1997	1996	1995
Allocated shares	135,745	110,262	83,120
Unearned shares	85,080	115,080	145,080
Total ESOP shares	220,825	225,342	228,200
	=====	=====	=====
Fair value of unearned shares	\$ 1,690,965	\$ 1,860,460	\$ 1,934,400
	=====	=====	=====

Stock Option and Incentive Plans: Certain officers and directors of the Bank have been granted options to purchase common stock of the Company pursuant to the 1993 Stock Option and Incentive Plan (the "1993 Plan"). For the year ended September 30, 1997, options on 252 shares were granted at an exercise price of \$20.13 per share and expire September 30, 2007. For the year ended September 30, 1996, options on 22,500 shares were granted at an exercise price of \$15.00 per share and options on 750 shares were granted at an exercise price of \$15.75 per share and expire January 23, 2006 and September 30, 2006, respectively. For the year ended September 30, 1995, options on 5,264 shares were granted at an exercise price of \$13.33 per share and expire September 30, 2005. For the year ended September 30, 1994, options on 258,877 shares were granted at an exercise price of \$6.67 per share and expire September 20, 2003. During the year ended September 30, 1997, options on 32,473, 1,365 and 9,000 common shares were exercised at \$6.67, \$13.33 and \$15.00, respectively. Options on 14,175 common shares were exercised at \$6.67 per share during the year ended September 30, 1996. No options were exercised during the fiscal years ended September 30, 1995 and 1994. As of September 30, 1997, no options have expired under the 1993 Plan.

Certain officers and directors of the Bank have been granted options to purchase common stock of the Company pursuant to the 1995 Stock Option and Incentive Plan (the "1995 Plan"). For the year ended September 30, 1997, options on 18,000 shares were granted at an exercise price of \$17.25 per share, options on 37,500 shares were granted at an exercise price of \$17.38 per share and options on 14,178 shares were granted at an exercise price of \$20.13 per share. These options expire March 10, 2007, March 25, 2007 and September 30, 2007, respectively. For the year ended September 30, 1996, options on 1,500 shares were granted at an exercise price of \$14.75 per share and expire July 25, 2006 and options on 33,990 shares were granted at an exercise price of \$15.75 per share and expire September 30, 2006. Options on 9,000 shares were exercised at \$15.75 per share during the fiscal year ended September 30, 1997. During the year ended September 30, 1997, options on 1,500 shares with an exercise price of \$14.75 per share were forfeited. As of September 30, 1997, no options have expired under the 1995 Plan.

SFAS No. 123, which became effective for 1997, requires proforma disclosures for companies that do not adopt its fair value accounting method for stock-based employee compensation. 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, compensation cost actually recognized for stock options was \$-0- for 1997, 1996 and 1995.

The fair value of options granted during 1997 and 1996 is estimated using the following weighted-average information: risk-free interest rate of 6.44% and 6.18%, expected life of 7.0 years, expected dividends of 2.02% and 1.90% per year and expected stock price volatility of 18%.

NOTE 12 - EMPLOYEE BENEFITS (continued)

	1997	1996
Net income as reported	\$ 3,641,956	\$ 2,413,565
Proforma net income	3,459,936	2,287,151
Earnings per share as reported	\$ 1.27	\$.89
Proforma primary and fully diluted earnings per share	\$ 1.20	\$.85

In future years, the proforma effect of not applying this standard is expected to increase as additional options are granted. Stock option plans are used to reward employees and provide them with an additional equity interest. Options are issued for 10 year periods, with 100% vesting generally occurring 48 months after grant date. At year end 1997, 164,535 shares were authorized for future grants. Information about option grants follows:

	Number of options	Weighted-average exercise price
Outstanding, September 30, 1994	258,877	\$ 6.67
Granted	5,264	13.33
Exercised	-	-
Forfeited	-	-
Outstanding, September 30, 1995	264,141	6.80
Granted	58,740	15.44
Exercised	(14,175)	6.67
Forfeited	-	-
Outstanding, September 30, 1996	308,706	8.45
Granted	69,930	17.91
Exercised	(51,838)	9.87
Forfeited	(1,500)	14.75
Outstanding, September 30, 1997	325,298	10.23
	=====	

