META FINANCIAL GROUP INC

FORM 10KSB40
(Annual and Transition Reports)

Filed 12/27/1996 For Period Ending 9/30/1996

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-KSB

[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, 1996

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 $25.8 million

As of December 17, 1996, the Registrant had issued and outstanding 1,942,058 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 price of such stock on the Nasdaq System as of December 17, 1996, was $37.9 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 of Form 10-KSB -- Annual Report to Stockholders for the fiscal year ended September 30, 1996.

PART III of Form 10-KSB -- Proxy Statement for the 1997 Annual Meeting of

Stockholders

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 principle assets of which are First Federal Savings Bank of the Midwest ("First Federal") and Security State Bank ("Security"). First Midwest, on September 20, 1993, acquired all of the capital stock of First Federal in connection with First Federal's conversion from the mutual to stock form ownership (the "Conversion"). On September 30, 1996, 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. Most recently, 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 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, 1996, the Company had total assets of $388.0 million, deposits of $233.4 million, and shareholders' equity of $43.2 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.

Forward-Looking Statements

When used in this Form 10-KSB 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 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 not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers 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.

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 six additional branch offices located in the communities of Des Moines, Lake View, Laurens, Manson, Odebolt, Sac City, Storm Lake, 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 8,350 students enrolled for the 1996 fall term and employs 107 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.

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. Notwithstanding, the Company 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, 1996, the Company's net loan portfolio totalled $243.5 million, or 62.8% 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.

The aggregate amount of loans that the Banks are permitted to make are subject to regulatory restrictions under their applicable governing agencies. At September 30, 1996, the maximum amount which First Federal could lend to any one borrower and the borrower's related entities, pursuant to OTS regulations, was approximately $5.0 million and the maximum amount which Security could lend to any one borrower and the borrower's related entities, pursuant to FRB and Iowa regulations, was approximately $540,000. At September 30, 1996, the Company had no loans or groups of loans to related borrowers with outstanding balances in excess of these amounts.

At that date, the Company's largest lending relationship to a single borrower or group of related borrowers totalled $4.1 million consisting of two loans to a single borrower secured by two assisted living complexes located in St. Cloud, Minnesota. There was only one other lending relationships in excess of $3.0 million as of September 30, 1996. At September 30, 1996, each of these loans was performing in accordance with its repayment terms.

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

	September 30,					
	1992		1993		1994	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)					
Real Estate Loans						
One- to four-family	$38,436	50.9%	$34,485	41.8%	$ 55,162	34.3%
Commercial and multi-family	20,195	26.7	23,775	28.8	59,920	37.3
Agricultural	6,161	8.2	6,065	7.4	8,064	5.0
Construction	208	.3	4,037	4.9	10,248	6.4
Total real estate loans	65,000	86.1	68,362	82.9	133,394	83.0
Other Loans:						
Consumer Loans:						
Home equity	2,097	2.8	2,158	2.6	3,784	2.4
Automobile	900	1.2	700	.9	2,944	1.8
Student	622	.8	268	.3	422	.3
Deposit account	1,493	2.0	1,421	1.7	385	.2
Other (1)	893	1.2	668	.8	3,063	1.9
Total consumer loans	6,005	8.0	5,215	6.3	10,598	6.6
Agricultural operating	3,865	5.1	7,817	9.5	7,784	4.8
Commercial business	667	.8	1,089	1.3	8,931	5.6
Total other loans	10,537	13.9	14,121	17.1	27,313	17.0
Total loans	75,537	100.0%	82,483	100.0%	160,707	100.0%
Less:						
Loans in process	308		1,345		3,425	
Deferred fees and discounts	68		88		343	
Allowance for losses	600		825		1,442	
Total loans receivable, net	$74,561		$80,225		$155,497	

	September 30,			
	1995		1996	
	Amount	Percent	Amount	Percent
Real Estate Loans				
One- to four-family	$ 57,274	30.4%	$ 78,476	31.6%
Commercial and multi-family	73,419	38.9	85,157	34.2
Agricultural	7,021	3.7	11,068	4.5
Construction	17,877	9.5	7,819	3.1
Total real estate loans	155,591	82.5	182,520	73.4
Other Loans:				
Consumer Loans:				
Home equity	4,906	2.6	7,823	3.1
Automobile	3,663	1.9	5,356	2.2
Student	382	.2	324	.1
Deposit account	330	.2	666	.3
Other (1)	3,727	2.0	6,259	2.5
Total consumer loans	13,008	6.9	20,428	8.2
Agricultural operating	11,905	6.3	30,364	12.2
Commercial business	8,173	4.3	15,468	6.2
Total other loans	33,086	17.5	66,260	26.6
Total loans	188,677	100.0%	248,780	100.0%
Less:				
Loans in process	8,071		2,240	
Deferred fees and discounts	404		650	
Allowance for losses	1,650		2,356	
Total loans receivable, net	$178,552		$ 243,534	

(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, 1992 Amount	1992 Percent	1993 Amount	1993 Percent	1994 Amount	1994 Percent
	(Dollars in Thousands)					
Fixed Rate Loans:						
Real estate:						
One- to four-family	$16,561	21.9%	$14,991	18.2%	$ 19,913	12.4%
Commercial and multi-family	9,623	12.7	7,955	9.6	13,340	8.3
Agricultural	2,963	4.0	1,144	1.4	1,806	1.1
Construction	---	---	155	.2	4,231	2.6
Total fixed-rate real estate loans	29,147	38.6	24,245	29.4	39,290	24.4
Consumer	5,553	7.4	4,676	5.7	10,022	6.2
Agricultural operating	2,336	3.1	2,159	2.6	5,945	3.7
Commercial business	295	.4	730	.9	7,887	4.9
Total fixed-rate loans	37,331	49.5	31,810	38.6	63,144	39.2
Adjustable Rate Loans:						
Real estate:						
One- to four-family	21,875	29.0	19,494	23.6	35,249	21.9
Commercial and multi-family	10,572	14.0	15,820	19.2	46,580	29.0
Agricultural	3,198	4.2	4,921	6.0	6,258	3.9
Construction or development	208	.3	3,882	4.7	6,017	3.8
Total adjustable-rate real estate loans	35,853	47.5	44,117	53.5	94,104	58.6
Consumer	452	.5	539	.7	576	.4
Agricultural operating	1,529	2.0	5,658	6.8	1,839	1.1
Commercial business	372	.5	359	.4	1,044	.7
Total adjustable rate loans	38,206	50.5	50,673	61.4	97,563	60.8
Total loans	75,537	100.0%	82,483	100.0%	160,707	100.0%
Less:						
Loans in process	308		1,345		3,425	
Deferred fees and discounts	68		88		343	
Allowance for loan losses	600		825		1,442	
Total loans, net	$74,561		$80,225		$155,497	

	September 30,			
	1995		1996	
	Amount	Percent	Amount	Percent
Fixed Rate Loans:				
Real estate:				
One- to four-family....................	$22,875	12.1%	$ 41,322	16.6%
Commercial and multi-family............	14,262	7.6	14,036	5.6
Agricultural...........................	5,536	2.9	4,250	1.7
Construction...........................	2,342	1.3	2,938	1.2
Total fixed-rate real estate loans..	45,015	23.9	62,546	25.1
Consumer................................	12,303	6.5	19,145	7.7
Agricultural operating.................	7,335	3.9	14,998	6.1
Commercial business....................	5,521	2.9	7,200	2.9
Total fixed-rate loans.............	70,174	37.2	103,889	41.8
Adjustable Rate Loans:				
Real estate:				
One- to four-family....................	34,399	18.2	37,154	14.9
Commercial and multi-family............	59,157	31.4	71,121	28.6
Agricultural...........................	1,485	.8	6,818	2.7
Construction or development............	15,535	8.2	4,881	2.0
Total adjustable-rate real estate loans........................	110,576	58.6	119,974	48.2
Consumer................................	705	.4	1,283	.5
Agricultural operating..................	4,570	2.4	15,366	6.2
Commercial business.....................	2,652	1.4	8,268	3.3
Total adjustable rate loans.........	118,503	62.8	144,891	58.2
Total loans.........................	188,677	100.0%	248,780	100.0%
Less:				
Loans in process........................	8,071		2,240	
Deferred fees and discounts.............	404		650	
Allowance for loan losses...............	1,650		2,356	
Total loans, net....................	$178,552		$243,534	

The following table illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 1996. 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				Consumer		Agricultural Operating	
	Mortgage(1)		Construction					
Due During Years Ending September 30,	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
1997(2)............	$ 11,396	8.1%	$1,329	8.3%	$ 7,890	9.8%	$27,960	9.7%
1998-2001..........	44,259	8.6	3,040	9.3	11,075	9.6	2,398	9.4
2001 and following..	119,046	8.4	3,450	8.7	1,463	10.0	6	9.1

	Commercial Business		Total	
Due During Years Ending September 30,	Amount	Weighted Average Rate	Amount	Weighted Average Rate
1997(2)............	$10,804	9.9%	$ 59,379	9.4%
1998-2001..........	4,454	9.9	65,226	8.9
2001 and following..	210	9.5	124,175	8.4

(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, 1997 which have predetermined interest rates is $61.4 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $128.0 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, 1996, the Company's one- to four-family residential mortgage loan portfolio totalled $78.4 million, or 31.6% of the Company's total gross loan portfolio. Approximately 13.7% of the Company's one- to four-family mortgage loans or 4.4% 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."

The Company offers fixed-rate and ARM loans. During the year ended September 30, 1996, the Company originated $10.6 million of adjustable-rate loans and $6.2 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 up to a 200 basis points annual cap and a lifetime cap of 600 basis points over the initial rate. As a consequence of using an initial fixed-rate and caps, the interest rates on these loans may not be as rate sensitive as is the Company's cost of funds. The Company's ARMs do not permit negative amortization of principal and are not convertible into a fixed rate loan. The Company's ARMs may 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 all 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. During fiscal 1996, 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 $18.2 million of such loans. At September 30, 1996, the Company had $85.1 million of commercial and multi-family real estate loans, which represented 34.2% of the Company's total gross loan portfolio, compared to $73.4 million, or 38.9% of the Company's total gross loan portfolio in fiscal 1995. At September 30, 1996, $1.6 million, or 1.9% of the Company's commercial and multi-family real estate loans were non-performing. See " - Non-Performing Assets 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, 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, 1996, the Company's largest commercial and multi-family real estate loan was a $4.1 million loan secured by two multi-family properties located in St. Cloud, Minnesota. The Company had only three other commercial and/or multi-family loans in excess of $2.0 million at such date. All of these loans are currently performing in accordance with their terms.

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, 1996, the Company's construction loan portfolio totalled $7.8 million, or 3.1% of the Company's total gross loan portfolio.

Construction loans to individuals for their residences are structured to be converted to permanent loans at the end of the construction phase, which typically runs up to twelve months. These construction loans have rates and terms which generally match the one- to four-family loan rates then offered by the Company, except that during the construction phase the borrower pays interest only. Generally, the maximum loan-to-value ratio of owner occupied single family construction loans is 80% of appraised value. Residential construction loans are generally underwritten pursuant to the same guidelines used for originating permanent residential loans. At September 30, 1996, the Company had $1.7 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, 1996, 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 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, 1996, the Company had approximately $6.1 million of loans for the construction of commercial and multi-family real estate. This amount consisted of two loans totalling $2.2 million for the construction of apartment complexes, two loans totalling $1.2 million for the construction of assisted living facilities, and five loans totalling $2.7 million for the construction of commercial office buildings. All of these loans were performing in accordance with their terms at September 30, 1996.

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, 1996, the Company had agricultural real estate loans secured by farmland of $11.0 million or 4.5% of the Company's gross loan portfolio. At the same date, $30.4 million, or 12.2% of the Company's gross loan portfolio, consisted of secured loans related to agricultural operations.

Agricultural real estate loans are primarily 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 the lesser of 70% of the value of the property or $1,100 per acre of agricultural real estate securing the loan. At September 30, 1996, $127,000, or 1.1%, of the Company's agricultural real estate portfolio was non-performing.

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 generally provide for annual payments of principal and interest, 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 adjustable-rate loans with terms of up to seven years. At September 30, 1996, $184,000, or .6%, of the Company's agricultural operating loans were 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 support programs and other regulations. Support payments are made with the requirement that a farmer leave idle certain acres of farm land from production. If the support programs were modified or discontinued, the farmer could produce some income from crop growth on the idle acreage, albeit, at an amount presumably lower than the support payments. Some farmers rely on the income, in part, from support 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, 1996, the Company's consumer loan portfolio totalled $20.4 million, or 8.2% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 1996, 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 generally has the first mortgage on such properties as well. The Company will lend such amounts which, together with all prior liens, may be up to 100% of the appraised value of the property securing the loan. Home equity lines of credit and loans have maximum terms of up to 10 years and 5 years respectively. As of September 30, 1996, home equity lines of credit and loans totalled $7.8 million or 3.1% of the Company's gross loan portfolio.

At September 30, 1996, the Company's automobile loan portfolio totaled $5.4 million or 26.2% of the Company's total consumer loan portfolio and 2.2% of its gross loan portfolio. 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 from automobile dealers which have extended credit to their customers. Automobile loans typically are originated at fixed interest rates with terms up to 60 months for new vehicles and 48 months for 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.

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, 1996, the maximum amount of funds committed by the Company pursuant to its floor plan arrangements was $400,000, of which $372,000 was outstanding at such date.

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 mobile homes. 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, 1996, $331,000 or 1.6% 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, 1996, $15.5 million, or 6.2% 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 may not exceed 80% of the value of the collateral securing the loan.

The largest commercial business loan outstanding at September 30, 1996 was a $3.0 million participation loan secured by marketable securities and escrowed operating revenues with a remaining term to maturity of five years. This loan is currently performing in accordance with its terms. The Company had no other commercial business loans outstanding in excess of $1.0 million at September 30, 1996.

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, 1996, $33,000 or .2% of the Company's commercial business loan portfolio was non-performing.

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.

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

Real estate 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. During the fiscal years ended September 30, 1996, 1995 and 1994, the Company's dollar volume of adjustable-rate one- to four-family loans exceeded the dollar volume of the same type of fixed-rate loans reflecting the Company's efforts to originate loans that are more sensitive to changes in interest rates.

In fiscal 1996, the Company originated loans totalling $90.6 million, compared to $64.0 million and $47.3 million in fiscal 1995 and 1994, respectively. Management attributes the increase in originations during 1996 to the Company's efforts to market its loan products to all segments of the communities it serves, with particular emphasis placed on expansion of the agricultural loan portfolio. Also, the Company's loan originations continue to increase as a result of the expanded lending market provided by the March 1994 acquisition of Brookings and the December 1995 acquisition of Iowa Savings.

During fiscal 1996, the Company purchased loans totalling $24.9 million. At September 30, 1996, the Company's balance of purchased whole loans and loan participations totalled $76.4 million, or 30.7% of the Company's total gross loan portfolio. These loans and participation interests are secured by properties primarily located in the northeast, midwest and northwest, as shown in the table on page 15 of this Form 10-KSB. See "Non-Performing Assets and Classified Assets."

The Company, from time to time, sells whole loans and loan participations generally without recourse. At September 30, 1996, 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 totalling $2.8 million at September 30, 1996, of which $1.7 million were sold to FNMA (as defined herein) and $1.1 million were sold to others.

In periods of economic uncertainty, the Company's ability to originate large dollar volumes of real estate 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.

	Year Ended September 30,		
	1994	1995	1996
	(In Thousands)		
Originations by type:			
Adjustable rate:			
Real estate - one- to four-family	$ 6,674	$ 8,359	$10,554
- commercial and multi-family	2,486	5,044	2,869
- agricultural real estate	---	1,399	2,244
Non-real estate - consumer	284	480	948
- commercial business	6,901	2,814	2,629
- agricultural operating	70	9,553	12,052
Total adjustable-rate	16,415	27,649	31,296
Fixed rate:			
Real estate - one- to four-family	4,766	6,372	6,213
- commercial and multi-family	2,140	601	3,065
- agricultural real estate	---	78	1,561
Non-real estate - consumer	8,243	11,931	16,899
- commercial business	15,388	12,167	8,812
- agricultural operating	321	5,229	22,781
Total fixed-rate	30,858	36,378	59,331
Total loans originated	47,273	64,027	90,627
Purchases:			
Real estate - one- to four-family	---	---	---
- commercial and multi-family	21,695	19,212	18,252
- agricultural real estate	120	500	---
Non-real estate - commercial business	---	7,959	6,723
- agricultural operating	825	373	---
	22,640	28,044	24,975
Loans from Brookings acquisition	52,580	---	---
Loans from Iowa Savings acquisition	---	---	16,734
Loans from Security acquisition	---	---	21,005
Total loans	75,220	28,044	62,714
Total mortgage-backed securities	56,964	---	23,406
Total purchased	132,184	28,044	86,120

	Year Ended September 30,		
	1994	1995	1996
	(In Thousands)		
Sales and Repayments:			
Real estate - one- to four-family	138	---	560
Non-real estate - consumer	28	129	504
Total loans	166	129	1,064
Mortgage-backed securities	---	47,934	---
Total sales	166	48,063	1,064
Loan principal repayments	44,076	63,985	91,900
Mortgage-backed securities repayments	8,442	3,524	8,834
Total principal repayments	52,518	67,509	100,734
Total reductions	52,684	115,572	101,798
Increase (decrease) in other items, net	(1,467)	999	(673)
Net increase (decrease)	$125,306	$(22,502)	$ 74,276

The following table shows the Company's purchased whole loans and loan participations by state and amount held in the loan portfolio at September 30, 1996.

	One- to Four-Family Loans			Commercial and Multi-Family		
Location	Balance	Number of Loans	Percent of total One- to Four Family	Balance	Number of Loans	Percent of total Commercial and Multi-Family Loans
				(Dollars in Thousands)		
Arizona...........	$ 241	8	.31%	$ ---	---	---%
California........	299	19	.38	---	---	---
Colorado..........	59	7	.08	---	---	---
Connecticut.......	1,436	58	1.83	---	---	---
Florida...........	27	2	0.03	---	---	---
Illinois..........	---	---	---	2,373	4	2.79
Indiana...........	---	---	---	2,620	2	3.08
Iowa..............	856	56	1.09	10,276	10	12.07
Minnesota.........	---	---	---	11,343	17	13.32
Missouri..........	1,707	26	2.18	1,273	7	1.49
Nebraska..........	435	26	0.55	4,659	5	5.47
New York..........	2,689	121	3.43	1,971	2	2.31
North Dakota......	246	24	0.31	3,596	10	4.22
Ohio..............	136	4	0.17	---	---	---
Oregon............	---	---	---	1,225	1	1.44
South Dakota......	932	45	1.19	3,649	14	4.29
Texas.............	1,688	41	2.15	324	2	.38
Washington........	---	---	---	1,952	1	2.29
Wisconsin.........	---	---	---	20,209	25	23.73
Wyoming...........	223	12	0.28	---	---	---
Total..........	$10,974	449	13.98%	$65,470	100	76.88%

	Total Purchased Loans		
	Balance	Number of Loans	Percent of Total Loans
Arizona...........	$ 241	8	0.10%
California........	299	19	0.12
Colorado..........	59	7	0.02
Connecticut.......	1,436	58	0.58
Florida...........	27	2	0.01
Illinois..........	2,373	4	0.95
Indiana...........	2,620	2	1.05
Iowa..............	11,132	66	4.48
Minnesota.........	11,343	17	4.56
Missouri..........	2,980	33	1.20
Nebraska..........	5,094	31	2.05
New York..........	4,660	123	1.87
North Dakota......	3,842	34	1.54
Ohio..............	136	4	.06
Oregon............	1,225	1	0.49
South Dakota......	4,581	59	1.84
Texas.............	2,012	43	0.81
Washington........	1,952	1	.79
Wisconsin.........	20,209	25	8.12
Wyoming...........	223	12	0.09
Total...........	$76,444	549	30.73%

Non-Performing Assets 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 as long as the loan is 90 days or more delinquent.

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, 1996.

	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...............	83	$3,532	4.50%	14	$ 602	.87%	9	$ 481	.61%
Commercial and multi-family.......	3	1,430	1.68	--	---		1	1,623	1.91
Agricultural real estate..........	4	235	2.12	1	72	.65	1	127	1.15
Consumer............................	75	260	1.27	35	138	.68	65	374	1.83
Agricultural operating..............	11	257	.85	3	20	.07	1	105	.35
Commercial business.................	6	424	2.74	9	315	2.04	2	33	.21
Total...........................	182	$6,138	2.47%	62	$1,147	.46%	79	$2,743	1.10%

Delinquencies 90 days and over constituted 1.1% of total loans and .71% of total assets.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Loans are 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,				
	1992	1993	1994	1995	1996
	(Dollars in Thousands)				
Non-accruing loans:					
One- to four-family	$ 118	$ 30	$ 311	$ 127	$ 347
Commercial and multi-family	---	---	302	199	1,623
Agricultural real estate	---	1,190	137	46	127
Consumer	59	4	105	206	331
Agricultural operating	---	21	78	100	184
Commercial business	74	16	38	48	33
Total	251	1,261	971	726	2,645
Less: Allowance for losses	---	---	30	15	---
Total	251	1,261	941	711	2,645
Foreclosed assets:					
One- to four-family	153	11	---	48	75
Commercial real estate	81	---	---	---	---
Consumer	---	---	---	---	8
Commercial business	---	---	---	---	9
Total	234	11	---	48	92
Less: Allowance for losses	90	11	---	---	5
Total	144	---	---	48	87
Total non-performing assets	$ 395	$ 1,261	$ 941	$ 759	$2,732
Total as a percentage of total assets	.23%	.78%	.34%	.29%	.70 %

For the year ended September 30, 1996, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately $96,000, of which none was included in interest income.

