META FINANCIAL GROUP INC

FORM 10-K405
(Annual Report (Regulation S-K, item 405))

Filed 12/29/1998 For Period Ending 9/30/1998

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

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

FORM 10-K

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

For the fiscal year ended September 30, 1998

OR

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

For the transition period from _______ to _______

Commission file number 0-22140.

FIRST MIDWEST FINANCIAL, INC.

(Name of small business Issuer in its charter)

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        Delaware                                                42-1406262
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(State or other jurisdiction of                              (I.R.S. Employer
incorporation or organization)                              Identification No.)

    Fifth at Erie, Storm Lake, Iowa                             50588
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(Address of principal executive offices)                      (Zip Code)
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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)

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

Indicate by check mark if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Issuer's revenues for the most recent fiscal year ended were $33.9 million.

As of December 15, 1998, the Registrant had issued and outstanding 2,514,745 shares of Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the closing bid and asked prices of such stock on the Nasdaq System as of December 15, 1998, was $21.9 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 and IV of Form 10-K -- Portions of the Annual Report to Shareholders for the fiscal year ended September 30, 1998. PART III of Form 10-K -- Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held during January 1999.

Forward-Looking Statements

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

These forward-looking statements include statements with respect to the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors (some of which are beyond the Company's control). The words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

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

PART I

Item 1. Description of Business

General

The Company is a Delaware corporation, the principal 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. On September 30, 1996, First Midwest completed the acquisition of Central West Bancorporation ("CWB"). CWB was the holding company for Security in Stuart, Iowa, which upon the merger of CWB into First Midwest resulted in Security becoming a stand-alone banking subsidiary of First Midwest. Unless the context otherwise requires, references herein to the Company include First Midwest, Security and First Federal and 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 direct, active 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, 1998, the Company had total assets of $418.4 million, deposits of $283.9 million, and shareholders' equity of $42.3 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, directly through its wholly-owned subsidiary, First Services Financial Limited ("First Services"), and indirectly through independent contractors, 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.

The Company is aware of the issues associated with the programming code in existing computer systems as the year 2000 approaches. The issue is whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The Company is heavily dependent on computer processing in its business activities and the Year 2000 issue creates risk for the Company from unforeseen problems in the Company's computer system and from third parties whom the Company uses to process information. Such failures of the Company's computer system and/or third parties computer systems could have a material impact on the Company's ability to conduct its business. See the discussion on "Year 2000 Issues" contained in the Annual Report.

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 nine additional branch offices located in the communities of Des Moines (two offices), Lake View, Laurens, Manson, Odebolt, Sac City, Iowa and two offices in Brookings, South Dakota. Security currently operates its business through three full service offices in Casey, Menlo and Stuart, Iowa. The Company's primary market area includes Adair, Buena Vista, Calhoun, Guthrie, Ida, Pocahontas, Polk and Sac Counties in Iowa and Brookings County in South Dakota.

Storm Lake is located in northwest Iowa approximately 150 miles northwest of Des Moines and 200 miles south of Minneapolis in Buena Vista County. Like much of the State of Iowa, Storm Lake and the Company's primary market area are highly dependent upon farming and agricultural markets. Major employers in the area include Buena Vista County Hospital, IBP, Inc. and Bil Mar Foods of Iowa. A $235 million electricity generating windfarm, the world's largest, is under construction in Buena Vista county. The estimated completion date is April 1999. Annual payroll for the permanent workforce is expected to be $1.5 million. Storm Lake is also home to Buena Vista University, which currently enrolls 1,385 full-time students at its Storm Lake campus.

Brookings is located in east central South Dakota, approximately 50 miles north of Sioux Falls and 200 miles west of Minneapolis in Brookings County. First Federal's market area in South Dakota encompasses approximately a 30 mile radius of Brookings. The area is generally rural, and agriculture is a significant industry in the community. South Dakota State University is the largest employer in Brookings. The University had 8,200 students enrolled for the 1998 fall term and employs 524 full-time professors. The community also has several manufacturing companies, including 3M, Larson Manufacturing, Daktronics, Falcon Plastics and Twin City Fan. The Brookings division operates from a main office located in downtown Brookings and one drive-up branch office also located in Brookings.

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

Security's main office is in Stuart, which is located in west central Iowa approximately 40 miles west of Des Moines on the border of Adair and Guthrie counties. Security's market area is highly dependent on farming and agriculture-related businesses. Agriculture-related businesses in recent years have performed well due to a relatively stable agricultural environment in the Company's market area. In recent months, however, agriculture commodity prices have declined significantly for the major agricultural products produced in the Company's market area. Commodity price fluctuations are a normal part of agriculture, but it is unusual for the pricing of all major products to be depressed at the same time. Although there has been minimal effect observed to date, an extended period of low commodity prices could result in reduced demand for goods and services provided by agriculture-related businesses, which could also affect other businesses in the Company's market area.

In recent years, the westward expansion of Des Moines, combined with direct interstate highway access to Stuart, has resulted in significant development of new service-related businesses in the community. This development provides economic diversity to Security's market area.

Lending Activities

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

While the Company historically has focused its lending activities on the origination of loans secured by first mortgages on owner-occupied one- to four-family residences, it also originates and purchases commercial and multi-family real estate loans and originates consumer, commercial business, residential construction and agriculturally related loans. The Company originates most of its loans in its primary market area. More recently, the Company has increased its emphasis, both in absolute dollars and as a percentage of its gross loan portfolio, on these less traditional lending activities. At September 30, 1998, the Company's net loan portfolio totaled $270.3 million, or 64.6% of the Company's total assets.

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

At September 30, 1998, the Company's largest lending relationship to a single borrower or group of related borrowers totaled $5.5 million. The Company had eight other lending relationships in excess of $2.5 million as of September 30, 1998 with the average outstanding balance of such loans totaling approximately $3.5 million. At September 30, 1998, each of these loans was performing in accordance with its repayment terms, except for a $3.9 million commercial real estate participation loan secured by four nursing homes which was more than 90 days delinquent at fiscal year end. See "Business -- Non-Performing Assets, Other Loans of Concern and Classified Assets."

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

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

	September 30,			
	1997		1998	
	Amount	Percent	Amount	Percent
Real Estate Loans				
One- to four-family	$ 73,903	27.8%	$ 85,799	30.5 %
Commercial and multi-family	74,870	28.1	66,845	23.8
Agricultural	11,732	4.4	10,537	3.8
Construction or development	21,264	8.0	32,990	11.7
Total real estate loans	181,769	68.3	196,171	69.8
Other Loans:				
Consumer Loans:				
Home equity	14,007	5.3	15,285	5.4
Automobile	6,106	2.3	4,445	1.6
Deposit account	533	.2	716	.3
Student	383	.1	421	.1
Other (1)	6,369	2.4	5,372	1.9
Total consumer loans	27,398	10.3	26,239	9.3
Agricultural operating	38,650	14.5	37,234	13.2
Commercial business	18,456	6.9	21,587	7.7
Total other loans	84,504	31.7	85,060	30.2
Total loans	266,273	100.0%	281,231	100.0%
Less:				
Loans in process	8,700		7,738	
Deferred fees and discounts	553		298	
Allowance for losses	2,379		2,909	
Total loans receivable, net	$254,641		$270,286	

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

	September 30, 1998			
	1997		1998	
	Amount	Percent	Amount	Percent
Fixed Rate Loans:				
Real estate:				
One- to four-family	$ 33,369	12.5%	$ 51,235	18.2 %
Commercial and multi-family	11,124	4.2	11,582	4.1
Agricultural	5,978	2.3	4,982	1.8
Construction or development	2,997	1.1	1,829	.7
Total fixed-rate real estate loans	53,468	20.1	69,628	24.8
Consumer	26,100	9.8	24,909	8.8
Agricultural operating	16,280	6.1	18,821	6.7
Commercial business	10,462	3.9	15,108	5.4
Total fixed-rate loans	106,310	39.9	128,466	45.7
Adjustable Rate Loans:				
Real estate:				
One- to four-family	40,534	15.2	34,564	12.3
Commercial and multi-family	63,746	23.9	55,263	19.6
Agricultural	5,754	2.2	5,555	2.0
Construction or development	18,267	6.9	31,161	11.1
Total adjustable-rate real estate loans	128,301	48.2	126,543	45.0
Consumer	1,298	.5	1,330	.5
Agricultural operating	22,370	8.4	18,413	6.5
Commercial business	7,994	3.0	6,479	2.3
Total adjustable rate loans	159,963	60.1	152,765	54.3
Total loans	266,273	100.0%	281,231	100.0%
Less:				
Loans in process	8,700		7,738	
Deferred fees and discounts	553		298	
Allowance for loan losses	2,379		2,909	
Total loans, net	$254,641		$270,286	

The following table illustrates the interest rate sensitivity of the Company's loan portfolio at September 30, 1998. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract reprices. The table does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Real Estate									
	Mortgage(1)		Construction		Consumer		Agricultural Operating		Commercial Business	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)									
Due During Years Ending September 30,										
1999(2)	$85,770	8.54%	$22,955	9.44%	$10,253	9.65%	$33,639	9.70%	$16,206	9.77%
2000-2003	40,649	8.19	8,955	8.52	12,441	9.65	2,912	9.04	5,132	9.52
2003 and following	36,762	7.82	1,080	9.16	3,545	9.86	683	8.91	249	8.27

	Total	
	Amount	Weighted Average Rate
1999(2)	$168,823	9.08%
2000-2003	70,089	8.62
2003 and following	42,319	8.05

(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, 1999 which have predetermined interest rates is $77.0 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $130.2 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, 1998, the Company's one- to four-family residential mortgage loan portfolio totaled $85.8 million, or 30.5% of the Company's total gross loan portfolio. Approximately 25.8% of the Company's one- to four-family mortgage loans or 7.9% of the Company's gross loans have been purchased, generally from other financial institutions. See "--Originations, Purchases, Sales and Servicing of Loans and Mortgage-Backed Securities." At September 30, 1998, the average outstanding principal balance of a one- to four-family residential mortgage loan was $47,000.

The Company offers fixed-rate and ARM loans. During the year ended September 30, 1998, the Company originated $4.3 million of adjustable-rate loans and $17.8 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 generally provide for an annual cap of up to a 200 basis points and a lifetime cap of 600 basis points over the initial rate. As a consequence of using an initial fixed-rate and caps, the interest rates on these loans may not be as rate sensitive as is the Company's cost of funds. The Company's ARMs do not permit negative amortization of principal and are not convertible into a fixed rate loan. From time to time the Company may permit ARM loans to be assumed by qualified borrowers upon payment of an assumption fee. The Company qualifies ARM loan borrowers at the fully indexed rate. The Company's delinquency experience on its ARM loans has generally been similar to its experience on fixed rate residential loans.

Due to consumer demand, the Company also offers fixed-rate mortgage loans with terms up to 30 years, most of which conform to secondary market standards, i.e., Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC") standards. Interest rates charged on these fixed-rate loans are competitively priced according to market conditions. The Company has historically retained its fixed-rate loans for its loan portfolio, however, from June 1996 through March 1998, the Company sold, with servicing retained, most of its fixed-rate loans with terms of 15 years or greater to FNMA. The Company recently suspended selling these loans due to limited opportunity for other types of investments or to purchase loans due to the present low interest rate environment. The Company may decide to sell loans in the future.

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

Commercial and Multi-Family Real Estate Lending. The Company is also engaged in commercial and multi-family real estate lending in its primary market area and surrounding areas and has purchased whole loan and participation interests in loans from other financial institutions. The purchased loans and loan participation interests are generally secured by properties located in the Midwest and Northwest. 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 $16.3 million, $26.8 million and $18.3 million of such loans during fiscal 1998, 1997 and 1996, respectively. However, due to a large number of prepayments and maturities of commercial and multi-family real estate loans during fiscal 1998 and 1997 as a result of a favorable interest rate environment, at September 30, 1998 and 1997, the Company had $66.8 million and $74.9 million, respectively, of commercial and multi-family real estate loans compared to $85.2 million at September 30, 1996. At September 30, 1998, $4.6 million, or 6.9% of the Company's commercial and multi-family real estate loans were non-performing. See " -- Non-Performing Assets, Other Loans of Concern and Classified Assets."

The Company's commercial and multi-family real estate loan portfolio is secured primarily by apartment buildings, nursing homes, assisted living/retirement facilities, office buildings and, to a lesser extent, hotels and warehouses. Commercial and multi-family real estate loans generally have terms that do not exceed 25 years, loan-to-value ratios of up to 75% of the appraised value of the security property, and are typically secured by personal guarantees of the borrowers. The Company has a variety of rate adjustment features and other terms in its commercial and multi-family real estate loan portfolio. Commercial and multi-family real estate loans provide for a margin over a number of different indices. In underwriting these loans, the Company currently analyzes the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

At September 30, 1998, the Company's largest commercial and multi-family real estate loan was a $3.9 million participation loan secured by four nursing homes located in Minnesota. At fiscal year end this loan was more than 90 days delinquent. See "Business -- Non-Performing Assets, Other Loans of Concern and Classified Assets." The Company had three other commercial and/or multi-family loans in excess of $2.5 million at such date. All of these loans are currently performing in accordance with their terms. At September 30, 1998, the average outstanding principal balance of a commercial or multi-family real estate loan held by the Company was $346,000.

Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by one- to four-family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family and commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed, or a bankruptcy court modifies a lease term, or a major tenant is unable to fulfill its lease obligations), the borrower's ability to repay the loan may be impaired.

Construction Lending. The Company makes construction loans to individuals for the construction of their residences as well as to builders for the construction of one- to four-family residences and commercial and multi-family real estate. At September 30, 1998, the Company's construction loan portfolio totaled $33.0 million, or 11.7% 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, 1998, the Company had $2.0 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, 1998, the Company did not have any construction loans to builders of one- to four-family residences.

Construction loans on commercial and multi-family real estate projects may be secured by apartments, agricultural facilities, small office buildings, medical facilities, assisted living facilities, hotels or other property, and are structured to be converted to permanent loans at the end of the construction phase, which generally runs up to 18 months. These construction loans have rates and terms which match any permanent multi-family or commercial real estate loan then offered by the Company, except that during the construction phase the borrower pays interest only. These loans generally provide for the payment of interest and loan fees from loan proceeds. At September 30, 1998, the Company had approximately $31.0 million of loans for the construction of commercial and multi-family real estate. This amount consisted of six loans totaling $5.0 million for the construction of apartment complexes, two loans totaling $7.8 million for the construction of assisted living facilities, nine loans totaling $17.5 million for the construction of commercial office buildings and two loans totaling $840,000 for the construction of hotels. All of these loans were performing in accordance with their terms at September 30, 1998.

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, 1998, the Company had agricultural real estate loans secured by farmland of $10.5 million or 3.8% of the Company's gross loan portfolio. At the same date, $37.2 million, or 13.2% of the Company's gross loan portfolio, consisted of secured loans related to agricultural operations.

Agricultural operating loans are originated at either an adjustable or fixed rate of interest for up to a one year term or, in the case of livestock, upon sale. Most agricultural operating loans have terms of one year or less. Such loans provide for payments of principal and interest at least annually, or a lump sum payment upon maturity if the original term is less than one year. Loans secured by agricultural machinery are generally originated as fixed-rate loans with terms of up to seven years. At September 30, 1998, the average outstanding principal balance of an agricultural operating loan held by the Company was $43,000. At September 30, 1998, $1.7 million, or 4.7%, of the Company's agricultural operating loans were non-performing.

Agricultural real estate loans are frequently originated with adjustable rates of interest. Generally, such loans provide for a fixed rate of interest for the first three years, adjusting annually thereafter. In addition, such loans generally provide for a ten year term based on a 20 year amortization schedule. Adjustable-rate agricultural real estate loans provide for a margin over the yields on the corresponding U.S. Treasury Security or prime rate. Fixed-rate agricultural real estate loans generally have terms up to five years. Agricultural real estate loans are generally limited to 80% of the value of the property securing the loan. At September 30, 1998, none of the Company's agricultural real estate portfolio was non-performing.

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

Weather presents one of the greatest risks as hail, drought, floods, or other conditions, can severely limit crop yields and thus impair loan repayments and the value of the underlying collateral. This risk can be reduced by the farmer with multi-peril crop insurance which can guarantee set yields to provide certainty of repayment. Unless the circumstances of the borrower merit otherwise, the Bank generally does not require its borrowers to procure multi-peril crop or hail insurance. However, recent changes in government support programs generally require that farmers procure multi-peril crop insurance to be eligible to participate in such programs.

Grain and livestock prices also present a risk as prices may decline prior to sale resulting in a failure to cover production costs. These risks may be reduced by the farmer with the use of futures contracts or options to provide a "floor" below which prices will not fall. The Company generally does not monitor or require the use by borrowers of future contracts or options.

Another risk is the uncertainty of government programs and other regulations. Some farmers rely on the income from government programs to make loan payments and if these programs are discontinued or significantly changed, cash flow problems or defaults could result.

Finally, many farms are dependent on a limited number of key individuals upon whose injury or death may result in an inability to successfully operate the farm.

Consumer Lending. The Company offers a variety of secured consumer loans, including automobile, boat, home equity, home improvement, federally guaranteed student loans, and loans secured by savings deposits. In addition, the Company offers other secured and unsecured consumer loans. The Company currently originates substantially all of its consumer loans in its primary market area and surrounding areas. The Company originates consumer loans on both a direct and indirect basis. At September 30, 1998, the Company's consumer loan portfolio totaled $26.2 million, or 9.3% of its total gross loan portfolio. Of the consumer loan portfolio at September 30, 1998, substantially all were short- and intermediate-term, fixed-rate loans.

The largest component of the Company's consumer loan portfolio consists of home equity loans and lines of credit. Substantially all of the Company's home equity loans and lines of credit are secured by second mortgages on principal residences. The Company will lend amounts which, together with all prior liens, may be up to 100% of the appraised value of the property securing the loan. Home equity loans and lines of credit have maximum terms of up to 15 years and 10 years, respectively.

The Company currently originates automobile loans on a direct basis only. Direct loans are loans made when the Company extends credit directly to the borrower, as opposed to indirect loans, which are made when the Company purchases loan contracts, often at a discount, from automobile dealers which have extended credit to their customers. The Company's automobile loans typically are originated at fixed interest rates with terms up to 60 months for new and used vehicles. Loans secured by automobiles are generally originated for up to 80% of the N.A.D.A. book value of the automobile securing the loan.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards employed by the Company for consumer loans include an application, a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. At September 30, 1998, $149,000 or .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 and regional businesses and include short-term loans to finance machinery and equipment purchases, inventory and accounts receivable. Commercial loans also involve the extension of revolving credit for a combination of equipment acquisitions and working capital in expanding companies. At September 30, 1998, $21.6 million, or 7.7% of the Company's total gross loan portfolio was comprised of commercial business loans.

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

The largest commercial business loan outstanding at September 30, 1998 was a $5.1 million warehouse line of credit secured by the assignment of automobile contracts. The next largest commercial business loan outstanding at September 30, 1998 was a $2.7 million participation loan secured by marketable securities and escrowed operating revenues with a remaining term to maturity of three years. These loans are currently performing in accordance with their terms. The Company had no other commercial business loans outstanding in excess of $1.0 million at September 30, 1998. At September 30, 1998, the average outstanding principal balance of a commercial business loan held by the Company was $61,000.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is likely to be dependent upon the general economic environment). The Company's commercial business loans are usually, but not always, secured by business assets and personal guarantees. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At September 30, 1998, $209,000 or 1.0% of the Company's commercial business loan portfolio was non-performing.

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

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

The Company, from time to time, sells whole loans and loan participations generally without recourse. At September 30, 1998, there were no loans outstanding sold with recourse. When loans are sold, with the exception of student loans, the Company typically retains the responsibility for collecting and remitting loan payments, making certain that real estate tax payments are made on behalf of borrowers, and otherwise servicing the loans. The servicing fee is recognized as income over the life of the loans. The Company services mortgage loans that it originated and sold totaling $11.0 million at September 30, 1998, of which $6.8 million were sold to FNMA and $4.2 million were sold to others.

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

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

	Year Ended September 30, 1996	1997	1998
	(In Thousands)		
Originations by type:			
Adjustable rate:			
Real estate - one- to four-family	$ 10,554	$ 7,875	$ 4,356
- commercial and multi-family	2,869	4,873	8,543
- agricultural real estate ..	2,244	--	1,808
Non-real estate - consumer	948	931	745
- commercial business ...	2,629	9,998	7,459
- agricultural operating	12,052	27,469	20,905
Total adjustable-rate	31,296	51,146	43,816
Fixed rate:			
Real estate - one- to four-family	6,213	7,260	17,775
- commercial and multi-family	3,065	4,214	7,756
- agricultural real estate ..	1,561	2,581	2,576
Non-real estate - consumer	16,899	23,688	20,172
- commercial business ...	8,812	19,127	29,437
- agricultural operating	22,781	27,635	25,716
Total fixed-rate	59,331	84,505	103,432
Total loans originated	90,627	135,651	147,248
Purchases:			
Real estate- one-to-four-family	--	--	15,933
- commercial and multi-family ...	18,252	26,766	16,324
Non-real estate - commercial business ...	6,723	3,053	4,290
- agricultural operating	--	--	400
	24,975	29,819	36,947
Loans from Iowa Savings acquisition	16,734	--	--
Loans from Security acquisition	21,005	--	--
Total loans	62,714	29,819	36,947
Total mortgage-backed securities	23,406	16,417	39,409
Total purchased	86,120	46,236	76,356

Sales and Repayments:			
Real estate - one- to four-family	560	3,324	5,613
Non-real estate - consumer	504	268	--
Total loans	1,064	3,592	5,613
Mortgage-backed securities	--	--	5,916
Total sales	1,064	3,592	11,529
Loan principal repayments	91,900	144,364	163,435
Mortgage-backed securities repayments ...	8,834	7,969	15,713
Total principal repayments	100,734	152,333	179,148
Total reductions	101,798	155,925	190,677
Increase (decrease) in other items, net ...	(673)	370	60
Net increase (decrease)	$ 74,276	$ 26,332	$ 32,987

The following table shows the Company's purchased whole real estate loans and real estate loan participations by state and amount held in the loan portfolio at September 30, 1998. The Company also purchases commercial business loans. At September 30, 1998, the Company's portfolio of purchased commercial business loans totaled $5.4 million.