The weighted-average fair value per option for options granted in 1997 and 1996 was \$4.15 and \$3.52. At year end 1997, options outstanding had a weighted-average remaining life of 7.11 years and a range of exercise price from \$6.67 to \$20.13. Options exercisable at year end are as follows:

	Number of options	Weighted-average exercise price
1995	134,703	\$6.93
1996	242,487	\$8.89
1997	269,798	\$8.77

Management Recognition and Retention Plans:
The Company granted 7,191 and 106,428 (8,986 of which have been forfeited under terms of the Plan due to termination of service) restricted shares of the Company's common stock on May 23, 1994 and September 20, 1993, respectively, to certain officers of the Bank pursuant to a management recognition and retention plan (the "Plan"). The holders of the restricted stock have all of the rights of a shareholder, except that they cannot sell, assign, pledge or transfer any of the restricted stock during the restricted period. The restricted stock vests at a rate of 25% on each anniversary of the grant date. Expense of \$41,947, \$117,064 and \$208,159 was recorded for these plans for the years ended 1997, 1996 and 1995. There was no remaining unamortized unearned compensation value of the plans at September 30, 1997.

NOTE 13 - INCOME TAXES

The Company, the Bank and Security file a consolidated federal income tax return on a fiscal year basis. Prior to fiscal year 1997, if certain conditions were met in determining taxable income as reported on the consolidated federal income tax return, the Bank was allowed a special bad debt deduction based on a percentage of taxable income

NOTE 13 - INCOME TAXES (continued)

(8% for 1996) or on specified experience formulas. The Bank used the percentage of taxable income method for the tax years ended September 30, 1996 and 1995. Tax legislation passed in August 1996 now requires the Bank to deduct a provision for bad debts for tax purposes based on actual loss experience and recapture the excess bad debt reserve accumulated in tax years beginning after September 30, 1987. The related amount of deferred tax liability which must be recaptured is approximately \$1,500,000 and is payable over a six year period beginning no later than the tax year ending September 30, 1999.

The provision for income taxes consists of:

	1997	1996	1995
Federal			
Current	\$ 1,599,255	\$ 1,735,099	\$ 1,946,687
Deferred	569,133	(282,756)	46,000
	-----	-----	-----
	2,168,388	1,452,343	1,992,687
State			
Current	314,712	290,825	324,000
Deferred	18,969	(46,845)	4,000
	-----	-----	-----
	333,681	243,980	328,000
	-----	-----	-----
Income tax expense	\$ 2,502,069	\$ 1,696,323	\$ 2,320,687
	=====	=====	=====

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

	1997	1996	1995
Income taxes at 34% Federal tax rate	\$2,089,000	\$1,397,000	\$1,995,000
Increase (decrease) resulting from:			
State income taxes - net of federal benefit	220,000	161,000	214,000
Excess of cost over net assets acquired	124,000	58,000	43,000
Excess of fair value of ESOP shares released			
over cost	101,000	86,000	48,000
Other - net	(31,931)	(5,677)	20,687
	-----	-----	-----
Total income tax expense	\$2,502,069	\$1,696,323	\$2,320,687
	=====	=====	=====

Year end deferred tax assets and liabilities consist of:

	1997	1996
Deferred tax assets:		
Bad debts	\$ 128,000	\$ 173,000
Deferred loan fees	140,000	140,000
Management incentive program	27,000	68,000
SAIF assessment	-	472,000
Other items	101,000	63,000
	-----	-----
	396,000	916,000
Deferred tax liabilities:		
Federal Home Loan Bank stock dividend	(452,000)	(452,000)
Accrual to cash basis	(258,000)	(206,000)
Net unrealized appreciation on securities available for sale	(568,013)	(18,324)
Other	(56,000)	(39,898)
	-----	-----
	(1,334,013)	(716,222)
Valuation allowance	-	-
	-----	-----
Net deferred tax asset (liability)	\$ (938,013)	\$ 199,778
	=====	=====

Federal income tax laws provide 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 \$2,300,000 at September 30, 1997 and 1996. 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 14 - 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.

Regulations require First Federal to maintain minimum capital amounts and ratios as set forth below. Management believes, as of September 30, 1997, that First Federal meets the capital adequacy requirements.