At September 30, 1996, there were loans totalling $1.4 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 five commercial real estate loans totalling $1.0 million, three one- to four-family residential mortgage loans totalling $135,000, five commercial business loans totalling $230,000, and one consumer loan totalling $3,000.

Also not included in the above table were $177,000 of accruing loans 90 days or more delinquent which were acquired by the Company in connection with the Security acquisition.

Classified Assets. Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered by 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, it 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," it 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, 1996, the Company had classified a total of $3.4 million of its assets as substandard, $185,000 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 allowance.

Real estate properties acquired through foreclosure are recorded at 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. At September 30, 1996, the Company had a total allowance for loan losses of $2.4 million, or .95% of total loans and 86.2% of total non-performing loans.

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

	Year Ended September 30,				
	1992	1993	1994	1995	1996
	(Dollars in Thousands)				
Balance at beginning of period	$ 657	$ 600	$ 825	$ 1,442	$1,650
Brookings acquisition	---	---	518	---	---
Iowa Savings acquisition	---	---	---	---	132
Security acquisition	---	---	---	---	563
Charge-offs:					
One- to four-family	---	---	---	---	---
Commercial and multi family	(107)	---	---	(30)	(35)
Consumer	---	---	(6)	(12)	(54)
Total charge-offs	(107)	---	(6)	(42)	89
Recoveries	---	---	---	---	---
Net charge-offs	(107)	---	(6)	(42)	(89)
Additions charged to operations	50	225	105	250	100
Balance at end of period	$ 600	$ 825	$1,442	$ 1,650	$2,356
Ratio of net charge-offs during the period to average loans outstanding during the period	.15%	---%	.01%	.03%	.04%
Ratio of net charge-offs during the period to average non-performing assets	16.09%	---%	.54%	5.08%	5.30%

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

	September 30,							
	1992		1993		1994		1995	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in Thousands)							
One- to four-family.......	$ 115	50.90%	$ 104	41.80%	$ 166	34.32%	$ 172	30.36%
Commercial and multi-family real estate......	102	26.70	178	28.80	449	37.29	551	38.92
Agricultural real estate..	31	8.20	286	7.40	81	5.02	70	3.72
Construction..............	1	.30	30	4.90	77	6.38	134	9.47
Consumer..................	45	8.00	39	6.30	106	6.59	145	6.89
Agricultural operating....	48	5.10	117	9.50	166	4.84	208	6.31
Commercial business.......	8	.80	16	1.30	134	5.56	123	4.33
Unallocated...............	250	---	55	---	263	---	247	---
Total................	$ 600	100.00%	$ 825	100.00%	$1,442	100.00%	$ 1,650	100.00%

	September 30,	
	1996	
	Amount	Percent of Loans in Each Category to Total Loans
One- to four-family.......	$ 235	31.54%
Commercial and multi-family real estate......	639	34.23
Agricultural real estate..	59	4.45
Construction..............	138	3.14
Consumer..................	270	8.21
Agricultural operating....	531	12.21
Commercial business.......	271	6.22
Unallocated...............	213	---
Total................	$2,356	100.0%

Investment Activities

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

As of September 30, 1996, the Company's entire investment and mortgage-backed securities portfolios, totalling $73.9 million and $35.6 million, respectively, were classified as available for sale. At such date, the Company's investment and mortgage-backed securities had amortized costs of $74.2 million and $35.3 million, respectively. The Company does not have any securities classified as held to maturity or as trading securities at September 30, 1996. 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 book value of the Company's investment security portfolio at the dates indicated.

	September 30,		
	1994	1995	1996
	(Dollars in Thousand)		
Investment Securities:			
U.S. government securities	$ 342	$ 372	$ 6,178
Federal agency obligations	27,951	44,900	63,032
Corporate bonds	1,918	1,058	202
Municipal bonds	250	240	1,392
Equity investments	236	695	1,433
FHLMC preferred stock	485	1,512	1,598
FNMA common stock	39	52	70
Subtotal	31,221	48,829	73,905
FHLB stock	3,016	3,915	5,525
Total investment securities and FHLB stock	$34,237	$52,744	$79,430
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds sold	$ 6,430	$ 4,162	$13,892

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, 1996					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Book Value	Book Value	Book Value	Book Value	Book Value	Market Value
	(Dollars in Thousands)					
Corporate bonds.................	$ 202	$ ---	$ ---	$---	$ 202	$ 202
Municipal bonds.................	---	385	727	280	1,392	1,392
U.S. government securities......	3,248	2,930	---	---	6,178	6,178
Federal agency obligations......	40,527	17,577	4,910	18	63,032	63,032
Total investment securities.....	$43,977	$20,892	$5,637	$298	$70,804	$70,804
Weighted average yield..........	5.64%	6.07%	7.15%	8.50%	5.90%	5.90%

The Company's investment securities portfolio at September 30, 1996, 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 Collateralize 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, 1996, the Company held CMOs totalling $4.6 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, 1996, the Company's $35.6 million of mortgage-backed and related securities, representing 9.2% of the Company's $388.0 million of total assets, were comprised solely of available for sale mortgage-backed securities. At such date, $19.5 million or 54.8% of the Company's mortgage-backed securities portfolio had fixed rates of interest and $16.1 million or 45.2% of such portfolio had adjustable rates of interest.

Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. At September 30, 1996, $27.9 million or 78.4% 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 book value of the Company's mortgage-backed securities at the dates indicated.

	September 30,		
	1994	1995	1996
		(In Thousands)	
GNMA	$ 7,815	$ 7,484	$ 6,392
CMO	53,193	5,210	4,637
FHLMC	5,214	3,967	4,740
FNMA	4,132	3,426	18,711
Privately Issued Mortgage Pass-Through Certificates	1,521	1,316	1,106
Total	$71,875	$21,403	$35,586

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 1996. 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.

	Due in				
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	September 30, 1996 Balance Outstanding
	(Dollars in Thousands)				
GNMA	$ ---	$ ---	$ ---	$ 6,392	$ 6,392
CMO	---	---	2,015	2,622	4,637
FHLMC	126	497	1,009	3,108	4,740
FNMA	---	1,498	12	17,201	18,711
Privately Issued Mortgage Pass-Through Certificates(1)	---	---	---	1,106	1,106
Total	$ 126	$1,995	$3,036	$30,429	$35,586
Weighted average yield	8.00%	7.87%	7.91%	6.96%	7.06%

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

At September 30, 1996, the contractual maturity of 85.5% 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 FHLB 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, 1994	1995	1996
	(Dollars in Thousands)		
Opening balance....................	$ 122,812	$ 176,167	$ 171,793
Deposits acquired from:			
Brookings Federal................	56,591	---	---
Iowa Savings.....................	---	---	15,642
Security.........................	---	---	27,718
Deposits.........................	230,144	261,345	360,606
Withdrawals......................	(238,566)	(273,066)	(350,626)
Interest credited................	5,186	7,347	8,273
Deposits sold....................	---	---	---
Ending balance....................	$ 176,167	$ 171,793	$233,406
Net increase (decrease)............	$ 53,355	$ (4,374)	$ 61,613
Percent increase (decrease)........	43.44%	(2.48)%	35.86%

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,					
	1994		1995		1996	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transactions and Savings Deposits:						
Commercial Demand..................	$ 1,910	1.08%	$ 2,077	1.21%	$ 5,453	2.34%
Passbook Accounts..................	9,257	5.25	12,112	7.05	18,278	7.83
NOW Accounts.......................	14,361	8.15	13,459	7.83	16,087	6.89
Money Market Accounts..............	16,248	9.23	14,836	8.64	14,994	6.42
Total Non-Certificate..............	41,776	23.71	42,484	24.73	54,812	23.48
Certificates:						
Variable...........................	1,048	.59	1,498	.87	3,154	1.35
0.00 - 3.99%.......................	18,089	10.27	1,593	.93	342	.15
4.00 - 5.99%.......................	97,216	55.19	67,944	39.55	123,835	53.06
6.00 - 7.99%.......................	13,840	7.85	54,322	31.62	47,987	20.56
8.00 - 9.99%.......................	3,904	2.22	3,709	2.16	3,276	1.40
10.00 - 11.99%.....................	294	.17	243	.14	---	---
Total Certificates.................	134,391	76.29	129,309	75.27	178,594	76.52
Total Deposits.....................	$176,167	100.00%	$171,793	100.00%	$233,406	100.00%

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 1996.

	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, 1996	$ 415	$ 316	$ 22,967	$12,281	$ 8	$35,987	20.2%
March 31, 1997	505	6	21,932	7,753	---	30,196	16.9
June 30, 1997	361	5	34,302	8,669	16	43,353	24.3
September 30, 1997	358	---	10,492	5,808	118	16,776	9.4
December 31, 1997	788	2	5,921	2,340	393	9,444	5.3
March 31, 1998	727	3	8,726	3,014	798	13,269	7.4
June 30, 1998	---	---	10,035	2,114	179	12,328	6.9
September 30, 1998	---	---	3,037	441	184	3,661	2.0
December 31, 1998	---	7	1,229	603	353	2,192	1.2
March 31, 1999	---	---	2,119	689	892	3,700	2.1
June 30, 1999	---	---	807	907	299	2,013	1.1
September 30, 1999	---	---	1,133	2,086	34	3,253	1.8
Thereafter	---	3	1,135	1,282	2	2,422	1.4
Total	$3,154	$ 342	$123,835	$47,987	$3,276	$178,594	100.00%
Percent of total	1.77%	.19%	69.34%	26.87%	1.83%	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, 1996.

	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	$31,238	$28,471	$56,334	$50,088	$166,131
Certificates of deposit of $100,000 or more	4,749	1,725	3,795	2,194	12,463
Total certificates of deposit	$35,987	$30,196	$60,129	$52,282	$178,594 (1)

(1) Includes deposits from governmental and other public entities totalling $4.0 million.

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

The Company's borrowings historically have consisted 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, 1996, the Company had $102.3 million of advances from the FHLB of Des Moines and the ability to borrow up to an additional $22.1 million.

From time to time, the Company has offered retail repurchase agreements to its customers. These agreements typically range from 14 days to three 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, 1996, the Company had approximately $2.8 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 four 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,		
	1994	1995	1996
	(In Thousands)		
Maximum Balance:			
FHLB advances	$60,308	$78,305	$110,491
Retail repurchase agreements	2,398	1,312	2,790
Other borrowings	---	---	1,400(1)
Average Balance:			
FHLB advances	$22,579	$56,820	69,265
Retail repurchase agreements	2,043	1,159	2,198
Other borrowings	---	---	---

(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,		
	1994	1995	1996
	(Dollars in Thousands)		
FHLB advances	$60,308	$51,098	$102,288
Retail repurchase agreements	910	1,150	2,790
Other borrowings	---	---	1,400
Total borrowings	$61,218	$52,248	$106,478
Weighted average interest rate of FHLB advances	5.10%	6.14%	5.81%
Weighted average interest rate of retail repurchase agreements	4.70%	5.75%	5.52%
Weighted average interest rate of other borrowings	---	---	5.40%

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, 1996, 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 net income of $52,000 during fiscal 1996.

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 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. 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. 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 13, 1996. 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 April 15, 1996.

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, 1996, 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, 1996, First Federal's and Security's lending limit under these restrictions was $5.0 million and $540,000, 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 SAIF and Security is a member of 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. Risk classification of all insured institutions will be made by the FDIC for each semi-annual assessment period. At September 30, 1996, each of First Federal and Security met the capital requirements of a "well capitalized" institution. 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 will be less than the designated reserve ratio of 1.25% of SAIF insured deposits. 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. The FDIC may also impose special assessments on SAIF members to repay amounts borrowed from the United States Treasury or for any other reason deemed necessary by the FDIC.

As is the case with the SAIF, the FDIC is authorized to adjust the insurance premium rates for banks that are insured by the BIF of the FDIC in order to maintain the reserve ratio of the BIF at 1.25% of BIF insured deposits. As a result of the BIF reaching its statutory reserve ratio the FDIC revised the premium schedule for BIF insured institutions to provide a range of .04% to .31% of deposits. The revisions became effective in the third quarter of 1995. In addition, the BIF rates were further revised, effective January 1996, to provide a range of 0% to .27%. The SAIF rates, however, were not adjusted. At the time the FDIC revised the BIF premium schedule, it noted that, absent legislative action (as discussed below),the SAIF would not attain its designated reserve ratio until the year 2002. As a result, SAIF insured members would continue to be generally subject to higher deposit insurance premiums than BIF insured institutions until, all things being equal, the SAIF attained its required reserve ratio.

In order to eliminate this disparity and any competitive disadvantage between BIF and SAIF member institutions with respect to deposit insurance premiums, legislation to recapitalize the SAIF was enacted in September 1996. The legislation provides for a one-time assessment to be imposed on all deposits assessed at the SAIF rates, as of March 31, 1995, in order to recapitalize the SAIF. It also provides for the merger of the BIF and the SAIF on January 1, 1999 if no savings associations then exist. The special assessment rate has been established at .657% of deposits by the FDIC and the resulting assessment of $1.3 million for First Federal was paid in November 1996. This special assessment significantly increased noninterest expense and adversely affected First Federal's results of operations for the year ended September 30, 1996. As a result of the special assessment, First Federal's deposit insurance premiums were eliminated, as of October 1, 1996, based upon its current risk classification and the new assessment schedule for SAIF insured institutions. Premiums for both BIF and SAIF insured institutions are subject to change in future periods depending upon an institution's risk classification and the reserve ratio of its deposit insurance fund.

Prior to the enactment of the legislation, a portion of the SAIF assessment imposed on savings associations was used to repay obligations issued by a federally chartered corporation to provide financing ("FICO") for resolving the thrift crisis in the 1980s. Although the FDIC has proposed that the SAIF assessment be equalized with the BIF assessment schedule, effective October 1, 1996, SAIF-insured institutions will continue to be subject to a FICO assessment as a result of this continuing obligation. 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 to be established by the FDIC to implement this requirement for all FDIC-insured institutions is uncertain at this time, but are anticipated to be about a 6.5 basis points assessment on SAIF deposits and 1.5 basis points 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 any institution that fails to meet its capital requirements. This action to restrict the activities of an "undercapitalized institution" (generally defined to be one with less than either a 4% core capital ratio, a 4% Tier 1 risked-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 authorized to impose the additional restrictions that are applicable to significantly undercapitalized institutions. 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.

Any FDIC-insured institution that fails to comply with its capital plan or is "significantly undercapitalized" (i.e., Tier 1 risk-based or core capital ratios of less than 3% or a risk-based capital ratio of less than 6%) must be made subject to one or more of additional specified actions and operating restrictions which may cover all aspects of its operations and include a forced merger or acquisition of the institution. An institution that becomes "critically undercapitalized" (i.e., a tangible capital ratio of 2% or less) is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized associations. In addition, the institution's primary federal regulator must appoint a receiver (or conservator with the concurrence of the FDIC) for the institution, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized institution is also subject to the general enforcement authority of its primary federal regulator and the FDIC, including the appointment of a conservator or a receiver.

An institution's primary federal regulator is also generally authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The imposition of any of these measures on 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."

The OTS has proposed regulations that would make certain revisions to the current capital distribution restrictions. Under the proposal a savings association may make a capital distribution without notice to the OTS (unless it is a subsidiary of a holding company) provided that it has a CAMEL 1 or 2 rating, is not of supervisory concern, and would remain adequately capitalized (as defined in the OTS prompt corrective action regulations) following the proposed distribution. Savings associations that would remain adequately capitalized following the proposed distribution but do not meet the other noted requirements must notify the OTS 30 days prior to declaring a capital distribution. The OTS stated it will generally regard as permissible that amount of capital distributions that do not exceed 50% of the institution's excess regulatory capital plus net income to date during the calendar year. As under the current rule, the OTS may object to a capital distribution if it would constitute an unsafe or unsound practice. No assurance may be given as to whether or in what form the regulations may be adopted.

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, 1996, 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 April 1995 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. Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must be made on terms substantially the same as for loans to unaffiliated individuals. At September 30, 1996, 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 will be required to file reports with the FRB and such additional information as the FRB may require, and will be 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. The Riegle-Neal Act also prohibits the FRB from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. The 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 contained in the Riegle-Neal Act.

Additionally, beginning on June 1, 1997, the federal banking agencies will be 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. A state may also permit such transactions before such time by enacting authorizing legislation. Interstate acquisitions of branches or the establishment of a new branch will be permitted only if the law of the state in which the branch is located permits such acquisitions. Interstate mergers and branch acquisitions will also be subject to the nationwide and statewide insured deposit concentration amounts described above. As of September 30, 1996, the State of Iowa had not yet authorized, or elected to opt-out of, the interstate merger provisions.

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 Securities Law

The stock of First Midwest is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Exchange Act.

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

Federal Home Loan Bank System

First Federal is a member 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 a member, First Federal is required to purchase and maintain stock in the FHLB of Des Moines. At September 30, 1996, First Federal had $5.5 million in FHLB stock, which was in compliance with this requirement. In past years, First Federal has received substantial dividends on its FHLB stock. For the fiscal year ended September 30, 1996, dividends paid by the FHLB of Des Moines to First Federal totalled $333,000, which constitutes a $63,000 increase over the amount of dividends received in fiscal year 1995. Over the past five calendar years such dividends have averaged 8.0% and were 7.0% for the first three quarters of the calendar year 1996.

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, 1996, First Federal's post-1987 excess reserves amounted to approximately $1.9 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, provided the institution meets certain residential lending requirements. 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, 1996, First Federal's Excess for tax purposes totalled approximately $8.1 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 houses 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 29 commercial banks, two 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 five commercial banks and one savings bank, other than First Federal, which compete for deposits and loans in First Federal's market area in South Dakota. In addition, there are eight 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, 1996, the Company and its subsidiaries had a total of 106 employees, including 12 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 49, serves as Vice President, Secretary and Chief Operating Officer of First Midwest and Executive Vice President, Secretary, Chief Operating Officer and Trust Officer of First Federal. 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. In addition, Mr. Stevens serves as a director and Vice President and Secretary of First Services Financial Limited and a Brookings Service Corporation director. 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 44, serves as Vice President, Treasurer and Chief Financial Officer of First Midwest and Senior Vice President, Treasurer and Chief Financial Officer of First Federal, 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 the Secretary and Treasurer of 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 nine other locations in its primary market area in Iowa. The Company also operates two offices in Brookings, South Dakota, through the Company's Brookings Federal Bank division of the Bank.

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, 1996 was $3.7 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 Bank. During fiscal 1996, the Company completed a major remodeling of its main office building at an approximate total cost of $800,000, which includes the cost of construction, furniture and equipment. In November 1996, the Company purchased an existing building located in West Des Moines, Iowa which is currently being remodeled. Upon completion of remodeling, anticipated for early 1997, the facility will open 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, 1996 was approximately $306,000.

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, 1996.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Page 56 of the attached 1996 Annual Report to Stockholders is herein incorporated by reference.

Item 6. Management's Discussion and Analysis or Plan of Operation

Pages 19 through 28 of the attached 1996 Annual Report to Stockholders are herein incorporated by reference.

Item 7. Financial Statements

The following information appearing in the Company's Annual Report to Stockholders for the year ended September 30, 1996, is incorporated by reference in this Annual Report on Form 10-KSB as Exhibit 13.

Annual Report Section	Pages on Annual Report
Report of Independent Auditors	29
Consolidated Balance Sheets as of September 30, 1996 and 1995	30
Consolidated Statements of Income for the Years Ended September 30, 1996, 1995 and 1994	31
Consolidated Statements of Changes in Shareholders' Equity for Years Ended September 30, 1996, 1995 and 1994	32-33
Consolidated Statements of Cash Flows for the Years Ended September 30, 1996, 1995 and 1994	34-35
Notes to Consolidated Financial Statements	35-52

With the exception of the aforementioned information, the Company's Annual Report to Stockholders for the year ended September 30, 1996, is not deemed filed as part of this Annual Report on Form 10-KSB.