	One- to Four-Family Loans			Commercial and Multi-Family			Construction Loans		
Location	Balance	Number of Loans	Percent of total One- to Four Family	Balance	Number of Loans	Percent of total Commercial and Multi-Family Loans	Balance	Number of Loans	Percent of total Construction Loan
	(Dollars in Thousands)								
Arizona..........	$ 97	4	.11%	$ 479	1	.72%	$ 1,200	1	3.64%
California.......	195	15	.23	---	---	---	---	---	---
Colorado.........	39	5	.05	494	1	.74	839	2	2.54
Connecticut......	884	41	1.03	---	---	---	---	---	---
Florida..........	12	1	.01	---	---	---	---	---	---
Illinois.........	---	---	---	789	3	1.18	---	---	---
Indiana..........	---	---	---	525	1	.79	---	---	---
Iowa.............	522	42	.61	2,872	7	4.30	500	1	1.52
Minnesota........	---	---	---	6,810	11	10.19	5,608	3	17.00
Missouri.........	1,065	22	1.24	1,117	6	1.67	---	---	---
Nebraska.........	191	13	.22	411	1	.61	1,781	1	5.40
Nevada...........	---	---	---	1,067	2	1.60	---	---	---
New Mexico.......	---	---	---	---	---	---	5,275	1	15.99
New York.........	1,945	90	2.27	---	---	---	---	---	---
North Dakota.....	95	14	.11	3,521	9	5.27	900	1	2.73
Ohio.............	126	4	.15	---	---	---	---	---	---
South Dakota.....	722	50	.84	4,321	7	6.46	1,320	2	4.00
Texas............	1,399	38	1.63	286	1	.43	---	---	---
Washington.......	14,667	53	17.09	5,864	3	8.77	7,840	3	23.76
Wisconsin........	---	---	---	8,716	13	13.03	5,392	5	16.34
Wyoming..........	136	7	.16	---	---	---	---	---	---
Total..........	$ 22,095	399	25.75%	$ 37,272	66	55.76%	$ 30,655	20	92.92%

	Total Purchased Loans		
	Balance	Number of Loans	Percent of Total Loans
Arizona..........	$ 1,776	6	.63%
California.......	195	15	.07
Colorado.........	1,372	8	.49
Connecticut......	884	41	.31
Florida..........	12	1	---
Illinois.........	789	3	.28
Indiana..........	525	1	.19
Iowa.............	3,894	50	1.38
Minnesota........	12,418	14	4.42
Missouri.........	2,182	28	.78
Nebraska.........	2,383	15	.85
Nevada...........	1,067	2	.38
New Mexico.......	5,275	1	1.88
New York.........	1,945	90	.69
North Dakota.....	4,516	24	1.60
Ohio.............	126	4	.04
South Dakota.....	6,363	59	2.26
Texas............	1,685	39	.60
Washington.......	28,371	59	10.09
Wisconsin........	14,108	18	5.02
Wyoming..........	136	7	.05
Total..........	$90,022	485	32.01%

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

When a borrower fails to make a required payment on real estate secured loans and consumer loans within 16 days after the payment is due, the Company generally institutes collection procedures by mailing a delinquency notice. The customer is contacted again, by notice or telephone, when the payment is 45 days past due and again before 75 days past due. In most cases, delinquencies are cured promptly; however, if a loan secured by real estate or other collateral has been delinquent for more than 90 days, satisfactory payment arrangements must be adhered to or the Company will initiate foreclosure or repossession.

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

The following table sets forth the Company's loan delinquencies by type, before allowance for loan losses, by amount and by percentage of type at September 30, 1998.

	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	51	$ 1,924	2.2%	9	$ 308	.4%	9	$ 338	.4%
Commercial and multi-family	5	2,869	4.3	2	1,836	2.7	8	4,635	6.9
Agricultural real estate	1	72	.7	--	---	---	--	---	---
Consumer	56	452	1.7	24	211	.8	24	149	.6
Agricultural operating	13	610	1.6	16	843	2.3	41	1,738	4.7
Commercial business	19	810	3.8	13	377	1.7	11	209	1.0
Total	145	$ 6,737	2.4%	64	$ 3,575	1.3%	93	$7,069	2.5%

Delinquencies 90 days and over constituted 2.5% of total loans and 1.7% of total assets.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. Loans, with some exceptions, are typically placed on non-accrual status when the loan becomes 90 days or more delinquent or when the collection of principal and/or interest become doubtful. For all years presented, the Company has had no troubled debt restructuring (which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates). Foreclosed assets include assets acquired in settlement of loans.

	September 30,				
	1994	1995	1996	1997	1998
	(Dollars in Thousands)				
Non-accruing loans:					
One- to four-family	$ 311	$ 127	$ 347	$ 444	$ 298
Commercial and multi-family	302	199	1,623	1,692	777
Agricultural real estate	137	46	127	---	---
Consumer	105	206	331	246	142
Agricultural operating	78	100	184	289	1,738
Commercial business	38	48	33	204	209
Total non-accruing loans	971	726	2,645	2,875	3,164
Accruing loans delinquent 90 days or more	---	---	177	282	3,905
Total non-performing loans	971	726	2,822	3,157	7,069
Foreclosed assets:					
One- to four-family	---	48	75	85	19
Commercial real estate	---	---	---	67	1,324
Consumer	---	---	8	---	19
Commercial business	---	---	9	4	---
Total	---	48	92	156	1,362
Less: Allowance for losses	---	---	5	---	299
Total	---	48	87	156	1,063
Total non-performing assets	$ 971	$ 774	$ 2,909	$ 3,313	$ 8,132
Total as a percentage of total assets	.35%	.29%	.75%	.82%	1.94%

For the year ended September 30, 1998, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to approximately $385,000, of which none was included in interest income.

Non-accruing Loans. At September 30, 1998, the Company had $3.2 million in non-accruing loans, which constituted 1.1% of the Company's gross loan portfolio. At such date, there were no non-accruing loans or aggregate non-accruing loans to one borrower in excess of $300,000 in net book value, except as described below.

Non-accruing loans at September 30, 1998 included a commercial real estate participation loan in the amount of $509,000 secured by a shopping center located in North Dakota. In addition, non-accruing loans included an agricultural operating loan in the amount of $837,000 that, subsequent to September 30, 1998, was restructured to provide additional collateral and the payment of all accrued interest. Also included in non-accruing loans was an agricultural operating loan in the amount of $404,000 that is in process of being restructured.

The balance of non-accruing commercial and multi-family real estate loans declined at September 30, 1998 primarily as a result of the foreclosure by the Company on a $1.6 million loan secured by a 104 unit apartment complex located in Wisconsin. The Company has a 58% participation interest in this property, which is in the process of being sold. See "-- Foreclosed Assets" below.

Accruing Loans Delinquent 90 Days or More. At September 30, 1998, accruing loans delinquent 90 days or more included a $3.9 million commercial real estate participation loan secured by four nursing homes. Subsequent to fiscal year end, the loan was refinanced with a reduction of the loan balance to approximately $1.0 million and all accrued interest was paid at that time. The new loan is secured by one nursing home located in Minnesota.

Foreclosed Assets. At September 30, 1998, the Company had $1.1 million of net foreclosed assets. Substantially all of the Company's foreclosed property at September 30, 1998 consisted of the 104 unit apartment complex discussed under "Non-accruing Loans" above.

Other Loans of Concern. At September 30, 1998, there were loans totaling $3.9 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 two commercial real estate loans totaling $1.1 million, eight one- to four-family residential mortgage loans totaling $299,000, nine commercial business loans totaling $473,000, twenty agricultural operating loans totaling $1.9 million and four consumer loans totaling $84,000.

Commercial real estate loans of concern at September 30, 1998 included a $1,072,000 participation loan secured by an apartment complex located in Wisconsin. This loan was delinquent 89 days at that date. The borrower is in process of obtaining financing which would be used to repay this loan in full, including accrued interest.

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

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

On the basis of management's review of its assets, at September 30, 1998, the Company had classified a total of $6.4 million of its assets as substandard, $835,000 as doubtful and none as loss.

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

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

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

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

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

	Year Ended September 30,				
	1994	1995	1996	1997	1998
	(Dollars in Thousands)				
Balance at beginning of period	$ 825	$ 1,442	$ 1,650	$ 2,356	$ 2,379
Brookings acquisition	518	---	---	---	---
Iowa Savings acquisition	---	---	132	---	---
Security acquisition	---	---	563	---	---
Charge-offs:					
One-to four-family	---	---	---	---	(103)
Agricultural operating	---	---	---	---	(595)
Commercial and multi-family	---	(30)	(35)	(2)	(299)
Consumer	(6)	(12)	(54)	(66)	(152)
Commercial business	---	---	---	(55)	(17)
Total charge-offs	(6)	(42)	(89)	(123)	(1,166)
Recoveries:					
Consumer	---	---	---	---	17
Commercial business	---	---	---	---	5
Commercial and multi-family	---	---	---	2	---
Agricultural operating	---	---	---	24	11
Total recoveries	---	---	---	26	33
Net charge-offs	(6)	(42)	(89)	(97)	(1,133)
Additions charged to operations	105	250	100	120	1,663
Balance at end of period	$ 1,442	$ 1,650	$ 2,356	$ 2,379	$ 2,909
Ratio of net charge-offs during the period to average loans outstanding during the period	.01%	.03%	.04%	.04%	.44 %
Ratio of net charge-offs during the period to average non-performing assets	.54%	5.08%	5.30%	4.46%	21.50%

For each of the periods indicated in the table above, the additions charged to operations (provision for loan losses) were relatively constant, except for fiscal 1998. For more information on the provision for loan losses, see 'Management's Discussion and Analysis - Results of Operations" in the Annual Report.

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

	September 30, 1994		1995		1996	
	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........	$ 166	34.32%	$ 172	30.36%	$ 235	31.54%
Commercial and multi-family real estate.......	449	37.29	551	38.92	639	34.23
Agricultural real estate...	81	5.02	70	3.72	138	4.45
Construction...............	77	6.38	134	9.47	59	3.14
Consumer...................	106	6.59	145	6.89	270	8.21
Agricultural operating.....	166	4.84	208	6.31	531	12.21
Commercial business........	134	5.56	123	4.33	271	6.22
Unallocated................	263	---	247	---	213	---
Total.................	$1,442	100.00%	$ 1,650	100.00%	$2,356	100.00%

	1997		1998	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
One- to four-family........	$ 222	27.75%	$ 257	30.50%
Commercial and multi-family real estate.......	712	28.12	602	23.77
Agricultural real estate...	117	4.41	132	3.75
Construction...............	106	7.99	165	11.73
Consumer...................	289	10.29	277	9.33
Agricultural operating.....	580	14.51	1,024	13.24
Commercial business........	277	6.93	324	7.68
Unallocated................	76	---	128	---
Total.................	$2,379	100.00%	$2,909	100.00%

Investment Activities

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

As of September 30, 1998, the Company's entire investment and mortgage-backed securities portfolios were classified as available for sale. For additional information regarding the Company's investment and mortgage-backed securities portfolios, see Notes 1 and 4 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, corporate debt securities and overnight federal funds.

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

	September 30,		
	1996	1997	1998
		(In Thousands)	
Investment Securities:			
Trust preferred securities(1)	$ ---	$ ---	$ 27,256
U.S. government securities	6,178	2,956	757
Federal agency obligations	63,032	65,529	27,015
Corporate bonds	202	---	---
Municipal bonds	1,392	1,390	1,341
Equity investments	1,433	1,255	1,230
FHLMC preferred stock	1,598	336	427
FNMA common stock	70	94	129
Subtotal	73,905	71,560	58,155
FHLB stock	5,525	5,629	5,506
Total investment securities and FHLB stock	$ 79,430	$ 77,189	$ 63,661
Other Interest-Earning Assets:			
Interest bearing deposits in other financial institutions and Federal Funds sold	$ 13,892	$ 12,177	$ 5,818

(1) Within the trust preferred securities presented above, there are securities from individual issuers that exceed 10% of the Company's total equity. The name and the aggregate market value of securities of each individual issuer are as follows, as of September 30, 1998: PNC Capital Trust - $4.89 million ; KeyCorp Capital I - $4.86 million; Huntington Capital II - $4.85 million; BankBoston Capital Trust IV - $4.83 million; BankAmerica Capital III - $4.82 million.

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

	September 30, 1998					
	1 Year or Less	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years	Total Investment Securities	
	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Amortized Cost	Market Value
	(Dollars in Thousands)					
Trust preferred securities.......	$ ---	$ ---	$ ---	$ 27,256	$ 27,638	$ 27,256
Municipal bonds..................	61	903	377	---	1,307	1,341
U.S. government securities.......	757	---	---	---	749	757
Federal agency obligations.......	749	10,707	15,559	---	26,236	27,015
Total investment securities......	$ 1,567	$ 11,610	$ 15,936	$ 27,256	$ 55,930	$ 56,369
Weighted average yield...........	5.88%	5.76%	7.10%	6.66%	6.58%	6.58%

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

CMOs are special types of pass-through debt in which the stream of principal and interest payments on the underlying mortgages or mortgage-backed securities is used to create classes with different maturities and, in some cases, amortization schedules, as well as a residual interest, with each such class possessing different risk characteristics. At September 30, 1998, the Company held CMOs totaling $11.3 million, all of which were secured by underlying collateral issued under government-sponsored agency programs or residential real estate mortgage loans. Premiums associated with the purchase of these CMOs are not significant, therefore, the risk of significant yield adjustments because of accelerated prepayments is limited. Yield adjustments are encountered as interest rates rise or decline, which in turn slows or increases prepayment rates and affect the average lives of the CMOs.

At September 30, 1998, $59.5 million or 95.4% of the Company's mortgage-backed securities portfolio had fixed rates of interest and $2.9 million or 4.6% 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, 1998, $36.6 million or 58.7% of the Company's mortgage-backed securities were pledged to secure various obligations of the Company.

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

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

	September 30,		
	1996	1997	1998
	(In Thousands)		
GNMA	$ 6,392	$20,925	$42,951
CMO	4,637	3,832	11,283
FHLMC	4,740	3,813	2,827
FNMA	18,711	14,939	4,711
Privately Issued Mortgage Pass-Through Certificates	1,106	916	682
Total	$35,586	$44,425	$62,454

The following table sets forth the contractual maturities of the Company's mortgage-backed securities at September 30, 1998. 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, 1998 Balance Outstanding
			(Dollars in Thousands)		
GNMA	$ ---	$ ---	$ ---	$42,951	$42,951
CMO	---	---	448	10,835	11,283
FHLMC	---	353	1,145	1,329	2,827
FNMA	233	223	67	4,188	4,711
Privately Issued Mortgage Pass-Through Certificates(1)	---	---	---	682	682
Total	$ 233	$ 576	$ 1,660	$59,985	$62,454
Weighted average yield	7.47%	9.38%	8.58%	6.99%	7.06%

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

At September 30, 1998, the contractual maturity of 96% of all of the Company's mortgage-backed securities was in excess of ten years. The actual maturity of a mortgage-backed security is typically less than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are different than anticipated will affect the yield to maturity. The yield is based upon the interest income and the amortization of any premium or discount related to the mortgage-backed security. In accordance with generally accepted accounting principles, premiums and discounts are amortized over the estimated lives of the loans, which decrease and increase interest income, respectively. The prepayment assumptions used to determine the amortization period for premiums and discounts can significantly affect the yield of the mortgage-backed security, and these assumptions are reviewed periodically to reflect actual prepayments. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of falling mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under such circumstances, the Company may be subject to reinvestment risk because to the extent that the Company's mortgage-backed securities amortize or prepay faster than anticipated, the Company may not be able to reinvest the proceeds of such repayments and prepayments at a comparable rate.

Sources of Funds

General. The Company's sources of funds are deposits, borrowings, amortization and repayment of loan principal (including interest earned on mortgage-backed securities), interest earned on or maturation of investment securities and short-term investments, and funds provided from operations.

Borrowings, including Federal Home Loan Bank ("FHLB") of Des Moines and Federal Reserve Bank of Chicago ("FRB") advances, reverse repurchase agreements and retail repurchase agreements, may be used at times to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels, may be used on a longer-term basis to support expanded lending activities, and may also be used to match the funding of a corresponding asset.

Deposits. The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of passbook savings accounts, money market savings accounts, NOW and regular checking accounts, and certificate accounts currently ranging in terms from fourteen days to 60 months. The Company only solicits deposits from its primary market area and does not use brokers to obtain deposits. The Company relies primarily on competitive pricing policies, advertising and customer service to attract and retain these deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, and competition.

The variety of deposit accounts offered by the Company has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. The Company endeavors to manage the pricing of its deposits in keeping with its asset/liability management and profitability objectives. Based on its experience, the Company believes that its passbook savings, money market savings accounts, NOW and regular checking accounts are relatively stable sources of deposits. However, the ability of the Company to attract and maintain certificates of deposit and the rates paid on these deposits has been and will continue to be significantly affected by market conditions.

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

	Year Ended September 30, 1996	1997	1998
	(Dollars in Thousands)		
Opening balance	$ 171,793	$ 233,406	$ 246,116
Deposits acquired from:			
Iowa Savings	15,642	--	--
Security	27,718	--	--
Deposits	360,606	543,824	615,028
Withdrawals	(350,626)	(541,351)	(589,176)
Interest credited	8,273	10,237	11,890
Ending balance	$ 233,406	$ 246,116	$ 283,858
Net increase (decrease)	$ 61,613	$ 12,710	$ 37,742
Percent increase (decrease)	35.86%	5.45%	15.34 %

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, 1996		1997		1998	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Transactions and Savings Deposits:						
Commercial Demand	$ 5,453	2.34%	$ 5,572	2.26%	$ 4,971	1.75%
Passbook Accounts	18,278	7.83	21,562	8.76	18,610	6.56
NOW Accounts	16,087	6.89	16,408	6.67	16,637	5.86
Money Market Accounts	14,994	6.42	11,869	4.82	22,509	7.93
Total Non-Certificate	54,812	23.48	55,411	22.51	62,727	22.10

Certificates:						
Variable	3,154	1.35	1,259	.51	559	.20
0.00 - 3.99%	342	.15	202	.08	95	.03
4.00 - 5.99%	123,835	53.06	129,409	52.58	130,729	46.05
6.00 - 7.99%	47,987	20.56	56,515	22.97	87,940	30.98
8.00 - 9.99%	3,276	1.40	3,320	1.35	1,808	.64
Total Certificates	178,594	76.52	190,705	77.49	221,131	77.90
Total Deposits	$233,406	100.00%	$246,116	100.00%	$283,858	100.00%

The following table shows rate and maturity information for the Company's certificates of deposit as of September 30, 1998.

	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, 1998	$138	$74	$ 30,083	$13,247	$ 402	$ 43,944	19.87 %
March 31, 1999 ...	71	--	23,904	9,305	1,046	34,326	15.52
June 30, 1999	23	--	18,618	15,853	317	34,811	15.74
September 30, 1999	63	--	14,946	15,005	40	30,054	13.59
December 31, 1999	112	--	8,337	8,477	3	16,929	7.66
March 31, 2000 ...	152	--	11,347	4,083	--	15,582	7.05
June 30, 2000	--	--	8,529	8,130	--	16,659	7.53
September 30, 2000	--	--	7,322	3,869	--	11,191	5.06
December 31, 2000	--	--	1,264	1,648	--	2,912	1.32
March 31, 2001 ...	--	--	1,730	908	--	2,638	1.19
June 30, 2001	--	--	1,194	1,939	--	3,133	1.42
September 30, 2001	--	--	1,186	1,452	--	2,638	1.19
Thereafter	--	21	2,269	4,024	--	6,314	2.86
Total	$559	$95	$130,729	$87,940	$1,808	$221,131	100.00%
Percent of total	.25%	.04%	59.12%	39.77%	.82%	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, 1998.

	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.......	$ 38,639	$30,693	$ 61,126	$ 76,490	$206,948
Certificates of deposit of $100,000 or more......	5,305	3,633	3,739	1,506	14,183
Total certificates of deposit....................	$ 43,944	$34,326	$ 64,865	$ 77,996	$221,131 (1)

(1) Includes deposits from governmental and other public entities totaling $4.3 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, 1998, the Company had $85.3 million of advances from the FHLB of Des Moines and the ability to borrow up to an additional $51.3 million. All of the Company's advances currently carry fixed rates, except a $10 million line of credit which adjusts daily. At September 30, 1998, advances totaling $21.6 million (including the line of credit) had terms to maturity of one year or less. The remaining $63.7 million had maturities ranging up to 9 years.

From time to time, the Company has offered retail repurchase agreements to its customers. These agreements typically range from 14 days to five years in term, and typically have been offered in minimum amounts of $100,000. The proceeds of these transactions are used to meet cash flow needs of the Company. At September 30, 1998, the Company had approximately $4.1 million of retail repurchase agreements outstanding.

The Company has also, from time to time, entered into reverse repurchase agreements through nationally recognized broker-dealer firms. These agreements are accounted for as borrowings by the Company and are secured by certain of the Company's investment and mortgage-backed securities. The broker-dealer takes possession of the securities during the period that the reverse repurchase agreement is outstanding. The terms of the agreements have typically ranged from 30 days to a maximum of six months. The Company has not entered into any reverse repurchase agreements in the past five years.

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

	Year Ended September 30,		
	1996	1997	1998
	(In Thousands)		
Maximum Balance:			
FHLB advances	$110,491	$107,426	$109,766
Retail repurchase agreements	2,790	2,790	4,075
Other borrowings	1,400(1)	2,900	2,100
Average Balance:			
FHLB advances	$ 69,265	$ 80,685	$ 95,328
Retail repurchase agreements	2,198	2,285	2,916
Other borrowings	---	1,258	557

(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,		
	1996	1997	1998
	(Dollars in Thousands)		
FHLB advances	$102,288	$107,426	$ 85,264
Retail repurchase agreements	2,790	1,800	4,075
Other borrowings	1,400	2,900	550
Total borrowings	$106,478	$112,126	$ 89,889
Weighted average interest rate of FHLB advances	5.81%	5.86%	5.91%
Weighted average interest rate of retail repurchase agreements	5.52%	5.79%	5.71%
Weighted average interest rate of other borrowings	5.40%	5.55%	5.45%

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, 1998, the net book value of First Federal's investment in First Services was approximately $766,000. Security does not have any subsidiaries.