First Federal'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, 1997						
Total Capital (to risk weighted assets)	\$ 31,239	14.06%	\$ 17,780	8.00%	\$ 22,225	10.00%
Tier I (Core) Capital (to risk weighted assets)	\$ 29,465	13.26%	\$ 8,890	4.00%	\$ 13,335	6.00%
Tier I (Core) Capital (to adjusted total assets)	\$ 29,465	8.19%	\$ 10,791	3.00%	N/A	N/A
Tangible Capital (to adjusted total assets)	\$ 29,465	8.19%	\$ 5,396	1.50%	N/A	N/A
Tier I (Core) Capital (to average assets)	\$ 29,465	8.81%	\$ 13,383	4.00%	\$ 16,728	5.00%
As of September 30, 1996						
Total Capital (to risk weighted assets)	\$ 33,084	16.36%	\$ 16,176	8.00%	\$ 20,220	10.00%
Tier I (Core) Capital (to risk weighted assets)	\$ 31,343	15.50%	\$ 8,088	4.00%	\$ 12,132	6.00%
Tier I (Core) Capital (to adjusted total assets)	\$ 31,343	9.04%	\$ 10,396	3.00%	N/A	N/A
Tangible Capital (to adjusted total assets)	\$ 31,343	9.04%	\$ 5,198	1.50%	N/A	N/A
Tier I (Core) Capital (to average assets)	\$ 31,343	10.05%	\$ 12,478	4.00%	\$ 15,598	5.00%

Regulations of the Office of Thrift Supervision limit the amount of dividends and other capital distributions that may be paid by a savings institution without prior approval of the Office of Thrift Supervision. The regulatory restriction is based on a three-tiered system with the greatest flexibility being afforded to well-capitalized (Tier 1) institutions. First Federal is currently a Tier 1 institution. Accordingly, First Federal can make, without prior regulatory approval, distributions during a calendar year up to 100% of its net income to date during the calendar year plus an amount that would reduce by one-half its "surplus capital ratio" (the excess over its capital requirements) at the beginning of the calendar year. Accordingly, at September 30, 1997, approximately \$5,500,000 of First Federal's retained earnings was potentially available for distribution to the Company.

Quantitative measures established by regulation to ensure capital adequacy require 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, 1997, that Security meets all capital adequacy requirements to which it is subject.

NOTE 14 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS(continued)

As of December 31, 1996, the most recent notification date, the Federal Deposit Insurance Corporation categorized Security as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized Security must maintain minimum, Tier I risk-based, Tier I leverage and total risk-based capital ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category. At September 30, 1997, approximately \$168,000 of Security's retained earnings was potentially available for distribution to the Company.

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, 1997						
Total Capital (to risk weighted assets)	\$ 3,744	13.9%	\$ 2,148	8.0%	\$ 2,685	10.0%
Tier I Capital (to risk weighted assets)	\$ 3,406	12.7%	\$ 1,074	4.0%	\$ 1,611	6.0%
Tier I Capital (to average assets)	\$ 3,406	9.9%	\$ 1,379	4.0%	\$ 1,724	5.0%
As of September 30, 1996						
Total Capital (to risk weighted assets)	\$ 3,323	15.4%	\$ 1,729	8.0%	\$ 2,161	10.0%
Tier I Capital (to risk weighted assets)	\$ 3,049	14.1%	\$ 865	4.0%	\$ 1,297	6.0%
Tier I Capital (to average assets)	\$ 3,049	10.0%	\$ 1,220	4.0%	\$ 1,525	5.0%

NOTE 15 - 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, 1997 and 1996, loan commitments approximated \$15,782,000 and \$20,671,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 1997 included commitments to originate fixed-rate loans with interest rates ranging from 7.37% to 11.50% totaling \$4,876,000 and adjustable-rate loan commitments with interest rates ranging from 7.9% to 12.0% totaling \$5,523,000. The company also had commitments to purchase adjustable rate loans of \$5,343,000 with interest rates ranging from 8.395% to 10.00%, and commitments to purchase \$40,000 in fixed rate loans at 9.0% as of year end 1997. Loan commitments at September 30, 1996 included commitments to originate fixed-rate loans with interest rates ranging from 8.5% to 9.25% totaling \$314,000, adjustable-rate loan commitments with interest rates ranging from 8.13% to 11.00% totaling \$14,723,000 and adjustable-rate purchase loan commitments of \$5,634,000 with interest rates ranging from 9.25% to 9.50%. 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 non-performance by other parties to financial instruments for commitments to extend credit is represented by the contractual amount of those instruments. The same credit policies and collateral requirements are used in making commitments and conditional obligations as are used for on-balance-sheet instruments.