Item 8. 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, & Company LLP as independent certified accountants for the fiscal year ending September 30, 1996.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

Directors

Information concerning directors, of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the 1997 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

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, 1996, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

Item 10. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the Company's definitive Proxy Statement for the 1997 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 11. 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 1997 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 12. 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 1997 Annual Meeting of Stockholders, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits:

Regulation S-B Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
2	Plan of acquisition, reorganization arrangement, liquidation or succession....................	(a)
3	Articles of Incorporation and Bylaws.......................	(b)
4	Instruments defining the rights of security holders, including indentures:	
	Common Stock Certificate................................	(b)
9	Voting trust agreement....................................	None
10	Material contracts:	
	1995 Stock Option and Incentive Plan......................	10.1
	1993 Stock Option and Incentive Plan......................	(b)
	Recognition and Retention Plan............................	(b)
	Supplemental Employees' Investment Plan..	(a)
	Employment Agreements:	
	James S. Haahr...	(b)
	Fred A. Stevens..	(b)
	Donald J. Winchell.....................................	(b)
	Steven P. Myers..	(a)
	Executive Officer Compensation Program.....................	(c)
	Executive Officer Incentive Stock Plan.....................	(c)
	for Mergers and Acquisitions..............................	
11	Statement re: computation of per share earnings...	(d)
13	Annual Report to Security Holders.........................	13
16	Letter on change in certifying accountant..	None
18	Letter on change in accounting principles..	None
21	Subsidiaries of Registrant................................	21
22	Published report regarding matters submitted to vote of security holders.....................	None
23	Consents of Experts and Counsel...........................	23

Regulation S-B Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
24	Power of Attorney...	Not applicable
27	Financial Data Schedule....................................	27
28	Information from reports furnished to state insurance regulatory authorities.	None
99	Annual Report of former Accountants........................	99

(a) Filed as exhibits to the Company's Annual Report on Form 10-KSB for the fiscal year-end September 30, 1994. All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-B.

(b) Filed as exhibits to the Company's S-1 registration statement filed on June 17, 1993, (File No. 33-64654) pursuant to Section 5 of the Securities Act of 1933. All of such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-B.

(c) Filed as exhibits to the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1995. All such previously filed documents are hereby incorporated herein by reference in accordance with Item 601 of Regulation S-B.

(d) See Note 1 of Notes to Consolidated Financial Statements in the Annual Report to Shareholders' attached hereto as Exhibit 13.

(b) Reports on Form 8-K:

There have been two Current Reports on Form 8-K filed within the three month period ended September 30, 1996. A Current Report on Form 8-K was filed on August 27, 1996, containing a press release announcing a cash dividend. A Current Report on Form 8-K was filed on September 5, 1996, containing a press release announcing the receipt of regulatory approval to acquire CWB.

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 27, 1996

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 27, 1996

By: /s/Jeanne Partlow

Jeanne Partlow
Director

Date: December 27, 1996

By: /s/E. Thurman Gaskill

E. Thurman Gaskill
Director

Date: December 27, 1996

By: /s/Rodney G. Muilenburg

Rodney G. Muilenburg
Director

Date: December 27, 1996

By: /s/J. Tyler Haahr

J. Tyler Haahr
Director

Date: December 27, 1996

By: /s/E. Wayne Cooley

E. Wayne Cooley
Director

Date: December 27, 1996

By: /s/Donald J. Winchell

Donald J. Winchell

Vice President, Chief Financial Officer and Treasurer (Principal Financial Accounting Officer)

Date: December 27, 1996

INDEX TO EXHIBITS

Exhibit Number	
10.1	1995 Stock Option and Incentive Plan
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
99	Independent Audit Report of former Accountants

Exhibit 10.1

FIRST MIDWEST FINANCIAL, INC.

1995 Stock Option and Incentive Plan

1. Plan Purpose. The purpose of the Plan is to promote the long-term interests of the Corporation and its stockholders by providing a means for attracting and retaining officers and employees of the Corporation and its Affiliates. The Plan is intended to be an incentive stock option plan within the meaning of Section 422 of the Code but not all Options granted hereunder are required to be Incentive Stock Options.

2. Definitions. The following definitions are applicable to the Plan:

"Affiliate" -- means any "parent corporation" or "subsidiary corporation" of the Corporation as such terms are defined in Section 425(e) and (f), respectively, of the Code.

"Award" -- means the grant by the Committee of an Incentive Stock Option, a Non-Qualified Stock Option, a Stock Appreciation Right, a Limited Stock Appreciation Right, or of Restricted Stock, or any combination thereof, as provided in the Plan.

"Code" -- means the Internal Revenue Code of 1986, as amended.

"Committee" -- means the Committee referred to in Section 3 hereof.

"Continuous Service" -- shall mean the absence of any interruption or termination of service as an officer or employee of the Corporation or an Affiliate, except that when used with respect to persons granted an Incentive Stock Option means the absence of any interruption or termination of service as an employee of the Corporation or an Affiliate. Service shall not be considered interrupted in the case of sick leave, military leave or any other leave of absence approved by the Corporation or in the case of transfers between payroll locations of the Corporation or between the Corporation, its parent, its subsidiaries or its successor.

"Corporation" -- means First Midwest Financial, Inc., a Delaware corporation and any successor thereto.

"Early Retirement" -- means retirement from employment with the Corporation prior to the Participant having reached the age of 65; provided the Participant has maintained Continuous Service for at least three years.

"Employee" -- means any person, including an officer, who is employed by the Corporation or any Affiliate.

"ERISA" -- means the Employee Retirement Income Security Act of 1974, as amended.

"Exercise Price" -- means (i) in the case of an Option, the price per Share at which the Shares subject to such Option may be purchased upon exercise of such Option and (ii) in the case of a Right, the price per Share (other than the Market Value per Share on the date of exercise and the Offer Price per Share as defined in Section 10 hereof) which, upon grant, the Committee determines shall be utilized in calculating the aggregate value which a Participant shall be entitled to receive pursuant to Sections 9, 10 or 13 hereof upon exercise of such Right.

"Incentive Stock Option" -- means an option to purchase Shares granted by the Committee pursuant to Section 6 hereof which is subject to the limitations and restrictions of Section 8 hereof and is intended to qualify under Section 422 of the Code.

"Limited Stock Appreciation Right" -- means a stock appreciation right with respect to Shares granted by the Committee pursuant to Sections 6 and 10 hereof.

"Market Value" -- means the average of the high and low quoted sales price on the date in question (or, if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) of a Share on the Composite Tape for the New York Stock Exchange-Listed Stocks, or, if on such date the Shares are not quoted on the Composite Tape, on the New York Stock Exchange, or if the Shares are not listed or admitted to trading on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 (the "Exchange Act") on which the Shares are listed or admitted to trading, or, if the Shares are not listed or admitted to trading on any such exchange, the mean between the closing high bid and low asked quotations with respect to a Share on such date on the Nasdaq Stock Market, or any similar system then in use, or, if no such quotations are available, the fair market value on such date of a Share as the Committee shall determine.

"Non-Qualified Stock Option" -- means an option to purchase Shares granted by the Committee pursuant to Section 6 hereof, which option is not intended to, or does not, qualify under Section 422(b) of the Code.

"Normal Retirement" -- means retirement from employment with the Corporation after the Participant has (i) reached the age of 65 and (ii) maintained Continuous Service for at least three years.

"Option" -- means an Incentive Stock Option, a Non-Qualified Stock Option or a Reload Option.

"Participant" -- means any officer or employee of the Corporation or any Affiliate who is selected by the Committee to receive an Award.

"Plan" -- means the 1995 Stock Option and Incentive Plan of the Corporation.

"Related" -- means (i) in the case of a Right, a Right which is granted in connection with, and to the extent exercisable, in whole or in part, in lieu of, an Option or another Right and (ii) in the case of an Option, an Option with respect to which and to the extent a Right is exercisable, in whole or in part, in lieu thereof has been granted.

"Reload Option" -- means an Option to purchase Shares that is granted pursuant to Section 7(h) hereof.

"Restricted Period" -- means the period of time selected by the Committee for the purpose of determining when restrictions are in effect under Section 11 hereof with respect to Restricted Stock awarded under the Plan.

"Restricted Stock" -- means Shares which have been contingently awarded to a Participant by the Committee subject to the restrictions referred to in Section 11 hereof, so long as such restrictions are in effect.

"Right" -- means a Limited Stock Appreciation Right or a Stock Appreciation Right.

"Shares" -- means the shares of common stock of the Corporation.

"Stock Appreciation Right" -- means a stock appreciation right with respect to Shares granted by the Committee pursuant to Sections 6 and 9 hereof.

3. Administration. The Plan shall be administered by a Committee consisting of two or more members of the Board of Directors of the Corporation, each of whom (i) shall be an outside director as defined under Section 162(m) of the Code and the regulations thereunder and (ii) would not by reason of their service on such Committee cause any Award to fail to be exempt under Rule 16(b) of the Exchange Act or any similar or successor provision. The members of the Committee shall be appointed by the Board of Directors of the Corporation. Except as limited by the express provisions of the Plan, the Committee shall have sole and complete authority and discretion to (i) select Participants and grant Awards; (ii) determine the number of Shares to be subject to types of Awards generally, as well as to individual Awards granted under the Plan; (iii) determine the terms and conditions upon which Awards shall be granted under the Plan; (iv) prescribe the form and terms of instruments evidencing such grants; and (v) establish from time to time regulations for the administration of the Plan, interpret the Plan, and make all determinations deemed necessary or advisable for the administration of the Plan.

A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by a majority of the Committee without a meeting, shall be acts of the Committee.

4. Participation. The Committee may select from time to time Participants in the Plan from those officers and employees of the Corporation or its Affiliates who, in the opinion of the Committee, have the capacity for contributing to the successful performance of the Corporation or its Affiliates.

5. Shares Subject to Plan. Subject to adjustment by the operation of
Section 12 hereof, the maximum number of shares with respect to which Awards may be made under the Plan is 178,802 shares. Notwithstanding the foregoing, no individual shall be granted awards in any calendar year with respect to more than 25% of the total shares subject to the Plan. The Shares with respect to which Awards may be made under the Plan may be either authorized and unissued shares or previously issued shares reacquired and held as treasury shares. Shares which are subject to Related Rights and Related Options shall be counted only once in determining whether the maximum number of Shares with respect to which Awards may be granted under the Plan has been exceeded. An Award shall not be considered to have been made under the Plan with respect to any Option or Right which terminates or with respect to Restricted Stock which is forfeited, and new Awards may be granted under the Plan with respect to the number of Shares as to which such termination or forfeiture has occurred.

6. General Terms and Conditions of Options and Rights. The Committee shall have full and complete authority and discretion, except as expressly limited by the Plan, to grant Options and/or Rights and to provide the terms and conditions (which need not be identical among Participants) thereof. In particular, the Committee shall prescribe the following terms and conditions:
(i) the Exercise Price of any Option or Right, which shall not be less than the Market Value per Share at the date of grant of such Option or Right, (ii) the

number of Shares subject to, and the expiration date of, any Option or Right, which expiration date shall not exceed ten years from the date of grant, (iii) the manner, time and rate (cumulative or otherwise) of exercise of such Option or Right, and (iv) the restrictions, if any, to be placed upon such Option or Right or upon Shares which may be issued upon exercise of such Option or Right. The Committee may, as a condition of granting any Option or Right, require that a Participant agree not to thereafter exercise one or more Options or Rights previously granted to such Participant.

7. Exercise of Options or Rights.

(a) An Option or Right granted under the Plan shall be exercisable during the lifetime of the Participant to whom such Option or Right was granted only by such Participant, and except as provided in paragraphs (c),
(d), (e) (f) and (h) of this Section 7, no such Option or Right may be exercised unless at the time such Participant exercises such Option or Right, such Participant has maintained Continuous Service since the date of grant of such Option or Right. Cash settlements of Rights may be made only in accordance with any applicable restrictions pursuant to Rule 16b-3(e) under the Exchange Act or any similar or successor provision.

(b) To exercise an Option or Right under the Plan, the Participant to whom such Option or Right was granted shall give written notice to the Corporation in form satisfactory to the Committee (and, if partial exercises have been permitted by the Committee, by specifying the number of Shares with respect to which such Participant elects to exercise such Option or Right) together with full payment of the Exercise Price, if any and to the extent required. The date of exercise shall be the date on which such notice is received by the Corporation. Payment, if any is required, shall be made either
(i) in cash (including check, bank draft or money order) or (ii) in the case of an Option with respect to which Reload Options are authorized pursuant to
Section 7(h) hereof (or, in the case of any other Option, if permitted by the Committee), by delivering (A) Shares already owned by the Participant and having a fair market value equal to the applicable exercise price, such fair market value to be determined in such appropriate manner as may be provided by the Committee or as may be required in order to comply with or to conform to requirements of any applicable laws or regulations, or (B) a combination of cash and such Shares.

(c) If a Participant to whom an Option or Right was granted shall cease to maintain Continuous Service for any reason (including Early Retirement, but excluding Normal Retirement, disability (within the meaning of
Section 22(e)-3 of the Code), death and termination of employment by the Corporation or any Affiliate for cause), such Participant may, but only within the period of three months immediately succeeding such cessation of Continuous Service and in no event after the expiration date of such Option or Right, exercise such Option or Right to the extent that such Participant was entitled to exercise such Option or Right at the date of such cessation, provided, however, that such right of exercise after cessation of Continuous Service shall not be available to a Participant if the Committee otherwise determines and so provides in the applicable instrument or instruments evidencing the grant of such Option or Right. If the Continuous Service of a Participant to whom an Option or Right was granted by the Corporation is terminated for cause, all rights under any Option or Right of such Participant shall expire immediately upon the giving to the Participant of notice of such termination.

(d) If a Participant to whom an Option or Right was granted shall cease to maintain Continuous Service due to Normal Retirement, such Participant may, but only within the period of one year immediately succeeding such cessation of Continuous Service and in no event after the expiration date of such Option or Right, exercise such Option or Right to the extent that such Participant was entitled to exercise such Option or Right at the date of such cessation, provided, however, that such right of exercise after cessation of Continuous Service shall not be available to a Participant if the Committee otherwise determines and so provides in the applicable instrument or instruments evidencing the grant of such Option or Right.

(e) In the event of the disability of a Participant while in the Continuous Service of the Corporation or an Affiliate or within the three month period referred to in paragraph (c) of this Section 7, such Participant may, but only within the period of one year immediately succeeding such cessation of Continuous Service and in no event after the expiration date of such Option or Right, exercise such Option or Right to the extent that such Participant was entitled to exercise such Option or Right at the date of such cessation, provided, however, that such right of exercise after cessation of Continuous Service shall not be available to a Participant if the Committee otherwise determines and so provides in the applicable instrument or instruments evidencing the grant of such Option or Right.

(f) In the event of the death of a Participant while in the Continuous Service of the Corporation or an Affiliate or within the three month period referred to in paragraph (c) or the one year periods referred to in paragraphs (d) and (e) of this Section 7, the person to whom any Option or Right held by the Participant at the time of his death is transferred by will or the laws of descent and distribution or in the case of an Award other than an Incentive Stock Option, pursuant to a qualified domestic relations order, as defined in the Code or Title I of ERISA or the rules thereunder may, but only to the extent such Participant was entitled to exercise such Option or Right immediately prior to his death, exercise such Option or Right at any time within a period of two years succeeding the date of death of such Participant, but in no event later than ten years from the date of grant of such Option or Right. Following the death of any Participant to whom an Option was granted under the Plan, irrespective of whether any Related Right shall have been granted to the Participant or whether the person entitled to exercise such Related Right desires to do so, the Committee may, as an alternative means of settlement of such Option, elect to pay to the person to whom such Option is transferred by will or by the laws of descent and distribution or in the case of an Option other than an Incentive Stock Option, pursuant to a qualified domestic relations order, as defined in the Code or Title I of ERISA or the rules thereunder, the amount by which the Market Value per Share on the date of exercise of such Option shall exceed the Exercise Price of such Option, multiplied by the number of shares with respect to which such Option is properly exercised. Any such settlement of an Option shall be considered an exercise of such Option for all purposes of the Plan.

(g) Notwithstanding the provisions of subparagraphs (c) through (f) above, the Committee may, in its sole discretion, establish different terms and conditions pertaining to the effect of termination to the extent permitted by applicable federal and state law.

(h) Concurrently with the grant of any Option (an "Underlying Option"), the Committee may authorize Reload Options permitting the grantee of the Underlying Option to purchase for cash, Shares or a combination thereof, an aggregate number of Shares not greater than the sum of (i) the number of Mature Shares (as defined hereinbelow) used in exercises of the Underlying Option and
(ii) to the extent authorized by the Committee, the number of Mature Shares used to satisfy any tax withholding requirement incident to exercises of the Underlying Option. The grant of each Reload Option so authorized by the Committee shall become effective upon the exercise (a "Stock Exercise") of all or part of the Underlying Option through the use of Shares held by the optionee for at least 12 months prior to such exercise ("Mature Shares"), provided, however, that no Reload Option shall first become effective after the optionee has ceased to maintain Continuous Service. Reload Options may be authorized with respect to Options that are themselves granted as Reload Options if so authorized by the Committee. Upon each Stock Exercise of an Underlying Option, the Exercise Price of the resulting Reload Option, the number of Shares covered thereby, and, in the discretion of the Committee and subject to the limitations and restrictions of Section 8 hereof, the determination that the Reload Option is intended to qualify as an Incentive Stock Option, shall be evidenced through an agreement or other instrument evidencing the Reload Option. The Exercise Price of a Reload Option shall be the Market Value per Share on the date the grant of the Reload Option becomes effective. Each Reload Option shall become fully exercisable six months from its effective date. The term of each Reload Option shall be equal to the remaining term of the Underlying Option.

8. Incentive Stock Options. Any provision of the Plan to the contrary notwithstanding, (i) no Incentive Stock Option shall be granted more than ten years from the date the Plan is adopted by the Board of Directors of the Corporation and no Incentive Stock Option shall be exercisable more than ten years from the date such Incentive Stock Option is granted, (ii) the Exercise Price of any Incentive Stock Option shall not be less than the Market Value per Share on the date such Incentive Stock Option is granted, (iii) any Incentive Stock Option shall not be transferable by the Participant to whom such Incentive Stock Option is granted other than by will or the laws of descent and distribution and shall be exercisable during such Participant's lifetime only by such Participant, (iv) no Incentive Stock Option shall be granted to any individual who, at the time such Incentive Stock Option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation or any Affiliate unless the Exercise Price of such Incentive Stock Option is at least 110% of the Market Value per Share at the date of grant and such Incentive Stock Option is not exercisable after the expiration of five years from the date such Incentive Stock Option is granted, and (v) the aggregate Market Value (determined as of the time any Incentive Stock Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by a Participant in any calendar year shall not exceed $100,000. To the extent that the Option, or portion thereof, does not qualify as an Incentive Stock Option for any reason, such Option (or portion thereof) shall become a Non-Qualified Stock Option under the Plan.

9. Stock Appreciation Rights. A Stock Appreciation Right shall, upon its exercise, entitle the Participant to whom such Stock Appreciation Right was granted to receive a number of Shares or cash or combination thereof, as the Committee in its discretion shall determine, the aggregate value of which (i.e., the sum of the amount of cash and/or Market Value of such Shares on date of exercise) shall equal (as nearly as possible, it being understood that the Corporation shall not issue any fractional shares) the amount by which the Market Value per Share on the date of such exercise shall exceed the Exercise

Price of such Stock Appreciation Right, multiplied by the number of Shares with respect of which such Stock Appreciation Right shall have been exercised. A Stock Appreciation Right may be Related to an Option or may be granted independently of any Option as the Committee shall from time to time in each case determine. At the time of grant of an Option the Committee shall determine whether and to what extent a Related Stock Appreciation Right shall be granted with respect thereto; provided, however, and notwithstanding any other provision of the Plan, that if the Related Option is an Incentive Stock Option, the Related Stock Appreciation Right shall satisfy all the restrictions and limitations of Section 8 hereof as if such Related Stock Appreciation Right were an Incentive Stock Option and as if other rights which are Related to Incentive Stock Options were Incentive Stock Options. In the case of a Related Option, such Related Option shall cease to be exercisable to the extent of the Shares with respect to which the Related Stock Appreciation Right was exercised. Upon the exercise or termination of a Related Option, any Related Stock Appreciation Right shall terminate to the extent of the Shares with respect to which the Related Option was exercised or terminated.

10. Limited Stock Appreciation Rights. At the time of grant of an Option or Stock Appreciation Right to any Participant, the Committee shall have full and complete authority and discretion also to grant to such Participant a Limited Stock Appreciation Right which is related to such Option or Stock Appreciation Right; provided, however, and notwithstanding any other provision of the Plan, that if the Related Option is an Incentive Stock Option, the Related Limited Stock Appreciation Right shall satisfy all the restrictions and limitations of Section 8 hereof as if such Related Limited Stock Appreciation Right were an Incentive Stock Option and as if all other Rights which are Related to Incentive Stock Options were Incentive Stock Options. Notwithstanding any other provision of the Plan, a Limited Stock Appreciation Right shall be exercisable only during the period beginning on the first day following the date of expiration of any "Offer" (as such term is hereinafter defined) and ending on the forty-fifth day following such date.

A Limited Stock Appreciation Right shall, upon its exercise, entitle the Participant to whom such Limited Stock Appreciation Right was granted to receive an amount of cash equal to the amount by which the "Offer Price per Share" (as such term is hereinafter defined) or the Market Value on the date of such exercise, as shall have been provided by the Committee in its discretion at the time of grant, shall exceed the Exercise Price of such Limited Stock Appreciation Right, multiplied by the number of Shares with respect to which such Limited Stock Appreciation Right shall have been exercised. Upon the exercise of a Limited Stock Appreciation Right, any Related Option and/or Related Stock Appreciation Right shall cease to be exercisable to the extent of the Shares with respect to which such Limited Stock Appreciation Right was exercised. Upon the exercise or termination of a Related Option or Related Stock Appreciation Right, any Related Limited Stock Appreciation Right shall terminate to the extent of the Shares with respect to which such Related Option or Related Stock Appreciation Right was exercised or terminated.