First Federal organized First Services, its sole service corporation, in 1983. First Services is located in Storm Lake, Iowa and offers mutual funds and, in some locations, insurance products and annuities. In addition, Brookings Service Corporation ("BSC"), a subsidiary of First Services, offers full brokerage services through PrimeVest Financial Services, Inc., a third party vendor. First Services, together with its subsidiary BSC, recognized a net loss of $1,000 during fiscal 1998.

Regulation

General. First Midwest currently has two wholly-owned subsidiaries, First Federal, a federally-chartered thrift institution and Security, an Iowa-chartered commercial bank. First Federal is subject to extensive regulation, supervision and examination by the OTS, as its chartering authority and primary federal regulator, and by the Federal Deposit Insurance Corporation (the "FDIC"), which insures its deposits up to applicable limits. First Federal is a member of the FHLB System and is subject to certain limited regulation by the FRB. Such regulation and supervision governs the activities in which an institution can engage and the manner in which such activities are conducted, and is intended primarily for the protection of the insurance fund and depositors. Security is subject to extensive regulation, supervision and examination by the Iowa Superintendent of Banking (the "ISB") and the FRB, which are its state and primary federal regulators, respectively. It is also subject to regulation by the FDIC, which insures its deposits up to applicable limits. As with First Federal, such regulation and supervision governs the activities in which it can engage and the manner in which such activities are conducted and is intended primarily for the protection of the insurance fund and depositors.

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

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

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

Federal Regulation of Financial Institutions. The OTS has extensive authority over the operations of savings associations. As part of this authority, First Federal is required to file periodic reports with the OTS and is subject to periodic examination by the OTS and the FDIC. The last regular OTS examination of First Federal was as of July 23, 1998. 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 20, 1998.

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, 1998, 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, 1998, First Federal's and Security's lending limit under these restrictions was $5.0 million and $932,000, respectively. First Federal and Security are in compliance with the loans-to-one-borrower limitation.

The federal banking agencies have adopted guidelines establishing safety and soundness standards on such matters such as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan. A failure to submit a plan or to comply with an approved plan will subject the institution to further enforcement action.

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

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. The current assessment rates range from zero to .27% of deposits. Risk classification of all insured institutions will be made by the FDIC for each semi-annual assessment period. Institutions that are well-capitalized and have a high supervisory rating are subject to the lowest assessment rate. At September 30, 1998, each of First Federal and Security met the capital requirements of a "well capitalized" institution and were not subject to any assessment See Note 15 of Notes to Consolidated Financial Statements in the Annual Report.

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

Prior to the enactment of the legislation recapitalizing the SAIF in 1996, a portion of the SAIF assessment imposed on savings associations was used to repay obligations issued by a federally chartered corporation to provide financing for resolving the thrift crisis in the 1980s. Although the legislation also now requires assessments to be made on BIF-assessable deposits for this purpose, effective January 1, 1997, that assessment will be limited to 20% of the rate imposed on SAIF assessable deposits until the earlier of December 31, 1999 or when no savings association continues to exist, thereby imposing a greater burden on SAIF member institutions such as First Federal. Thereafter, however, assessments on BIF-member institutions will be made on the same basis as SAIF-member institutions. The rates established by the FDIC to implement this requirement for all FDIC-insured institutions is approximately a 6 basis points assessment on SAIF deposits and a 1 basis point assessment on BIF deposits until BIF insured institutions participate fully in the assessment.

Regulatory Capital Requirements. Federally insured financial institutions, such as First Federal and Security, are required to maintain a minimum level of regulatory capital. These capital requirements mandate that an institution maintain at least the following ratios: (1) a core (or Tier 1) capital to adjusted total assets ratio of 4% (which can be reduced to 3% for highly rated institutions); (2) a Tier 1 capital to risk weighted assets ratio of 4% and (3) a risk based capital to risk-weighted assets ratio of 8%. Capital requirements in excess of these standards may be imposed on individual institutions on a case-by-case basis. See Note 15 of Notes to Consolidated Financial Statements in the Annual Report.

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

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

Limitations on Dividends and Other Capital Distributions. OTS regulations impose various restrictions on savings associations with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings associations, such as First Federal, that before and after the proposed distribution meet their capital requirements, may make capital distributions during any calendar year equal to the greater of 100% of net income for the year-to-date plus 50% of the amount by which the lesser of the association's tangible, core or risk-based capital exceeds its capital requirement for such capital component, as measured at the beginning of the calendar year, or 75% of its net income for the most recent four quarter period. However, an association deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. First Federal may pay dividends in accordance with this general authority.

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

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

Qualified Thrift Lender Test. All savings associations, including First Federal, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio assets (as defined by regulation) in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis or meet the requirements for a domestic building and loan association under the Internal Revenue Code. Under either test, the required assets primarily consist of residential housing related loans and investments. At September 30, 1998, First Federal met the test and has always met the test since its effectiveness.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it requalifies as a QTL within one year and thereafter remains a QTL, or limits its new investments and activities to those permissible for both a savings association and a national bank. In addition, the association is immediately ineligible to receive any new FHLB borrowings and is subject to national bank limits for payment of dividends and branching authority. If such association has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. 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. First Federal was examined for CRA compliance in May 1997 and Security was examined in April 1996 and both received a rating of "satisfactory."

Bank Holding Company Regulation

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

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

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

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

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

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

Federal Home Loan Bank System

First Federal and Security are both members of the FHLB of Des Moines, which is one of 12 regional FHLBs, that administers the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the FHLB. These policies and procedures are subject to the regulation and oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing.

As members of the FHLB System, First Federal and Security are required to purchase and maintain stock in the FHLB of Des Moines. At September 30, 1998, the Banks had in the aggregate $5.5 million in FHLB stock, which was in compliance with this requirement. For the fiscal year ended September 30, 1998, dividends paid by the FHLB of Des Moines to First Federal and Security totaled $370,000. Over the past five calendar years such dividends have averaged 7.3% and were 6.7% for the first three quarters of the calendar year 1998.

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, 1998, First Federal's post-1987 excess reserves amounted to approximately $1.5 million. The recapture will occur over a six-year period, the commencement of which will be delayed until the first taxable year beginning after December 31, 1997. The legislation also requires thrift institutions to account for bad debts for federal income tax purposes on the same basis as commercial banks for tax years beginning after December 31, 1995.

In addition to the regular income tax, corporations, including savings banks such as First Federal, generally are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on alternative minimum taxable income, which is the sum of a corporation's regular taxable income (with certain adjustments) and tax preference items, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax and net operating losses can offset no more than 90% of alternative minimum taxable income. For taxable years beginning after 1986 and before 1996, corporations, including savings banks such as First Federal, are also subject to an environmental tax equal to 0.12% of the excess of alternative minimum taxable income for the taxable year (determined without regard to net operating losses and the deduction for the environmental tax) over $2.0 million.

To the extent earnings appropriated to a savings bank's bad debt reserves for "qualifying real property loans" and deducted for federal income tax purposes exceed the allowable amount of such reserves computed under the experience method and to the extent of the bank's supplemental reserves for losses on loans ("Excess"), such Excess may not, without adverse tax consequences, be utilized for the payment of cash dividends or other distributions to a shareholder (including distributions on redemption, dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). As of September 30, 1998, First Federal's Excess for tax purposes totaled approximately $6.8 million.

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

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

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

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

Taxable income under the Iowa corporate income tax is generally similar to taxable income under the federal corporate income tax, except that, under the Iowa tax, no deduction is allowed for Iowa income tax payments; interest from state and municipal obligations is included in income; interest from U.S. obligations is excluded from income; and 50% of federal corporate income tax payments are excluded from income. The Iowa corporate income tax rates range from 6% to 12% and may be effectively increased, in individual cases, by application of a minimum tax provision. The taxable income for Iowa franchise tax purposes is apportioned to Iowa through the use of a one-factor formula consisting of gross receipts only.

South Dakota Taxation. First Federal files a South Dakota franchise tax return due to the operations of its Brookings division. The South Dakota franchise tax is imposed only on depository institutions. First Midwest, Security and First Federal's subsidiaries are therefore not subject to the South Dakota franchise tax.

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

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

Competition

The Company faces strong competition, both in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from commercial banks, savings banks, credit unions, insurance companies, and mortgage bankers making loans secured by real estate located in the Company's market area. Commercial banks and credit unions provide vigorous competition in consumer lending. The Company competes for real estate and other loans principally on the basis of the quality of services it provides to borrowers, interest rates and loan fees it charges, and the types of loans it originates.

The Company attracts all of its deposits through its retail banking offices, primarily from the communities in which those retail banking offices are located; therefore, competition for those deposits is principally from other commercial banks, savings banks, credit unions and brokerage offices located in the same communities. The Company competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours, and convenient branch locations with interbranch deposit and withdrawal privileges at each.

The Company serves Adair, Buena Vista, Calhoun, Guthrie, Ida, Pocahontas, Polk and Sac counties in Iowa and Brookings County in South Dakota. There are 31 commercial banks, four savings banks, other than First Federal, and one credit union which compete for deposits and loans in the First Federal's primary market area in northwest Iowa and eight commercial banks, one savings bank, other than First Federal, and one credit union which compete for deposits and loans in First Federal's market area in South Dakota. In addition, there are twelve commercial banks in Security's primary market area in west central Iowa. First Federal recently entered the Des Moines, Iowa market area as a result of the acquisition of Iowa Savings and competes for deposits and loans with numerous financial institutions located throughout the metropolitan area.

Employees

At September 30, 1998, the Company and its subsidiaries had a total of 118 employees, including 16 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 51, is Senior Vice President of First Federal. In addition, Mr. Stevens serves as President and a director of First Services Financial Limited. Mr. Stevens is primarily involved with residential and consumer lending, collections and business development. Mr. Stevens joined First Federal in 1974 as a loan officer, was elected Vice President in 1982, and Senior Vice President in 1986. He was elected Executive Vice President and Chief Operating Officer in 1989, Corporate Secretary in 1990, and Trust Officer in 1992. Mr. Stevens was elected to his current position in September 1998. 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 46, serves as Senior Vice President, Treasurer and Chief Financial Officer of First Midwest and First Federal, and is responsible for the formulation and implementation of policies and objectives for First Federal's finance, accounting, data processing and audit functions. His duties include financial planning, interest rate risk management, accounting, investments, financial policy development and compliance, budgeting, asset/liability management, internal controls, and data processing systems and procedures. Mr. Winchell also serves as Treasurer of First Services Financial Limited and Brookings Service Corporation. Mr. Winchell joined First Federal in 1989 as Vice President and Chief Financial Officer, was appointed Treasurer in 1990, and Senior Vice President in 1992. Prior to joining First Federal, Mr. Winchell served as Senior Vice President and Chief Financial Officer of Midwest Federal Savings and Loan Association of Nebraska City, Nebraska since 1981. Mr. Winchell received a Bachelor of Science degree and a Bachelor of Business Administration degree from Washburn University, Topeka, Kansas. Mr. Winchell is a certified public accountant.

Item 2. Description of Property

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

The Company owns all of its offices, except for the branch office located at Storm Lake Plaza, Storm Lake, Iowa as to which the land is leased. The total net book value of the Company's premises and equipment (including land, building and leasehold improvements and furniture, fixtures and equipment) at September 30, 1998 was $4.0 million. See Note 8 of Notes to Consolidated Financial Statements in the Annual Report.

The Company believes that its current facilities are adequate to meet the present and foreseeable needs of the Company and the Banks. In November 1996, the Company purchased an existing building located in West Des Moines, Iowa. In March 1998, the facility opened as an additional office of the Iowa Savings Bank Division of First Federal.

The Bank maintains an on-line data base with a service bureau, whose primary business is providing such services to financial institutions. The net book value of the data processing and computer equipment utilized by the Company at September 30, 1998 was approximately $286,000.

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, 1998.

PART II

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

Page 56 of the attached 1998 Annual Report to Shareholders is herein incorporated by reference.

Item 6. Selected Financial Data

Page 10 of the attached 1998 Annual Report to Shareholders is herein incorporated by reference.

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

Pages 11 through 22 of the attached 1998 Annual Report to Shareholders are herein incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Pages 17 through 19 of the attached 1998 Annual Report to Shareholders are herein incorporated by reference.

Item 8. Financial Statements and Supplementary Data

Pages 23 through 53 of the attached 1998 Annual Report to Shareholders are herein incorporated by reference.

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

There has been no Current Report on Form 8-K filed within 24 months prior to the date of the most recent financial statements reporting a change of accountants and/or reporting disagreements on any matter of accounting principle or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors

Information concerning directors of the Company is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders held in January 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Executive Officers

Information concerning executive officers of the Company are incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year, and from the information set forth under the caption "Executive Officers of the Company Who Are Not Directors" contained in Part I of this Form 10-K.

Compliance with Section 16(a)

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

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended September 30, 1998, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10 percent beneficial owners were complied with.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and transactions is incorporated herein by reference from the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in January 1999, a copy of which will be filed not later than 120 days after the close of the fiscal year.

PART IV

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

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

(1) Financial Statements:

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

1. Report of Independent Auditors.

2. Consolidated Balance Sheets as of September 30, 1998 and 1997.

3. Consolidated Statements of Income for the Years Ended September 30, 1998, 1997 and 1996.

4. Consolidated Statements of Changes in Shareholders' Equity for the Years Ended September 30, 1998, 1997 and 1996.

5. Consolidated Statements of Cash Flows for the Years Ended September 30, 1998, 1997 and 1996.

6. Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

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

(3) Exhibits:

See Index of Exhibits.

(b) Reports on Form 8-K:

Within the three month period ended September 30, 1998, there was filed on August 25, 1998, one report on Form 8-K of a press release, dated August 24, 1998, declaring a quarterly cash dividend to shareholders.

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 28, 1998   *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 28, 1998*
By:	*/s/E. Wayne Cooley* *E. Wayne Cooley, Director*	*Date: December 28, 1998*
By:	*/s/E. Thurman Gaskill* *E. Thurman Gaskill, Director*	*Date: December 28, 1998*
By:	*/s/Rodney G. Muilenburg* *Rodney G. Muilenburg, Director*	*Date: December 28, 1998*
By:	*/s/Jeanne Partlow* *Jeanne Partlow, Director*	*Date: December 28, 1998*
By:	*/s/G. Mark Mickelson* *G. Mark Mickelson, Director*	*Date: December 28, 1998*
By:	*/s/J. Tyler Haahr* *J. Tyler Haahr, Director, Senior Vice President, Secretary and Chief Operating Officer*	*Date: December 28, 1998*
By:	*/s/Donald J. Winchell* *Donald J. Winchell, Senior Vice President Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)*	*Date: December 28, 1998*

INDEX TO EXHIBITS

Exhibit Number	Description
3(i)	Registrant's Articles of Incorporation as currently in effect, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), are incorporated herein by reference.
3(ii)	Registrant's Bylaws, as amended and restated on January 26, 1998.
4	Registrant's Specimen Stock Certificate, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.1	Registrant's 1995 Stock Option and Incentive Plan, filed as Exhibit 10.1 to Registrant's Report on Form 10-KSB for the fiscal year ended September 30, 1996 (Commission File No. 0-22140), is incorporated herein by reference.
10.2	Registrant's 1993 Stock Option and Incentive Plan, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.3	Employment agreement between First Federal Savings Bank of the Midwest and J. Tyler Haahr, filed as an exhibit to Registrant's Report on Form 10-K for the fiscal year ended September 30, 1997 (Commission File No. 0-22140), is incorporated herein by reference.
10.4	Registrant's Supplemental Employees' Investment Plan, filed as an exhibit to Registrant's Report on Form 10-KSB for the fiscal year ended September 30, 1994 (Commission File No. 0-22140), is incorporated herein by reference.
10.5	Employment agreements between First Federal Savings Bank of the Midwest and James S. Haahr, Fred A. Stevens and Donald J. Winchell, filed on June 17, 1993 as an exhibit to the Registrant's registration statement on Form S-1 (Commission File No. 33-64654), is incorporated herein by reference.
10.6	Registrant's Executive Officer Compensation Program.

Exhibit Number	Description
10.7	Registrant's Executive Officer Incentive Stock Option Plan for Mergers and Acquisitions.
11	Statement re: computation of per share earnings (included under Note 1 and 2 of Notes to Consolidated Financial Statements in the Annual Report to Shareholders' attached hereto as Exhibit 13)
13	Annual Report to Shareholders
21	Subsidiaries of the Registrant
23	Consent of Expert
27.1	Financial Data Schedule for the 12 months ended September 30, 1998 (electronic filing only).
27.2	Restated Financial Data Schedule for the 12 months ended September 30, 1997 (electronic filing only).
27.3	Restated Financial Data Schedule for the 3 months, 6 months and 9 months ended December 31, 1996, March 31, 1997 and June 30, 1997, respectively (electronic filing only).
27.4	Restated Financial Data Schedule for the 9 months and 12 months ended June 30, 1996 and September 30, 1996, respectively (electronic filing only).

Exhibit 3(ii)

(Amended and Restated)

January 26, 1998

FIRST MIDWEST FINANCIAL, INC.

BY-LAWS

ARTICLE I

STOCKHOLDERS

Section 1. Annual Meeting.

An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date, and at such time as the Board of Directors shall each year fix, which date shall be within thirteen (13) months subsequent to the later of the date of incorporation or the last annual meeting of stockholders.

Section 2. Special Meetings.

Subject to the rights of the holders of any class or series of preferred stock of the Corporation, special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a majority of the total number of directors which the Corporation would have if there were no vacancies on the Board of Directors (hereinafter the "Whole Board").

Section 3. Notice of Meetings.

Written notice of the place, date and time of all meetings of the stockholders shall be given, not less than ten (10) nor more than sixty (60) days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required to law (meaning, here and hereinafter, as required from time to time, by the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation).

When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty
(30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Section 4. Quorum.

At any meeting of the stockholders, the holders of at least one-third of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum for all purposes, unless or except to the extent that the preserve of a larger number may be required by law.

If a quorum shall fail to attend any meeting, the chairman of the meeting or the holders of a majority of the shares of stock entitled to vote who are present, in person or by proxy, may adjourn the meeting to another place, date or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, then except as otherwise required by law, those present at such adjourned meeting shall constitute a quorum, and all matters shall be determined by a majority of the votes cast at such meeting.

Section 5. Organization.

Such person as the Board of Directors may have designated or, in the absence of such a person, the Chairman of the Board of the Corporation or, in his or her absence, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as chairman of the meeting. In the absence of the Secretary of the Corporation, the secretary of the meeting shall be such person as the chairman appoints.

Section 6. Conduct of Business.

(a) The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him or her in order. The polls for each matter upon which the stockholders will vote at the meeting will be opened and closed in accordance with law.

(b) At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is entitled to vote with respect thereto and who complies with the notice procedures set forth in this Section 6(b). For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered or mailed to and received at the principal executive offices of the Corporation not less than sixty (60) days prior to the anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than twenty (20) days, or delayed by more than fifty (50) days from such anniversary date, notice by the stockholder to be timely must be so delivered not later than the close of business on the later of the sixtieth day prior to such annual meeting or the tenth day following the day on which notice of the date of the annual meeting was mailed or public announcement of the date of such meeting is first made. A stockholder's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting,
(i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder who proposed such business, (iii) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder and (iv) any material interest of such stockholder in such business. Notwithstanding anything in these By-laws to the contrary, no business shall be brought before or conducted at an annual meeting except in accordance with the provisions of this Section 6(b). The officer of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 6(b) and, if he should so determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

(c) Only persons who are nominated in accordance with the procedures set forth in these By-laws shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders at which directors are to be elected only (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 6(c). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the Corporation not less than thirty (30) days prior to the date of the meeting; provided, however, that in the event that less than forty (40) days' notice or prior disclosure of the date of the meeting is given or made to stockholders, to be timely, notice by the stockholder must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth (i) as to each person whom such stockholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (ii) as to the stockholder giving the notice, (x) the name and address, as they appear on the Corporation's books, of such stockholder, and (y) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Section 6(c). The officer of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Section 7. Proxies and Voting.

At all meetings of stockholders, every stockholder entitled to vote may vote in person or by proxy executed in writing (or as otherwise permitted under applicable law) by the stockholder or his duly authorized attorney-in-fact in accordance with the procedures established for the meeting. Proxies solicited on behalf of the management shall be voted as directed by the stockholder or, in the absence of such direction, as determined by a majority of the Board of Directors. No proxy shall be valid after eleven months from the date of its execution except for a proxy coupled with an interest.

Each stockholder shall have one (1) vote for every share of stock entitled to vote which is registered in his or her name on the record date for the meeting, except as otherwise provided herein or in the Certificate of Incorporation of the Corporation or as required by law.

All voting, including the election of directors but excepting where otherwise required by law, may be by a voice vote; provided, however, that the Board of Directors, in its discretion, or the officer of the Corporation presiding at the meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast pursuant to a roll call. Every vote taken by ballot shall be counted by an inspector or inspectors appointed by the Board of Directors in advance of the meeting of stockholders and such inspector or inspectors shall act at the meeting or any adjournment thereof and make a written report thereof, in accordance with law.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by the law or as provided in the Certificate of Incorporation, all other matters shall be determined by a majority of the votes cast.

Section 8. Stock List.

The officer who has charge of the stock transfer books of the Corporation shall prepare and make, in the time and manner required by applicable law, a list of stockholders entitled to vote and shall make such list available for such purposes, at such places, at such times and to such persons as required by law. The stock transfer books shall be the only evidence as to the identity of the stockholders entitled to examine the stock transfer books or to vote in person or by proxy at any meeting of stockholders.

Section 9. Consent of Stockholders in Lieu of Meeting.

Subject to the rights of the holders of any class or series of preferred stock of the Corporation, any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

Section 10. Inspectors of Election.

The Board of Directors shall, in advance of any meeting of stockholders, appoint one or more persons as inspectors of election to act at the meeting or any adjournment thereof and make a written report thereof in accordance with law.

ARTICLE II

BOARD OF DIRECTORS

Section 1. General Powers, Number and Term of Office.

The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The number of directors shall be set as provided for in the Certificate of Incorporation. The number of directors who shall constitute the Whole Board shall be such number as the Board of Directors shall from time to time have designated except that in the absence of any such designation, such number shall be seven (7). The Board of Directors shall annually elect a Chairman of the Board and a President from among its members and shall designate, when present, either the Chairman of the Board of the President to preside at its meetings.