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 \$5,835,000 and \$9,711,000 and fair values of approximately \$5,710,000 and \$9,633,000 at September 30, 1997 and 1996, respectively, were pledged as collateral for public funds on deposit.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (continued)

Securities with amortized costs of approximately \$2,076,777 and \$2,404,000 and fair values of approximately \$2,149,000 and \$2,456,000 at September 30, 1997 and 1996, 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 \$2,843,000 as of September 30, 1997.

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 16 - PARENT COMPANY FINANCIAL STATEMENTS

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

Condensed Balance Sheets September 30, 1997 and 1996	1997	1996
Assets		
Cash and cash equivalents	\$ 2,166,091	\$ 1,383,318
Securities available for sale	1,254,610	1,433,285
Investment in subsidiary banks	39,309,383	40,258,011
Loan receivable from ESOP	567,200	767,200
Other assets	306,656	61,431
	-----	-----
Total assets	\$ 43,603,940	\$ 43,903,245
Liabilities		
Accrued expenses and other liabilities	\$ 126,936	\$ 693,543
Shareholders' Equity		
Common stock	29,580	19,905
Additional paid-in capital	20,984,754	20,862,551
Retained earnings - substantially restricted	26,427,657	23,748,383
Net unrealized appreciation on securities available for sale, net of tax of \$568,013 in 1997 and \$18,324 in 1996	960,371	28,698
Unearned Employee Stock Ownership Plan shares	(567,200)	(767,200)
Treasury stock, at cost	(4,358,158)	(682,635)
	-----	-----
Total shareholders' equity	43,477,004	43,209,702
	-----	-----
Total liabilities and shareholders' equity	\$ 43,603,940	\$ 43,903,245
	=====	=====

Condensed Statements of Income	1997	1996	1995
Years ended September 30, 1997, 1996 and 1995			
Dividend income from subsidiary banks	\$ 6,000,000	\$ 9,500,000	\$ 1,800,000
Interest income	145,339	219,546	177,901
Gain on sales of securities available for sale, net	216,614	51,237	51,250
	-----	-----	-----
	6,361,953	9,770,783	2,029,151
Interest expense	132,014	-	-
Operating expenses	348,162	182,743	132,175
	-----	-----	-----
	480,176	182,743	132,175
Income before income taxes and equity in undistributed net income of subsidiaries	5,881,777	9,588,040	1,896,976
Income tax expense (benefit)	(55,000)	53,000	50,000
	-----	-----	-----

(continued)

NOTE 16 - PARENT COMPANY FINANCIAL STATEMENTS (continued)

Condensed Statements of Income (continued) Years ended September 30, 1997, 1996 and 1995	1997	1996	1995
Income before equity in undistributed net income of subsidiaries	5,936,777	9,535,040	1,846,976
(Distributions in excess of) equity in undistributed net income of subsidiary banks	(2,294,821)	(7,121,475)	1,697,376
Net income	<u>\$ 3,641,956</u> =====	<u>\$ 2,413,565</u> =====	<u>\$ 3,544,352</u> =====
Condensed Statements of Cash Flows Years ended September 30, 1997, 1996 and 1995	1997	1996	1995
Cash flows from operating activities			
Net income	\$ 3,641,956	\$ 2,413,565	\$ 3,544,352
Adjustments to reconcile net income to net cash from operating activities			
Distribution in excess of (equity in undistributed) net income of subsidiary banks	2,294,821	7,121,475	(1,697,376)
Amortization of recognition and retention plan	41,947	117,064	208,159
Gain on sales of securities available for sale, net	(216,614)	(51,237)	(51,250)
Change in other assets	(245,225)	110,759	291,107
Change in accrued expenses and other liabilities ..	(611,711)	721,109	54,984
Net cash from operating activities	<u>4,905,174</u>	<u>10,432,735</u>	<u>2,349,976</u>
Cash flows from investing activities			
Purchase of securities available for sale	(231,000)	(1,014,438)	(617,562)
Proceeds from sales of securities available for sale	804,067	338,750	241,875
Purchase of Iowa Bancorporation, Inc.	--	(6,529,615)	--
Purchase of Central West Bancorporation	--	(1,923,519)	--
Repayments on loan receivable from ESOP	200,000	200,000	218,800
Net cash from investment activities	<u>773,067</u>	<u>(8,928,822)</u>	<u>(156,887)</u>