For the purposes of this Section 10, the term "Offer" shall mean any tender offer or exchange offer for Shares other than one made by the Corporation, provided that the corporation, person or other entity making the offer acquires pursuant to such Offer either (i) 25% of the Shares outstanding immediately prior to the commencement of such Offer or (ii) a number of shares which, together with all other shares acquired in any tender offer or exchange offer (other than one made by the Corporation) which expired within sixty days of the expiration date of the offer in question, equals 25% of the Shares outstanding immediately prior to the commencement of the offer in question. The term "Offer Price per Share" as used in this Section 10 shall mean the highest price per Share paid in any Offer which Offer is in effect any time during the period beginning on the sixtieth day prior to the date on which a Limited Stock Appreciation Right is exercised and ending on the date on which such Limited Stock Appreciation Right is exercised. Any securities or property which are part or all of the consideration paid for Shares in the Offer shall be valued in determining the Offer Price per Share at the higher of (i) the valuation placed on such securities or property by the corporation, person or other entity making such Offer or (ii) the valuation placed on such securities or property by the Committee.

11. Terms and Conditions of Restricted Stock. The Committee shall have full and complete authority, subject to the limitations of the Plan, to grant awards of Restricted Stock and, in addition to the terms and conditions contained in paragraphs (a) through (f) of this Section 11, to provide such other terms and conditions (which need not be identical among Participants) in respect of such Awards, and the vesting thereof, as the Committee shall determine and provide in the agreement referred to in paragraph (d) of this Section 11.

(a) At the time of an award of Restricted Stock, the Committee shall establish for each Participant a Restricted Period during which or at the expiration of which, as the Committee shall determine and provide in the agreement referred to in paragraph (d) of this Section 11, the shares awarded as Restricted Stock shall vest, and subject to any such other terms and conditions as the Committee shall provide shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered by the Participant, except as hereinafter provided, during the Restricted Period. Except for such restrictions, and subject to paragraphs (c), (d) and (e) of this Section 11 and Section 12 hereof, the Participant as owner of such shares shall have all the rights of a stockholder including but not limited to the right to receive all dividends paid on such shares and the right to vote such shares. The Committee shall have the authority, in its discretion, to accelerate the time at which any or all of the restrictions shall lapse with respect to any shares of Restricted Stock prior to the expiration of the Restricted Period with respect thereto, or to remove any or all of such restrictions, whenever it may determine that such action is appropriate by reason of changes in applicable tax or other laws or other changes in circumstances occurring after the commencement of such Restricted Period.

(b) Except as provided in Section 14 hereof, if a Participant ceases to maintain Continuous Service for any reason other than death, total or partial disability or Normal or Early Retirement, unless the Committee shall otherwise determine and provide in the agreement referred to in paragraph (d) of this Section 11, all shares of Restricted Stock awarded to such Participant and which at the time of such termination of Continuous Service are subject to the restrictions imposed by paragraph (a) of this Section 11 shall upon such termination of Continuous Service be forfeited and returned to the Corporation. Unless the Committee shall otherwise determine and provide in the agreement referred to in paragraph (d) of this Section 11, if a Participant ceases to maintain Continuous Service by reason of death, total or partial disability or Normal or Early Retirement, such portion of such shares of Restricted Stock awarded to such Participant which at the time of such termination of Continuous Service are subject to the restrictions imposed by paragraph (a) of this Section 11 as shall be equal to the portion of the Restricted Period with respect to such shares which shall have elapsed at the time of such termination of Continuous Service, shall be free of restrictions and shall not be forfeited.

(c) Each certificate in respect of shares of Restricted Stock awarded under the Plan shall be registered in the name of the Participant and deposited by the Participant, together with a stock power endorsed in blank, with the Corporation and shall bear the following (or a similar) legend:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) contained in the 1995 Stock Option and Incentive Plan of First Midwest Financial, Inc. and an Agreement entered into between the registered owner and First Midwest Financial, Inc. Copies of such Plan and Agreement are on file in the offices of the Secretary of First Midwest Financial, Inc., Fifth at Erie, Storm Lake, Iowa 50588."

(d) At the time of an award of shares of Restricted Stock, the Participant shall enter into an Agreement with the Corporation in a form specified by the Committee, agreeing to the terms and conditions of the award and such other matters as the Committee shall in its sole discretion determine.

(e) At the time of an award of shares of Restricted Stock, the Committee may, in its discretion, determine that the payment to the Participant of dividends declared or paid on such shares, or a specified portion thereof, by the Corporation shall be deferred until the earlier to occur of (i) the lapsing of the restrictions imposed under paragraph (a) of this Section 11 or (ii) the forfeiture of such shares under paragraph (b) of this Section 11, and shall be held by the Corporation for the account of the Participant until such time. In the event of such deferral, there shall be credited at the end of each year (or portion thereof) interest on the amount of the account at the beginning of the year at a rate per annum as the Committee, in its discretion, may determine. Payment of deferred dividends, together with interest accrued thereon as aforesaid, shall be made upon the earlier to occur of the events specified in
(i) and (ii) of the immediately preceding sentence.

(f) At the expiration of the restrictions imposed by paragraph
(a) of this Section 11, the Corporation shall redeliver to the Participant (or where the relevant provision of paragraph (b) of this Section 11 applies in the case of a deceased Participant, to his legal representative, beneficiary or heir) the certificate(s) and stock power deposited with it pursuant to paragraph
(c) of this Section 11 and the Shares represented by such certificate(s) shall be free of the restrictions referred to in paragraph (a) of this Section 11.

12. Adjustments Upon Changes in Capitalization. In the event of any change in the outstanding Shares subsequent to the effective date of the Plan by reason of any reorganization, recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation or any change in the corporate structure or Shares of the Corporation, the maximum aggregate number and class of shares as to which Awards may be granted under the Plan and the number and class of shares with respect to which Awards have been granted under the Plan shall be appropriately adjusted by the Committee, whose determination shall be conclusive. Any shares of stock or other securities received, as a result of any of the foregoing, by a Participant with respect to Restricted Stock shall be subject to the same restrictions and the certificate(s) or other instruments representing or evidencing such shares or securities shall be legended and deposited with the Corporation in the manner provided in Section 11(c) hereof.

13. Effect of Merger on Options or Rights. In the case of any merger, consolidation or combination of the Corporation (other than a merger, consolidation or combination in which the Corporation is the continuing corporation and which does not result in the outstanding Shares being converted into or exchanged for different securities, cash or other property, or any combination thereof), any Participant to whom an Option or Right has been granted shall have, in addition to the rights of exercise pursuant to Section 7 hereof, the right (subject to the provisions of the Plan and any limitation applicable to such Option or Right), thereafter and during the term of each such Option or Right, to receive upon exercise of any such Option or Right an amount equal to the excess of the fair market value on the date of such exercise of the securities, cash or other property, or combination thereof, receivable upon such merger, consolidation or combination in respect of a Share over the Exercise Price of such Right or Option, multiplied by the number of Shares with respect to which such Option or Right shall have been exercised. Such amount may be payable fully in cash, fully in one or more of the kind or kinds of property payable in such merger, consolidation or combination, or partly in cash and partly in one or more of such kind or kinds of property, all in the discretion of the Committee.

14. Effect of Change in Control. Each of the events specified in the following clauses (i) through (iii) of this Section 14 shall be deemed a "change of control": (i) any third person, including a "group" as defined in Section 13(d)(3) of the Exchange Act, shall become the beneficial owner of shares of the Corporation with respect to which 25% or more of the total number of votes for the election of the Board of Directors of the Corporation may be cast, (ii) as a result of, or in connection with, any cash tender offer, merger or other business combination, sale of assets or contested election, or combination of the foregoing, the persons who were directors of the Corporation shall cease to constitute a majority of the Board of Directors of the Corporation, or (iii) the stockholders of the Corporation shall approve an agreement providing either for a transaction in which the Corporation will cease to be an independent publicly-owned corporation or for a sale or other disposition of all or substantially all the assets of the Corporation. Upon a change in control, unless the Committee shall have otherwise provided in the agreement referred to in paragraph (d) of Section 11 hereof, any Restricted Period with respect to Restricted Stock awarded to such Participant shall lapse and all Shares awarded as Restricted Stock shall become fully vested in the Participant to whom such Shares were awarded. If a tender offer or exchange offer for Shares (other than such an offer by the Corporation) is commenced, or if the event specified in clause (iii) above shall occur, unless the Committee shall have otherwise provided in the instrument evidencing the grant of an Option or Stock Appreciation Right, all Options and Stock Appreciation Rights granted and not fully exercisable shall become exercisable in full upon the happening of such event; provided, however, that no Option or Stock Appreciation Right which has previously been exercised or otherwise terminated shall become exercisable.

15. Assignments and Transfers. No Award nor any right or interest of a Participant under the Plan in any instrument evidencing any Award under the Plan may be assigned, encumbered or transferred except, in the event of the death of a Participant, by will or the laws of descent and distribution, or in the case of Awards other than Incentive Stock Options pursuant to a qualified domestic relations order, as defined in the Code or Title I of ERISA or the rules thereunder.

16. Employee Rights Under the Plan. No officer or employee shall have a right to be selected as a Participant nor, having been so selected, to be selected again as a Participant and no officer, employee or other person shall have any claim or right to be granted an Award under the Plan or under any other incentive or similar plan of the Corporation or any Affiliate. Neither the Plan nor any action taken thereunder shall be construed as giving any employee any right to be retained in the employ of the Corporation or any Affiliate.

17. Delivery and Registration of Stock. The Corporation's obligation to deliver Shares with respect to an Award shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Participant to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of the Securities Act of 1933 or any other federal, state or local securities legislation. It may be provided that any representation requirement shall become inoperative upon a registration of the Shares or other action eliminating the necessity of such representation under such Securities Act or other securities legislation. The Corporation shall not be required to deliver any Shares under the Plan prior to (i) the admission of such shares to listing on any stock exchange on which Shares may then be listed, and (ii) the completion of such registration or other qualification of such Shares under any state or federal law, rule or regulation, as the committee shall determine to be necessary or advisable.

This Plan is intended to comply with Rule 16b-3 under the Exchange Act. Any provision of the Plan which is inconsistent with said Rule shall, to the extent of such inconsistency, be inoperative and shall not affect the validity of the remaining provisions of the Plan.

18. Withholding Tax. Upon the termination of the Restricted Period with respect to any shares of Restricted Stock (or at any such earlier time, if any, that an election is made by the Participant under Section 83(b) of the Code, or any successor provision thereto, to include the value of such shares in taxable income), the Corporation shall have the right to require the Participant or other person receiving such shares to pay the Corporation the amount of any taxes which the Corporation is required to withhold with respect to such shares, or, in lieu thereof, to retain or sell without notice, a sufficient number of shares held by it to cover the amount required to be withheld. The Corporation shall have the right to deduct from all dividends paid with respect to shares of Restricted Stock the amount of any taxes which the Corporation is required to withhold with respect to such dividend payments.

The Corporation shall have the right to deduct from all amounts paid in cash with respect to the exercise of a Right under the Plan any taxes required by law to be withheld with respect to such cash payments. Where a Participant or other person is entitled to receive Shares pursuant to the exercise of an Option or Right pursuant to the Plan, the Corporation shall have the right to require the Participant or such other person to pay the Corporation the amount of any taxes which the Corporation is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or sell without notice, a number of such shares sufficient to cover the amount required to be withheld.

19. Amendment or Termination. The Board of Directors of the Corporation may amend, suspend or terminate the Plan or any portion thereof at any time, but no amendment shall be made without approval of the stockholders of the Corporation which shall (i) change the number of shares with respect to which Awards may be made under the Plan as set forth in Section 5 hereof (except as provided in Section 12 hereof) or (ii) change the Participants eligible to participate in the Plan; provided, further that no such amendment, suspension or termination of the Plan shall be permitted except in accordance with Rule 16(b) of the Exchange Act or any similar or successor provision.

20. Effective Date and Term of Plan. The Plan shall become effective upon its adoption by the Board of Directors of the Corporation, subject to the approval of the Plan by the shareholders of the Corporation. It shall continue in effect for a term of ten years unless sooner terminated under Section 19

hereof.

First Midwest Financial, Inc.
1996 Annual Report

Corporate Profile

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 its 6 branch offices in a four-county area of Northwest Iowa. It also includes the 2 offices of the Brookings Federal Bank Division in Brookings, South Dakota, and the Iowa Savings Bank Division in 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., operating through First Services Financial Limited, a subsidiary of First Federal, offers discount brokerage service and non-insured investment products.

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

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FINANCIAL HIGHLIGHTS

At September 30	1992	1993	1994	1995	1996
	(Dollars in Thousands except Per Share Data)				
Total Assets	$171,030	$160,827	$274,115	$264,213	$388,008
Total Loans	74,561	80,224	155,497	178,552	243,534
Total Deposits	147,289	122,813	176,167	171,793	233,406
Stockholders' equity	14,970	33,438	34,683	38,013	43,210
Book value per common share	N/A	$ 16.82	$ 18.69	$ 21.19	$ 22.21
Total equity to assets	8.75%	20.79%	12.65%	14.39%	11.14%

For the Fiscal Year	1992	1993	1994	1995	1996
	(Dollars in Thousands except Per Share Data)				
Net interest income	$ 4,609	$ 5,077	$ 7,870	$ 9,405	$ 10,359
Net income	1,020	1,352	2,729	3,544	2,414 (2)
Net income per share	N/A	$ 0.66(1)	$ 1.37	$ 1.99	$ 1.34(2)
Net yield on interest-earning assets	2.63%	3.21%	3.94%	3.63%	3.47%
Return on average assets	.57%	.84%	1.29%	1.31%	.76%(2)
Return on average equity	7.08%	7.10%	7.89%	9.86%	6.18%(2)

(1) Net income per share is based on the assumption that the weighted average shares outstanding at September 30, 1993, were outstanding the entire year.

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

CHAIRMAN'S LETTER

TO OUR STOCKHOLDERS

I am pleased to report that fiscal year 1996 was another excellent year for First Midwest Financial, Inc.! Net income at September 30, 1996 was $3.2 million, or $1.78 per share, before the one-time special assessment from the Federal Deposit Insurance Corporation (FDIC) to recapitalize the Savings Association Insurance Fund (SAIF), an issue I will discuss further in this letter.

Fiscal 1996 was highlighted by growth and increased opportunity as First Midwest completed the acquisitions of Iowa Savings Bank in Des Moines, Iowa and Security State Bank in Stuart, Iowa.

The acquisition of Iowa Savings Bank, which was a subsidiary of Iowa Bancorp, Inc., was completed on December 29, 1995. At the time of acquisition, Iowa Savings Bank had assets of approximately $25 million. Iowa Savings Bank now operates as a Division of First Federal Savings Bank of the Midwest. We considered establishing a presence in Des Moines, the largest market in Iowa, as an effective strategy for the growth of our retail banking operation. Gaining entry to that market through the acquisition of a solid company with good equity, strong management, and a loyal customer base from which to build, helped to establish that presence much quicker. We look forward to opening an Iowa Savings Bank office in West Des Moines early next year, following remodeling and redecorating.

On September 30, 1996, First Midwest Financial Inc. acquired Security State Bank, the subsidiary of Central West Bancorporation. In conjunction with this acquisition, First Midwest, which was originally formed as a unitary savings and loan holding company, was converted to a bank holding company. Security State Bank's assets at the time of acquisition were approximately $33 million. As a separate subsidiary of First Midwest, Security State Bank continues to operate as a commercial bank chartered by the State of Iowa, with offices in Stuart, Casey and Menlo, Iowa. Claude F. Havick continues to serve as President of the bank. The acquisition of Security State Bank by First Midwest facilitates more flexibility for growth in agricultural and commercial loans.

It was announced on October 18, 1996, that the First Midwest Board of Directors has authorized the Company to repurchase up to 150,000 shares of its outstanding common stock. The Company intends to repurchase the shares from time to time, depending upon market conditions, over a twelve month period.

On October 28, 1996, the First Midwest Board of Directors accepted the resignation of Steven P. Myers, Vice Chairman of the Board and Senior Vice President for First Midwest Financial, Inc. and First Federal Savings Bank of the Midwest. The Company benefitted from his past service.

On November 25, 1996, First Midwest Financial, Inc. announced an increase in the corporation's quarterly cash dividend from 11 cents per share to 13.5 cents per share. In addition, the First Midwest Board declared a 50% stock dividend, which will pay First Midwest stockholders one share for every two shares held on the record date. Both the quarterly cash dividend and the stock dividend will be payable on or about January 2, 1997 to stockholders of record on December 16, 1996. We are pleased to pay this increased cash dividend and a stock dividend to our stockholders.

OPERATING HIGHLIGHTS

Net income for fiscal 1996, after the impact of a one-time special assessment paid to the Federal Deposit Insurance Corporation (FDIC) to recapitalize the Savings Association Insurance Fund (SAIF), was $2.4 million. The $795,000 charge, net of tax, resulted from federal legislation passed and signed into law on September 30, 1996, requiring all SAIF insured institutions to pay a one-time fee of $0.657 for each $100 of insured deposits held on March 31, 1995 to restore the SAIF to its statutory reserve level. Without this special assessment, the Company's net income for fiscal 1996 would have totaled $3.2 million, or $1.78 per share.

[GRAPHIC-PHOTOGRAPH OF CORPORATE PRESIDENT]

Beginning January 1, 1997, First Federal's annual deposit insurance premium will be reduced from $.23 per $100 of insured deposits to $0.064 per $100. Based on insured deposits at September 30, 1996, First Federal will see its annual SAIF expense reduced from $478,000 to $133,000, result-ing in after-tax savings of $216,000.

Earnings were enhanced during fiscal 1996 by a 10% increase in net interest income. This was due to a significant increase in the Company's loan portfolio, which resulted from the acquisition of Iowa Savings Bank, and the increased origination of consumer and agriculture-related loans. Net interest income will continue to be enhanced in future periods by the acquisition of Security State Bank, which was completed at the end of the fiscal year.

Deposit balances totaled $233.4 million at the close of fiscal 1996, a 36% increase over the previous year. Lending activity continued to increase during fiscal 1996, with originations of $90.6 million. At September 30, 1996, the loan portfolio balance totaled $243.5 million, which reflects a $65.0 million increase from the previous year. Total assets at the end of fiscal 1996 were $388.0 million, compared to $264.2 million a year ago.

Stockholders' equity at the close of fiscal 1996 totaled $43.2 million, a 14% increase over the previous year, with 1,945,735 shares issued and outstanding. This increase indicates the Company's strong earnings performance during the fiscal year, in spite of the one-time special assessment, and reflects the issuance of additional shares in conjunction with the acquisition of Security State Bank.

At September 30, 1996, First Federal and Security State Bank both significantly exceeded their regulatory capital requirements.

LOOKING AHEAD

First Midwest Financial, Inc. continues to look for additional opportunities to acquire savings banks, commercial banks, and other related-service companies in our geographic areas. Each opportunity will be carefully evaluated and we will actively pursue any that we believe have the potential to contribute to increasing value for our stockholders.

With the rapidly expanding uses and availability of electronic technology, customers' needs and expectations for the delivery of financial services are also expanding. We will be responsive to any areas of change that are deemed to be beneficial to the needs of customers and the interests of our stockholders. At the same time, we are committed to maintaining a competitive position in offering traditional bank products and delivering them with the high level of quality service our customers have come to expect.

We are confident that our commitment to achieving profitable long term growth will benefit you through a continued increase in stockholder value, and we appreciate your support.

Sincerely,

/s/James S. Haahr
- -----------------
JAMES S. HAAHR
Chairman Of The Board, President & CEO
December 12, 1996

[SIDEBAR]
A strong emphasis on consumer loan services, including home equity loans, makes this particular product an important part of First Federal's total loan program.

In addition, since consumer loans are used for such a wide range of needs by so many different customer segments, they are a valuable link to cross selling other bank products and services.

FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

Creating a more customer-friendly retail bank environment and increasing internal operating efficiencies have been important on-going objectives for First Federal. Significant improvements are being seen in each of these areas, due primarily to a series of capital improvements made over the last couple of years. A major enhancement to the bank's data processing system, which was installed during fiscal year 1995, continues to provide more productive and efficient methods of operation as management and staff become more adept at various ways to use this technology. The remodeling and redecorating of the main bank office in Storm Lake, most of which was completed at the end of last year, and the redecorating of branch offices which was completed this year, have added comfort and convenience for retail bank customers and to staff's efforts to serve them more efficiently.

First Federal's Agricultural Loan Department continues to compete for quality loans. Financing and servicing are available for both start up and existing operations of any size. This includes everything from short term operating loans, to intermediate term loans for machinery and livestock, to longer term loans for agricultural real estate. Other types of commercial loan services, in addition to those for agricultural, are also available at First Federal.

A strong emphasis on consumer loan services, including home equity loans, makes this particular product an important part of First Federal's total loan program. In addition, since consumer loans are used for such a wide range of needs by so many different customer segments, they are a valuable link to cross selling other bank products and services.