The directors, other than those who may be elected by the holders of any class or series of preferred stock, shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class to expire at the conclusion of the first annual meeting of stockholders, the term of office of the second class to expire at the conclusion of the annual meeting of stockholders one year thereafter and the term of office of the third class to expire at the conclusion of the annual meeting of stockholders two years thereafter, with each director to hold office until his or her successor shall have been duly elected and qualified. At each annual meeting of stockholders, commencing with the first annual meeting, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the conclusion of the third succeeding annual meeting of stockholders after their election, with each director to hold office until his or her successor shall have been duly elected and qualified.

Section 2. Vacancies and Newly Created Directorships.

Subject to the rights of the holders of any class or series of preferred stock then outstanding, and unless the Board of Directors otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum, and each director so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which he or she has been elected expires, and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the Board shall shorten the term of any incumbent director.

Section 3. Regular Meetings.

Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required.

Section 4. Special Meetings.

Special meetings of the Board of Directors may be called by one-third
(1/3) of the directors then in office (rounded up to the nearest whole number)
or by the Chairman of the Board and shall be held at such place, on such date, and at such time as they or he or she shall fix. Notice of the place, date, and time of each such special meeting shall be given to each director by whom it is not waived by mailing written notice not less than five (5) days before the meeting or by telegraphing or telexing or by facsimile transmission of the same not less than twenty-four (24) hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 5. Quorum.

At any meeting of the Board of Directors, a majority of the authorized number of directors then constituting the Board shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date, or time, without further notice or waiver thereof. Notwithstanding the above, at any adjourned meeting of the Board of Directors, at least one-third of the authorized number of directors then constituting the Board shall constitute a quorum for all purposes.

Section 6. Participation in Meetings By Conference Telephone.

Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

Section 7. Conduct of Business.

At any meeting of the Board of Directors, business shall be transacted in such order and manner as the Board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law. Action may be taken by the Board of Directors without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

Section 8. Powers.

The Board of Directors may, except as otherwise required by law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, including, without limiting the generality of the foregoing, the unqualified power:

(1) To declare dividends from time to time in accordance with law;

(2) To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;

(3) To authorize the creation, making or issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith;

(4) To remove any officer of the Corporation with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being;

(5) To confer upon any officer of the Corporation the power to appoint, remove and suspend subordinate officers, employees and agents;

(6) To adopt from time to time such stock, option, stock purchase, bonus or other compensation plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine;

(7) To adopt from time to time such insurance, retirement, and other benefit plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and,

(8) To adopt from time to time regulations, not inconsistent with these By-laws, for the management of the Corporation's business and affairs.

Section 9. Compensation of Directors.

Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including without limitation, their services as members of committees of the Board of Directors.

Section 10. Qualifications

Any member of the Board of directors shall, in order to qualify as such, be domiciled in or have his or her primary place of business located in any county, a portion of which is within a 70 mile radius of any office of any subsidiary financial institution of the Company.

ARTICLE III

COMMITTEES

Section 1. Committees of the Board of Directors.

The Board of Directors, by a vote of a majority of the Whole Board of Directors, may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law if the resolution which designated the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in his or her place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may be unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 2. Conduct of Business.

Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third (1/3) of the members shall constitute a quorum unless the committee shall consist of one (1) or two (2) members, in which event one (1) member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing and the writing or writings are filed with the minutes of the proceedings of such committee.

Section 3. Nominating Committee.

The Board of Directors shall appoint a Nominating Committee of the Board, consisting of not less than three (3) members, one of which shall be the Chairman of the Board. The Nominating Committee shall have authority (a) to review any nominations for election to the Board of Directors made by a stockholder of the Corporation pursuant to Section 6(c)(ii) of Article I of these By-laws in order to determine compliance with such By-law, and (b) to recommend to the Whole Board nominees for election to the Board of Directors to replace those directors whose terms expire at the annual meeting of stockholders next ensuing.

ARTICLE IV

OFFICERS

Section 1. Generally.

(a) As soon as may be practicable after the annual meeting of stockholders, the Board of Directors shall choose a Chairman of the Board, a Present, one or more Vice Presidents, a Secretary and a Chief Financial Officer and from time to time may choose such other officers as it may deem proper. The Chairman of the Board and the President shall be chosen from among the directors. Any number of officers may be held by the same person.

(b) The term of office of all officers shall be until the next annual election of officers and until their respective successors are chosen, but any officer may be removed from office at any time by the affirmative vote of a majority of the authorized number of directors then constituting the Board of Directors.

(c) All officers chosen by the Board of Directors shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article IV. Such officers shall also have such powers and duties as from time to time may be conferred by the Board of Directors or by any committee thereof.

Section 2. Chairman of the Board of Directors.

The Chairman of the Board of Directors of the Corporation shall have general responsibilities for the conduct of meetings of the Board of Directors, subject to the direction of the Board of Directors, Section 3 herein and to Article I, Section 6.

Section 3. President.

The President shall be the chief executive officer and, subject to the control of the Board of Directors, shall have general power over the management and oversight of the administration and operation of the Corporation's business and general supervisory power and authority over its policies and affairs. He shall see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect.

Each meeting of the stockholders and of the Board of Directors shall be presided over by the Chairman of the Board, or, in his absence, the President, or, in his absence, by such officer as has been designated by the Board of Directors or, in his absence, by such officer or other person as is chosen at the meeting. The Secretary or, in his absence, the General Counsel of the Corporation or such officer as has been designated by the Board of Directors or, in his absence, such officer or other person as is chosen by the person presiding, shall act as secretary of each such meeting.

Section 4. Vice President.

The Vice President or Vice Presidents, if any, shall perform the duties of the President in his absence or during his disability to act. In addition, the Vice Presidents shall perform the duties and exercise the powers usually incident to their respective offices and/or such other duties and powers as may be properly assigned to them from time to time by the Board of Directors, the Chairman of the Board or the President.

Section 5. Secretary.

The Secretary or an Assistance Secretary shall issue notices of meetings, shall keep their minutes, shall have charge of the seal and the corporate books, shall perform such other duties and exercise such other powers as are usually incident to such offices and/or such other duties and powers as are properly assigned thereto by the Board of Directors, the Chairman of the Board or the President.

Section 6. Chief Financial Officer.

The Chief Financial Officer shall have charge of all monies and securities of the Corporation, other than monies and securities of any division of the Corporation which has a treasurer or financial officer appointed by the Board of Directors, and shall keep regular books of account. The funds of the Corporation shall be deposited in the name of the Corporation of the Chief Financial Officer with such banks or trust companies as the Board of Directors from time to time shall designate. He or she shall sign or countersign such instruments as require his or her signature, shall perform all such duties and have all such powers as are usually incident to such officer and/or such other duties and powers as are properly assigned to him or her by the Board of Directors, the Chairman of the Board or the President, and may be required to give bond for the faithful performance of his or her duties in such sum and with such surety as may be required by the Board of Directors.

Section 7. Assistant Secretaries and Other Officers.

The Board of Directors may appoint one or more assistant secretaries and one or more assistants to the Chief Financial Officer, or one appointee to both such positions, which officers shall have such powers and shall perform such duties as are provided in these By-laws or as may be assigned to them by the Board of Directors, the Chairman of the Board or the President.

Section 8. Action with Respect to Securities of Other Corporations.

Unless otherwise directed by the Board of Directors, the President or any officer of the Corporation authorized by the President shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation.

ARTICLE V

STOCK

Section 1. Certificates of Stock.

Each stockholder shall be entitled to a certificate signed by, or in the name of the Corporation by, the President or a Vice President, and by the Secretary or an Assistant Secretary, or the Chief Financial Officer or an assistant to the Chief Financial Officer, certifying the number of shares owned by him or her. Any or all of the signatures on the certificate may be by facsimile.

Section 2. Transfers of Stock.

Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 4 of Article V of these By-laws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

Section 3. Record Date.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders, or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of any meeting of stockholders, nor more than sixty (60) days prior to the time for such other action as hereinbefore described; provided, however, that if no record date is fixed by the Board of Directors, the record date for determining the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 4. Lost, Stolen or Destroyed Certificates.

In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

Section 5. Regulations.

The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

ARTICLE VI

NOTICES

Section 1. Notices.

Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be given effectively by hand delivery to the recipient thereof, by depositing such notice in the mail, postage paid, by sending such notice by prepaid telegram or mailgram or by sending such notice by facsimile machine or other electronic transmission. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his or her last known address as the same appears on the books of the Corporation. The time when such notice is received, if hand delivered, or dispatched, if delivered through the mail, by telegram or mailgram or by facsimile machine or other electronic transmission, shall be the time of the giving of the notice.

Section 2. Waivers.

A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver.

ARTICLE VII

MISCELLANEOUS

Section 1. Facsimile Signatures.

In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these By-laws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 2. Corporate Seal.

The Board of Directors may provide a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary. If and when so directed by the Board of Directors or a committee thereof, duplicates of the seal may be kept and used by the Chief Financial Officer or by an Assistant Secretary or an assistance to the Chief Financial Officer.

Section 3. Reliance upon Books, Reports and Records.

Each director, each member of any committee designated by the Board of Directors, and each officer of the Corporation shall, in the performance of his or her duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of its officers or employees, or committees of the Board of Directors so designated, or by any other person as to matters which such director or committee member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 4. Fiscal Year.

The fiscal year of the Corporation shall begin on October 1 of each year.

Section 5. Time Periods.

In applying any provision of these By-laws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded and the day of the event shall be included.

ARTICLE VIII

AMENDMENTS

The By-laws of the Corporation may be adopted, amended or repealed as provided in Article SEVENTH of the Certificate of Incorporation of the

Corporation.

FIRST FEDERAL SAVINGS BANK OF THE MIDWEST
Executive Officer Compensation Program

I. Statement of Policy

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

II. General

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

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

A review of individual performance shall also include factors which demonstrate conformity with the responsibility for the safe and sound operation of the Bank. The relevance of specific factors will vary based on the individual position and will include such items as compliance with internal policies, accepted business practices and regulatory requirements; observed leadership and administrative abilities; the level of technical competence demonstrated in carrying out the responsibilities of the position; and the ability to plan and respond to changing circumstances. Quantitative goals are not established for these factors in the determination of base compensation; however, such goals are to be used in part in the determination of incentive compensation. The goals and objectives as outlined in the Bank's strategic business plan shall also be a factor in the measurement of individual performance.

III. Base Compensation

It is the policy of First Federal to provide a level of base compensation which is commensurate with the position and the demonstrated abilities of the individual executive officer. Individual base compensation is considered a function of the position and the past experience, level of achievement and the anticipation of continued performance of the officer. Base compensation shall be reviewed by the Board of Directors at least annually and revised as considered appropriate.

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

IV. Incentive Compensation

A program of incentive compensation has been established to reward those officers who provide a level of performance for the Bank which warrants recognition in the form of compensation above base compensation amounts. Incentive compensation will be based on 1) performance by the individual and 2) overall company performance. The Board may award total cash Executive Compensation not to exceed 50% of base compensation and stock options not to exceed 20% of base compensation as described in this plan.

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

A. Guidelines for Incentive Compensation - Individual Performance

The Board of Directors may award an individual up to 25% of base compensation in cash and 15% of base compensation in options based on that individual's performance. The Board will analyze each performance and contribution to the Company as described in Section II. The analysis will be of overall individual performance with various performance areas being weighted as reasonably determined by the Board.

B. Guidelines for Incentive Compensation - Company Performance

1. The Bank must, at fiscal year end, have a level of capital which is at least 125% of the regulatory minimum for each of the capital requirements.

2. The combined return on average equity for the Bank and Security State Bank must be at least equal to 9.00%. For purposes of determining compliance with this guideline, return on equity shall be determined based either on an assumed capitalization at 8.00% of average assets, or on actual capitalization if less than 8.00%. Also for purposes of this guideline, earnings shall be reduced by the assumed earnings on capital in excess of 8.00% (net of tax, and based on the average earning asset yield for the period) and shall be increased by the amount of any amortization of goodwill.

In the event that an acquisition or other significant non-routine occurrence were to cause this requirement not to be met, the Board is authorized to exercise discretion in the award of incentive compensation, provided that all other requirements have been met. For purposes of determining compliance with this requirement, net non-operating income shall not account for greater than 25% of total income.

3. The Bank's ratio of classified assets to total capital must not exceed 35%. Classified assets are defined as those assets classified, under current policies and regulations, as substandard and doubtful as reported on the appropriate lines of the quarterly thrift financial report.

4. The Bank's interest rate risk exposure, as determined quarterly by the Office of Thrift Supervision and based on Thrift Bulletin No. 13 guidelines for the measurement of interest rate risk exposure, must not allow the Bank's capital position to fall below minimum capital requirements.

5. The composite CAMEL rating, as reported to the Bank by the Office of Thrift Supervision, reflects the regulatory perception of the institution's overall strength and compliance with regulatory requirements. As such, a CAMEL rating of 1 or 2 is considered acceptable to allow consideration of incentive compensation.

6. Prior to the approval of any incentive compensation, the Board shall have reviewed all independent audit reports, Office of Thrift Supervision reports of examination, Federal Deposit Insurance Corporation reports of examination and any relevant documents related to such audits and examinations which have occurred during the period for which the incentive compensation is considered. The Board's review of those documents should be directed toward a determination of management's safe and sound implementation and compliance with policies and procedures, and the frequency and significance of any violation of law or regulation.

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

Amount of Incentive Compensation - Company Performance

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

If Return on Average Equity Equals or Exceeds:	Incentive Compensation Award as a % of Base Compensation:	
	Cash	Stock Options
9.00%	2.50%	-
9.25%	2.75%	-
9.50%	3.00%	-
9.75%	3.50%	-
10.00%	4.00%	2.50%
10.25%	4.50%	3.00%
10.50%	5.00%	3.50%
10.75%	5.50%	4.00%
11.00%	6.00%	4.50%
11.25%	6.50%	5.00%
11.50%	7.00%	5.00%
11.75%	7.50%	5.00%
12.00%	8.00%	5.00%

In the event that return on average equity exceeds 12.25%, incentive compensation awards shall be determined at the discretion of the Board of Directors, with the cash award based on the Company's performance not to exceed 25% of the individual executive officer's base compensation.

V. Calculation of Stock Options

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

VI. Review and Authorization

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

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

Exhibit 1

[INTENTIONALLY OMITTED]

Exhibit 2

[INTENTIONALLY OMITTED]

FIRST MIDWEST FINANCIAL, INC.

Executive Officer Incentive Stock Option Plan for Mergers and Acquisitions

Statement of Policy

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

Guidelines for Award of Incentive Stock Options

1. The award of incentive stock options shall be effective upon the closure of a merger or acquisition of a financial institution.

2. The recipient shall be immediately 100% vested as of the effective date of grant in the incentive stock options awarded under this plan .

3. The award of incentive stock options under this plan shall be subject to the availability of such stock options. In the event that stock options are not available in amounts sufficient to meet the total award under this plan, the available stock options will be awarded on a pro-rata basis to the recipients.

4. The exercise price of the incentive stock options awarded under this plan shall be the closing average bid/ask market price on the effective date of grant.

5. The total number of incentive stock options awarded under this plan shall be allocated at the discretion of the Audit-Compensation/Personnel Committee.

Amount of Incentive Stock Options Awarded

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

EXHIBIT 13

ANNUAL REPORT TO SHAREHOLDERS

At September 30 (DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)	1998	1997	1996	1995	1994	1993
Total assets	$418,380	$404,589	$388,008	$264,213	$274,115	$ 160,827
Loans receivable, net	270,286	254,641	243,534	178,552	155,497	80,224
Total deposits	283,858	246,116	233,406	171,793	176,167	122,813
Shareholders' equity	42,286	43,477	43,210	38,013	34,683	33,438
Book value per common share(1)	$ 16.56	$ 16.11	$ 14.81	$ 14.13	$ 12.46	$ 11.21
Total equity to assets	10.11%	10.75%	11.14%	14.39%	12.65%	20.79%

For the Fiscal Year (DOLLARS IN THOUSANDS EXCEPT PER SHARE DATA)	1998	1997	1996	1995	1994	1993
Net interest income	$ 12,829	$ 11,946	$ 10,359	$ 9,405	$ 7,870	$ 5,077
Net income	2,785(3)	3,642	2,414(4)	3,544	2,729	1,352
Diluted earnings per share(1)	$ 1.03(3)	$ 1.28	$ 0.90(4)	$ 1.33	$ 0.92	$ 0.44(2)
Net yield on interest-earning assets	3.26%	3.38%	3.47%	3.63%	3.94%	3.21%
Return on average assets	.68%(3)	.98%	.77%(4)	1.31%	1.29%	.84%
Return on average equity	6.43%(3)	8.41%	6.22%(4)	9.86%	7.89%	7.10%

[GRAPHIC-CHART DEPICTING TOTAL ASSETS]
[GRAPHIC-CHART DEPICTING TOTAL DEPOSITS]
[GRAPHIC-CHART DEPICTING NET INTEREST INCOME]
[GRAPHIC-CHART DEPICTING NET INCOME]

(1) Amounts reported have been adjusted for the three-for-two stock split paid January 2, 1997 in the form of a 50 percent stock dividend.
(2) Diluted earnings per share is based on the assumption that the weighted average shares outstanding at September 30, 1993, were outstanding the entire year.
(3) Reflects a one-time pre-tax charge of $1.5 million for loan related losses. Net income, Diluted earnings per share, Return on average assets, and Return on average equity would have been $3,725,000, $1.38, .90%, and 8.60%, respectively.
(4) Reflects the one-time industry wide special assessment to recapitalize the Savings Association Insurance Fund. Excluding the special assessment, Net income, Diluted earnings per share, Return on average assets, and Return on average equity would have been $3,209,000, $1.19, 1.01%, and 8.22%, respectively.

Chairman's Letter -- To Our Shareholders

[GRAPHIC-PHOTO OF CHAIRMAN]

Vision. Every company needs one. Our vision informs you, as a shareholder, where First Midwest Financial is going. While a strong history is important, how a company performs in the future is even more significant. First Midwest is preparing today for a profitable tomorrow. What is our vision? To build the best super-community bank system in our market area.

As you read the financial section of this year's annual report, you will find First Midwest continues its profitable growth. For the fiscal year ending September 30, 1998, the company reported net income of $3.7 million or $1.38 per share on a diluted basis. Earnings reflect a 7.8 percent per share increase over the same period last year when net income was $3.6 million or $1.28 per share. The 1998 net income is prior to a one-time pre-tax charge of $1.5 million for loan related losses taken during the second quarter. The one-time charge relates primarily to mismanagement and possible fraud by one loan officer who is no longer with the company. The one-time charge increases the company's reserve balances, set aside for potential losses in the company's loan portfolio. With the one-time charge, net income for fiscal year 1998 is $2.8 million or $1.03 per diluted share.

Earnings for the Security State Bank subsidiary are particularly noteworthy. The bank achieved a 111 percent increase in earnings during the fiscal year. On September 30, 1998, the subsidiary reported net income of $355,000 compared to $168,000 during the same period the previous year. Average monthly net income continues to rise, promising future gains.

Assets jumped from $161 million on September 30, 1993, when the company became publicly traded, to over $418 million on September 30, 1998. This increase represents a gain of more than 160 percent. During the 1998 fiscal year, assets grew $13 million from $405 million to $418 million. Shareholders' equity at fiscal year end totaled $42.3 million, or $16.56 per common share outstanding.

Deposits increased $38 million during the 1998 fiscal year, from $246 million to $284 million. This deposit trend represents a 15 percent gain, much of it in demand deposit accounts where the cost of money is lower.

Timeless checking, a packaged account that promotes cross-selling and relationship banking, has had a tremendous impact on our retail banking operations since its introduction a year ago. Coupled with the new photo QUICKcard Cash & Check and improved money market accounts, the company has increased its demand deposit account balances over 30 percent. Deposit account fee income jumped 27 percent during the fiscal year.

First Midwest was named one of only twenty-eight national finalists in the Bank Marketing Association's Golden Coin Awards for its Timeless and QUICKcard introductions. The award was based on the following: 1) industry innovations, 2) strategy development, 3) tactical implementation, and 4) results. We are proud of this recognition.

Since initiating the first stock repurchase program in 1994, the company has invested a total of $11.2 million for shares purchased at an average price of $14.97 per share (adjusted for a stock dividend), thereby creating additional value for shareholders. On August 24, 1998, the company announced its intentions to repurchase an additional 5 percent of outstanding shares. At fiscal year end, the company had 77,835 shares remaining to repurchase under the program.

On November 23, 1998, First Midwest announced an increase in the company's quarterly cash dividend from 12 cents per share to 13 cents per share. The dividend, which represents an increase of 8.33 percent, is payable on or about January 4, 1999 to shareholders of record as of December 15, 1998. We are pleased to pay this increased cash dividend to you, our shareholder.

International financial uncertainty has contributed toward erratic moves in the U.S. markets, particularly those with Asian exposure. First Midwest's investment portfolio does not have significant exposure to the Asian markets. Consistent with our business management, First Midwest's capital investment strategies are conservative and have provided steady growth and returns. The market skepticism has provided an opportunity for our banks to increase deposits from customers looking for an insured investment with a guaranteed rate of return.

Year 2000 (Y2K) is of concern to all businesses. Many fear that numerous computer systems will be incapable of adapting to the year 2000 in the coming years, making businesses unable to operate. First Midwest is working closely with its regulators, vendors, and borrowers regarding this issue, and taking all necessary precautions to ensure its banks are Y2K ready.

Most of First Midwest's operations are located in the heart of agriculture country. Rising concerns about the agricultural economy's outlook are real. Congress has increased farm appropriations by about $7 billion to ease the burden on area farmers and related industry. The bank is well diversified and capitalized to support the industry during this potential crisis. We will remain prudent in our lending practices.

I am pleased to announce the appointments of four new division/subsidiary presidents: Tyler Haahr, First Federal Savings Bank; Tim Harvey, Brookings Federal Bank; Troy Moore, Iowa Savings Bank; and Dick Coleman, Security State Bank. They team with our dedicated officers and staff to provide essential leadership that will guide the company toward its vision. As you read more about each bank division/subsidiary, you will see that tradition, customer service, innovation, and teamwork are important concepts of our super-community structure. Concepts we feel help lead to results.