Cash flows from financing activities			
Cash dividends paid	(962,682)	(745,761)	(515,095)
Proceeds from exercise of stock options	335,991	94,500	--
Purchase of treasury stock	(4,268,777)	(630,710)	(932,030)
	-----	-----	-----
Net cash from financing activities	(4,895,468)	(1,281,971)	(1,447,125)
	-----	-----	-----
Net change in cash and cash equivalents	782,773	221,942	745,964
Cash and cash equivalents at beginning of year	1,383,318	1,161,376	415,412
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 2,166,091	\$ 1,383,318	\$ 1,161,376
	=====	=====	=====
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	\$ 132,014	\$ --	\$ --
Supplemental schedule of noncash investing and financing activities:			
Issuance of common stock for purchase of Central West Bancorporation	\$ --	\$ 3,936,634	\$ --

NOTE 16 - PARENT COMPANY FINANCIAL STATEMENTS (continued)

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 14).

NOTE 17 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	December 31	March 31	June 30	September 30
Fiscal year 1997:				
Total interest income	\$7,305,929	\$6,882,095	\$7,331,501	\$7,485,150
Total interest expense	4,288,793	3,973,985	4,356,367	4,439,912
Net interest income	3,017,136	2,908,110	2,975,134	3,045,238
Provision for loan losses	30,000	30,000	30,000	30,000
Net income	953,216	849,539	912,504	926,697
Earnings per share (fully diluted)				
Net income	\$.33	\$.29	\$.33	\$.33
Fiscal year 1996:				
Total interest income	\$5,363,332	\$5,962,258	\$6,499,056	\$6,512,819
Total interest expense	2,960,194	3,407,485	3,735,106	3,875,825
Net interest income	2,403,138	2,554,773	2,763,950	2,636,994
Provision for loan losses	30,000	30,000	30,000	10,000
Net income	776,845	726,806	892,181	17,733
Earnings per share (fully diluted)				
Net income	\$.29	\$.27	\$.33	\$.01
Fiscal year 1995:				
Total interest income	\$5,202,586	\$5,558,039	\$5,162,491	\$5,130,354
Total interest expense	2,815,729	3,154,619	2,897,007	2,781,369
Net interest income	2,386,857	2,403,420	2,265,484	2,348,985
Provision for loan losses	30,000	30,000	130,000	60,000
Net income	776,494	774,220	1,262,075	731,563
Earnings per share (fully diluted)				
Net income	\$.29	\$.29	\$.48	\$.27

NOTE 18 - 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, 1997 and 1996, 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.

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at September 30, 1997 and 1996. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	1997		1996	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Selected Assets:				
Cash and cash equivalents	\$ 12,852,426	\$ 12,852,000	\$ 14,328,652	\$ 14,329,000
Interest-bearing deposits in other financial institutions	200,000	200,000	300,000	300,000
Securities available for sale	115,985,045	115,985,000	109,491,558	109,492,000
Loans receivable, net	254,640,971	254,455,000	243,533,519	243,654,000
FHLB Stock	5,629,300	5,629,000	5,524,700	5,525,000
Accrued interest receivable	5,366,109	5,366,000	5,029,047	5,029,000
Selected Liabilities:				
Noninterest bearing demand deposits	(5,572,296)	(5,572,000)	(5,452,911)	(5,452,000)
Savings, NOW and money market demand deposits	(49,838,735)	(49,839,000)	(49,358,478)	(49,358,000)
Other time certificates of deposit	(190,704,667)	(190,190,000)	(178,594,337)	(178,762,000)
Total deposits	(246,115,698)	(245,601,000)	(233,405,726)	(233,572,000)
Advances from FHLB	(107,426,225)	(107,247,000)	(102,287,803)	(102,185,000)
Securities sold under agreements to repurchase	(1,800,000)	(1,806,000)	(2,789,918)	(2,790,000)
Other borrowings	(2,900,000)	(2,900,000)	(1,400,000)	(1,400,000)
Advances from borrowers for taxes and insurance	(449,487)	(449,000)	(490,243)	(490,000)
Accrued interest payable	(1,065,746)	(1,066,000)	(1,271,465)	(1,271,000)
Off-Balance-Sheet Instruments:				
Loan commitments	(15,782,000)	-	(20,671,000)	-

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 1997 and 1996.