First Federal continues to offer all areas of home lending, including new construction, purchase, refinancing, and home improvements, as well as special assistance loans through the Affordable Housing Program. All loan servicing is done locally. This includes handling payments and responding to customer questions on their loan and escrow accounts.

[GRAPHIC-PHOTOGRAPH BANK BUILDING}

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

Richard A. Wehde - Vice President - Commercial/Agricultural Loans, visits with Willard Schmidt and his sons Ryan and Rick Schmidt at their farm near Alta, Iowa. The Schmidts farm 700 acres of corn and soybean rotation, and Ryan feeds up to 350 head of cattle per year. First Federal is pleased to provide financing for their grain and livestock farming operation.

[GRAPHIC-PHOTOGRAPH}

First Federal is pleased to assist [GRAPHIC-PHOTOGRAPH HOUSE] Scott and Amy Bailey with a mortgage loan for the purchase of their home in Storm Lake.

[SIDEBAR]

STORM LAKE, IOWA

Average Land Value for high quality farm land in Northwest Iowa: $2,406 per acre
(9/96)

Building Permits Residential $3,538,864 Commercial $5,416,027
(YTD 1996 thru 10/31)

Taxable Retail Sales $107,228,366 (1995)

Unemployment Rate for Buena Vista County: 1.9% (9/96)

Deposit customers can satisfy their needs at First Federal with a wide choice of FDIC-insured accounts. These include the traditional passbook savings account and the Savings Starter Account for young savers; the First Federal Passcard Account for statement savings; the Daily Access Account, a money market type account with limited access by check; the Savings Plus Account, offering a higher yield for higher balances; and a full range of certificates of deposit.

First Federal's Trust and Retirement Department has experienced personnel to help meet customers' needs in specialized areas. Trust services focus on the professional administration and management of assets, which includes serving as executor for estates, and handling agency and conservatorship accounts. In the area of retirement plans, First Federal trustees tax-deferred IRA, KEO, and SEP plans with a full range of investment choices. The Trust and Retirement Department staff is always attentive to any legislative actions that may impact this area of service, including several enhancements in the area of qualified plans, scheduled to become effective January 1, 1997.

FIRST SERVICES FINANCIAL LIMITED

LaSalle St. Securities, Inc., operating through First Services Financial Limited, a subsidiary of First Federal, offers discount brokerage services and non-insured investment products. This provides bank customers with the opportunity to expand their use of financial services in addition to traditional bank products. (These products are not FDIC-insured, nor guaranteed by First Federal or any affiliates.)

FIRST FEDERAL
BOARD OF DIRECTORS

JAMES S. HAAHR	Chairman of the Board, President & CEO for First Midwest Financial, Inc., and 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
J. TYLER HAAHR	Partner in the law firm of Lewis and Roca L.L.P., Phoenix, Arizona
RODNEY G. MUILENBURG	Dairy Specialist, Sioux City Division Purina Mills, Inc., Storm Lake, Iowa

[GRAPHIC-PHOTOGRAPH]

Fall 1996 enrollment at Buena Vista University's Storm Lake campus totals 1,188 students, the highest in the history of the main campus. Another 1,319 students are enrolled at BVU Centers throughout Iowa. The recently completed Information Technology Center houses Ballou Library, Stewart Siebens Computer Center, and distance education classrooms. Technology links BVU faculty and students across campus, at BVU Centers, and beyond campus walls to points around the globe.

Jay Butterfield, Owner - Silk Screen Ink, Storm Lake. Silk Screen Ink specializes in custom embroidery and screen printing on wearables and many other promotional items. First Federal is proud to provide commercial checking and lending services to Silk Screen Ink.

[GRAPHIC-PHOTOGRAPH]

Matt Korrel enjoys his jet ski [GRAPHIC-PHOTOGRAPH] on beautiful Storm Lake. First Federal provides consumer loans for most any need.

[sidebar]

Brookings Federal continues their commitment to agri-cultural lending, the results of which are evidenced by signifi-cant growth in their base of agricultural customers over the last 2 years. This growth can be attri-buted to the bank's active marketing efforts to new loan prospects, their competitive posture in structuring loans for various types of ag financing, and their consistency in providing quality customer service.

[GRAPHIC-PHOTOGRAPH]
James C. Winterboer
President
Brookings Federal Bank

BROOKINGS DIVISION

First Federal is proud of its Brookings Division and their contribution to the Company's earnings since they were acquired in the Spring of 1994.

Brookings Federal continues their commitment to agricultural lending, the results of which are evidenced by significant growth in their base of agricultural customers over the last 2 years. This growth can be attributed to the bank's active marketing efforts to new loan prospects, their competitive posture in structuring loans for various types of ag financing, and their consistency in providing quality customer service. Brookings Federal also continues to seek quality commercial loans for any size business, in addition to those for agricultural and ag-related businesses.

Consumer loans is a very active segment of lending for Brookings Federal. Recognizing that relationship building is the key toward more profitable customer households, the Brookings Division actively cross sells other consumer banking services to their consumer loan customers.

Brookings Federal is an active home mortgage lender in their market area, including construction loans and permanent financing, as well as special assistance loans for first-time and low-income home buyers. Loan officers at the Brookings Division have the experience to help make the process of home financing a manageable one, even for first time buyers.

Deposit customers at Brookings Federal have access to a complete line of FDIC-insured accounts including Statement Savings, "Money Market" Savings, Savings Plus, and certificates of deposit for a variety of rates and terms. Brookings Federal offers 3 versions of the Timeless Checking Account, each designed with features and benefits to meet the needs of different types of customers.

Brookings Federal Bank, a Division of [GRAPHIC-PHOTOGRAPH] First Federal Savings Bank of the Midwest, 600 Main Avenue, Brookings, South Dakota.

James Hemmer (center) and his sons Brad, Jeff, Steve and Mike visit with Steve Almos - Agricultural Loan Officer, as his grandson Brandon looks on. Their 4,000 acre family farming operation is located 25 miles south of Brookings and includes 10,000 feeder pigs, 450 stock cows and 1,500 feeder cattle. This is one of many area farming operations financed by Brookings Federal.

[GRAPHIC-PHOTOGRAPH]

[GRAPHIC-PHOTOGRAPH]

With financing from Brookings Federal, Don Diebert and Jeff Jacobson - Owners - Counterparts, Inc. in Brookings, were able to start a new manufacturing company that produces metal parts for information display systems.

[GRAPHIC-PHOTOGRAPH] South Dakota State University in Brookings, South Dakota.

1996 Fall enrollment on and off
campus is 8,350.

[sidebar]

**BROOKINGS,
SOUTH DAKOTA**

Average Land Value for high productivity nonirrigated cropland in East Central South Dakota: $698 per acre (3/96)

Building Permits Residential $4,203,340 Commercial $3,450,650
(YTD 1996 thru 9/30)

Taxable Retail Sales $199,523,372 (1995)

Unemployment Rate 1.2% (6/96)

BROOKINGS SERVICE CORPORATION

As an enhancement to traditional banking service, PrimeVest Investment Center, operating through Brookings Service Corporation (a subsidiary of First Services Financial Limited), offers full brokerage services with a wide range of alternative investment products. (These products are not FDIC-insured nor guaranteed by First Federal or any affiliates.)

BROOKINGS FEDERAL ADVISORY BOARD

JAMES C. WINTERBOER	President, Brookings Federal
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
EARL R. RUE	Consulting Manager, Running's

Mary Jensen - Customer Service Representative at Larson [GRAPHIC-PHOTOGRAPH] Manufacturing -participates in Preferred Banking Benefits, Brookings Federal's special package of banking services for employees of Larson Manufacturing. The company manu- factures and distributes a line of energy-saving storm doors.

With the help of a consumer loan from Brookings Federal, Steve and Kami Jensen - Brookings - are enjoying their new pickup and camper.

[GRAPHIC-PHOTOGRAPH]

[GRAPHIC-PHOTOGRAPH]

Brookings Federal has provided financing, from construction to permanent, for two blocks of new homes next to the Volga Golf Course.

[GRAPHIC-PHOTOGRAPH]

Iowa Savings Bank - currently located at 3624 Sixth Avenue - Des Moines, Iowa

[sidebar]

DES MOINES, IOWA

Average Land Value $2,603 per acre (9/96)	for high quality farm land in Central Iowa:
Building Permits Commercial $79,400,000 (YTD 1996 thru 8/96)	Residential $185,800,000
Taxable Retail Sales	$3,682,983,881 (1995)
Unemployment Rate	for Polk County: 2.6% (9/96)

[GRAPHIC-PHOTOGRAPH]
Jeanne Partlow
President
Iowa Savings Bank

IOWA SAVINGS BANK DIVISION

Iowa Savings Bank, Des Moines, Iowa, was acquired by First Midwest Financial, Inc., on December 29, 1995, and now operates as a Division of First Federal Savings Bank of the Midwest. Jeanne Partlow, who was President and CEO of Iowa Savings Bank prior to the acquisition, now serves as President of this Division and also as a director of First Midwest Financial, Inc.

Iowa Savings Bank was one of the best capitalized financial institutions in the State of Iowa. They succeeded by carving out a market niche and doing well what savings banks have traditionally done: making loans for single-family homes. Over time, they established a very loyal base of customers. As a Division of First Federal, Iowa Savings Bank gained the resources to expand their product line which now includes checking accounts, consumer loans, and some additional types of savings accounts and mortgage loans programs. The bank is currently evaluating other financial products and services to determine which would best serve the needs of customers, and help to grow their customer base.

Plans are being finalized to open an Iowa Savings Bank office in West Des Moines at the corner of 35th Street and Westown Parkway, a location formerly occupied by Norwest Bank. Occupancy is anticipated early next year, following remodeling and redecorating. This new location will be a real asset to the Division's efforts to increase their customer base and to market new products and services not previously offered by Iowa Savings Bank.

IOWA SAVINGS BANK ADVISORY BOARD

JEANNE PARTLOW	President, Iowa Savings Bank, Des Moines, Iowa
ROBERT J. KIRKE	Property Manager, Amerus Properties, Inc.
SCOTT STOUFFER	Architect, StoufferSmith Architects PC

[GRAPHIC-PHOTOGRAPH]

Future location - Iowa Savings Bank- 3438 Westown Parkway - West Des Moines, Iowa

Savings plans and consumer loans at Iowa Savings Bank assist customers in achieving their goals. Leona Ross, Pella, Iowa, enjoys her new car.

[GRAPHIC-PHOTOGRAPH]

[GRAPHIC-PHOTOGRAPH]

Iowa Savings Bank is pleased to have provided financing for the Urbandale, Iowa, home of Joseph and Kathleen Fitzgerald and their family.

[GRAPHIC-PHOTOGRAPH]

Howard and Ardella Goetz, Des Moines, Iowa, have been long-time savings customers at Iowa Savings Bank.

[GRAPHIC-PHOTOGRAPH]
Security State Bank - Main Office at
615 South Division Street in Stuart, Iowa.

[sidebar]

STUART, IOWA

Average Land Value for high quality farm land in West Central Iowa: $2,385 per acre (9/96)

Building Permits	not available
Taxable Retail Sales	$5,219,938 (1995)

Unemployment Rate for Guthrie County: 2.8% (8/96)

[GRAPHIC-PHOTOGRAPH]
Claude F. Havick
President
Security State Bank

SECURITY STATE BANK

Security State Bank, Stuart, Iowa was acquired by First Midwest Financial, Inc. on September 30, 1996, and now operates as a separate subsidiary of First Midwest. The Stuart office is a new 4200 sq. ft. building located in a growing commercial area. Branch offices in Casey and Menlo were established over 40 years ago.

As a commercial bank, chartered by the State of Iowa, Security State Bank's predominant area of service is agriculture or ag-related business. Commercial, consumer and real estate business have been increasing as a percentage of total business. Continued growth in these areas is anticipated as the bank is focusing on increasing market share in their primary trade area.

Security State Bank serves most of its agricultural borrowers with variable rate, revolving lines of credit. This loan product has been well received, due to the added convenience it offers for seasonal borrowing, which is typical in farming or ag-related businesses.

Security State Bank offers a full line of commercial bank deposit products including service charge free checking accounts, savings accounts, "money market" savings accounts, and certificates of deposit. The bank's commitment to friendly, personal service is often cited as a primary source of customer satisfaction and as an important key to attracting new 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	Partner in the law firm of Lewis and Roca L.L.P., Phoenix, Arizona
CLAUDE F. HAVICK	President, Security State Bank, Stuart, Iowa
RODNEY G. MUILENBURG	Dairy Specialist, Sioux City Division Purina Mills, Inc., Storm Lake, Iowa

Brothers Charles Shafer and William Shafer - Owners - Agri Drain Corp. near Adair, Iowa. Agri Drain's business includes the manufacturing of drain tile inlet screens. The company operates out of a new 40,500 square-foot building with 50 full time employees and sells their product in all 50 states, Canada, Mexico and Australia. Security State Bank provides both short term and long term financing as part of the banking services available to commercial customers.

[GRAPHIC-PHOTOGRAPH]

[GRAPHIC-PHOTOGRAPH]

Michaelle Peterson of Casey, Iowa, enjoys her new car, purchased with a consumer loan through Security State Bank.

[GRAPHIC-PHOTOGRAPH]

Security State Bank is pleased to provide ag financing to father and son, Gary and Vance Cunningham, for their 1,600 acre grain farming operation near Menlo, Iowa.

FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

Office Locations

STORM LAKE

MAIN BANK OFFICE
Fifth at Erie, P.O. Box 1307
Storm Lake, Iowa 50588
712-732-4117
800-792-6815

STORM LAKE PLAZA
1415 North Lake Avenue
Storm Lake, Iowa 50588
712-732-6655

LAKE VIEW
Fifth at Main
Lake View, Iowa 51450
712-657-2721

LAURENS
104 North Third Street
Laurens, Iowa 50554
712-845-2588

MANSON
Eleventh at Main
Manson, Iowa 50563
712-469-3319

ODEBOLT
219 South Main Street
Odebolt, Iowa 51458
712-668-4881

SAC CITY
518 Audubon Street
Sac City, Iowa 50583
712-662-7195

BROOKINGS FEDERAL DIVISION
600 Main Avenue
Brookings, South Dakota 57006
605-692-2314
800-842-7452

EASTBROOK BRANCH
425 22nd Avenue South
Brookings, South Dakota 57006
605-692-2314

IOWA SAVINGS BANK DIVISION
3624 Sixth Avenue
Des Moines, Iowa 50313
515-288-4865

SECURITY STATE BANK

Office Locations

STUART

MAIN OFFICE
615 South Division, P.O. Box A
Stuart, Iowa 50250
515-523-2203 800-523-8003 [GRAPHIC OFFICE LOCATIONS MAP]

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

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

First Midwest Financial, Inc., and Subsidiaries

Financial Contents

Special Note
Certain statements in this report that relate to First Midwest Financial, Inc.'s plans, objectives or future performance may be deemed to be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on Management's current expectations. Actual strategies and results in future periods may differ materially from those currently expected because of various risks and uncertainties. Additional discussion of factors affecting First Midwest's business and prospects is contained in the Company's periodic filings with the Securities and Exchange Commission.

Selected Consolidated Financial Information

September 30, (In Thousands)	1996	1995	1994	1993	1992
Selected Financial Condition Data:					
Total assets	$ 388,008	$ 264,213	$ 274,115	$ 160,827	$ 171,030
Loans receivable, net	243,534	178,552	155,497	80,224	74,561
Securities available for sale	109,492	70,232	37,180	20	20
Securities held to maturity	--	--	65,917	56,085	87,401
Excess of cost over net assets acquired, net	5,091	1,690	1,815	--	--
Deposits	233,406	171,793	176,167	122,813	147,289
Total borrowings	106,478	52,248	61,218	3,115	7,554
Shareholders' equity	43,210	38,013	34,683	33,438	14,970

Year Ended September 30, (In Thousands, Except Per Share Data)	1996	1995	1994	1993	1992
Selected Operations Data:					
Total interest income	$ 24,337	$ 21,054	$ 15,153	$ 11,586	$ 13,791
Total interest expense	13,978	11,649	7,283	6,509	9,182
Net interest income	10,359	9,405	7,870	5,077	4,609
Provision for loan losses	100	250	105	225	50
Net interest income after provision for loan losses	10,259	9,155	7,765	4,852	4,559
Total noninterest income	1,419	2,286	1,078	1,555	1,047
Total noninterest expense	7,568	5,576	4,938	3,725	3,995
Income before income taxes, extraordinary items and cumulative effect of changes in accounting principles	4,110	5,865	3,905	2,682	1,611
Income tax expense	1,696	2,321	1,433	1,045	591
Extraordinary items-- net of taxes	--	--	--	(285)	--
Cumulative effect of changes in accounting principles	--	--	257	--	--
Net income	$ 2,414	$ 3,544	$ 2,729	$ 1,352	$ 1,020
Earnings per share (fully diluted):					
Income before extraordinary items and cumulative effect of changes in accounting principles	$ 1.34	$ 1.99	$ 1.24	$ 0.80	--
Net income	$ 1.34	$ 1.99	$ 1.37	$ 0.66	--

Year Ended September 30,	1996	1995	1994	1993	1992
Selected Financial Ratios and Other Data:					
PERFORMANCE RATIOS:					
Return on assets (ratio of net income to average total assets)(1)	0.76%	1.31%	1.29%	0.84%	0.57%
Return on stockholders' equity (ratio of net income to average equity)(1)	6.18	9.86	7.89	7.10	7.08
Interest rate spread information:					
Average during year	2.88	3.13	3.25	2.69	2.25
End of year	2.84	2.85	2.96	2.88	2.55
Net yield on average interest-earning assets	3.47	3.63	3.94	3.21	2.63
Ratio of operating expense to average total assets	2.40	2.06	2.30	2.31	2.22
QUALITY RATIOS:					
Non-performing assets to total assets at end of year	.70	.29	.34	.78	.23
Allowance for loan losses to non-performing loans	89.04	227.21	148.51	65.42	239.04
CAPITAL RATIOS:					
Shareholders' equity to total assets at end of period	11.14	14.39	12.65	20.79	8.75
Average shareholders' equity to average assets	12.45	13.28	20.52	11.83	8.00
Ratio of average interest-earning assets to average interest-bearing liabilities	112.58%	111.35%	119.04%	112.69%	107.18%
OTHER DATA:					
Book value per common share outstanding	$ 22.21	$ 21.19	$ 18.69	$ 16.82	--
Dividends declared per share	0.44	0.30	--	--	--
Dividend payout ratio	30.90%	14.53%	--	--	--
Number of full-service offices	11	9	9	7	10

(1) 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.

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 com-mercial mortgage loans, and to provide financing for consumer, 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 effect of which was not material. 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

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,	1996	1995	1994
WEIGHTED AVERAGE YIELD ON:			
Loans receivable	8.74%	8.58%	7.99%
Mortgage-backed securities	7.06	7.97	6.85
Securities	5.99	6.79	7.66
Other interest-earning assets	5.04	5.44	4.66
Combined weighted average yield on interest-earning assets	7.87	8.13	7.46
WEIGHTED AVERAGE RATE PAID ON:			
Demand, NOW deposits and Money Market	2.35	2.55	2.30
Savings deposits	3.22	3.00	2.28
Time deposits	5.78	5.80	4.87
FHLB advances	5.81	6.14	5.10
Other borrowed money	5.48	5.75	4.70
Combined weighted average rate paid on interest-bearing liabilities	5.03	5.28	4.50
Spread	2.84%	2.85%	2.96%

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 Iowa Savings office operates 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 out-standing 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).

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, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

Year Ended September 30,	1996 vs. 1995			1995 vs. 1994		
	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Increase (Decrease) Due to Rate	Total Increase (Decrease)
					(Dollars in Thousands)	
INTEREST-EARNING ASSETS:						
Loans receivable	$ 4,170	$ 629	$ 4,799	$ 4,180	$ (156)	$ 4,024
Mortgage-backed securities	(1,251)	(133)	(1,384)	609	130	739
Securities	500	(695)	(195)	26	1,007	1,033
FHLB stock	66	(3)	63	106	(1)	105
Total interest-earning assets	$ 3,485	$ (202)	$ 3,283	$ 4,921	$ 980	$ 5,901
INTEREST-BEARING LIABILITIES:						
Demand and NOW deposits	$ (41)	$ (34)	$ (75)	$ 6	$ (7)	$ (1)
Savings deposits	121	4	125	64	5	69
Time deposits	953	518	1,471	1,414	660	2,074
FHLB advances	732	11	743	1,580	723	2,303
Other borrowed money	60	6	66	(60)	(19)	(79)
Total interest-bearing liabilities	$ 1,825	$ 505	$ 2,330	$ 3,004	$ 1,362	$ 4,366
Net effect on net interest income	$ 1,660	$ (707)	$ 953	$ 1,917	$ (382)	$ 1,535

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, 1996 were $388.0 million, an increase of $123.8 million, or 46.9%, from $264.2 million at September 30, 1995. The increase in assets is due to completed acquisitions during the period of Iowa Bancorp and Central West, which had assets at the dates of acquisition of approximately $25 million and $33 million, respectively. The increase in assets also resulted from the purchase of mortgage-backed securities and other investment securities, and from the increased origination and purchase of loans during the period.