Looking ahead, First Midwest continues to seek opportunities to increase shareholder value, which includes the acquisition of savings banks, commercial banks, and other related-service companies in our geographical area. Other capital management strategies such as dividends and stock repurchases will also be considered. Each opportunity is evaluated carefully. We are committed to increasing return on equity that will, in turn, provide increased shareholder value for you.

[GRAPHIC-CHART DEPICTING DEMAND DEPOSIT BALANCE GROWTH]
[GRAPHIC-CHART DEPICTING ATM CARD & QUICKCARD GROWTH]
[GRAPHIC-CHART DEPICTING DEPOSIT ACCOUNT FEE INCOME GROWTH]

First Midwest employees, customers, and you, our shareholders, are bound by a common interest -- the success of First Midwest Financial. We are positioning ourselves for that success. The company is committed to growth. More importantly, profitable growth. We are innovative yet prudent in the management of our company. Safety and soundness remain top priorities of the banks.

On behalf of the Board of Directors, employees, and customers, I thank you for your confidence and support. Our vision is to build the best super-community bank system in our market area. Each year of improvement, profitable growth, and hard work takes us one step closer. I am confident we will realize our goals and you, our shareholder, will benefit with increased returns. Bank with us and see the difference.

Sincerely,

/S/James S. Haahr

James S. Haahr
Chairman of the Board, President & CEO

December 16, 1998

First Federal Savings Bank

Tradition. Established in 1954, First Federal builds upon its history of trust, community, and growth. The vision: Be the bank of choice for financial services in our markets. The mission: Provide cost effective and innovative products and services to meet customers' changing needs while maintaining friendly, knowledgeable customer service.

"We are committed to our employees, customers, and communities," noted Tyler Haahr, Division President and COO for all First Federal divisions. "The bank was established years ago to help local families buy homes and earn a fair return on their savings. We still provide those services today, and have expanded our offerings to better serve our customers."

In addition to mortgage loans, First Federal offers commercial, agricultural, consumer, and other personalized loans. "With consolidated assets over $418 million, we are able to support loan needs in our markets," commented Bill Beatty, Vice President of Lending. "It is rewarding to know that we help so many people."

Products like the service-packaged Timeless Checking account, photo QUICKcard Cash & Check, money market, certificates of deposit, savings account, ready reserve, overdraft insurance, and retirement and trust services provide options for deposit customers. "Diversification is an important aspect of financial management. We help customers by offering a wide range of products and services." stated Melody Buckendahl, Vice President Savings and Division Supervisor. First Federal believes there is value in one-stop shopping and working with those you trust.

"Changing times mean new challenges," added Sue Jesse, Senior Vice President and Division Manager. "While we remain committed to the ideals that made us successful, we also embrace change." A proactive sales culture reinforces the bank's pledge to exceed customer expectations. Employee sales efforts, new and competitive products, and a true dedication to service excellence help position the seven First Federal offices for profitable growth.

First Federal 1998 highlights:

Experienced senior leadership joins the management team.

Net checking account numbers jump 9 percent.

Deposit balances in checking and money market accounts soar 24 percent.

Timeless Checking and the photo QUICKcard & Check differentiate the bank's products and create brand recognition.

Annual customer Service Checks provide individualized service and new sales.

Additional Registered Representative joins team to offer more customers alternative investment options. (Non-traditional bank products are provided through First Services Financial Limited. They are not FDIC-insured, or guaranteed by First Federal or any affiliates.)

Increased community participation improves bank's image: Pork Feed for Charity, Spring Fling, Touchdown Scholarships, Quasquicentenial Storm Lake Birthday Party sponsor, American Cancer Society Relays for Life team, Teach Children to Save Day, and much more.

SIDE BAR- PAGE 4

J. Tyler Haahr
President
Storm Lake Division of
First Federal Savings
Bank of the Midwest

Economic Data
Average Land Value
as of September 1998
High-quality farmland
in northwest Iowa:
$2,515 per acre

Building Permits 1997
Storm Lake
Residential -- $4,739,513
Commercial -- $5,793,034

Taxable Retail Sales 1997
Storm Lake
$115,283,638

Unemployment Rate
as of June 1998
Buena Vista County
2.0%

DIRECTORS OF FIRST FEDERAL SAVINGS BANK OF THE MIDWEST

JAMES S. HAAHR
Chairman of the Board, President & CEO for First Midwest Financial, Inc., and First Federal Savings Bank of the Midwest. Chairman of the Board for Security State Bank

J. TYLER HAAHR
Senior Vice President, Secretary & COO for First Midwest Financial, Inc. Executive Vice President, Secretary, COO & Division President for First Federal Savings Bank of the Midwest and CEO of Security State Bank

E. WAYNE COOLEY
Executive Secretary, Iowa Girls' High School Athletic Union, Des Moines, Iowa

E. THURMAN GASKILL
State Senator of Iowa, District 8
Owner, Grain Farming Operation
Corwith, Iowa

G. MARK MICKELSON
Vice President of Acquisitions, Northwestern Growth Corporation, Sioux Falls, South Dakota

RODNEY G. MUILENBURG
Dairy Specialist, Minneapolis Division Purina Mills, Inc., Storm Lake, Iowa

Brookings Federal Bank

Customer Service. Brookings Federal Bank recognizes solid customer relationships are essential for long-term retail growth. Tim Harvey, newly appointed President and Brookings native, believes in building alliances between the bank and its customers. The vision: Become the institution of choice for financial services in our marketplace. The mission: Provide customer-oriented products and services profitably and efficiently with hometown warmth.

"Because the customer is our top priority, we will focus on having `customer-centric' operations," stated Tim. "This means that the customer is at the center of everything we do." Brookings Federal Bank team members actively embrace this philosophy by communicating continuous improvement ideas, pro- actively implementing best known methods, and anticipating customer needs. "We strive to exceed customer expectations. It works," noted Jean Engen, Savings Supervisor.

Brookings Federal Bank, a division of First Federal Savings Bank of the Midwest since 1994, hurdled past challenges in its agricultural loan portfolio this past year. New leadership, additional lending expertise, training, and a consistent agricultural philosophy contributed toward improvement. The bank remains committed to agricultural as well as all types of lending and is well positioned to face upcoming opportunities and challenges. Enhanced policies, customer communication, and personnel will promote future success.

"Our operational focus this year is to provide steady, quality growth in our loan and deposit accounts," commented Tim. "We will do this by controlling operating expenses and reinforcing the bank's dependability, stability, and customer service. With new leadership, it is important customers know we are still committed to providing them financial products and service with added value." Updated data systems and new services will also contribute to the bank's profitable growth.

Brookings Federal 1998 highlights:

Tim Harvey provides new leadership for the Bank.

Call Program, introduced this year, establishes new accounts as a result of proactive customer and non-customer contacts.

First annual customer Service Checks provide individualized service and new sales.

New Money Market Gold account attracts deposits.

New Timeless Checking features and the QUICKcard Cash & Check add benefits to customers and additional fee income opportunities for the bank. New automated teller machine (ATM) attracts traffic.

Alternative investments, offered through PrimeVest Investment Center via Brookings Service Corporation, offers customers additional financial options. (Products not FDIC-insured, or guaranteed by First Federal or any affiliates.)

Increased community participation improves bank's image: Sole Sponsor of the South Dakota State University Stan Marshall Golf Tournament, Sole Sponsor of the March of Dimes Children's Walk, Pork Feed for Charity, Spring Fling, Touch-down Scholarship, Teach Children to Save Day, and much more.

BROOKINGS FEDERAL BANK ADVISORY BOARD

FRED J. RITTERSHAUS
Chairman of the Advisory Board
Consulting Engineer and Partner,
Banner and Associates, Inc.

VIRGIL G. ELLERBRUCH
Vice Chairman of the Advisory Board Assistant Dean of Engineering,
South Dakota State University

O. DALE LARSON
Owner, Larson Manufacturing

EARL R. RUE
Consulting Manager, Running's Fleet and Farm

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

TIM D. HARVEY
President, Brookings Federal Bank

SIDEBAR PAGE 5:

Tim D. Harvey
President
Brookings Federal Bank
Division of First Federal
Savings Bank of the Midwest

Economic Data
Average Land Value as of
February 1998
High-productivity, non-irrigated cropland in east-central South Dakota: $944 per acre

Building Permits 1997

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Brookings
Residential -- $6,938,650
Commercial -- $16,625,500
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Taxable Retail Sales 1997
Brookings
$149,490,631

Unemployment Rate
as of June 1998
Brookings
1.4%

Iowa Savings Bank

Innovation. Iowa Savings Bank bounds ahead in technology, product offerings, and profitability since becoming part of First Federal Savings Bank of the Midwest in 1995. The bank's results far exceed original goals and projections. The vision: Help all customers reach their financial goals. The mission: Provide a culture focused on continuous improvement, sales and performance, adaptability, profitability, and providing customers the best financial products available.

Iowa Savings Bank's historical focus on savings and single-family home loan products has expanded to include the offerings of a full service financial institution. "We knew there was great market potential in Des Moines," stated Troy Moore, President. "Branching into the developing West Des Moines area, adding new products, and improving existing ones have contributed toward the bank's dramatic growth." Bryce Loring, Vice President of Lending added, "We have a competent team of employees who understand and serve the needs of existing customers. In fact, many new accounts come from returning customers and referrals."

Customers at Iowa Savings now have the option to manage all of their finances from one location thanks to improved product and service choices. Timeless Checking with its packaged benefits, the photo QUICKcard Cash & Check, and tiered money market accounts are three products with a significant impact on retail customers.

"Iowa Savings Bank has benefited from the resources a larger organization provides," stated Lora White, Operations and Branch Manager. "We work as a team and strive toward continuous improvement and customer satisfaction." The company has developed uniform product mixes across the bank offices that are consistent with strategic objectives. Retirement products, credit cards, ready reserve, ACH origination, loans, and other services have been improved this past year. Action plans for additional product and service innovations and improvements are slated for the coming year.

Iowa Savings Bank and the other banks achieved autonomy through new company-wide promotions and events. A first annual Service Check promotion in February gave customers an opportunity to review their financial situation and update products and services. The results were educated employees and customers, new accounts, and a reinforced message that the bank is dedicated to individualized, hometown service.

A new Tell-A-Friend Timeless and QUICKcard promotion added a unique twist for customers and employees in all bank markets. Each person could earn a free gift if they referred a friend to the bank and a new account was opened. The average checking and QUICKcard accounts opened during that period increased significantly.

"Our company is prepared to tackle new challenges," stated Troy. "We are in a competitive market where customers are bombarded with a variety of promotions and advertising. Advertising is easy; it is sales that requires work." Establishing a proactive sales culture to meet customers' needs is a priority for Iowa Savings Bank.

The company is aware of current and expected industry changes and is positioning itself to capitalize on these opportunities. New products and services, additional resources, experienced leadership, and exceptional customer service prove to be a successful formula for profitable growth at Iowa Savings Bank and the other banks.

Iowa Savings Bank 1998 highlights:

Troy Moore succeeds Jeanne Partlow, who retired as President in June after 47 successful years in the financial industry. Jeanne remains an active member of First Midwest Financial's Board of Directors.

Total deposits increase over $47 million, a 133 percent increase from the previous fiscal year.

Net checking account numbers jump 370 percent.

Deposit balances in checking and money market accounts soar 4400 percent.

Sales and Service - A Commitment to Excellence program, newly introduced, provides sales training and programs to support proactive sales and team work that improves customer service.

New Registered Representative offers customers alternative investment options. (Non-traditional bank products are provided through Ameritas Investment Corp. They are not FDIC-insured, or guaranteed by First Federal or any affiliates.)

Increased community participation improves bank's image: Grand Opening in West Des Moines, Pork Feed for Charity, Touchdown Scholarship, Teach Children to Save Day, and much more.

SIDEBAR:

Troy Moore
President
Iowa Savings Bank
Division of First Federal
Savings Bank of the
Midwest

Economic Data
Average Land Value as of
September 1998
High-quality farmland in
central Iowa: $2,643 per acre

Building Permits 1997
Metropolitan Statistical Area*
Residential -- $1,239,100,000
Commercial -- $1,189,600,000

Taxable Retail Sales 1997 Des Moines $3,935,454,815

Unemployment Rate as of June, 1998 Polk County 1.9%

* MSA = Dallas, Polk, and Warren Counties

Security State Bank

Teamwork. Security State Bank, the company's only state-chartered commercial bank, exemplifies how working together can help boost customer service and profitability. The vision: Grow safely, soundly, and profitably to become the financial institution of choice in our market place. The mission: Offer the best bank services available that meet customers' needs.

"The past year we worked to improve operational efficiencies, enhance the loan portfolio, and streamline responsibilities," stated Dana Hansen, Vice President and Casey Branch Manager. "Our efforts are showing with record profitability and improved communication within our office, with customers, and with the other banks in our organization."

Security State Bank employees have seen the benefits of teamwork since becoming associated with First Midwest Financial in 1996. Administrative support from the finance, marketing, account services, and data processing departments allows the entire organization to operate more efficiently and effectively. This assistance translates into more streamlined job responsibilities and improved customer service.

Common goals, values, and idea sharing help the bank grow more profitable. "We are only as strong as our weakest link," noted Dick Coleman, President. "When you have strong people working together toward the same goals, you are going to be successful." This philosophy holds true as Charles Shafer, a customer and owner of Agri Drain Corp. commented, "I am impressed with the men and women at Security State Bank. They are sincere and are genuinely concerned about the welfare of their clients. Security's association with First Midwest offers the benefits of a large financial institution coupled with the personal service you expect from a local bank."

Security State Bank 1998 highlights:

Dick Coleman joins team in October as President.

Security State Bank contributes record earnings of $355,070 to the holding company, a 111 percent increase from the previous fiscal year.

West Central Economic Development group, serving Adair and Guthrie Counties, opens its office in the lower level of Security State Bank in Stuart and provides additional opportunity for new business.

New Registered Representative offers customers alternative investment options -- a first in the Security State Bank market area. (Non-traditional bank products are provided through Ameritas Investment Corp. They are not FDIC-insured, or guaranteed by Security State Bank or any affiliates.)

Sales and Service -- A Commitment to Excellence program, newly introduced, provides sales training and programs to support proactive sales and teamwork that improves customer service.

Increased community participation improves bank's image: Spring Fling, Pork Feed for Charity, Touchdown Scholarship, Teach Children to Save Day, Good Egg Days parade sponsor, and much more.

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. Chairman of the Board for Security State Bank

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
State Senator of Iowa, District 8
Owner, Grain Farming Operation
Corwith, Iowa

J. TYLER HAAHR
Senior Vice President, Secretary & COO for First Midwest Financial, Inc. Executive Vice President, Secretary, COO & Division President for First Federal Savings Bank of the Midwest and CEO of Security State Bank

G. MARK MICKELSON
Vice President of Acquisitions, Northwestern Growth Corporation, Sioux Falls, South Dakota

RODNEY G. MUILENBURG
Dairy Specialist, Minneapolis Division Purina Mills, Inc., Storm Lake, Iowa

RICHARD H. COLEMAN
President, Security State Bank

SIDEBAR:

Richard H. Coleman
President
Security State Bank

Dana Hansen
Vice President
Security State Bank

Economic Data
Average Land Value as of
September 1997
High-quality farmland in west-
central Iowa: $2,521 per acre

Building Permits 1997

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Stuart
Residential -- N/A
Commercial -- N/A
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Taxable Retail Sales 1997
Stuart
$7,449,918

Unemployment Rate
as of June 1998
Guthrie County 2.5%

Bank Locations

[GRAPHIC-PHOTOS AND MAP OF BANK LOCATIONS]

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

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

Brookings Federal Bank,
Main Office, 600 Main Avenue,
Brookings, South Dakota

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

OFFICE LOCATIONS

First Federal Savings Bank
Storm Lake Division
Main Bank Office
Fifth at Erie
P.O. Box 1307
Storm Lake, Iowa 50588
712-732-4117
800-792-6815
712-732-7105 fax

Storm Lake Plaza Office
1415 North Lake Avenue
Storm Lake, Iowa 50588
712-732-6655
712-732-7924 fax

Lake View Office
Fifth at Main
Lake View, Iowa 51450
712-657-2721
712-657-2896 fax

Laurens Office
104 North Third Street
Laurens, Iowa 50554
712-845-2588
712-845-2029 fax

Manson Office
Eleventh at Main
Manson, Iowa 50563
712-469-3319
712-469-2458 fax

Odebolt Office
219 South Main Street
Odebolt, Iowa 51458
712-668-4881
712-668-4882 fax

Sac City Office
518 Audubon Street
Sac City, Iowa 50583
712-662-7195
712-662-7196 fax

Brookings Federal Bank Division
Main Office
600 Main Avenue
P.O. Box 98
Brookings, South Dakota 57006
605-692-2314
800-842-7452
605-692-7059 fax

Eastbrook Office
425 22nd Avenue South
Brookings, South Dakota 57006
605-692-2314

Iowa Savings Bank
Division
Main Office
3448 Westown Parkway
West Des Moines, Iowa 50266
515-226-8474
515-226-8475 fax

Highland Park Office
3624 Sixth Avenue
Des Moines, Iowa 50313
515-288-4866
515-288-3104 fax

Security State Bank
Main Office
615 South Division
P.O. Box 606
Stuart, Iowa 50250
515-523-2203
800-523-8003
515-523-2460 fax

Casey Office
101 East Logan
P.O. Box 97
Casey, Iowa 50048
515-746-3366
800-746-3367
515-746-2828 fax

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

Financial Contents

First Midwest Financial, Inc. and Subsidiaries
SELECTED CONSOLIDATED FINANCIAL INFORMATION

September 30, (IN THOUSANDS) SELECTED FINANCIAL CONDITION DATA	1998	1997	1996	1995	1994
Total assets	$418,380	$404,589	$388,008	$264,213	$274,115
Loans receivable, net	270,286	254,641	243,534	178,552	155,497
Securities available for sale	120,610	115,985	109,492	70,232	37,180
Securities held to maturity	--	--	--	--	65,917
Excess of cost over net assets acquired, net	4,498	4,863	5,091	1,690	1,815
Deposits	283,858	246,116	233,406	171,793	176,167
Total borrowings	89,888	112,126	106,478	52,248	61,218
Shareholders' equity	42,286	43,477	43,210	38,013	34,683

Year Ended September 30, (IN THOUSANDS, EXCEPT PER SHARE DATA) SELECTED OPERATIONS DATA	1998	1997	1996	1995	1994
Total interest income	$ 32,059	$ 29,005	$ 24,337	$ 21,054	$ 15,153
Total interest expense	19,230	17,059	13,978	11,649	7,283
Net interest income	12,829	11,946	10,359	9,405	7,870
Provision for loan losses	1,663	120	100	250	105
Net interest income after provision for loan losses	11,166	11,826	10,259	9,155	7,765
Total noninterest income	1,875	1,700	1,419	2,286	1,078
Total noninterest expense	8,253	7,382	7,568(3)	5,576	4,938
Income before income taxes and cumulative effect of changes in accounting principles	4,788	6,144	4,110	5,865	3,905
Income tax expense	2,003	2,502	1,696	2,321	1,433
Cumulative effect of changes in accounting principles	--	--	--	--	257
Net income	$ 2,785	$ 3,642	$ 2,414(3)	$3,544	$ 2,729
Earnings per common and common equivalent share:					
Income before cumulative effect of changes in accounting principles(1)					
Basic earnings per share	$ 1.08	$ 1.34	$ 0.95(3)	$ 1.39	$ 0.86
Diluted earnings per share	$ 1.03	$ 1.28	$ 0.90(3)	$ 1.34	$ 0.83
Net income(1),					
Basic earnings per share	$ 1.08	$ 1.34	$ 0.95(3)	$ 1.39	$ 0.95
Diluted earnings per share	$ 1.03	$ 1.28	$ 0.90(3)	$ 1.34	$ 0.92

Year Ended September 30,	1998	1997	1996	1995	1994
SELECTED FINANCIAL RATIOS AND OTHER DATA					
Performance Ratios					
Return on assets (ratio of net income to average total assets)(2)	0.68%	0.98%	0.77%(3)	1.31%	1.29%
Return on shareholders' equity (ratio of net income to average equity)(2)	6.43	8.41	6.22(3)	9.86	7.89
Interest rate spread information:					
Average during year	2.76	2.80	2.83	3.13	3.25
End of year	2.76	2.75	2.84	2.85	2.96
Net yield on average interest-earning assets	3.26	3.38	3.47	3.63	3.94
Ratio of operating expense to average total assets ..	2.00	2.00	2.40	2.06	2.30
Quality Ratios					
Non-performing assets to total assets at end of year	1.94	.82	.75	.29	.35
Allowance for loan losses to non-performing loans ...	41.15	75.36	83.49	227.27	148.51
Capital Ratios					
Shareholders' equity to total assets at end of period	10.11	10.75	11.14	14.39	12.65
Average shareholders' equity to average assets	10.51	11.62	12.44	13.28	20.52
Ratio of average interest-earning assets to average interest-bearing liabilities	110.22%	112.00%	113.72%	111.35%	119.04%
Other Data					
Book value per common share outstanding(1)	$ 16.56	$ 16.11	$ 14.81	$ 14.13	$12.46
Dividends declared per share(1)	0.48	0.36	0.29	0.20	--
Dividend payout ratio	44.05%	26.41%	30.90%	14.53%	--
Number of full-service offices	13	13	12	8	8

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

General

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

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

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

Acquisitions Completed

On September 30, 1996, First Midwest completed the acquisition of Central West Bancorporation ("Central West") and its wholly-owned subsidiary, Security State Bank, located in Stuart, Iowa. Upon acquisition, Central West was merged into First Midwest and Security became a wholly-owned, stand-alone subsidiary of First Midwest. Security operates offices in Stuart, Menlo and Casey, Iowa. At the date of acquisition, Central West had assets of approximately $33 million and equity of $2.6 million. Central West shareholders received cash of $18.04 and 2.3528 shares of the common stock of First Midwest for each Central West share held, totaling an aggregate consideration of approximately $5.2 million. The acquisition was accounted for as a purchase, and the accompanying consolidated financial statements reflect the combined results since the date of acquisition. The excess of cost over the estimated fair value of the assets acquired and liabilities assumed, totaling approximately $2.8 million, is being amortized over a fifteen year period (see Notes 1 and 3 to the Consolidated Financial Statements).