Cash and Cash Equivalents:

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

Interest-bearing Deposits In Other Financial Institutions:

The carrying amount of interest-bearing deposits in other financial institutions 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 receivable, net 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, 1997 and 1996. 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.

FHLB Stock:

The fair value of such stock approximates book value since the Bank 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.

NOTE 18 - FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**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, 1997 and 1996 on certificates of deposit with similar remaining maturities. In accordance with SFAS No. 107, no value has been assigned to the Bank'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, 1997 and 1996, for advances with similar terms and remaining maturities.

Securities Sold Under Agreements to Repurchase and Other Borrowings:

The fair value of securities sold under agreements to repurchase and other borrowings was estimated by discounting the expected future cash flows using derived interest rates approximating market as of September 30, 1997 and 1996 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 face amounts 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.

NOTE 19 - SUPPLEMENTAL CASH FLOW DISCLOSURES

On December 29, 1995, the Company purchased all of the common stock of Iowa Bancorp for \$8,000,000 in cash. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 25,429,434
Cash paid	(8,000,000)

Liabilities assumed	\$ 17,429,434
	=====

On September 30, 1996, the Company, purchased all of the common stock of Central West for \$1,312,474 in cash and issued 171,158 common shares at a market value of \$23 per share. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 35,577,247
Cash paid	(1,312,474)
Common stock issued	(3,936,634)

Liabilities assumed	\$ 30,328,139
	=====

NOTE 20 - FEDERAL DEPOSIT INSURANCE PREMIUM

The deposits of savings associations such as the Bank are insured by the Savings Association Insurance Fund ("SAIF"). A recapitalization plan signed into law on September 30, 1996 provided for a one-time assessment of 65.7 basis points applied to all SAIF deposits as of March 31, 1995. Based on the Bank's deposits as of this date, a one-time assessment of \$1,265,996 was paid and recorded as federal deposit insurance premium expense for the year ended September 30, 1996.

[GRAPHIC-SEVEN INDIVIDUAL PHOTOS OF DIRECTORS]

Directors of First Midwest Financial, Inc.

JAMES S. HAAHR -- Chairman of the Board, President and Chief Executive Officer for First Midwest Financial, Inc. and First Federal Savings Bank of the Midwest; Chairman of the Board and Chief Executive Officer for Security State Bank. Mr. Haahr is a member of the Board of Trustees of Buena Vista University. He has served in various capacities since beginning his career with First Federal in 1961. He is a member of the Board of Directors of America's Community Bankers and a member of the Savings Association Insurance Fund Industry Advisory Committee. Mr. Haahr is former Vice Chairman of the Board of Directors of the Federal Home Loan Bank of Des Moines, former Chairman of the Iowa League of Savings Institutions, and a former director of the U.S. League of Savings Institutions. Board committee: First Federal Trust Committee. James S. Haahr is the father of J. Tyler Haahr.

J. TYLER HAAHR -- Senior Vice President, Secretary and Chief Operating Officer for First Midwest Financial, Inc.; Executive Vice President, Secretary and Chief Operating Officer for First Federal Savings Bank of the Midwest; Secretary of Security State Bank; and Vice President and Secretary of First Services Financial Limited. Mr. Haahr has been employed by First Midwest and its affiliates since March, 1997. Previously Mr. Haahr was a partner with the law firm of Lewis and Roca LLP, Phoenix, Arizona. Board committee: First Federal Trust Committee. J. Tyler Haahr is the son of James S. Haahr.

E. WAYNE COOLEY -- Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Dr. Cooley has served as Executive Secretary of the Iowa Girls' High School Athletic Union in Des Moines, Iowa since 1954. Board committees: Chairman of the Audit-Compensation/Personnel Committee and member of the Stock Option Committee.

E. THURMAN GASKILL -- Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Mr. Gaskill has owned and operated a grain farming operation located near Corwith, Iowa since 1958. Board committees: Chairman of the First Federal Trust Committee and member of the Audit-Compensation/Personnel Committee.