The Company's portfolio of securities available for sale, excluding mortgage-backed securities, increased $25.1 million, or 51.4%, to $73.9 million at September 30, 1996 from $48.8 million at September 30, 1995. The increase in securities available for sale, primarily short-term treasury and federal agency securities, is due to securities acquired in acquisitions completed during the fiscal year and as the result of securities purchased in amounts that exceeded maturities during the period.

Average Balances, Interest Rates and Yields The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments have been made. 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,	1996			1995			1994		
	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)	$207,983	$18,567	8.93%	$161,243	$13,768	8.54%	$112,317	$ 9,744	8.68%
Mortgage-backed securities	34,213	2,521	7.37	51,157	3,905	7.63	42,914	3,166	7.38
Securities	51,494	2,916	5.66	42,674	3,111	7.29	42,130	2,078	4.93
FHLB stock	4,644	333	7.17	3,720	270	7.26	2,262	165	7.29
Total interest-earning assets	$298,334	$24,337	8.16%	$258,794	$21,054	8.14%	$199,623	$15,153	7.59%
INTEREST-BEARING LIABILITIES:									
Demand and NOW deposits	$ 29,377	$ 661	2.25%	$ 31,139	$ 736	2.36%	$ 30,861	$ 737	2.39%
Savings deposits	14,906	402	2.70	10,431	277	2.66	7,933	208	2.62
Time deposits	149,247	8,703	5.83	132,856	7,232	5.44	104,283	5,158	4.95
FHLB advances	69,265	4,087	5.90	56,820	3,344	5.88	22,579	1,041	4.61
Other borrowed money	2,198	126	5.73	1,159	60	5.18	2,043	139	6.80
Total interest-bearing liabilities	$264,993	$13,979	5.28%	$232,405	$11,649	5.01%	$167,699	$ 7,283	4.34%
Average interest-earning assets	$ 33,341			$ 26,389			$ 31,924		
Net interest income		$ 10,358			$ 9,405			$ 7,870	
Net interest rate spread			2.88%			3.13%			3.25%
Net yield on average interest-earning assets			3.47%			3.63%			3.94%
Average interest-earning assets to average interest-bearing liabilities	112.58%			111.35%			119.04%		

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

The balance in mortgage-backed securities available for sale increased by $14.2 million, or 66.3%, from $21.4 million at September 30, 1995, to $35.6 million at September 30, 1996. The increase resulted from the purchase of adjustable-rate mortgage-backed securities that were funded by adjustable-rate borrowings from the Federal Home Loan Bank of Des Moines.

The Company's net portfolio of loans receivable increased by $65.0 million, or 36.4%, to $243.5 million at September 30, 1996 from $178.5 million at September 30, 1995. The increase in net loans receivable is due, in part, to the acquisitions of Iowa Bancorp and Central West which, at the dates of acquisition, had loans of approximately $16 million and $20 million, respectively. The increase also resulted from increased origination of residential and commercial real estate loans, consumer loans and ag-related loans. In addition, the loan portfolio increased as a result of purchases of multi-family residential and commercial real estate loans.

The balance of customer deposits increased by $61.6 million, or 35.9%, from $171.8 million at September 30, 1995 to $233.4 million at September 30, 1996. The increase in deposits resulted partly from the acquisitions of Iowa Bancorp and Central West which, at the dates of acquisition, had deposits of approximately $15 million and $28 million, respectively. In addition, customer deposits increased as a result of 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 $51.2 million, from $51.1 million at September 30, 1995 to $102.3 million at September 30, 1996. 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.

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 the difference between the interest earned on interest-earning assets and the interest expense paid on interest-bearing liabilities. Net interest income 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 is 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. Beginning January 1, 1997, the legislation provides that First Federal's annual deposit insurance premium (including required payments on the Financing Corporation obligation) will be reduced from 0.23% to an estimated 0.064% of insured deposits.

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 ended September 30, 1995. The decrease in net income reflects the one-time special assessment to recapitalize the 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 resulting primarily from the restructure of the Company's mortgage-backed securities portfolio, which increased fiscal year 1995 income by $720,000, net of income taxes.

Net Interest Income

The Company's net interest income for the year ended September 30, 1996 increased by $954,000, or 10.1%, to $10.36 million compared to $9.40 million for the same period ended September 30, 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 interest-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.

During the fiscal years ended September 30, 1996 and 1995, the Company increased its origination and purchase of multi-family and commercial real estate loans and, in addition, increased its origination of consumer and agricultural business loans. The Company anticipates activity in this type of lending to continue in future years, subject to market demand. Net interest income is expected 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.

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 was 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. 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. In addition, because of the Company's extremely low loan loss experience during its history, management also considers the loan loss experience of similar portfolios in comparable lending markets. Accordingly, the calculation of the adequacy of the allowance for loan losses is not based solely on the level of non-performing assets.

Management will continue to monitor the allowance for loan losses and make future additions to the allowance through the provision for loan losses as economic conditions and loan portfolio quality dictate. Although the Company maintains its allowance for loan losses at a level which it con-siders to be adequate to provide for losses, 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 determination as to the amount of its allowance for loan losses is subject to review by the Company's regulators, as part of their examination process, which may result in the establishment of an additional allowance based upon their judgment of the information available to them at the time of their examination.

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 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.

Comparison of Operating Results for the Years Ended September 30, 1995 and September 30, 1994

General
Net income for the year ended September 30, 1995 increased $815,000, or 29.9%, to $3.5 million, from $2.7 million for the same period ended September 30, 1994. The increase in net income reflects higher net interest income as a result of a full year of operations after the acquisition of Brookings Federal. In addition, net income was enhanced by a gain on the sale of securities resulting from the restructure of the Company's portfolio of mortgage-backed securities. Net income for the year ended September 30, 1995 was negatively impacted compared to the previous year by an increase of $145,000 in the provision for loan losses, and by an overall increase of $638,000 in other expenses, primarily as a result of the full year operation of the Brookings Federal division. Operating results for the year ended September 30, 1994 include the cumulative effect of a change in accounting principle resulting from the implementation of SFAS 109 (Accounting for Income Taxes), which increased net income by $257,000.

Net Interest Income
The Company's net interest income for the year ended September 30, 1995 increased by $1.5 million, or 19.5%, to $9.4 million compared to $7.9 million for the same period ended September 30, 1994. The increase in net interest income reflects an overall increase in average interest-earning assets during the period resulting primarily from the full-year effect of the acquisition of Brookings Federal. The net yield on average interest-earning assets declined to 3.63% for the period ended September 30, 1995 from 3.94% for the same period ended in 1994. The reduction in net yield was due to an overall reduction in average net interest-earning assets and to a reduction in the net interest rate spread.

Interest Income
Interest income for the year ended September 30, 1995 increased $5.9 million, or 38.9%, to $21.1 million from $15.2 million for the same period in 1994. The increase was attributable to a $4.0 million increase in interest earned on the loan portfolio to $13.8 million for the year ended September 30, 1995 from $9.7 million the previous year. This increase in loan interest income resulted from a significantly higher average portfolio balance of loans receivable during the period due to internal growth of the loan portfolio and to the full-year effect of the acquisition of Brookings Federal. Interest income on mortgage-backed securities was enhanced by $739,000 compared to the previous year primarily as a result of the increase in the average portfolio balance. In addition, interest income from the Company's portfolio of securities held to maturity and securities available for sale increased by $1.0 million for the year ended September 30, 1995 compared to 1994 due to higher yields received on the portfolio.

Interest Expense

Interest expense increased $4.4 million, or 60.0%, to $11.7 million for the period ended September 30, 1995 from $7.3 million for the same period in 1994. The increase in interest expense was due primarily to a significant increase in the average outstanding balance of time deposits and FHLB advances during the year ended September 30, 1995, compared to the same period in 1994. The increase in the average balance of time deposits resulted from the full-year effect of the Brookings Federal acquisition. The average outstanding balance of FHLB advances increased due to borrowing activity throughout the period used to fund growth of the loan portfolio. To a lesser extent, the increase in interest expense reflects higher interest rates paid on interest-bearing liabilities during the year ended September 30, 1995, compared to the previous year.

Provision for Loan Losses

The provision for loan losses for the year ended September 30, 1995 was $250,000 compared to $105,000 for the same period in 1994. The $145,000 increase in the provision, and a resulting increase in the allowance for loan losses, reflects the increase in the level of agricultural related, multi-family, and commercial real estate lending activity. These types of lending activities are considered to carry a higher degree of risk than single-family residential loans due to the nature of the collateral securing such loans, and the generally larger average size of individual loans. The ratio of non-performing assets to total assets declined to .29% at September 30, 1995, compared to .35% at the end of 1994.

Noninterest Income

Noninterest income for the year ended September 30, 1995 increased $1.2 million, or 112.1%, to $2.3 million from $1.1 million for the same period in 1994. The increase in noninterest income during the period ended September 30, 1995 was primarily due to a $1.1 million gain on the sale of securities resulting from the restructure of the Company's portfolio of mortgage-backed securities. In addition, during the year ended September 30, 1995, noninterest income from loan fees and service charges increased by $114,000 compared to the same period in 1994.

Noninterest Expense
Noninterest expense increased by $638,000, or 12.9%, to $5.6 million for the year ended September 30, 1995 compared to $4.9 million for the same period in 1994. The increase primarily reflects the full-year effect of additional operating expenses associated with the acquisition of Brookings Federal. In addition, noninterest expense includes an increase of $54,000 in federal deposit insurance premiums due to the higher average outstanding balance of insured deposit accounts during the period.

Income Tax Expense
Income tax expense increased by $887,000, or 61.9%, to $2.3 million for the year ended September 30, 1995 from $1.4 million for the same period in 1994. The increase in income tax expense reflects increased income before income taxes for the period ended September 30, 1995 compared to the same period in 1994.

Effect of Accounting
Change For the year ended September 30, 1994, net income was increased by $257,000 due to the cumulative effect of a change in accounting principle resulting from the implementation of SFAS 109 (Accounting for Income Taxes). There was no such effect on net income during the year ended 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 strategy allows the Company to maintain a portfolio of loans which will be relatively sensitive to changes in the level of interest rates while providing a reasonable spread to the cost of liabilities used to fund the loans.

The Company's primary objective for its investment portfolio is to provide the liquidity necessary to meet 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 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.

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, 1996, 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, 1996, 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.

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.

At September 30, 1996

Change in Interest Rate (Basis Points)	Board Limit % Change	$ Change	% Change
		(Dollars in Thousands)	
+400 bp	(60)%	$(13,549)	(36)%
+300 bp	(50)	(9,977)	(26)
+200 bp	(40)	(6,499)	(17)
+100 bp	(25)	(3,153)	(8)
0 bp	--	--	--
- - 100 bp	(10)	2,447	6
- - 200 bp	(15)	4,131	11
- - 300 bp	(20)	5,885	16
- - 400 bp	(25)	8,068	21

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, 1996 for Security State Bank.

At September 30, 1996

	Repricable or Maturing Within				
	0 - 6 Months	6 - 12 Months	Total 1 Year	Over 1 Year	Total
					(In Thousands)
ASSETS					
Interest-earning deposits in other financial institutions	$ 100	$ 0	$ 100	$ 0	$ 100
Federal funds sold	0	0	0	0	0
Securities	2,516	2,250	4,766	5,150	9,916
Loans	9,437	2,570	12,007	8,968	20,975
Total interest-earning assets	$ 12,053	$ 4,820	$ 16,873	$ 14,118	$ 30,991
LIABILITIES					
Interest-bearing deposits	$ 8,761	$ 12,265	$ 21,026	$ 3,910	$ 24,936
Borrowed funds	1,400	0	1,400	0	1,400
Total interest-bearing liabilities	$ 10,161	$ 12,265	$ 22,426	$ 3,910	$ 26,336
Asset/(Liability) funding GAP	$ 1,892	$ (7,445)	$ (5,553)	$ 10,208	$ 4,655
GAP ratio (assets/liabilities)	119%	39%	75%	361%	118%

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 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, 1996, non-performing assets, consisting of non-accruing loans, real estate owned and repossessed consumer property, totaled $2,733,000, or 0.70% of total assets, compared to $759,000, or 0.29% of total assets, for the fiscal year ended 1995. The increase in non-performing assets was due primarily to the addition of a $1,623,000 real estate participation loan secured by a 104 unit multi-family apartment complex located in Madison, Wisconsin.

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 invest-ment 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 well in excess of those required. First Federal's regulatory liquidity ratios were 5.4%, 12.2% and 8.0% at September 30, 1996, 1995 and 1994, 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, 1996, 1995 and 1994, the Company originated loans of $95.8 million, $65.3 million and $50.3 million, respectively. Purchases of loans totaled $24.9 million, $19.2 million and $22.1 million during the years ended September 30, 1996, 1995 and 1994, respectively. During the years ended September 30, 1996, 1995 and 1994, the Company purchased mortgage-backed securities and other securities in the amount of $121.0 million, $43.5 million and $76.4 million, respectively.

At September 30, 1996, the Company had outstanding commitments to originate and purchase loans of $20.7 million. Certificates of deposit scheduled to mature in one year or less from September 30, 1996 total $126.5 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, 1996, the Company completed a major remodeling of its main office building at an approximate cost of $911,000. In addition, the Company initiated negotiations for the purchase of an existing building located in Des Moines, Iowa, for the purpose of establishing a branch office of First Federal. The building purchase, and related remodeling, is anticipated to be completed during the first quarter of the 1997 fiscal year. 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, 1996, the liquidation account approximated $3.8 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 FASB that will apply for the year ending September 30, 1997. SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," requires a review of long-term assets for impairment of recorded value and resulting write-downs if the value is impaired. SFAS No. 122, "Accounting for Mortgage Servicing Rights," requires recognition of an asset when servicing rights are retained on in-house originated loans that are sold. SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, entities to use a "fair value based method" to account for stock-based compensation plans and requires disclosure of the proforma effect on net income and on earnings per share had the accounting been adopted. 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. Adoption of these statements are not expected to have a material effect on the Company's consolidated financial position or results of operations.

First Midwest Financial, Inc. and Subsidiaries

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of First Midwest Financial, Inc. and Subsidiaries (the "Company") as of September 30, 1996 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year 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 audit. The consolidated financial statements of the Company as of September 30, 1995 and for the years ended September 30, 1995 and 1994 were audited by other auditors whose report dated November 17, 1995 expressed an unqualified opinion on those statements.

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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 1996 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

CROWE, CHIZEK AND COMPANY LLP
October 9, 1996
South Bend, Indiana

First Midwest Financial, Inc. and Subsidiaries

Consolidated Balance Sheets — September 30, 1996 and 1995

	1996	1995
ASSETS		
Cash and due from financial institutions	$ 736,979	$ 453,230
Interest-bearing deposits in other financial institutions - short-term	4,743,636	4,162,482
Federal funds sold	8,848,037	--
Total cash and cash equivalents	14,328,652	4,615,712
Interest-bearing deposits in other financial institutions (cost approximates market value)	300,000	--
Securities available for sale	109,491,558	70,232,092
Loans receivable, net of allowance for loan losses of $2,356,113 in 1996 and $1,649,520 in 1995	243,533,519	178,551,501
Federal Home Loan Bank (FHLB) stock, at cost	5,524,700	3,915,300
Accrued interest receivable	5,029,047	2,745,747
Premises and equipment, net	3,680,332	1,976,647
Foreclosed real estate, net of allowances of $5,000 in 1996 and $-0- in 1995	86,818	48,418
Other assets	6,033,672	2,127,806
Total assets	$ 388,008,298	$ 264,213,223
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing demand deposits	$ 5,452,911	$ 2,076,671
Savings, NOW and money market demand deposits	49,358,478	40,407,661
Other time certificates of deposit	178,594,337	129,308,665
Total deposits	233,405,726	171,792,997
Advances from FHLB	102,287,803	51,098,388
Securities sold under agreements to repurchase	2,789,918	1,149,918
Other borrowings	1,400,000	--
Advances from borrowers for taxes and insurance	490,243	501,522
Accrued interest payable	1,271,465	788,008
Accrued expenses and other liabilities	3,153,441	869,694
Total liabilities	344,798,596	226,200,527

Consolidated Balance Sheets (continued) September 30, 1996 and 1995

	1996	1995
SHAREHOLDERS' EQUITY		
Preferred stock, 800,000 shares authorized; none issued	--	--
Common stock, $.01 par value; 5,200,000 shares authorized; 1,990,495 shares issued and 1,945,735 shares outstanding at September 30, 1996; 1,991,453 shares issued and 1,794,025 shares outstanding at September 30, 1995	19,905	19,915
Additional paid-in capital	20,862,551	19,310,045
Retained earnings - substantially restricted	23,748,383	22,080,579
Net unrealized appreciation on securities available for sale, net of tax of $18,324 in 1996 and $340,190 in 1995	28,698	571,564
Unearned Employee Stock Ownership Plan shares	(767,200)	(967,200)
Treasury stock, 44,760 and 197,428 common shares, at cost, at September 30, 1996 and 1995, respectively	(682,635)	(3,002,207)
Total shareholders' equity	43,209,702	38,012,696
Total liabilities and shareholders' equity	$ 388,008,298	$ 264,213,223

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, 1996, 1995 and 1994

	1996	1995	1994
INTEREST AND DIVIDEND INCOME			
Loans receivable	$ 18,567,097	$ 13,768,064	$ 9,743,957
Securities available for sale	5,437,734	7,015,145	3,842,930
Securities held to maturity	--	--	1,400,824
Dividends on FHLB stock	332,634	270,261	164,980
	24,337,465	21,053,470	15,152,691
INTEREST EXPENSE			
Deposits	9,766,586	8,245,227	6,102,042
FHLB advances and other borrowings	4,212,024	3,403,497	1,180,452
	13,978,610	11,648,724	7,282,494
NET INTEREST INCOME	10,358,855	9,404,746	7,870,197
PROVISION FOR LOAN LOSSES	100,000	250,000	105,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,258,855	9,154,746	7,765,197
NONINTEREST INCOME			
Loan fees and service charges	830,256	712,345	597,984
Gain on sales of securities available for sale, net	79,317	1,070,247	9,170
Gain (loss) on sales of foreclosed real estate, net	(8,630)	--	--
Brokerage commissions	292,189	297,777	328,343
Other income	226,163	206,101	142,270
	1,419,295	2,286,470	1,077,767
NONINTEREST EXPENSE			
Employee compensation and benefits	3,732,839	3,400,190	3,079,769
Occupancy and equipment expense	668,784	432,571	316,375
SAIF deposit insurance premium	1,699,363	404,306	350,314
Data processing expense	289,390	291,961	200,219
Other expense	1,177,886	1,047,149	991,020
	7,568,262	5,576,177	4,937,697
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	4,109,888	5,865,039	3,905,267
INCOME TAX EXPENSE	1,696,323	2,320,687	1,433,519
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	2,413,565	3,544,352	2,471,748
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES:			
Change in method of accounting for income taxes	--	--	257,163
NET INCOME	$ 2,413,565	$ 3,544,352	$ 2,728,911

(continued)

	1996	1995	1994
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE			
Fully diluted:			
Income before cumulative effect of changes in accounting principles	$ 1.34	$ 1.99	$ 1.24
Cumulative effect of changes in accounting principles	--	--	.13
NET INCOME	$ 1.34	$ 1.99	$ 1.37

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, 1996, 1995 and 1994

	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Appreciation (Depreciation) on Securities Available-For-Sale, Net of Tax	Unearned Employee Stock Ownership Plan Shares
Balance at October 1, 1993	$ 19,886	$ 18,480,114	$ 16,322,411	$ --	$ (1,384,100)
Reduction of conversion costs ...	--	93,210	--	--	--
Purchase of 135,716 common shares of treasury stock	--	--	--	--	--
19,810 common shares committed to be released under the ESOP .	--	--	--	--	198,100
Issuance of 4,794 shares in connection with recognition and retention plan	48	(48)	--	--	--
Retirement of 1,918 common shares	(19)	19	--	--	--
Amortization of recognition and retention plan common shares ..	--	381,897	--	--	--
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of ($43,568) .	--	--	--	(86,964)	--
Net income for the year ended September 30, 1994	--	--	2,728,911	--	--
Balance at September 30, 1994	$ 19,915	$ 18,955,192	$ 19,051,322	$ (86,964)	$ (1,186,000)

	Treasury Stock	Total Shareholders' Equity
Balance at October 1, 1993	$ --	$ 33,438,311
Reduction of conversion costs ...	--	93,210
Purchase of 135,716 common shares of treasury stock	(2,070,177)	(2,070,177)
19,810 common shares committed to be released under the ESOP .	--	198,100
Issuance of 4,794 shares in connection with recognition and retention plan	--	--
Retirement of 1,918 common shares	--	--
Amortization of recognition and retention plan common shares ..	--	381,897
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of ($43,568) .	--	(86,964)
Net income for the year ended September 30, 1994	--	2,728,911
Balance at September 30, 1994	$ (2,070,177)	$ 34,683,288

Consolidated Statements of Changes in Shareholders' Equity (Continued) Years Ended September 30, 1996, 1995 and 1994