On December 29, 1995, First Midwest completed the acquisition of Iowa Bancorp, Inc. ("Iowa Bancorp") and its wholly-owned subsidiary, Iowa Savings Bank, a federal savings bank ("Iowa Savings") located in Des Moines, Iowa. Upon acquisition, Iowa Bancorp was merged into the Company and Iowa Savings was merged into First Federal. The 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 outstanding shares and 36,537 shares subject to option for a cash payment of $20.39 per share less the exercise price of shares subject to option. Total net purchase price was $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 3 to the Consolidated Financial Statements).

Financial Condition

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

The Company's total assets at September 30, 1998 were $418.4 million, an increase of $13.8 million, or 3.4%, from $404.6 million at September 30, 1997. The increase in assets was due primarily to the increased origination and purchase of loans during the period.

The Company's portfolio of securities available for sale, excluding mortgage-backed securities, decreased $13.4 million, or 18.7%, to $58.2 million at September 30, 1998 from $71.6 million at September 30, 1997. The decrease in securities available for sale was the result of securities that matured, were called or were sold during the period in an amount greater than new security purchases. During fiscal 1998, the Company sold securities available for sale totaling $18.3 million, consisting primarily of common and preferred equity securities that had appreciated over purchase cost.

The balance in mortgage-backed securities available-for-sale increased by $18.1 million, or 40.8%, from $44.4 million at September 30, 1997, to $62.5 million at September 30, 1998. The increase resulted from the purchase of fixed-rate mortgage-backed securities in an amount greater than sales and repayments on existing mortgage-backed securities. The purchase of mortgage-backed securities were generally funded by proceeds from the maturity, call, or sale of other securities available for sale and increases in customer deposits.

The Company's portfolio of net loans receivable increased by $15.7 million, or 6.2%, to $270.3 million at September 30, 1998 from $254.6 million at September 30, 1997. The increase in net loans receivable is due to the increased origination of commercial business loans, the increased origination and purchase of residential mortgage loans, and the increased purchase of construction loans on commercial and multi-family properties. Consumer and agricultural-related loan balances declined as a result of repayments in excess of new originations during the period.

The balance of customer deposits increased by $37.8 million, or 15.4%, from $246.1 million at September 30, 1997 to $283.9 million at September 30, 1998. The increase in deposits resulted from management's continued efforts to enhance deposit product design and marketing programs. Deposit balances increased in interest-bearing transaction accounts and other time certificates of deposit in the amounts of $7.9 million and $30.4 million, respectively. Noninterest-bearing checking account balances declined by $601,000.

The Company's borrowings from the Federal Home Loan Bank of Des Moines ("FHLB") decreased by $22.1 million, or 20.6%, from $107.4 million at September 30, 1997 to $85.3 million at September 30, 1998. The reduction in FHLB borrowings was primarily the result of an increase in customer deposits that were used to repay borrowings during the period.

Shareholders' equity decreased $1.2 million, or 2.8%, to $42.3 million at September 30, 1998 from $43.5 million at September 30, 1997. The decrease in shareholders' equity is the result of stock repurchases and the payment of cash dividends on common stock in an amount greater than net earnings for the period.

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, or spread, between the average yield on interest-earning assets and the average rate paid on interest-bearing liabilities. The interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand, and deposit flows. The Company, like other financial institutions, is subject to interest rate risk to the extent that its interest-earning assets mature or reprice at different times, or on a different basis, than its interest-bearing liabilities.

The Company's noninterest income consists primarily of fees charged on transaction accounts and for the origination of loans, both of which help offset the costs associated with establishing and maintaining 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. Both 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 years ended September 30, 1998, 1997, and 1996, gains were recorded in the amounts of $399,000, $217,000, and $79,000, respectively, as a result of the sale of securities available for sale.

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

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,	1998	1997	1996
WEIGHTED AVERAGE YIELD ON			
Loans receivable.	8.80%	8.84%	8.74%
Mortgage-backed securities	7.15	7.34	7.06
Securities available for sale	6.50	6.63	5.99
Other interest-earning assets	5.33	5.57	5.04
Combined weighted average yield on interest-earning assets	8.15	8.12	7.87
WEIGHTED AVERAGE RATE PAID ON			
Demand, NOW deposits and Money Market	2.81	2.11	2.35
Savings deposits	3.56	3.65	3.22
Time deposits	5.85	5.87	5.78
FHLB advances	5.91	5.86	5.81
Other borrowed money	5.68	5.64	5.48
Combined weighted average rate paid on interest-bearing liabilities	5.39	5.37	5.03
Spread	2.76%	2.75%	2.84%

RATE/VOLUME ANALYSIS

The following schedule presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the 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,	1998 vs. 1997			1997 vs. 1996		
	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)
			(IN THOUSANDS)			
INTEREST-EARNING ASSETS						
Loans receivable	$ 665	$ (43)	$ 622	$ 3,700	$ 166	$ 3,866
Mortgage-backed securities	1,402	(65)	1,337	(115)	(65)	(180)
Securities available for sale	814	293	1,107	836	93	929
FHLB stock	(2)	(10)	(12)	63	(10)	53
Total interest-earning assets	$ 2,879	$ 175	$ 3,054	$ 4,484	$ 184	$ 4,668
INTEREST-BEARING LIABILITIES						
Demand and NOW deposits	$ 101	$ 17	$ 118	$ 91	$ 63	$ 154
Savings deposits	(12)	8	(4)	140	(36)	104
Time deposits	1,403	(67)	1,336	1,825	134	1,959
FHLB advances	860	(153)	707	688	111	799
Other borrowed money	(18)	32	14	80	(16)	64
Total interest-bearing liabilities	$ 2,334	$(163)	$ 2,171	$ 2,824	$ 256	$ 3,080
Net effect on net interest income	$ 545	$ 338	$ 883	$ 1,660	$ (72)	$ 1,588

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,

	1998			1997			1996		
	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate
				(IN THOUSANDS)					
INTEREST-EARNING ASSETS									
Loans receivable(1)	$ 256,482	$ 23,055	8.99%	$ 249,076	$ 22,433	9.01%	$ 207,983	$ 18,567	8.93%
Mortgage-backed securities	52,722	3,678	6.98	32,618	2,341	7.18	34,213	2,521	7.37
Securities available for sale	78,789	4,952	6.29	65,843	3,845	5.84	51,494	2,916	5.66
FHLB stock	5,514	374	6.78	5,546	386	6.96	4,644	333	7.17
Total interest-earning assets	393,507	$ 32,059	8.15%	353,083	$ 29,005	8.21%	298,334	$ 24,337	8.16%
Noninterest-earning assets	18,415			19,408			13,417		
Total Assets	$ 411,922			$372,491			$ 311,751		
INTEREST-BEARING LIABILITIES									
Demand and NOW deposits	$ 34,202	$ 933	2.73%	$ 30,398	$ 815	2.68%	$ 26,730	$ 661	2.47%
Savings deposits	20,090	502	2.50	20,538	506	2.46	14,906	402	2.70
Time deposits	203,932	11,998	5.88	180,088	10,662	5.92	149,247	8,703	5.83
FHLB advances	95,328	5,593	5.87	80,685	4,886	6.06	69,265	4,087	5.90
Other borrowed money	3,473	204	5.87	3,543	190	5.36	2,198	126	5.73
Total interest-bearing liabilities	357,025	$ 19,230	5.39%	315,252	$ 17,059	5.41%	262,346	$ 13,979	5.33%

	1998			1997			1996		
	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate	Average Outstanding Balance	Interest Earned /Paid	Yield /Rate
				(IN THOUSANDS)					
Noninterest-bearing:									
Deposits	5,646			5,619			2,647		
Liabilities	5,956			8,320			7,969		
Total liabilities	368,627			329,191			272,962		
Shareholders' equity	43,295			43,300			38,789		
Total liabilities and shareholders equity	$ 411,922			$ 372,491			$ 311,751		
Net interest-earning assets	$ 36,482			$ 37,831			$ 35,988		
Net interest income		$ 12,829			$ 11,946			$10,358	
Net interest rate spread			2.76%			2.80%			2.83%
Net yield on average interest-earning assets			3.26%			3.38%			3.47%
Average interest-earning assets to average interest-bearing liabilities	110.22%			112.00%			113.72%		

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

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED SEPTEMBER 30, 1998 AND SEPTEMBER 30, 1997

General Net income for the year ended September 30, 1998 decreased $857,000, or 23.5%, to $2,785,000, from $3,642,000 for the same period ended September 30, 1997. The decrease in net income reflects a one-time charge to provision for loan and foreclosed real estate losses in the pre-tax amount of $1,500,000. The one-time charge was taken to increase the allowance for loan and foreclosed real estate losses, related primarily to mismanagement and possible fraud by one loan officer that is no longer with the Company.

Net Interest Income The Company's net interest income for the year ended September 30, 1998 increased by $883,000, or 7.4%, to $12,829,000 compared to $11,946,000 for the same period ended September 30, 1997. The increase in net interest income reflects an overall increase in the balance of average interest-earning assets during the period. The net yield on average earning assets decreased to 3.26% for the period ended September 30, 1998 from 3.38% for the same period in 1997. The decrease in net yield is due to a decline in total average interest-earning assets compared to total average interest-bearing liabilities and an increase in the average balance of non-accruing loans during the 1998 period.

During recent years, the Company has increased its origination and purchase of multi-family and commercial real estate loans, including construction loans on such property types, and has increased its origination of consumer, commercial business, and agricultural business loans. The Company anticipates activity in this type of lending will continue in future years. Net interest income is expected to continue an upward trend as a result of this type of lending activity. Interest rate yields are generally higher on these loan products compared to yields provided by conventional single-family residential real estate loans. This lending activity is considered to carry a higher level of risk due to the nature of the collateral and the size of individual loans. As such, the Company anticipates continued increases in its allowance for loan losses as a result of this lending activity.

Interest Income Interest income for the year ended September 30, 1998 increased $3,054,000, or 10.5%, to $32,059,000 from $29,005,000 for the same period in 1997. The increase reflects a $2,444,000 increase in interest earned on the portfolio of securities available for sale, which increased to $8,630,000 for the year ended September 30, 1998, from $6,185,000 in 1997. The increase in interest income from securities resulted from a higher average securities portfolio balance and, to a lesser extent, to a higher average yield on the securities portfolio during fiscal 1998 compared to 1997. In addition, interest income increased due to a $622,000 increase in interest earned on the loan portfolio as a result of a higher average loan portfolio balance during fiscal 1998 compared to 1997.

Interest Expense Interest expense increased $2,171,000, or 12.7%, to $19,230,000 for the year ended September 30, 1998 from $17,059,000 for the same period in 1997. The increase in interest expense is due to increases in the average outstanding balance of demand deposits, time deposits, and FHLB advances during the year ended September 30, 1998, compared to the same period in 1997. The increase in the average balance of demand and time deposits resulted from internal growth of the deposit portfolio. The average 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 available for sale. The increase in interest expense was partially offset by lower interest rates paid on time deposits and FHLB borrowings during the year ended September 30, 1998, compared to the previous year, as market interest rates generally have trended downward.

Provision for Loan Losses The provision for loan losses for the year ended September 30, 1998 was $1,663,000 compared to $120,000 for the same period in 1997. During 1998, the Company determined that an agricultural loan officer located in a subsidiary branch office had, through abuse of position and misrepresentation to management, authorized the disbursement of funds on loans for which collateral was inadequate. In addition, the possibility of fraud exists related to self-dealing by the loan officer in the disbursement of loan proceeds to persons and entities with which the loan officer was affiliated. This mismanagement and possible fraud was discovered as a result of the Company's routine internal audit procedures. The loan officer involved is no longer with the Company. The Company has contacted authorities, and an investigation is in process at this time. A thorough review was performed by the Company of the accounts in which the loan officer was involved. Management believes it has identified all loans for which material weaknesses exist and has classified those loans accordingly.

Based on the resulting increase in classified assets, management considered it prudent to increase the allow-ance for losses through an additional charge to the provision for loan losses in the amount of $1.3 million and a charge to provision for loss on foreclosed real estate in the amount of $200,000. These amounts were charged against income during the quarter ended March 31, 1998. Future recoveries are dependent on the ultimate resolution of weaknesses found in the loans, which can not be determined at this time, and any insurance proceeds that may be received.

Management believes that, based on a detail review of the loan portfolio, historic loan losses, current economic conditions, and other factors, the current level of provision for loan losses, and the resulting level of the allowance for loan losses, reflects an adequate reserve against potential losses from the loan portfolio.

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

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

Noninterest Income Noninterest income for the year ended September 30, 1998 increased $174,000, or 10.2%, to $1,875,000 from $1,701,000 for the same period in 1997. The increase in noninterest income reflects an increase in loan fees and deposit service charges of $155,000 for fiscal 1998 compared to the same period in 1997 as a result of increased lending activity and increased activity on transaction accounts subject to service charges. In addition, gain on sales of securities available for sale increased by $182,000 for the year ended September 30, 1998 compared to 1997. Noninterest income was reduced for fiscal 1998 compared to 1997 due to a decline in brokerage commissions from sales of non-insured investment products through First Federal's subsidiaries and as a result of an increase in net loss on sales of foreclosed real estate.

Noninterest Expense Noninterest expense increased by $870,000, or 11.8%, to $8,252,000 for the year ended September 30, 1998 compared to $7,382,000 for the same period in 1997. Noninterest expense for employee compensation and benefits, and occupancy and equipment expense increased during fiscal 1998, compared to the same period in 1997, primarily as a result of the full year operation of a new branch office in West Des Moines, Iowa. In addition, noninterest expense reflects a $299,000 charge to provision for potential loss on real estate primarily related to a 104 unit apartment complex located in Madison, Wisconsin, which was acquired through foreclosure during fiscal 1998.

Income Tax Expense Income tax expense decreased by $498,000, or 19.9%, to $2,004,000 for the year ended September 30, 1998 from $2,502,000 for the same period in 1997. The decrease in income tax expense reflects the decrease in the level of taxable income for the period ended September 30, 1998 compared to the same period in 1997.

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

General Net income for the year ended September 30, 1997 increased $1,228,000, or 50.9%, to $3,642,000, from $2,414,000 for the same period ended September 30, 1996. The increase in net income reflects increases in net interest income and non-interest income, and a reduction in non-interest expense. Previous year net income reflects the one-time special assessment to recapitalize SAIF, which reduced net income by $795,000, net of income taxes.

Net Interest Income The Company's net interest income for the year ended September 30, 1997 increased by $1,587,000, or 15.3%, to $11,946,000 compared to $10,359,000 for the same period ended September 30, 1996. The increase in net interest income reflects an overall increase in average interest-earning assets during the period resulting from the acquisition of Central West at September 30, 1996, and internal increases in the portfolio of loans and securities. The net yield on average earning assets decreased to 3.38% for the period ended September 30, 1997 from 3.47% for the same period in 1996.

The decrease in net yield is due primarily to a decline in net average interest-earning assets and an increase in the average balance of non-accruing loans during the 1997 period.

Interest Income Interest income for the year ended September 30, 1997 increased $4,668,000, or 19.2%, to $29,005,000 from $24,337,000 for the same period in 1996. The increase is primarily due to a $3,866,000 increase in interest earned on the loan portfolio, to $22,433,000 for the year ended September 30, 1997, from $18,567,000 in 1996. The increase in loan interest income resulted from higher average loan portfolio balances due to internal growth of the loan portfolio and the acquisition of Central West and, to a lesser extent, to a higher average yield on the loan portfolio during the period.

Interest Expense Interest expense increased $3,080,000, or 22.0%, to $17,059,000 for the period ended September 30, 1997 from $13,979,000 for the same period in 1996. The increase in interest expense is due to increases in the average outstanding balance of time deposits and FHLB advances during the year ended September 30, 1997, compared to the same period in 1996. The increase in the average balance of time deposits resulted from internal growth of the deposit portfolio and the acquisition of Central West. The average outstanding balance of FHLB advances increased due to borrowing activity throughout the period used primarily to fund growth of the loan portfolio and to fund the purchase of securities. To a lesser extent, the increase in interest expense reflects higher interest rates paid on interest-bearing liabilities during the year ended September 30, 1997, compared to the previous year.

Provision for Loan Losses The provision for loan losses for the year ended September 30, 1997 was $120,000 compared to $100,000 for the same period in 1996. Noninterest Income Noninterest income for the year ended September 30, 1997 increased $282,000, or 19.9%, to $1,701,000 from $1,419,000 for the same period in 1996. The increase in noninterest income reflects an increase from loan fees and deposit service charges of $278,000 for fiscal 1997, compared to the same period in 1996, as a result of increased lending activity and increased activity on transaction accounts subject to service charges. In addition, the gain on sales of securities available for sale increased $137,000 for the year ended September 30, 1997 compared to 1996. Noninterest income was reduced for fiscal 1997 compared to 1996 due to a $223,000 decline in brokerage commissions as a result of a decline in sales of non-insured investment products through First Federal's subsidiaries.

Noninterest Expense Noninterest expense decreased by $186,000, or 2.5%, to $7,382,000 for the year ended September 30, 1997 compared to $7,568,000 for the same period in 1996. The decrease in noninterest expense reflects the fiscal 1996 payment of a one-time special assessment in the amount of $1,266,000, pre-tax, for the recapitalization of SAIF. In addition, noninterest expense was reduced as a result of federal legislation that reduced deposit insurance premiums during the year ended September 30, 1997. Noninterest expense for employee compensation and benefits, and occupancy and equipment expense, increased during fiscal 1997, compared to the same period in 1996, as a result of the acquisition of Central West at September 30, 1996, and as a result of a new branch office opening in Des Moines, Iowa.

Income Tax Expense Income tax expense increased by $806,000, or 47.5%, to $2,502,000 for the year ended September 30, 1997 from $1,696,000 for the same period in 1996. The increase in income tax expense reflects the increase in the level of taxable income for the period ended September 30, 1997 compared to the same period in 1996.

ASSET/LIABILITY MANAGEMENT AND MARKET RISK

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

ASSET/LIABILITY MANAGEMENT AND MARKET RISK (Continued)

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

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

The Company currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate and fixed-rate loan products with relatively short terms to maturity, generally 15 years or less. This allows the Company to maintain a portfolio of loans that will be sensitive to changes in the level of interest rates while providing a reasonable spread to the cost of liabilities used to fund the loans.

The Company's primary objective for its investment portfolio is to provide the liquidity necessary to meet loan funding needs. The investment portfolio is also used in the ongoing management of changes to the Company's asset/liability mix, while contributing to profitability through earnings flow. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between minimizing risk while maximizing yield, the need to provide collateral for borrowings, and to fulfill the Company's asset/liability management goals.

The Company's cost of funds responds to changes in interest rates due to the relatively short-term nature of its deposit portfolio. Consequently, the results of operations are generally influenced by the level of short-term interest rates. The Company offers a range of maturities on its deposit products at competitive rates and monitors the maturities on an ongoing basis.

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

Presented below, as of September 30, 1998, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 300 basis points. As illustrated in the table, the Company'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 both to the rate increase and the related slowing of prepayments on loans. When rates decline, the Company does not experience a significant rise in market value for these loans because borrowers prepay at relatively higher rates. The value of the Company's deposits and borrowings change in approximately the same proportion in rising and falling rate scenarios.

At September 30, 1998

Change in Interest Rate Board Limit

(Basis Points)	% Change	$ Change (DOLLARS IN THOUSANDS)	% Change
+300 bp	(50)%	$(5,579)	(13)%
+200 bp	(40)	(2,957)	(7)
+100 bp	(25)	(1,477)	(3)
0 bp	-	--	--
- 100 bp	(10)	1,115	3
- 200 bp	(15)	1,877	4
- 300 bp	(20)	2,284	5

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. The Company considers all of these factors in monitoring its exposure to interest rate risk.

The Office of Thrift Supervision ("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.

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

Asset Quality

It is management's belief, based on information available, that the Company's historic level of asset quality has been satisfactory. During fiscal year 1998, however, the Company experienced a significant increase in the level of its non-performing assets. At September 30, 1998, non-performing assets, consisting of non-accruing loans, real estate owned and repossessed consumer property, totaled $8,132,000, or 1.94% of total assets, compared to $3,313,000, or 0.82% of total assets, for the fiscal year ended 1997. The increase in non-performing assets for fiscal 1998 as compared to 1997 includes a $1,449,000 increase in non-accruing agricultural operating loans, a $3,623,000 increase in accruing loans more than 90 days delinquent related to a participation loan on four nursing homes located in Minnesota and a $907,000 increase in foreclosed assets due to the acquisition through foreclosure of an apartment complex located in Madison, Wisconsin.

The increase in non-performing assets reflects an increased level of delinquencies in the Company's agricultural loan portfolio due primarily to weakness in the underwriting process as a result of abuse of position and misrepresentation to management by an agricultural loan officer who is no longer with the Company. Several loans underwritten by this loan officer were not underwritten following the written guidelines established by the Company, and has resulted in higher than normal levels of loan delinquency and increased risk of loss on these loans. The Company has performed a thorough review of all loans underwritten by this loan officer and has increased its allowance for loan loss accordingly. The Company has implemented internal control procedures designed to prevent this situation from recurring.

The increase in non-performing assets also relates to a participation loan in the amount of $3,858,000 at September 30, 1998 secured by four nursing homes located in Minnesota. This loan was delinquent more than 90 days at September 30, 1998 due to a disruption in the borrower's cash flow. Subsequent to September 30, 1998, this loan was restructured with a reduction of the loan balance to $1,010,000 and all accrued interest paid current. The new loan is secured by one nursing home located in Minnesota. Also during fiscal 1998, the Company acquired through foreclosure a 104 unit apartment complex located in Madison, Wisconsin. The Company has a 58% participation interest in this property. Subsequent to September 30, 1998, a signed contract has been received for the purchase of this property, subject to due diligence by the buyer, at a net sales price approximately equal to the Company's carrying value at fiscal year end.