G. MARK MICKELSON -- Member of the Board of Directors for First Midwest Financial, Inc. and First Federal Savings Bank of the Midwest. Mr. Mickelson is Vice President of Acquisitions for Northwestern Growth Corporation in Sioux Falls, South Dakota. Northwestern Growth Corporation is the unregulated investment subsidiary of Northwestern Public Service. Board committees: First Federal Audit-Compensation/Personnel Committee and Stock Option Committee.

RODNEY G. MUILENBURG -- Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Mr. Muilenburg is employed as a dairy specialist with Purina Mills, Inc., and supervises the sale of agricultural products in a region encompassing northwest Iowa, northeast Nebraska, eastern South Dakota, and southwest Minnesota. Board committees: Chairman of the Stock Option Committee and member of the Audit-Compensation/Personnel Committee.

JEANNE PARTLOW -- Member of the Board of Directors for First Midwest Financial, Inc. Mrs. Partlow is President of the Iowa Savings Bank Division of First Federal, Des Moines, Iowa. She was President, Chief Executive Officer and Chairperson of the Board of Iowa Savings Bank, F.S.B., from 1987 until the end of December 1995, when Iowa Savings Bank was acquired by and became a division of First Federal Savings Bank of the Midwest.

[GRAPHIC-EIGHT INDIVIDUAL PHOTOS OF EXECUTIVE OFFICERS]

Executive Officers

JAMES S. HAAHR

Chairman of the Board,
President and Chief Executive
Officer for First Midwest
Financial, Inc. and First
Federal Savings Bank of the
Midwest

J. TYLER HAAHR

Senior Vice President,
Secretary and Chief Operating
Officer for First Midwest
Financial, Inc.; and Executive
Vice President, Secretary and
Chief Operating Officer for
First Federal Savings Bank
of the Midwest

DONALD J. WINCHELL, CPA

Vice President, Treasurer
and Chief Financial Officer
for First Midwest Financial,
Inc.; and Senior Vice President,
Treasurer and Chief Financial
Officer for First Federal Savings
Bank of the Midwest

ELLEN E. H. MOORE

Senior Vice President
Marketing and Sales for
First Federal Savings Bank
of the Midwest

FRED A. STEVENS

President and Trust Officer
for Storm Lake Division of
First Federal Savings Bank
of the Midwest

JAMES C. WINTERBOER

President for Brookings
Federal Bank Division of
First Federal Savings Bank
of the Midwest

JEANNE PARTLOW

President for Iowa Savings
Bank Division of First Federal
Savings Bank of the Midwest

SUSAN C. JESSE
Senior Vice President Branch
Administration and Compliance
Officer for First Federal
Savings Bank of the Midwest

Corporate Information

CORPORATE HEADQUARTERS

First Midwest Financial, Inc.
First Federal Building
Fifth at Erie
P.O. Box 1307
Storm Lake, Iowa 50588

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders will convene at 1 p.m. on Monday, January 26, 1998. The meeting will be held in the Board Room of First Federal Savings Bank of the Midwest, 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
Storm Lake, Iowa 50588

SPECIAL COUNSEL

Silver, Freedman & Taff, LLP
1100 New York Avenue, NW
Washington, DC 20005-3934

INDEPENDENT AUDITORS

Crowe, Chizek and Company LLP
330 East Jefferson Boulevard
P.O. Box 7
South Bend, Indiana 46624

STOCKHOLDER SERVICES AND INVESTOR RELATIONS

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

Registrar & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
Telephone: 1-800-368-5948

Analysts, investors, and others seeking a copy of the Form 10-K or other public financial information should contact the following:

Investor Relations
First Midwest Financial, Inc.
First Federal Building, Fifth at Erie P.O. Box 1307
Storm Lake, Iowa 50588
Telephone: 712-732-4117

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. The price range of the common stock as reported on the Nasdaq System for each quarter of fiscal 1996 and 1997, after giving retroactive effect for the three for two stock split paid by the company in the form of a fifty percent stock dividend, was as follows:

	1996	1997	Fiscal Year 1996		Fiscal Year 1997	
	Dividend Paid	Dividend Paid	Low	High	Low	High
-----	-----	-----	-----	-----	-----	-----
First Quarter	\$.073	\$.09	\$13.17	\$15.67	\$15.00	\$16.67
Second Quarter	\$.073	\$.09	\$14.67	\$15.67	\$15.25	\$17.88
Third Quarter	\$.073	\$.09	\$14.50	\$16.17	\$15.00	\$18.00
Fourth Quarter	\$.073	\$.09	\$14.50	\$16.50	\$16.25	\$20.88

The prices reflect 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 14 of the Notes to Consolidated Financial Statements included in this Annual Report.