	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Appreciation (Depreciation) on Securities Available-For-Sale, Net of Tax	Unearned Employee Stock Ownership Plan Shares
Balance at September 30, 1994	$ 19,915	$ 18,955,192	$ 19,051,322	$ (86,964)	$ (1,186,000)
Purchase of 61,712 common shares of treasury stock	--	--	--	--	--
21,880 common shares committed to be released under the ESOP .	--	87,789	--	--	218,800
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under plan	--	267,064	--	--	--
Cash dividends declared on common stock ($.30 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	$ (967,200)

Consolidated Statements of Changes in Shareholders' Equity (Continued) Years Ended September 30, 1996, 1995 and 1994

	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1994	$ (2,070,177)	$ 34,683,288
Purchase of 61,712 common shares of treasury stock	(932,030)	(932,030)
21,880 common shares committed to be released under the ESOP .	--	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 ($.30 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	$ (3,002,207)	$ 38,012,696

Consolidated Statements of Changes in Shareholders' Equity (Continued) Years Ended September 30, 1996, 1995 and 1994

	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Appreciation (Depreciation) on Securities Available-For-Sale, Net of Tax	Unearned Employee Stock Ownership Plan Shares
Balance at September 30, 1995	$ 19,915	$ 19,310,045	$ 22,080,579	$ 571,564	$ (967,200)
Purchase of 27,940 common shares of treasury stock	--	--	--	--	--
Retirement of 958 common shares	(10)	10	--	--	--
20,000 common shares committed to be released under the ESOP	--	303,524	--	--	200,000
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 ($.44 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	$ (767,200)

Consolidated Statements of Changes in Shareholders' Equity (continued) Years Ended September 30, 1996, 1995 and 1994

	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1995	$ (3,002,207)	$ 38,012,696
Purchase of 27,940 common shares of treasury stock	(630,710)	(630,710)
Retirement of 958 common shares	--	--
20,000 common shares committed to be released under the ESOP	--	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 ($.44 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	$ (682,635)	$ 43,209,702

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, 1996, 1995 and 1994

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,413,565	$ 3,544,352	$ 2,728,911
Adjustments to reconcile net income to net cash from operating activities:			
Cumulative effects of changes in accounting principles	--	--	(257,163)
Depreciation, amortization and accretion, net	907,721	697,879	690,755
Provision for loan losses	100,000	250,000	105,000
Provision for losses on foreclosed real estate	20,000	--	--
Gain on sales of securities available for sale, net	(79,317)	(1,070,247)	(9,170)
Proceeds from the sales of loans held for sale	1,064,000	--	--
Originations of loans held for sale	(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	8,630	--	--
Net change in interest receivable	(1,406,034)	(504,937)	(221,613)
Net change in other assets	(399,200)	(55,643)	5,181
Net change in accrued interest payable	348,940	(47,662)	350,455
Net change in accrued expenses and other liabilities	1,689,497	(122,777)	(343,537)
Net cash from operating activities	3,500,163	2,690,965	3,048,819
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in interest-bearing deposits in other financial institutions	(300,000)	--	--
Purchase of securities available for sale	(120,994,759)	(31,580,132)	(10,342,303)
Purchase of securities held to maturity	--	(11,888,625)	(66,050,121)
Proceeds from sales of securities available for sale	366,829	49,445,258	16,136,827
Proceeds from maturities and principal repayment of mortgage-backed securities available for sale	95,068,472	29,105,289	15,975,260
Proceeds from maturities and principal repayment of mortgage-backed securities held to maturity	--	27,205	8,256,744
Loans purchased	(24,975,540)	(19,211,940)	(22,059,813)
Net change in loans	(3,599,754)	(4,280,762)	(2,281,756)
Proceeds from sales of foreclosed real estate	132,842	78,738	2,000
Purchase of FHLB stock	(1,355,100)	(899,800)	(1,134,900)
Purchase of Community Financial Systems, Inc., net of cash received	--	--	(6,801,434)
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	(845,380)	(581,126)	(34,366)
Proceeds from sales of assets	72,925	--	--
Net cash from investing activities	(61,876,160)	10,214,105	(68,333,862)

First Midwest Financial, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

	Years Ended September 30, 1996, 1995 and 1994		
	1996	1995	1994
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits	(295,265)	(5,082,644)	(5,066,686)
Net change in other time deposits	18,548,037	708,934	1,829,381
Proceeds from advances from FHLB	210,000,000	246,000,000	298,300,000
Repayments of advances from FHLB	(160,510,585)	(255,209,677)	(240,308,847)
Net change in securities sold under agreements to repurchase	1,640,000	240,000	(1,488,152)
Net change in advances from borrowers for taxes and insurance	(11,279)	70,919	(24,545)
Cash dividends paid	(745,761)	(515,095)	--
Proceeds from exercise of stock options	94,500	--	--
Purchase of treasury stock	(630,710)	(932,030)	(2,070,177)
Net cash from financing activities	68,088,937	(14,719,593)	51,170,974
Net change in cash and cash equivalents	9,712,940	(1,814,523)	(14,114,069)
Cash and cash equivalents at beginning of year	4,615,712	6,430,235	20,544,304
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,328,652	$ 4,615,712	$ 6,430,235

First Midwest Financial, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued) Years Ended September 30, 1996, 1995 and 1994

	1996	1995	1994
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$ 13,629,670	$ 11,696,386	$ 6,594,377
Income taxes	1,736,192	2,366,886	1,463,427
Supplemental schedule of non-cash investing and financing activities			
Loans transferred to foreclosed real estate	$ 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.

First Midwest Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements September 30, 1996, 1995 and 1994

Note 1 - Summary of Significant Accounting Policies

General:
First Midwest Financial, Inc. (the "Company") is located in Storm Lake, Iowa, and was organized and incorporated under the laws of the State of Delaware for the purpose of acquiring all of the capital stock to be issued by First Federal Savings Bank of the Midwest (the "Bank" or "First Federal") upon the conversion described below. On September 20, 1993, First Federal Savings and Loan Association of Storm Lake (the "Association") was converted from a federally chartered mutual savings and loan association to a federally chartered stock savings bank and the name of the Association was changed to First Federal Savings Bank of the Midwest.

Principles of Consolidation and Nature of Business and Industry Segment Information:
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, which include the Bank, 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.

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, 1996 and 1995, trust assets totaled approximately $10,172,000 and $9,245,000, 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, 1996 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:
Effective October 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company now classifies securities as securities held to maturity, available for sale and trading securities. Securities held to maturity are those which the Company has the positive intent and ability to hold to maturity, and are reported at amortized cost. Securities available for sale are those the Company may decide to sell if needed for liquidity, asset-liability management or other reasons. Securities available for sale 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. The effect of adopting SFAS No. 115 was not material to the consolidated financial statements.

In implementing SFAS No. 115, the Company originally designated the securities and mortgage-backed securities held at October 1, 1993 as available-for-sale securities. Securities acquired since October 1, 1993 have been designated at acquisition as available-for-sale or held-to-maturity, however, 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, 1996 or 1995. 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.

Loans:
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, any deferred fees or costs on originated loans and any 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, with the net fee or cost 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.

Income Taxes:
Effective October 1, 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes". Under SFAS No. 109 deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense.

The effect of applying the provisions of SFAS No. 109 resulted in a one-time adjustment that increased net income for the year ended September 30, 1994 by $257,163 ($.13 per share) recorded as a cumulative effect of a change in accounting principles.

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.

Employee Stock Ownership Plan:
Effective October 1, 1994, the Company began to account 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 statement of financial condition 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.

Prior to the adoption of SOP 93-6, the expense recorded relative to the ESOP was limited to the principal repayment on the loan and the earnings per share calculation included as outstanding all 153,410 shares of common stock owned by the ESOP.

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, 1996 and 1995, unamortized goodwill totaled $5,090,958 and $1,689,776, respectively. Amortization expense was $170,070, $125,160 and $62,584 for the years ended September 30, 1996, 1995 and 1994, respectively.

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.

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. 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,	1996	1995	1994
Fully diluted	1,798,973	1,780,592	1,988,064

Reclassifications:
Certain amounts in the 1995 and 1994 consolidated financial statements were reclassified to conform with the 1996 presentation.

Note 2 - Acquisitions
On March 28, 1994 the Company acquired 100% of the common stock of Community Financial Systems, Inc. ("Community"), and its wholly-owned subsidiary, Brookings Federal Bank, a federal savings bank, in a purchase transaction with $69 million in assets. Each share of Community's common stock was exchanged for $31.38 in cash. The Company paid approximately $10.5 million. Community's results of operations are included in the consolidated income statement of the Company beginning as of the purchase date.

Presented below are the proforma results of operations of the Company for the year ended September 30, 1994, assuming the Community acquisition had occurred as of October 1, 1993.

Net interest income	$8,819,577
Net income	2,804,020
Earnings per common and common equivalent share	
Fully diluted:	
Net income	$ 1.41

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 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	$ 1.26	$ 2.00

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	$ 1.22	$ 1.78

Note 3 - Securities

The amortized cost and fair value of securities available for sale are as follows:

	September 30, 1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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

	September 30, 1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DEBT SECURITIES				
U.S. Government and federal agencies	$ 45,442,279	$ 157,179	$ (87,473)	$ 45,511,985
Corporate obligations	1,050,569	7,368	(62)	1,057,875
Mortgage-backed securities	20,658,802	817,761	(73,574)	21,402,989
	67,151,650	982,308	(161,109)	67,972,849
MARKETABLE EQUITY SECURITIES	2,168,688	90,555	--	2,259,243
	$ 69,320,338	$ 1,072,863	$ (161,109)	$ 70,232,092

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, 1996	
	Amortized Cost	Fair Value
Due in one year or less	$ 43,968,463	$ 43,977,423
Due after one year through five years	21,224,420	20,891,552
Due after five years through ten years	5,696,876	5,636,832
Due after ten years	298,150	298,150
	71,187,909	70,803,957
Mortgage-backed securities	35,278,943	35,586,314
	$106,466,852	$106,390,271

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

	Years Ended September 30,		
	1996	1995	1994
Proceeds from sales	$ 366,829	$49,445,258	$16,136,827
Gross gains on sales	79,317	1,070,247	80,666
Gross losses on sales	--	--	71,496

During the period ended September 30, 1994, there were no sales of securities held to maturity or transfers of securities between available for sale and held to maturity. 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 or 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

Loans receivable as of September 30 are summarized as follows:

	1996	1995
One to four family residential mortgage loans:		
Insured by FHA or guaranteed by VA	$ 502,786	$ 599,019
Conventional	77,973,057	56,674,526
Construction	7,819,129	17,877,327
Commercial and multi-family real estate loans	85,157,278	73,418,931
Agricultural real estate loans	11,068,059	7,021,264
Commercial business loans	15,468,175	8,172,989
Agricultural business loans	30,364,235	11,905,367
Consumer loans	20,427,632	13,007,467
	248,780,351	188,676,890
Less: Allowance for loan losses	(2,356,113)	(1,649,520)
Undistributed portion of loans in process .	(2,240,373)	(8,071,693)
Net deferred loan origination fees	(650,346)	(404,176)
	$ 243,533,519	$ 178,551,501

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

	1996	1995	1994
Balance at beginning of year	$ 1,649,520	$ 1,442,077	$ 825,000
Provision for loan losses	100,000	250,000	105,000
Community allowance at acquisition date ..	--	--	517,781
Iowa Bancorp allowance at acquisition date	132,500	--	--
Central West allowance at acquisition date	563,310	--	--
Charge-offs	(89,217)	(42,557)	(5,704)
Balance at end of year	$ 2,356,113	$ 1,649,520	$ 1,442,077

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 $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 Bank's purchased loans totalled approximately $78,760,000 at September 30, 1995 and were secured by properties located, as a percentage of total loans as follows:
11% in Wisconsin, 7% in Minnesota, 5% in Iowa, 4% in South Dakota, 3% in New York and the remaining 14% in fifteen 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 $8,766,000 and $7,430,000 of loans secured by nursing homes at September 30, 1996 and 1995, 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, 1996 and 1995 were not significant. The amount of non-accruing loans as of September 30, 1996 and 1995 were $2,646,000 and $711,000, respectively.

Information regarding impaired loans is as follows for the year ended September 30, 1996:

Average investment in impaired loans	$ 405,000
Interest income recognized on impaired loans including interest income recognized on cash basis	78,000
Interest income recognized on impaired loans on cash basis	78,000

Information regarding impaired loans at year end is as follows.

Balance of impaired loans	$ 1,623,000
Less portion for which no allowance for loan losses is allocated	(1,623,000)
Portion of impaired loan balance for which an allowance for loan losses is allocated	$ --
Portion of allowance for loan losses allocated to the impaired loan balance	$ --

Note 5 - Foreclosed Real Estate
Foreclosed real estate as of September 30 is summarized as follows:

	1996	1995
Foreclosed real estate	$ 91,818	$ 48,418
Less: Allowance for foreclosed real estate losses ..	(5,000)	--
	$ 86,818	$ 48,418

A summary of the activity in the allowance for foreclosed real estate losses for the years ended September 30 is as follows:

	1996	1995	1994
Balance, beginning of period	$ --	$ --	$ 10,897
Provision for losses on foreclosed real estate	20,000	--	--
Less: Losses charged against allowance	(15,000)	--	(10,897)
Balance, end of period	$ 5,000	$ --	$ --

Note 6 - Loan Servicing
Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans at September 30 is summarized as follows:

	1996	1995
Mortgage loan portfolios serviced for FNMA	$1,748,000	$1,630,000

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $48,000 and $45,000 at September 30, 1996 and 1995, respectively.

Note 7 - Premises and Equipment, Net
Premises and equipment at September 30 are summarized as follows:

	1996	1995
Land	$ 535,233	$ 446,547
Buildings	3,979,312	2,685,197
Furniture, fixtures and equipment	2,078,258	1,929,692
	6,592,803	5,061,436
Less accumulated depreciation	(2,912,471)	(3,084,789)
	$ 3,680,332	$ 1,976,647

Depreciation of premises and equipment, included in occupancy and equipment expense, was $214,201, $134,733 and $91,061 for the years ended September 30, 1996, 1995 and 1994, respectively.

Note 8 - Deposits
The aggregate amount of short-term jumbo certificates of deposit in denomination of $100,000 or more was approximately $12,463,000 and $6,957,500 at September 30, 1996 and 1995, respectively.

At September 30, 1996, the scheduled maturities of certificates of deposit were as follows for the years ended September 30:

1997	$126,312,353
1998	38,701,778
1999	11,158,153
2000	1,580,664
2001 and thereafter	841,389
	$178,594,337

Note 9 - Advances From Federal Home Loan Bank

At September 30, 1996, advances from the FHLB of Des Moines with fixed and variable rates ranging from 4.59% to 7.82% mature in the year ending September 30 as follows:

1997	$ 69,850,000
1998	23,550,000
1999	200,000
2000	600,000
2001 and thereafter	8,087,803
	$102,287,803

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 September 30, 1996 and 1995, the Bank pledged securities with amortized costs of approximately $61,163,000 and $22,500,000 and fair values of approximately $60,605,000 and $22,468,000 against specific FHLB advances. In addition, qualifying mortgage loans of approximately $69,296,000 were pledged as collateral at September 30, 1996.

Note 10 - Securities Sold Under Agreements to Repurchase
At September 30, 1996 and 1995, securities sold under agreements to repurchase totaled $2,789,918 and $1,149,918, respectively.

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

	Years ended September 30,	
	1996	1995
Highest month-end balance	$ 2,789,918	$ 1,312,411
Average balance	2,197,611	1,139,431
Weighted average interest rate during the period...	5.56%	5.30%
Weighted average interest rate at end of period....	5.52%	5.75%

At September 30, 1996, securities sold under agreements to repurchase had maturities ranging from 1 to 11 months with a weighted average maturity of 5 months.

The Bank pledged securities with amortized costs of approximately $3,045,000 and $1,580,000 and fair values of approximately $3,117,000 and $1,603,000, respectively, at September 30, 1996 and 1995 as collateral for securities sold under agreements to repurchase.

Note 11 - Other Borrowings
Other borrowings at September 30, 1996 consisted of $1,400,000 of advances from the Federal Reserve Bank of Chicago with a 5.4% discount rate due October 1, 1996.

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, 1996, 1995 and 1994 was $-0-, $106,188 and $113,343, respectively.

Employee Stock Ownership Plan (ESOP):
In conjunction with the stock conversion, the Company established an ESOP for eligible employees. Employees with 1,000 hours of employment with the Bank and who have attained age 21 are eligible to participate. The ESOP borrowed $1,534,100 from the Company to purchase 153,410 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 $451,500, $358,613 and $198,100 was recorded for the years ended September 30, 1996, 1995 and 1994, respectively. Contributions of $200,000, $218,800 and $198,100 were made to the ESOP during the years ended September 30, 1996, 1995 and 1994, respectively.

Contributions to the ESOP and shares released from suspense in an amount proportional to the repayment of the ESOP loan are allocated among ESOP participants on the basis of compensation in the year of allocation. Benefits generally become 100% vested after seven years of credited service. Prior to the completion of seven years of credited service, a participant who terminates employment for reasons other than death, 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 Bank'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, 1996 and 1995, 20,000 and 21,880 shares, respectively, with an average fair value of $22.58 and $16.39 per share, respectively, were committed to be released.

The ESOP shares as of September 30 are as follows:

	1996	1995	1994
Allocated shares	76,690	56,690	34,810
Unearned shares	76,720	96,720	118,600
Total ESOP shares	153,410	153,410	153,410
Fair value of unearned shares at September 30	$1,860,460	$1,934,400	$1,867,950

Stock Option and Incentive Plans:
Certain officers and directors of the Company and 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, 1996, options on 15,000 shares were granted at an exercise price of $22.50 per share and options on 500 shares were granted at an exercise price of $23.63 per share and expire January 22, 2006 and September 29, 2006, respectively. For the year ended September 30, 1995, options on 3,509 shares were granted at an exercise price of $20.62 per share and expire January 22, 2005. For the year ended September 30, 1994, options on 172,585 shares were granted at an exercise price of $10.00 per share and expire September 20, 2003. Options on 9,450 common shares were exercised at $10.00 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, 1996, 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, 1996, options on 1,000 shares were granted at an exercise price of $22.13 per share and expire July 25, 2006 and options on 22,660 shares were granted at an exercise price of $23.63 per share and expire September 29, 2006. As of September 30, 1996, no options have been exercised or have expired under the 1995 Plan.

Management Recognition and Retention Plans:
The Company granted 4,794 and 70,952 (2,876 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 shares have all of the rights of a shareholder, except that they cannot sell, assign, pledge or transfer any of the restricted shares during the restricted period. The restricted shares vest at a rate of 25% on each anniversary of the grant date. Expense of $117,064, $208,159 and $381,897 was recorded for these plans for the years ended September 30, 1996, 1995 and 1994, respectively.

Note 13 - Income Taxes
The Company has been allowed a deduction of 8% of taxable income or on a specified experience formula. The percentage-of-taxable income method was used for tax returns filed for the years ended September 30, 1995 and 1994 and is anticipated to be used for the year ended September 30, 1996. In future years only the specified experience formula method will be allowed due to recent tax law changes.

Income tax expense for the years ended September 30 is summarized as follows:

	1996	1995	1994
FEDERAL			
Current	$ 1,735,099	$ 1,946,687	$ 1,348,519
Deferred	(282,756)	46,000	(59,700)
	1,452,343	1,992,687	1,288,819
STATE			
Current	290,825	324,000	150,000
Deferred	(46,845)	4,000	(5,300)
	243,980	328,000	144,700
INCOME TAX EXPENSE	$ 1,696,323	$ 2,320,687	$ 1,433,519

Total income tax expense differed from amounts computed using the U.S. Federal income tax rate of 34% on income before income taxes as follows:

Years ended September 30,	1996	1995	1994
Income taxes at 34% Federal tax rate	$ 1,397,000	$ 1,995,000	$ 1,327,790
Increase (decrease) resulting from:			
Bad debt deduction - net	--	--	(34,000)
State income taxes - net of federal benefit	161,000	214,000	99,000
Excess of cost over net assets acquired	58,000	43,000	21,279
Excess of fair value of ESOP shares released over cost	86,000	48,000	--
Other - net	(5,677)	20,687	19,450
Total income tax expense	$ 1,696,323	$ 2,320,687	$ 1,433,519

The components of the net deferred tax asset (liability) recorded in the consolidated balance sheets as of September 30, 1996 and 1995 are as follows:

	1996	1995
DEFERRED TAX ASSETS:		
Bad debts	$ 173,000	$ 228,000
Deferred loan fees	140,000	104,000
Management incentive program	68,000	83,000
SAIF assessment	472,000	--
Other items	63,000	33,000
	916,000	448,000
DEFERRED TAX LIABILITIES:		
Federal Home Loan Bank stock dividend	(452,000)	(419,000)
Accrual to cash basis	(206,000)	--
Net unrealized appreciation on securities available for sale	(18,324)	(337,349)
Other	(39,898)	(18,864)
	(716,222)	(775,213)
Valuation allowance	--	--
Net deferred tax asset (liability)	$ 199,778	$(327,213)

Retained earnings at September 30, 1996 and 1995 includes approximately $6,744,000 and $6,200,000, respectively, for which no deferred federal income tax liability has been recorded which represents bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $2,300,000 and $2,100,000 at September 30, 1996 and 1995, respectively.