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

Federal regulations require First Federal to maintain minimum levels of liquid assets. Currently, First Federal is required to maintain liquid assets of at least 4% of the average daily balance of net withdrawable savings deposits and borrowings payable on demand in one year or less during the preceding calendar quarter. Liquid assets for purposes of this ratio include cash, certain time deposits, U.S. Government, governmental agency, and corporate securities and obligations, unless otherwise pledged. First Federal has historically maintained its liquidity ratio at levels in excess of those required. First Federal's regulatory liquidity ratios were 15.4%, 9.8%, and 5.4% at September 30, 1998, 1997 and 1996, 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, 1998, 1997 and 1996, the Company originated loans of $147.2 million, $135.7 million and $90.6 million, respectively. Purchases of loans totaled $36.9 million, $29.8 million and $25.0 million during the years ended September 30, 1998, 1997 and 1996, respectively. During the years ended September 30, 1998, 1997 and 1996, the Company purchased mortgage-backed securities and other securities available for sale in the amount of $89.9 million, $67.6 million and $121.0 million, respectively.

At September 30, 1998, the Company had outstanding commitments to originate and purchase loans of $27.4 million. (See Note 16 of Notes to Consolidated Financial Statements.) Certificates of deposit scheduled to mature in one year or less from September 30, 1998 total $143.1 million. Based on its historical experience, management believes that a significant portion of such deposits will remain with the Company, however, there can be no assurance that the Company can retain all such deposits. Management believes, however, that loan repayment and other sources of funds will be adequate to meet the Company's foreseeable short- and long-term liquidity needs.

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, 1998, the liquidation account approximated $2.6 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 15 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 During the next few years, new accounting pronouncements that have been issued will take effect and others are expected. These are summarized below.

In the future, several new accounting pronouncements will be implemented. Statement No. 130 requires "other comprehensive income" and "comprehensive income" to be displayed along with net income. Other comprehensive income includes changes in unrealized gains and losses on available for sale securities, the offset of some pension liabilities currently recorded as reductions in equity, foreign currency translation and, in the future, will also include deferred hedging gains and losses. Comprehensive income is net income plus other comprehensive income.

Statement No. 131 for public companies redefines segment reporting to follow how each company's chief operating decision maker gets information about business segments to make operating decisions.

Statement No. 132 increases and revises pension plan disclosures for public companies, and simplifies such disclosures for nonpublic companies.

Statement No. 133 on derivatives will, in 2000, require all derivatives to be recorded at fair value in the balance sheet, with changes in fair value run through income. If derivatives are documented and effective as hedges, the change in the derivative fair value will be offset by an equal change in the fair value of the hedged item.

Statement No. 134 on mortgage banking will, in 1999, allow mortgage loans that are securitized to be classified as trading, available for sale or, in certain circumstances, held to maturity. Currently these must be classified as trading.

Implementation guidance on Statement No. 125 will clarify the requirement for loan participations to contain the right for the purchaser to resell the participation, to avoid classifying the participation as a secured borrowing instead of a reduction of loans.

Proposals will require that purchased loans, including those acquired in the purchase of an entire bank, be recorded net of estimated uncollectible loans. This means that no allowance for loan losses will carry over or be recorded except through subsequent expense, although subsequent losses equal to the amount estimated at purchase will not be shown as charge-offs.

The AICPA guidance for financial institutions in its accounting guide will be revised to conform to current literature, make a few changes, and combine the banking/savings guide, credit union and finance company guides, eliminating some differences therein. Some changes will be to disclose loans past due 90 days or more that are still on accrual and to disclose the policy for charging-off loans.

The FASB continues to study several issues, including recording all financial instruments at fair value and abolishing pooling of interests accounting. Also, it is likely that APB 25's measurement for stock option plans will be limited to employees and not to nonemployees such as directors, thereby causing compensation expense for stock options to directors.

YEAR 2000 ISSUES

The Company is aware of the issues associated with the programming code in existing computer systems as the year 2000 approaches. The issue is whether computer systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The Company is heavily dependent on computer processing in its business activities and the Year 2000 issue creates risk for the Company from unforeseen problems in the Company's computer system and from third parties whom the Company uses to process information. Such failures of the Company's computer system and/or third parties computer systems could have a material impact on the Company's ability to conduct its business.

The Company's primary data processing is provided by a major third party vendor. This provider has advised the Company that it has completed the renovation of its system to be Year 2000 ready, and is currently in process of providing users of the system the opportunity to test the system for readiness. The Company plans to perform its initial test of the data processing provider's system for Year 2000 readiness by December 31, 1998.

The Company has performed an assessment of its computer hardware and software, and has determined those systems that require upgrade to be Year 2000 ready. Such upgrades have either been completed or will be completed by December 31, 1998. In addition, the Company has reviewed other external third party vendors that provide services to the Company (i.e. utility companies, electronic funds transfer providers, alarm companies, insurance providers, loan participation companies, and mortgage loan secondary market agencies), and has requested or already received certification letters from these vendors that their systems will be Year 2000 ready on a timely basis. Testing will be performed with these service providers, where possible, to determine their Year 2000 readiness.

The Company could incur losses if loan payments are delayed due to Year 2000 problems affecting significant borrowers. The Company is communicating with such parties to assess their progress in evaluating and implementing any corrective measures required by them to be Year 2000 ready. To date, the Company has not been advised by such parties that they do not have plans in place to address and correct the issues associated with the Year 2000 problem; however, no assurance can be given as to the adequacy of such plans or to the timeliness of their implementation. As part of the current credit approval process, new and renewed loans are evaluated as to the borrower's Year 2000 readiness.

Based on the Company's review of its computer systems, management believes the cost of the remediation effort to make its systems Year 2000 ready will be approximately $60,000. In addition, it is estimated that 1,500 man hours will be incurred by Company personnel related to Year 2000 issues at an approximate cost of $40,000. Such costs will be charged to expense as they are incurred.

The Company has developed a Year 2000 contingency plan that addresses, among other issues, critical operations and potential failures thereof, and strategies for business continuation.

Although management believes the Company's computer systems and service providers will be Year 2000 ready, there can be no assurance that these systems, or those systems of other companies on which the Company's systems rely, will be fully functional in the Year 2000. Such failure could have a significant adverse impact on the financial condition and results of operations of the Company.

FORWARD-LOOKING STATEMENTS

The Company, and its wholly-owned subsidiaries First Federal and Security, may from time to time make "forward-looking statements," including statements contained in the Company's filings with the Securities and Exchange Commission (the "SEC"), in its reports to shareholders and in other communications by the Company, which are made in good faith by the Company and the Banks pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's and the Banks' beliefs, expectations, estimates, and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors (some of which are beyond the Company's and the Banks' control). The following factors, among others, could cause the Company's and the Banks' financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company and the Banks conduct operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services of the Banks, and the perceived overall value of these products and services by users; the impact of changes in financial services' laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company and the Banks at managing the risks involved in the foregoing.

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of First Midwest Financial, Inc. and Subsidiaries (the "Company") as of September 30, 1998 and 1997 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended September 30, 1998, 1997 and 1996. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 1998 and 1997 and the results of its operations and its cash flows for the years ended September 30, 1998, 1997 and 1996 in conformity with generally accepted accounting principles.

CROWE, CHIZEK AND COMPANY LLP
South Bend, Indiana
October 22, 1998

First Midwest Financial, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

September 30, 1998 and 1997	1998	1997
ASSETS		
Cash and due from banks	$ 908,984	$ 875,169
Interest-bearing deposits in other financial institutions - short-term	5,818,460	10,709,907
Federal funds sold	--	1,267,350
Total cash and cash equivalents	6,727,444	12,852,426
Interest-bearing deposits in other financial institutions (cost approximates market value)	--	200,000
Securities available for sale	120,609,531	115,985,045
Loans receivable, net of allowance for loan losses of $2,908,902 in 1998 and $2,379,091 in 1997	270,286,189	254,640,971
Federal Home Loan Bank (FHLB) stock, at cost	5,505,800	5,629,300
Accrued interest receivable	4,968,607	5,366,109
Premises and equipment, net	4,048,945	4,176,311
Foreclosed real estate, net of allowances of $299,532 in 1998 and $-0- in 1997	1,063,317	156,300
Other assets	5,170,562	5,582,116
Total assets	$ 418,380,395	$ 404,588,578
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Noninterest-bearing demand deposits	$ 4,971,562	$ 5,572,296
Savings, NOW and money market demand deposits	57,755,615	49,838,735
Other time certificates of deposit	221,130,975	190,704,667
Total deposits	283,858,152	246,115,698
Advances from FHLB	85,263,562	107,426,225
Securities sold under agreements to repurchase	4,074,567	1,800,000
Other borrowings	550,000	2,900,000
Advances from borrowers for taxes and insurance	405,218	449,487
Accrued interest payable	834,741	1,065,746
Accrued expenses and other liabilities	1,108,592	1,354,418
Total liabilities	376,094,832	361,111,574

Shareholders' Equity		
Preferred stock, 800,000 shares authorized; none issued	--	--
Common stock, $.01 par value; 5,200,000 shares authorized; 2,957,999 shares issued and 2,553,245 shares outstanding at September 30, 1998; 2,957,999 shares issued and 2,698,904 shares outstanding at September 30, 1997	29,580	29,580
Additional paid-in capital	21,330,075	20,984,754
Retained earnings - substantially restricted	27,985,814	26,427,657
Net unrealized appreciation on securities available for sale, net of tax of $474,346 in 1998 and $568,013 in 1997	798,820	960,371
Unearned Employee Stock Ownership Plan shares	(367,200)	(567,200)
Treasury stock, 404,754 and 259,095 common shares, at cost, at September 30, 1998 and 1997, respectively	(7,491,526)	(4,358,158)
Total shareholders' equity	42,285,563	43,477,004
Total liabilities and shareholders' equity	$ 418,380,395	$ 404,588,578

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

CONSOLIDATED STATEMENTS OF INCOME

Years ended September 30, 1998, 1997 and 1996	1998	1997	1996
Interest and dividend income			
Loans receivable, including fees	$ 23,054,813	$ 22,432,828	$ 18,567,097
Securities available for sale	8,629,761	6,185,385	5,437,734
Dividends on FHLB stock	374,220	386,462	332,634
	32,058,794	29,004,675	24,337,465
Interest expense			
Deposits	13,432,454	11,982,913	9,766,586
FHLB advances and other borrowings	5,797,499	5,076,144	4,212,024
	19,229,953	17,059,057	13,978,610
Net interest income	12,828,841	11,945,618	10,358,855
Provision for loan losses	1,662,472	120,000	100,000
Net interest income after provision for loan losses	11,166,369	11,825,618	10,258,855
Noninterest income			
Loan fees and deposit service charges	1,263,367	1,108,233	830,256
Gain on sales of securities available for sale, net	398,903	216,614	79,317
Gain (loss) on sales of foreclosed real estate, net	(33,034)	(6,722)	(8,630)
Brokerage commissions	52,479	69,379	292,189
Other income	193,158	313,168	226,163
	1,874,873	1,700,672	1,419,295
Noninterest expense			
Employee compensation and benefits	4,644,809	4,341,038	3,732,839
Occupancy and equipment expense	1,133,187	1,006,190	668,784
SAIF deposit insurance special assessment	--	--	1,265,996
SAIF deposit insurance premium	143,199	220,849	433,367
Data processing expense	339,385	321,369	289,390
Provision for losses on foreclosed real estate	299,532	--	20,000
Other expense	1,692,728	1,492,819	1,157,886
	8,252,840	7,382,265	7,568,262

Income before income taxes	4,788,402	6,144,025	4,109,888
Income tax expense	2,003,520	2,502,069	1,696,323
Net income	$ 2,784,882	$ 3,641,956	$ 2,413,565
Earnings per common and common equivalent share			
Basic earnings per common share	$ 1.08	$ 1.34	$ .95
Diluted earnings per common share	$ 1.03	$ 1.28	$ .90

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, 1998, 1997 and 1996

	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 41,910 common shares of treasury stock	--	--	--	--	--
Retirement of 958 common shares	(10)	10	--	--	--
30,000 common shares committed to be released under the ESOP	--	303,524	--	--	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 ($.29 per share)	--	--	(745,761)	--	--
Issuance of 171,158 common shares from treasury stock in connection with acquisition of Central West Bancorporation	--	1,192,990	--	--	--
Issuance of 9,450 common shares from treasury stock due to exercise of stock options	--	(112,138)	--	--	--
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of ($321,866)	--	--	--	(542,866)	--
Net income for the year ended September 30, 1996	--	--	2,413,565	--	--
Balance at September 30, 1996	19,905	20,862,551	23,748,383	28,698	(767,200)
Purchase of 248,419 common shares of treasury stock	--	--	--	--	--
Retirement of 3,474 common shares	(35)	35	--	--	--
30,000 common shares committed to be released under the ESOP	--	295,740	--	--	200,000
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan	--	93,401	--	--	--
Cash dividends declared on common stock ($.36 per share)	--	--	(961,849)	--	--
Issuance of 970,978 common shares for stock dividend declared on common stock, net of cash paid in lieu of fractional shares	9,710	(9,710)	(833)	--	--
Purchase of 7,263 common shares upon exercise of stock options	--	--	--	--	--
Issuance of 41,347 common shares from treasury stock due to exercise of stock options	--	(257,263)	--	--	--
Net change in unrealized appreciation on securities available for sale, net of tax of $ 549,689	--	--	--	931,673	--
Net income for the year ended September 30, 1997	--	--	3,641,956	--	--
Balance at September 30, 1997	29,580	20,984,754	26,427,657	960,371	(567,200)

	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1995	$ (3,002,207)	$ 38,012,696
Purchase of 41,910 common shares of treasury stock	(630,710)	(630,710)
Retirement of 958 common shares	--	--
30,000 common shares committed to be released under the ESOP	--	503,524
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan	--	168,120
Cash dividends declared on common stock ($.29 per share)	--	(745,761)
Issuance of 171,158 common shares from treasury stock in connection with acquisition of Central West Bancorporation	2,743,644	3,936,634
Issuance of 9,450 common shares from treasury stock due to exercise of stock options	206,638	94,500
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax of ($321,866)	--	(542,866)
Net income for the year ended September 30, 1996 .	--	2,413,565
Balance at September 30, 1996	(682,635)	43,209,702
Purchase of 248,419 common shares of treasury stock	(4,268,777	(4,268,777)
Retirement of 3,474 common shares	--	--
30,000 common shares committed to be released under the ESOP	--	495,740
Amortization of recognition and retention plan common shares and tax benefit of restricted stock under the plan	--	93,401
Cash dividends declared on common stock ($.36 per share)	--	(961,849)
Issuance of 970,978 common shares for stock dividend declared on common stock, net of cash paid in lieu of fractional shares	--	(833)
Purchase of 7,263 common shares upon exercise of stock options	(175,445)	(175,445)
Issuance of 41,347 common shares from treasury stock due to exercise of stock options	768,699	511,436
Net change in unrealized appreciation on securities available for sale, net of tax of $ 549,689	--	931,673
Net income for the year ended September 30, 1997 .	--	3,641,956
Balance at September 30, 1997	(4,358,158)	43,477,004

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

Years ended September 30, 1998, 1997 and 1996

	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, 1997	$29,580	$ 20,984,754	$26,427,657	$ 960,371	$(567,200)
Purchase of 152,226 common shares of treasury stock	--	--	--	--	--
30,000 common shares committed to be released under the ESOP	--	454,460	--	--	200,000
Cash dividends declared on common stock ($.48 per share)	--	--	(1,226,725	--	--
Purchase of 1,033 common shares upon exercise of stock options	--	--	--	--	--
Issuance of 7,600 common shares from treasury stock due to exercise of stock options	--	(109,139)	--	--	--
Net change in unrealized appreciation on securities available for sale, net of tax of $(93,667)	--	--	--	(161,551)	--
Net income for the year ended September 30, 1998	--	--	2,784,882	--	--
Balance at September 30, 1998	$29,580	$ 21,330,075	$27,985,814	$ 798,820	$(367,200)

	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1997	$(4,358,158)	$ 43,477,004
Purchase of 152,226 common shares of treasury stock	(3,271,203)	(3,271,203)
30,000 common shares committed to be released under the ESOP	--	654,460
Cash dividends declared on common stock ($.48 per share)	--	(1,226,725)
Purchase of 1,033 common shares upon exercise of stock options	(21,972)	(21,972)
Issuance of 7,600 common shares from treasury stock due to exercise of stock options	159,807	50,668
Net change in unrealized appreciation on securities available for sale, net of tax of $(93,667)	--	(161,551)
Net income for the year ended September 30, 1998	--	2,784,882
Balance at September 30, 1998	$(7,491,526)	$ 42,285,563

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, 1998, 1997 and 1996	1998	1997	1996
Cash flows from operating activities			
Net income	$ 2,784,882	$ 3,641,956	$ 2,413,565
Adjustments to reconcile net income to net cash from operating activities			
Depreciation, amortization and accretion, net	973,454	1,092,782	907,721
Provision for loan losses	1,662,472	120,000	100,000
Provision for losses on foreclosed real estate	299,532	--	20,000
Gain on sales of securities available for sale, net	(398,903)	(216,614)	(79,317)
Proceeds from the sales of loans held for sale	5,613,115	3,592,055	1,064,000
Originations of loans held for sale	(5,613,115)	(3,592,055)	(1,064,000)
Stock dividends from FHLB stock	--	--	(78,900)
(Gain) loss on sales of office property, net	--	--	(24,739)
(Gain) loss on sales of foreclosed real estate, net	33,034	6,722	8,630
Net change in			
Accrued interest receivable	397,502	(337,062)	(1,406,034)
Other assets	46,622	223,344	(399,200)
Accrued interest payable	(231,005)	(205,719)	348,940
Accrued expenses and other liabilities	(152,159)	(2,348,712)	1,689,497
Net cash from operating activities	5,415,431	1,976,697	3,500,163
Cash flows from investing activities			
Net change in interest-bearing deposits in other financial institutions	200,000	100,000	(300,000)
Purchase of securities available for sale	(89,877,636)	(67,569,576)	(120,994,759)
Proceeds from sales of securities available for sale	18,280,412	804,067	366,829
Proceeds from maturities and principal repayment of securities available for sale	67,062,074	61,943,630	95,068,472
Loans purchased	(36,947,582)	(29,819,316)	(24,975,540)
Net change in loans	18,415,456	18,519,590	(3,599,754)
Proceeds from sales of foreclosed real estate	440,401	93,453	132,842
Purchase of FHLB stock	(447,700)	(104,600)	(1,355,100)
Proceeds from redemption of FHLB stock	571,200	--	--
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	(227,895)	(842,423)	(845,380)
Proceeds from sales of assets	--	--	72,925
Net cash from investing activities	(22,531,270)	(16,875,175)	(61,876,160)

Years ended September 30, 1998, 1997 and 1996	1998	1997	1996
Cash flows from financing activities			
Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits	$ 7,316,146	$ 599,642	$ (295,265)
Net change in other time deposits	30,426,308	12,110,330	18,548,037
Proceeds from advances from FHLB	198,850,000	143,000,000	210,000,000
Repayments of advances from FHLB	(221,012,663)	(137,861,578)	(160,510,585)
Net change in securities sold under agreements to repurchase	2,274,567	(989,918)	1,640,000
Net change in other borrowings	(2,350,000)	1,500,000	--
Net change in advances from borrowers for taxes and insurance	(44,269)	(40,756)	(11,279)
Cash dividends paid	(1,226,725)	(962,682)	(745,761)
Proceeds from exercise of stock options	28,696	335,991	94,500
Purchase of treasury stock	(3,271,203)	(4,268,777)	(630,710)
Net cash from financing activities	10,990,857	13,422,252	68,088,937
Net change in cash and cash equivalents	(6,124,982)	(1,476,226)	9,712,940
Cash and cash equivalents at beginning of year	12,852,426	14,328,652	4,615,712
Cash and cash equivalents at end of year	$ 6,727,444	$ 12,852,426	$ 14,328,652
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest	$ 19,460,958	$ 17,264,776	$ 13,629,670
Income taxes	1,795,805	2,415,042	1,736,192
Supplemental schedule of non-cash investing and financing activities			
Loans transferred to foreclosed real estate	$ 1,679,984	$ 169,657	$ 220,474
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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 1998,1997 AND 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of First Midwest Financial, Inc., a bank holding company located in Storm Lake, Iowa, (the "Company") and its wholly-owned subsidiaries which include First Federal Savings Bank of the Midwest (the "Bank" or "First Federal"), Security State Bank ("Security"), First Services Financial Limited, which offers brokerage services and non-insured investment products and Brookings Service Corporation. All significant intercompany balances and transactions have been eliminated.

Nature of Business, Concentration of Credit Risk and Industry Segment Information: The primary source of income for the Company is the purchase or origination of consumer, commercial, commercial real estate, and residential real estate loans. See Note 5 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, 1998 and 1997, trust assets totaled approximately $14,165,000 and $12,392,000, 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, fair values of securities and other financial instruments, and stock-based compensation expense, 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, 1998 may change in the near-term future and that the effect could be material to the consolidated financial statements.

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

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents is defined to include the Company's cash on hand and due from financial institutions and short-term interest-bearing deposits in other financial institutions. The Company reports net cash flows for customer loan transactions, deposit transactions, interest-bearing deposits in other financial institutions, and short-term borrowings with maturities of 90 days or less.

Securities: The Company classifies securities into held to maturity, available for sale and trading categories. Held to maturity securities are those which the Company has the positive intent and ability to hold to maturity, and are reported at amortized cost. Available for sale securities are those the Company may decide to sell if needed for liquidity, asset-liability management or other reasons. Available for sale securities are reported at fair value, with unrealized gains and losses included as a separate component of shareholders' equity, net of tax. Trading securities are bought principally for sale in the near term, and are reported at fair value with unrealized gains and losses included in earnings.

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.

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

Loans Receivable: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

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

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

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

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

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

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

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

Income Taxes: The Company records income tax expense based on the amount of taxes due on its tax return plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Premises and Equipment: Land is carried at cost. Buildings, furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization computed principally by using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. These assets are reviewed for impairment under SFAS No. 121 when events indicate the carrying amount may not be recoverable.

Employee Stock Ownership Plan: The Company accounts for its employee stock ownership plan ("ESOP") in accordance with AICPA Statement of Position ("SOP") 93-6. Under SOP 93-6, the cost of shares issued to the ESOP, but not yet allocated to participants, are presented in the consolidated balance sheets as a reduction of shareholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends are not paid on unearned ESOP shares.