As of September 30, 1997, there were 2,698,904 shares of common stock outstanding, which were held by 332 stockholders of record, and 325,298 shares subject to outstanding options. The stockholders of record number does not reflect approximately 590 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, 1997: Everen Securities, Inc.; Herzog, Heine, Geduld, Inc.; Howe Barnes Investments, Inc.; Piper Jaffray Companies, Inc.; Sandler O'Neill Partners; Trident Securities, Inc.; Tucker Anthony Incorporated.

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 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

CONSENTS OF EXPERTS

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement No. 33-80171 of First Midwest Financial, Inc. on Form S-8 and in Registration Statement No. 333-9871 of First Midwest Financial, Inc. on Form S-3 of our report dated October 10, 1997, contained in Exhibit 13 to First Midwest Financial, Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 1997.

/s/ Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

South Bend, Indiana
December 23, 1997

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-80171 of First Midwest Financial, Inc. on Form S-8 of our report dated November 17, 1995 appearing in Exhibit 99 in this Annual Report on Form 10-K of First Midwest Financial, Inc. for the year ended September 30, 1997.

/s/Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Omaha, Nebraska
December 23, 1997

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-9871 of First Midwest Financial, Inc. on Form S-3 of our report dated November 17, 1995 appearing in Exhibit 99 in this Annual Report on Form 10-K of First Midwest Financial, Inc. for the year ended September 30, 1997.

/s/Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Omaha, Nebraska

December 23, 1997

ARTICLE 9

PERIOD TYPE	12 MOS
FISCAL YEAR END	SEP 30 1997
PERIOD END	SEP 30 1997
CASH	875,169
INT BEARING DEPOSITS	10,909,907
FED FUNDS SOLD	1,267,350
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	115,985,045
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	257,020,062
ALLOWANCE	2,379,091
TOTAL ASSETS	404,588,578
DEPOSITS	246,115,698
SHORT TERM	47,250,000
LIABILITIES OTHER	2,869,651
LONG TERM	64,876,225
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29,580
OTHER SE	43,447,424
TOTAL LIABILITIES AND EQUITY	404,588,578
INTEREST LOAN	22,432,828
INTEREST INVEST	6,571,847
INTEREST OTHER	0
INTEREST TOTAL	29,004,675
INTEREST DEPOSIT	11,982,913
INTEREST EXPENSE	17,059,057
INTEREST INCOME NET	11,945,618
LOAN LOSSES	120,000
SECURITIES GAINS	216,614
EXPENSE OTHER	7,382,265
INCOME PRETAX	6,144,025
INCOME PRE EXTRAORDINARY	3,641,956
EXTRAORDINARY	0
CHANGES	0
NET INCOME	3,641,956
EPS PRIMARY	1.27
EPS DILUTED	1.27
YIELD ACTUAL	3.38
LOANS NON	2,875,252
LOANS PAST	282,000
LOANS TROUBLED	0
LOANS PROBLEM	7,234,106
ALLOWANCE OPEN	2,356,113
CHARGE OFFS	122,660
RECOVERIES	25,638
ALLOWANCE CLOSE	2,379,091
ALLOWANCE DOMESTIC	2,303,091
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	76,000

EXHIBIT 99

INDEPENDENT AUDITOR'S REPORT OF FORMER ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
First Midwest Financial, Inc. and Subsidiaries Storm Lake, Iowa

We have audited the accompanying consolidated statements of income, stockholders' equity and cash flows of First Midwest Financial, Inc. and subsidiaries (the Company) for the year ended September 30, 1995. 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 audit.

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

In our opinion, such consolidated financial statements of First Midwest Financial, Inc. and subsidiaries present fairly, in all material respects, the results of their operations and their cash flows for the year ended September 30, 1995 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

*Deloitte & Touche LLP
Omaha, Nebraska
November 17, 1995*

End of Filing

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