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 amounts and ratios (set forth below) of tangible capital, leverage capital and risk-based capital. Management believes, as of September 30, 1996, that First Federal meets the capital adequacy requirements.

The following is a reconciliation of First Federal's capital under generally accepted accounting principles (GAAP) to regulatory capital at September 30, 1996 and 1995:

	Tangible Capital	Leverage Capital	Risk-Based Capital
	(Dollars in thousands)		
GAAP capital at September 30, 1996	$ 34,398	$ 34,398	$ 34,398
Additional capital items and capital adjustments:			
Net unrealized depreciation on securities available for sale	11	11	11
Intangible assets	(2,279)	(2,279)	(2,279)
Investment in nonincludable subsidiaries	(787)	(787)	(787)
Less assets required to be deducted	--	--	(51)
Includable allowance for loan losses	--	--	1,792
Regulatory capital at September 30, 1996	$ 31,343	$ 31,343	$ 33,084
GAAP capital at September 30, 1995	$ 35,036	$ 35,036	$ 35,036
Additional capital items and capital adjustments:			
Net unrealized appreciation on securities available for sale	(539)	(539)	(539)
Intangible assets	(1,690)	(1,690)	(1,690)
Investment in nonincludable subsidiaries	(734)	(734)	(734)
Less assets required to be deducted	--	--	(74)
Includable allowance for loan losses	--	--	1,634
Regulatory capital at September 30, 1995	$ 32,073	$ 32,073	$ 33,633

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

	Actual		Requirement For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
AS OF SEPTEMBER 30, 1996						
Tangible Capital	$31,343	9.04%	$ 5,198	1.50%	$10,396	3.00%
Leverage Capital	$31,343	9.04%	$10,396	3.00%	$20,792	6.00%
Risk-Based Capital	$33,084	16.36%	$16,176	8.00%	$20,220	10.00%
AS OF SEPTEMBER 30, 1995						
Tangible Capital	$32,073	12.37%	$ 3,891	1.50%	$ 7,781	3.00%
Leverage Capital	$32,073	12.37%	$ 7,781	3.00%	$15,562	6.00%
Risk-Based Capital	$33,633	20.42%	$13,177	8.00%	$16,471	10.00%

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, 1996, approximately $8,000,000 of First Federal's retained earnings is 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, 1996, that Security meets all capital adequacy requirements to which it is subject.

The following is a reconciliation of Security's capital under GAAP to regulatory capital at September 30, 1996:

	Tier I Capital	Leverage Capital	Total Risk-Based Capital
	(Dollars in thousands)		
GAAP capital at September 30, 1996	$ 5,860	$ 5,860	$ 5,860
Additional capital items and capital adjustments			
Intangible assets	(2,811)	(2,811)	(2,811)
Includable allowance for loan losses	--	--	274
Regulatory capital at September 30, 1996	$ 3,049	$ 3,049	$ 3,323

As of December 31, 1995, 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.

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

	Actual		Requirement For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
AS OF SEPTEMBER 30, 1996						
Tier I Capital (to risk weighted assets)	$3,049	14.1%	$ 865	4.0%	$1,297	6.0%
Leverage Capital (to average assets)	$3,049	10.0%	$1,220	4.0%	$1,525	5.0%
Total Risk-Based Capital (to risk weighted assets)	$3,323	15.4%	$1,729	8.0%	$2,161	10.0%

Note 15 - Commitments and Contingencies
In the normal course of business, the Company makes various commitments to extend credit which are not reflected in the accompanying consolidated financial statements.

At September 30, 1996 and 1995, loan commitments approximated $20,671,000 and $12,818,000, respectively, excluding undisbursed portions of loans in process. 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%. Loan commitments at September 30, 1995 included commitments to originate fixed-rate loans with interest rates ranging from 7.75% to 11.75% totaling $551,000, adjustable-rate loan commitments with interest rates ranging from 7.75% to 10.75% totaling $9,059,000 and adjustable rate purchase loan commitments of $3,208,000 with interest rates ranging from 8.75% to 9.38%. 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 $9,711,000 and $6,465,000 and fair values of approximately $9,633,000 and $6,412,000 at September 30, 1996 and 1995, respectively, were pledged as collateral for public funds on deposit.

Securities with amortized costs of approximately $2,404,000 and $999,000 and fair values of approximately $2,456,000 and $1,006,000 at September 30, 1996 and 1995, 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 or the Bank could result in cash payments totaling approximately $2,500,000 as of September 30, 1996.

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 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, 1996 and 1995	
	1996	1995
ASSETS		
Cash and cash equivalents	$ 1,383,318	$ 1,161,376
Securities available for sale	1,433,285	694,950
Investment in subsidiary banks	40,258,011	35,036,350
Loan receivable from ESOP	767,200	967,200
Other assets	61,431	172,190
Total assets	$ 43,903,245	$ 38,032,066
LIABILITIES		
Accrued expenses and other liabilities	$ 693,543	$ 19,370
SHAREHOLDERS' EQUITY		
Common stock	19,905	19,915
Additional paid-in capital	20,862,551	19,310,045
Retained earnings - substantially restricted	23,748,383	22,080,579
Net unrealized appreciation on securities available for sale, net of tax of $18,324 in 1996 and $340,190 in 1995	28,698	571,564
Unearned Employee Stock Ownership Plan shares	(767,200)	(967,200)
Treasury stock, at cost	(682,635)	(3,002,207)
Total shareholders' equity	43,209,702	38,012,696
Total liabilities and shareholders' equity	$ 43,903,245	$ 38,032,066

Condensed Statements of Income — Years ended September 30, 1996, 1995 and 1994

	1996	1995	1994
Dividend income from subsidiary banks	$ 9,500,000	$ 1,800,000	$ 4,500,000
Interest income	219,546	177,901	238,357
Gain on sales of securities available for sale, net	51,237	51,250	46,342
	9,770,783	2,029,151	4,784,699
Operating expenses	182,743	132,175	175,586
INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED NET INCOME OF SUBSIDIARIES	9,588,040	1,896,976	4,609,113
Income tax expense	53,000	50,000	70,482
INCOME BEFORE EQUITY IN UNDISTRIBUTED NET INCOME OF SUBSIDIARIES	9,535,040	1,846,976	4,538,631
(Distributions in excess of) equity in undistributed net income of subsidiary banks	(7,121,475)	1,697,376	(1,809,720)
NET INCOME	$ 2,413,565	$ 3,544,352	$ 2,728,911

Condensed Statements of Cash Flows — Years ended September 30, 1996, 1995 and 1994

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,413,565	$ 3,544,352	$ 2,728,911
Adjustments to reconcile net income to net cash from operating activities:			
Distribution in excess of (equity in undistributed) net income of subsidiary banks	7,121,475	(1,697,376)	1,809,720
Amortization of recognition and retention plan	117,064	208,159	381,897
Gain on sales of securities available for sale, net	(51,237)	(51,250)	(46,342)
Change in other assets	110,759	291,107	(463,297)
Change in accrued expenses and other liabilities	721,109	54,984	(82,764)
Net cash from operating activities	10,432,735	2,349,976	4,328,125
Cash flows from investing activities			
Purchase of securities available for sale	(1,014,438)	(617,562)	(333,550)
Proceeds from sales of securities available for sale	338,750	241,875	162,378
Purchase of Community Financial Systems, Inc.	--	--	(9,929,443)
Purchase of Iowa Bancorporation, Inc.	(6,529,615)	--	--
Purchase of Central West Bancorporation	(1,923,519)	--	--
Repayments on loan receivable from ESOP	200,000	218,800	198,100
Net cash from investment activities	(8,928,822)	(156,887)	(9,902,515)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	(745,761)	(515,095)	--
Proceeds from exercise of stock options	94,500	--	--
Purchase of treasury stock	(630,710)	(932,030)	(2,070,177)
Net cash from financing activities	(1,281,971)	(1,447,125)	(2,070,177)
Net change in cash and cash equivalents	221,942	745,964	(7,644,567)
Cash and cash equivalents at beginning of year	1,161,376	415,412	8,059,979
Cash and cash equivalents at end of year	$ 1,383,318	$ 1,161,376	$ 415,412

Supplemental schedule of noncash investing and financing activities:

Issuance of common stock for purchase of Central West Bancorporation $ 3,936,634

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 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	$ .43	$ .41	$ .50	$.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	$ .43	$ .44	$ .72	$.41
FISCAL YEAR 1994:				
Total interest income	$2,741,732	$2,894,417	$4,506,061	$5,010,481
Total interest expense	1,355,277	1,211,200	2,169,440	2,546,577
Net interest income	1,386,455	1,683,217	2,336,621	2,463,904
Provision for loan losses	--	25,000	--	80,000
Income before cumulative effects of changes in accounting principles	382,994	601,972	844,765	642,017
Cumulative effects of changes in accounting principles	257,163	--	--	--
Net income	640,157	601,972	844,765	642,017

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, 1996 and 1995, 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 Bank's capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at September 30, 1996 and 1995. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	1996		1995	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
SELECTED ASSETS:				
Cash and cash equivalents	$ 14,328,652	$ 14,329,000	$ 4,615,712	$ 4,616,000
Interest-bearing deposits in other financial institutions ...	300,000	300,000	--	--
Securities available for sale	109,491,558	109,492,000	70,232,092	70,232,000
Loans receivable, net	243,533,519	243,654,000	178,551,501	181,148,000
FHLB Stock	5,524,700	5,525,000	3,915,300	3,915,000
Accrued interest receivable	5,029,047	5,029,000	2,745,747	2,746,000
SELECTED LIABILITIES:				
Noninterest bearing demand deposits	(5,452,911)	(5,452,000)	(2,076,671)	(2,077,000)
Savings, NOW and money market demand deposits	(49,358,478)	(49,358,000)	(40,407,661)	(40,408,000)
Other time certificates of deposit	(178,594,337)	(178,762,000)	(129,308,665)	(130,292,000)
Total deposits	(233,405,726)	(233,572,000)	(171,792,997)	(172,777,000)
Advances from FHLB	(102,287,803)	(102,185,000)	(51,098,388)	(51,123,000)
Securities sold under agreements to repurchase	(2,789,918)	(2,790,000)	(1,149,918)	(1,148,000)
Other borrowings	(1,400,000)	(1,400,000)	--	--
Advances from borrowers for taxes and insurance	(490,243)	(490,000)	(501,522)	(501,000)
Accrued interest payable	(1,271,465)	(1,271,000)	(788,008)	(788,000)
OFF-BALANCE SHEET INSTRUMENTS:				
Loan commitments	$(20,671,000)	$ -	$(12,818,000)	$ --

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 1996 and 1995.

Cash and Cash Equivalent:
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, 1996 and 1995. The fair value of loans held for sale is determined by outstanding commitments from investments or current investor yield requirements calculated on an aggregate loan basis. 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.

Deposits:
The fair value of deposits were determined as follows: (i) for noninterest bearing 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, 1996 and 1995 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, 1996 and 1995, 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, 1996 and 1995 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

DIRECTORS OF FIRST MIDWEST FINANCIAL, INC.

[GRAPHIC-PHOTOGRAPH]
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; President of First Services Financial Limited, a wholly-owned subsidiary of First Federal; Chairman of the Board for Security State Bank. Mr. Haahr has served in numerous industry organizations since beginning his career with First Federal in 1961. He was recently elected to the Board of Directors of America's Community Bankers and is currently a committee member of the Savings Association Insurance Fund Industry Advisory Committee. Mr. Haahr is a former Vice Chairman of the Board of Directors of the FHLB 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 committees: First Federal Trust Committee. James S. Haahr is the father of J. Tyler Haahr, a director.

[GRAPHIC-PHOTOGRAPH]
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 which encompasses 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.

[GRAPHIC PHOTOGRAPH]
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: Audit-Compensation/Personnel Committee and First Federal Trust Committee Chairman.

[GRAPHIC-PHOTOGRAPH]
J. TYLER HAAHR - Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Mr. Haahr is a partner with the law firm of Lewis and Roca LLP, Phoenix, Arizona, and has been with the firm since 1989. Board committees: Stock Option Committee and First Federal Trust Committee. J. Tyler Haahr is the son of James S. Haahr, Chairman of the Board of Directors.

[GRAPHIC-PHOTOGRAPH]
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; member of the Stock Option Committee.

[GRAPHIC-PHOTOGRAPH]
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 Chair 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.

EXECUTIVE OFFICERS

[GRAPHIC-PHOTOGRAPH]
JAMES S. HAAHR
Chairman of the Board, President and CEO for First Midwest Financial, Inc., and First Federal Savings Bank of the Midwest

[GRAPHIC-PHOTOGRAPH]
FRED A. STEVENS
Vice President, Secretary and Chief Operating Officer for First Midwest Financial, Inc., and Executive Vice President, Secretary, Chief Operating Officer, and Trust Officer for First Federal Savings Bank of the Midwest

[GRAPHIC-PHOTOGRAPH]
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

[GRAPHIC-PHOTOGRAPH]
KRISTI L. FREY
Senior Vice President - Marketing and Sales, First Federal Savings Bank of the Midwest

[GRAPHIC-PHOTOGRAPH]
SUSAN C. JESSE
Senior Vice President - Branch Administration and Compliance Officer, First Federal Savings Bank of the Midwest

[GRAPHIC-PHOTOGRAPH]
RICHARD A. WEHDE
Vice President - Commercial/
Agricultural Loans, First Federal Savings Bank of the Midwest

[GRAPHIC-PHOTOGRAPH]
MELODY A. BUCKENDAHL
Vice President - Savings
First Federal Savings Bank
of the Midwest

ADDITIONAL FIRST FEDERAL SAVINGS BANK OFFICERS AND MANAGEMENT

MAIN BANK OFFICE -- STORM LAKE, IOWA
Barbara A. Kestel
Executive Secretary

Brad A. Lenhart
Assistant Treasurer and Controller

Dan B. Berglund
Assistant Secretary

Nyla Bertram
Assistant Secretary-
Savings

Vicki D. Page
Account Services Supervisor

Cindy J. Pudenz
Retirement Plans Administrator

Carol J. Seavey
Internal Auditor

Dustin G. Williams
Credit Analyst

OTHER BANK OFFICES
Carol A. Pierce
Regional Vice President
Laurens Office

Virginia M. Thayer
Regional Vice President
LakeView Office

Karen Waller
Regional Vice President
Manson Office

Renae Babcock
Branch Manager
Odebolt Office

Marilyn C. Winkel
Branch Manager
Sac City Office

Kate Ellis
Office Supervisor
Laurens Office

Charlene M. Pickhinke
Office Supervisor
Sac City Office

Marlene M. Nimke
Office Supervisor
Manson Office

Lynn Pranschke
Office Supervisor
Storm Lake Plaza Office

BROOKINGS DIVISION
James C. Winterboer
President
Brookings Federal

Robert L. Brooks
Vice President/
Senior Loan Officer
Brookings Federal

Jay M. Johnson
Assistant Vice President
Brookings Federal

Steve C. Almos
Assistant Vice President
Agricultural Loans
Brookings Federal

John D. Heylens
Loan Officer
Brookings Federal

Cheryl A. Engel
Customer Service Supervisor
Brookings Federal

Susan E. Schutt
Director of Marketing
and Sales
Brookings Federal

IOWA SAVINGS BANK DIVISION
Jeanne Partlow
President
Iowa Savings Bank

James E. Peters
Vice President/
Consumer Loans
Iowa Savings Bank

Bryce Loring
Vice President/
Mortgage Loans
Iowa Savings Bank

Lora D. White
Secretary/Treasurer
Iowa Savings Bank

SECURITY STATE BANK OFFICERS AND MANAGEMENT

MAIN BANK OFFICE --
STUART, IOWA
Claude F. Havick
President
Security State Bank

Iva Mae Howard
Vice President and Cashier

Robert C. Duff
Vice President

Curtis D. Petersen
Vice President

OTHER BANK OFFICES
Dana L. Hansen
Vice President and
Branch Manager
Casey Office

Steven R. Kroeger
Ag Loan Officer
and Branch Manager
Menlo Office

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 27, 1997. 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
& Schiller, P.C. 316
East Sixth Street
Storm Lake, Iowa 50588

SPECIAL COUNSEL
Silver, Freedman & Taff, L.L.P.
1100 New York Avenue, NW
Washington, DC 20005-3934

INDEPENDENT AUDITORS
Crowe, Chizek and Company LLP
330 East Jefferson Blvd.
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 transfer agent:
Registrar & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
1-800-368-5948

Analysts, investors and others seeking a copy of the Form 10-KSB or other public financial information should contact:
Investor Relations - Attention: Kristi L. Frey, 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 our stock under the abbreviation "FstMidwFnl" in the National Market Listing.

	1995 Dividend Paid	1996 Dividend Paid	Fiscal Year 1995 Low	Fiscal Year 1995 High	Fiscal Year 1996 Low	Fiscal Year 1996 High
First quarter	$ .075	$ .11	$ 14.25	$ 16.00	$ 19.75	$ 23.50
Second quarter	$ .075	$ .11	$ 14.25	$ 16.25	$ 22.00	$ 23.50
Third quarter	$ .075	$ .11	$ 14.25	$ 17.50	$ 21.75	$ 24.25
Fourth quarter	$ .075	$ .11	$ 17.38	$ 21.75	$ 21.75	$ 24.75

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, 1996, there were 1,945,735 shares of common stock outstanding which were held by 338 stockholders of record, and 205,804 shares subject to outstanding options. The stockholders of record number does not reflect approximately 620 persons or entities who hold their stock in nominee or "street" name.

As of September 30, 1996, the following securities firms indicated they were acting as market makers for First Midwest Financial, Inc., stock: Everen Securities, Inc. Howe, Barnes & Johnson, Inc.

Herzog, Heine, Geduld, Inc.

Exhibit 21

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

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 9, 1996, contained in Exhibit 13 to First Midwest Financial, Inc.'s Annual Report on Form 10-KSB for the fiscal year ended September 30, 1996.

/s/ Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

South Bend, Indiana
December 24, 1996

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 (which expresses an unqualified opinion and includes an explanatory paragraph relating to a change in the method of accounting for income taxes and for debt and equity securities in fiscal year 1994) appearing in Exhibit 99 in this Annual Report on Form 10-KSB of First Midwest Financial, Inc. for the year ended September 30, 1996.

/s/Deloitte & Touche LLP
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Deloitte & Touche LLP

Omaha, Nebraska
December 23, 1996

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 (which expresses an unqualified opinion and includes an explanatory paragraph relating to a change in the method of accounting for income taxes and for debt and equity securities in fiscal year 1994) appearing in Exhibit 99 in this Annual Report on Form 10-KSB of First Midwest Financial, Inc. for the year ended September 30, 1996.

/s/Deloitte & Touche LLP
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Deloitte & Touche LLP

Omaha, Nebraska
December 23, 1996

ARTICLE 9

PERIOD TYPE	12 MOS
FISCAL YEAR END	SEP 30 1996
PERIOD END	SEP 30 1996
CASH	736,979
INT BEARING DEPOSITS	5,043,636
FED FUNDS SOLD	8,848,037
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	109,491,558
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	245,889,632
ALLOWANCE	2,356,113
TOTAL ASSETS	388,008,298
DEPOSITS	233,405,726
SHORT TERM	74,039,918
LIABILITIES OTHER	4,915,149
LONG TERM	32,437,803
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	19,905
OTHER SE	43,189,797
TOTAL LIABILITIES AND EQUITY	388,008,298
INTEREST LOAN	18,567,097
INTEREST INVEST	5,770,368
INTEREST OTHER	0
INTEREST TOTAL	24,337,465
INTEREST DEPOSIT	9,766,586
INTEREST EXPENSE	13,978,610
INTEREST INCOME NET	10,358,855
LOAN LOSSES	100,000
SECURITIES GAINS	79,317
EXPENSE OTHER	7,568,262
INCOME PRETAX	4,109,888
INCOME PRE EXTRAORDINARY	4,109,888
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,413,565
EPS PRIMARY	1.35
EPS DILUTED	1.34
YIELD ACTUAL	8.16
LOANS NON	2,645,000
LOANS PAST	176,700
LOANS TROUBLED	0
LOANS PROBLEM	1,408,515
ALLOWANCE OPEN	1,649,520
CHARGE OFFS	89,217
RECOVERIES	0
ALLOWANCE CLOSE	2,356,113
ALLOWANCE DOMESTIC	2,143,113
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	213,000

Exhibit 99

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial condition of First Midwest Financial, Inc. and subsidiaries (the "Company") as of September 30, 1995, and the related consolidated statements of income, stockholders' equity and cash flows for the years ended September 30, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, such consolidated financial statements present fairly, in all material respects, the financial position of First Midwest Financial, Inc. and subsidiaries at September 30, 1995 and the results of their operations and their cash flows for the years ended September 30, 1995 and 1994 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, on October 1, 1993 the Company changed its method of accounting for income taxes to conform with the Statement of Financial Accounting Standards No. 109 and its method of accounting for debt and equity securities to conform with Statement of Financial Accounting Standards No. 115.

/s/Deloitte & Touche LLP
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Deloitte & Touche LLP

Omaha, Nebraska

November 17, 1995