Financial Instruments with Off-Balance-Sheet Risk: The Company, in the normal course of business, makes commitments to make loans which are not reflected in the consolidated financial statements. A summary of these commitments is disclosed in Note 16.

Intangible Assets: Goodwill arising from the acquisition of subsidiary banks is amortized over 15 years using the straight-line method. As of September 30, 1998 and 1997, unamortized goodwill totaled approximately $4,497,815 and $4,862,747, respectively. Amortization expense was $364,932, $363,923 and $170,070 for the years ended September 30, 1998, 1997 and 1996.

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

Stock Dividends: Common share amounts related to the ESOP plan, stock compensation plans and earnings and dividends per share are restated for stock splits and stock dividends, including the three-for-two stock split effected in the form of a 50% stock dividend which was paid on January 2, 1997.

Earnings Per Common Share: Basic and diluted earnings per common share are computed under a new accounting standard effective beginning with the quarter ended December 31, 1997. All prior earnings per common share amounts have been restated to be comparable. Basic earnings per common share is based on the net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for earnings per common share calculations as they are committed to be released; unearned ESOP shares are not considered outstanding. Management recognition and retention plan shares are considered outstanding for basic earnings per common share calculations as they become vested. Diluted earnings per common share shows the dilutive effect of additional potential common shares issuable under stock options and nonvested shares issued under management recognition and retention plans.

Reclassifications: Certain amounts in the 1997 and 1996 consolidated financial statements were reclassified to conform with the 1998 presentation.

Stock Compensation: Expense for employee compensation under stock option plans is based on Accounting Principles Board ("APB") Opinion 25, with expense reported only if options are granted below market price at grant date. If applicable, disclosures of net income and earnings per share are provided as if the fair value method of SFAS No. 123 were used for stock-based compensation.

New Accounting Pronouncements: During the next few years, new accounting pronouncements that have been issued will take effect and others are expected. These are summarized below.

In the future, several new accounting pronouncements will be implemented. Statement No. 130 requires "other comprehensive income" and "comprehensive income" to be displayed along with net income. Other comprehensive income includes changes in unrealized gains and losses on available for sale securities, the offset of some pension liabilities currently recorded as reductions in equity, foreign currency translation, and in the future will also include deferred hedging gains and losses.

Comprehensive income is net income plus other comprehensive income.

Statement No. 131 for public companies redefines segment reporting to follow how each company's chief operating decision maker gets information about business segments to make operating decisions.

Statement No. 132 increases and revises pension plan disclosures for public companies, and simplifies such disclosures for nonpublic companies.

Statement No. 133 on derivatives will, in 2000, require all derivatives to be recorded at fair value in the balance sheet, with changes in fair value run through income. If derivatives are documented and effective as hedges, the change in the derivative fair value will be offset by an equal change in the fair value of the hedged item.

Statement No. 134 on mortgage banking will, in 1999, allow mortgage loans that are securitized to be classified as trading, available for sale, or in certain circumstances held to maturity. Currently these must be classified as trading.

Implementation guidance on Statement No. 125 will clarify the requirement for loan participations to contain the right for the purchaser to resell the participation, to avoid classifying the participation as a secured borrowing instead of a reduction of loans.

Proposals will require that purchased loans, including those acquired in the purchase of an entire bank, be recorded net of estimated uncollectible loans. This means that no allowance for loan losses will carry over or be recorded except through subsequent expense, although subsequent losses equal to the amount estimated at purchase will not be shown as charge-offs.

The AICPA guidance for financial institutions in its accounting guide will be revised to conform to current literature, make a few changes, and combine the banking/savings guide, credit union, and finance company guides, eliminating some differences therein. Some changes will be to disclose loans past due 90 days or more that are still on accrual and to disclose the policy for charging-off loans.

The FASB continues to study several issues, including recording all financial instruments at fair value and abolishing pooling of interests accounting. Also, it is likely that APB 25's measurement for stock option plans will be limited to employees and not to nonemployees such as directors, thereby causing compensation expense for stock options to directors.

NOTE 2 - EARNINGS PER COMMON SHARE

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

Year ended September 30,	1998	1997	1996
Basic Earnings Per Common Share:			
Numerator			
Net income	$ 2,784,882	$ 3,641,956	$ 2,413,565
Denominator			
Weighted average common shares outstanding	2,646,105	2,822,021	2,682,650
Less: Weighted average unallocated ESOP shares	(71,327)	(101,375)	(130,662)
Weighted average common shares outstanding for basic earnings per common share	2,574,778	2,720,646	2,551,988
Basic earnings per common share	$ 1.08	$ 1.34	$ .95

NOTE 2 - EARNINGS PER COMMON SHARE (Continued)

Year ended September 30,	1998	1997	1996
Diluted Earnings Per Common Share			
Numerator			
Net income	$2,784,882	$3,641,956	$2,413,565
Denominator			
Weighted average common shares outstanding for basic earnings per common share	2,574,778	2,720,646	2,551,988
Add: Dilutive effects of assumed exercises of stock options	127,862	130,638	136,811
Weighted average common and dilutive potential common shares outstanding	2,702,640	2,851,284	2,688,799
Diluted earnings per common share ..	$ 1.03	$ 1.28	$ .90

Incentive stock options for 55,500 shares of common stock, granted during the year ended September 30, 1997, were not considered in computing diluted earnings per common share for the year ended September 30, 1997 because they were antidilutive. Additionally, on September 30, 1998 the Company granted stock options for 13,418 shares of common stock which may affect the computation of diluted earnings per common share in future periods.

During the year ended September 30, 1998, the Company redeemed approximately 5.6% of its beginning year outstanding common shares (152,226 shares) under its common stock repurchase program. This repurchase will affect the Company's future earnings per common share computations by reducing amounts available for investment and weighted average shares outstanding.

NOTE 3 - ACQUISITIONS

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

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

Net interest income	$10,467,578
Net income	2,268,794
Earnings per common and common equivalent share	
Basic earnings per common share	$.89
Diluted earnings per common share	$.84

NOTE 3 - ACQUISITIONS (Continued)

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 256,737 common shares valued at $15.33 per share, as restated for the three-for-two stock split paid on January 2, 1997, 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 year ended September 30, 1996, assuming the Central West acquisition had occurred as of the beginning of the fiscal year.

Net interest income	$11,326,730
Net income	2,410,218
Earnings per common and common equivalent share	
Basic earnings per common share	$.86
Diluted earnings per common share	$.82

NOTE 4 - SECURITIES

YEAR END SECURITIES AVAILABLE FOR SALE WERE AS FOLLOWS:

1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Trust preferred	$ 27,638,030	$ 61,333	$ (443,567)	$ 27,255,796
Obligations of states and political subdivisions	1,307,076	34,588	(711)	1,340,953
U.S. Government and federal agencies	26,985,523	786,407	(77)	27,771,853
Mortgage-backed securities	61,767,555	778,961	(92,073)	62,454,443
	117,698,184	1,661,289	(536,428)	118,823,045
Marketable equity securities	1,638,181	315,815	(167,510)	1,786,486
	$119,336,365	$ 1,977,104	$ (703,938)	$120,609,531

1997

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

NOTE 4 - SECURITIES (Continued)

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, 1998	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,558,889	$ 1,567,466
Due after one year through five years	11,373,772	11,609,811
Due after five years through ten years	15,359,937	15,935,529
Due after 10 years	27,638,031	27,255,796
	55,930,629	56,368,602
Mortgage-backed securities	61,767,555	62,454,443
	$117,698,184	$118,823,045

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,		
	1998	1997	1996
Proceeds from sales	$18,280,412	$804,067	$366,829
Gross gains on sales	398,903	216,614	79,317

NOTE 5 - LOANS RECEIVABLE, NET

Year end loans receivable were as follows:

	1998	1997
One to four family residential mortgage loans:		
Insured by FHA or guaranteed by VA	$ 299,454	$ 388,589
Conventional	85,499,468	73,514,864
Construction	32,989,982	21,263,847
Commercial and multi-family real estate loans ..	66,845,149	74,869,777
Agricultural real estate loans	10,536,857	11,732,395
Commercial business loans	21,587,249	18,456,004
Agricultural business loans	37,233,902	38,650,322
Consumer loans	26,238,825	27,397,629
	281,230,886	266,273,427
Less: Allowance for loan losses	(2,908,902)	(2,379,091)
Undistributed portion of loans in process	(7,738,379)	(8,700,400)
Net deferred loan origination fees	(297,416)	(552,965)
	$ 270,286,189	$ 254,640,971

NOTE 5 - LOANS RECEIVABLE, NET (Continued)

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

	1998	1997	1996
Beginning balance	$ 2,379,091	$ 2,356,113	$ 1,649,520
Provision for loan losses	1,662,472	120,000	100,000
Recoveries	33,635	25,638	--
Iowa Bancorp allowance at acquisition date	--	--	132,500
Central West allowance at acquisition date	--	--	563,310
Charge-offs	(1,166,296)	(122,660)	(89,217)
Ending balance	$ 2,908,902	$ 2,379,091	$ 2,356,113

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 $93,482,000 at September 30, 1998 and were secured by properties located, as a percentage of total loans, as follows: 10% in Washington, 5% in Wisconsin, 4% in Minnesota, 2% in New Mexico, 2% in North Dakota, 2% in South Dakota, and the remaining 8% in sixteen other states. The Company's purchased loans totalled approximately $75,851,000 at September 30, 1997 and were secured by properties located, as a percentage of total loans, as follows: 6% in Wisconsin, 5% in Washington, 3% in Minnesota, 2% in Iowa, 2% in North Dakota and the remaining 10% in seventeen other states.

The Company 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 $8,100,000 and $10,776,000 of loans secured by nursing homes at September 30, 1998 and 1997, 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, 1998 and 1997 were not significant. The amount of non-accruing loans as of September 30, 1998 and 1997 were $3,164,000 and $2,875,000, respectively.

Impaired loans were as follows:

	1998	1997
Year end loans with no allowance for loan losses allocated	$ --	$ --
Year end loans with allowance for loan losses allocated	912,629	2,131,692
Amount of the allowance allocated	240,300	337,600
Average of impaired loans during the year	677,696	1,707,690
Interest income recognized during impairment	--	49,000
Cash-basis interest income recognized	--	49,000

NOTE 6 - FORECLOSED REAL ESTATE

Year end foreclosed real estate was as follows:

	1998	1997
Foreclosed real estate	$ 1,362,849	$156,300
Less: Allowance for foreclosed real estate losses .	(299,532)	--
	$ 1,063,317	$156,300

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

	1998	1997	1996
Balance, beginning of period	$ --	$ 5,000	$ --
Provision for losses on foreclosed real estate	299,532	--	20,000
Less: Losses charged against allowance	--	(5,000)	(15,000)
Balance, end of period	$299,532	$ --	$ 5,000

NOTE 7 - LOAN SERVICING

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

	1998	1997
Mortgage loan portfolios serviced for FNMA	$ 6,766,000	$4,884,000
Other	4,198,000	1,000,000
Total	$10,964,000	$5,884,000

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $111,000 and $19,000 at September 30, 1998 and 1997, respectively.

NOTE 8 - PREMISES AND EQUIPMENT, NET

Year end premises and equipment were as follows:

	1998	1997
Land	$ 535,233	$ 535,233
Buildings	4,674,969	4,607,698
Furniture, fixtures and equipment	2,450,526	2,292,295
	7,660,728	7,435,226
Less accumulated depreciation	(3,611,783)	(3,258,915)
	$ 4,048,945	$ 4,176,311

Depreciation of premises and equipment included in occupancy and equipment expense was $355,261, $346,444 and $214,201 for the years ended September 30, 1998, 1997 and 1996.

NOTE 9 - DEPOSITS

Jumbo certificates of deposit in denominations of $100,000 or more was approximately $14,183,000 and $19,265,000 at year end 1998 and 1997.

At September 30, 1998, the scheduled maturities of certificates of deposit were as follows for the years ended September 30:

1999	$ 143,137,661
2000	60,253,793
2001	11,322,012
2002	2,261,005
2003	3,853,953
Thereafter	302,551
	$ 221,130,975

NOTE 10 - ADVANCES FROM FEDERAL HOME LOAN BANK

At September 30, 1998, advances from the FHLB of Des Moines with fixed and variable rates ranging from 5.05% to 7.82% mature in the year ending September 30 as follows:

1999	$ 21,600,000
2000	14,600,000
2001	7,200,000
2002	5,863,562
2003	-
Thereafter	36,000,000
	$ 85,263,562

The Bank and Security have executed blanket pledge agreements whereby the Bank and Security assign, transfer and pledge to the FHLB and grant to the FHLB a security interest in all property now or hereafter owned. However, the Bank and Security have the right to use, commingle and dispose of the collateral they have assigned to the FHLB. Under the agreements, the Bank and Security must maintain "eligible collateral" that has a "lending value" at least equal to the "required collateral amount," all as defined by the agreements.

At year end 1998 and 1997, the Bank and Security pledged securities with amortized costs of approximately $41,980,000 and $83,544,000 and fair values of approximately $42,636,000 and $84,261,000 against specific FHLB advances. In addition, qualifying mortgage loans of approximately $82,165,000 and $65,305,000 were pledged as collateral at year end 1998 and 1997.

NOTE 11 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Year end securities sold under agreements to repurchase totaled $4,074,567 and $1,800,000 for 1998 and 1997. An analysis of securities sold under agreements to repurchase is as follows:

	Years ended	
	1998	1997
Highest month-end balance	$ 4,074,567	$ 2,789,918
Average balance	2,915,614	2,284,590
Weighted average interest rate during the period	5.80%	5.62%
Weighted average interest rate at end of period	5.71%	5.79%

At year end 1998, securities sold under agreements to repurchase had maturities ranging from 1 to 20 months with a weighted average maturity of 6 months. The Company pledged securities with amortized costs of approximately $4,285,000 and $2,267,000 and fair values of approximately $4,439,000 and $2,380,000, respectively, at year end 1998 and 1997 as collateral for securities sold under agreements to repurchase.

NOTE 12 - OTHER BORROWINGS

Other borrowings at year end 1998 and 1997 consisted of $550,000 and $2,900,000 of advances from the Federal Reserve Bank of Chicago. The advances outstanding at year end 1998 had a 5.45% interest rate and were due October 2, 1998. The Company pledged securities with amortized costs of approximately $1,499,000 and $3,491,000 and fair values of approximately $1,512,000 and $3,507,000 at year end 1998 and 1997 as collateral for other borrowings.

NOTE 13 - EMPLOYEE BENEFITS

Employee Stock Ownership Plan (ESOP): The Company maintains an ESOP for eligible employees who have 1,000 hours of employment with the Bank and who have attained age 21. The ESOP borrowed $1,534,100 from the Company to purchase 230,115 shares of the Company's common stock. Collateral for the loan is the unearned shares of common stock purchased with the loan proceeds by the ESOP. The loan will be repaid principally from the Bank's discretionary contributions to the ESOP over a period of 8 years. The interest rate for the loan is 8%. Shares purchased by the ESOP are held in suspense for allocation among participants as the loan is repaid. ESOP expense of $654,460, $495,740 and $451,500 was recorded for the years ended September 30, 1998, 1997 and 1996. Contributions of $200,000, $200,000 and $200,000 were made to the ESOP during the years ended September 30, 1998, 1997 and 1996.

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

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

For the years ended September 30, 1998, 1997 and 1996, 30,000, 30,000 and 30,000 shares with an average fair value of $21.82, $16.52 and $15.05 per share, respectively, were committed to be released. Also, for the years ended September 30, 1998, 1997 and 1996, allocated shares and total ESOP shares reflects 8,617, 4,517 and 2,858 shares withdrawn from the ESOP by participants who are no longer with the Company, net of shares purchased for dividend reinvestment.

NOTE 13 - EMPLOYEE BENEFITS (Continued)

Year end ESOP shares are as follows:

	1998	1997	1996
Allocated shares	157,128	135,745	110,262
Unearned shares	55,080	85,080	115,080
Total ESOP shares	212,208	220,825	225,342
Fair value of unearned shares	$950,130	$1,690,965	$1,860,460

Stock Options and Incentive Plans: Certain officers and directors of the Company have been granted options to purchase common stock of the Company pursuant to stock option plans.

SFAS No. 123, which became effective for stock-based compensation during fiscal years beginning after December 15, 1995, requires proforma disclosures for companies that do not adopt its fair value accounting method for stock-based employee compensation for awards granted in the first fiscal year beginning after December 15, 1994. Accordingly, the following proforma information presents net income and earnings per share had the fair value method been used to measure compensation cost for stock option plans. The exercise price of options granted is equivalent to the market value of underlying stock at the grant date. Accordingly, compensation cost actually recognized for stock options was $-0- for 1998, 1997 and 1996.

The fair value of options granted during 1998, 1997 and 1996 is estimated using the following weighted-average information: risk-free interest rate of 4.49%, 6.44% and 6.18%, expected life of 7.0 years, expected dividends of 2.69%, 2.02% and 1.90% per year and expected stock price volatility of 20%, 18% and 18% per year.

	1998	1997	1996
Net income as reported	$ 2,784,882	$ 3,641,956	$ 2,413,565
Proforma net income	$ 2,689,596	$ 3,531,215	$ 2,266,238
Reported earnings per common and common equivalent share			
Basic	$ 1.08	$ 1.34	$ .95
Diluted	$ 1.03	$ 1.28	$ .90
Proforma earnings per common and common equivalent share			
Basic	$ 1.04	$ 1.30	$ .89
Diluted	$ 1.00	$ 1.24	$ .84

In future years, the proforma effect of not applying this standard is expected to increase as additional options are granted.

NOTE 13 - EMPLOYEE BENEFITS (Continued)

Stock option plans are used to reward employees and provide them with an additional equity interest. Options are issued for 10 year periods, with 100% vesting generally occurring 48 months after grant date. At fiscal year end 1998, 151,117 shares were authorized for future grants. Information about option grants follows.

	Number of options	Weighted-average exercise price
Outstanding, September 30, 1995	264,141	$ 6.80
Granted	58,740	15.44
Exercised	(14,175)	6.67
Forfeited	--	--
Outstanding, September 30, 1996	308,706	8.45
Granted	69,930	17.91
Exercised	(51,838)	9.87
Forfeited	(1,500)	14.75
Outstanding, September 30, 1997	325,298	10.23
Granted	13,418	17.88
Exercised	(7,600)	6.67
Forfeited	--	--
Outstanding, September 30, 1998	331,116	$ 10.62

The weighted-average fair value per option for options granted in 1998, 1997 and 1996 was $2.01, $4.15 and $3.52. At year end 1998, options outstanding had a weighted-average remaining life of 6.29 years and a range of exercise price from $6.67 to $20.13.

Options exercisable at year end are as follows.

	Number of options	Weighted-average exercise price
1996	242,487	$8.89
1997	269,798	$8.77
1998	285,491	$9.54

Management Recognition and Retention Plans: The Company granted 7,191 and 106,428 (8,986 of which have been forfeited under terms of the Plan due to termination of service) restricted shares of the Company's common stock on May 23, 1994 and September 20, 1993, respectively, to certain officers of the Bank pursuant to a management recognition and retention plan (the "Plan"). The holders of the restricted stock have all of the rights of a shareholder, except that they cannot sell, assign, pledge or transfer any of the restricted stock during the restricted period. The restricted stock vests at a rate of 25% on each anniversary of the grant date. Expense of $-0-, $41,947 and $117,064 was recorded for these plans for the years ended 1998, 1997 and 1996. There was no remaining unamortized unearned compensation value of the plans at September 30, 1998 or 1997.

NOTE 14 - INCOME TAXES

The Company, the Bank and its subsidiaries and Security file a consolidated federal income tax return on a fiscal year basis. Prior to fiscal year 1997, if certain conditions were met in determining taxable income as reported on the consolidated federal income tax return, the Bank was allowed a special bad debt deduction based on a percentage of taxable income (8% for 1996) or on specified experience formulas. The Bank used the percentage of taxable income method for the tax year ended September 30, 1996. Tax legislation passed in August 1996 now requires the Bank to deduct a provision for bad debts for tax purposes based on actual loss experience and recapture the excess bad debt reserve accumulated in tax years beginning after September 30, 1987. The related amount of deferred tax liability which must be recaptured is approximately $554,000 and is payable over a six year period beginning no later than the tax year ending September 30, 1999.

The provision for income taxes consists of:

	1998	1997	1996
Federal			
Current	$ 2,012,841	$1,599,255	$ 1,735,099
Deferred	(230,887)	569,133	(282,756)
	1,781,954	2,168,388	1,452,343
State			
Current	304,679	314,712	290,825
Deferred	(83,113)	18,969	(46,845)
	221,566	333,681	243,980
Income tax expense	$ 2,003,520	$2,502,069	$ 1,696,323

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

Years ended September 30,	1998	1997	1996
Income taxes at 34% Federal tax rate	$ 1,628,000	$ 2,089,000	$ 1,397,000
Increase (decrease) resulting from:			
State income taxes - net of federal benefit	146,000	220,000	161,000
Excess of cost over net assets acquired	124,000	124,000	58,000
Excess of fair value of ESOP shares released over cost	155,000	101,000	86,000
Other - net	(49,480)	(31,931)	(5,677)
Total income tax expense	$ 2,003,520	$ 2,502,069	$ 1,696,323

NOTE 14 - INCOME TAXES (Continued)

Year end deferred tax assets and liabilities consist of:

	1998	1997
Deferred tax assets:		
Bad debts	$ 375,000	$ 128,000
Deferred loan fees	111,000	140,000
Management incentive program	--	27,000
Allowance for foreclosed real estate losses	118,000	--
Other items	46,000	101,000
	650,000	396,000
Deferred tax liabilities:		
Federal Home Loan Bank stock dividend	(452,000)	(452,000)
Accrual to cash basis	(178,000)	(258,000)
Net unrealized appreciation on securities available for sale	(474,346)	(568,013)
Other	(76,000)	(56,000)
	(1,180,346)	(1,334,013)
Valuation allowance	--	--
Net deferred tax asset (liability)	$ (530,346)	$ (938,013)

Federal income tax laws provide savings banks with additional bad debt deductions through September 30, 1987, totaling $6,744,000 for the Bank. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total $2,300,000 at September 30, 1998 and 1997. If the Bank were liquidated or otherwise ceases to be a bank or if tax laws were to change, the $2,300,000 would be recorded as expense.

NOTE 15 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

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

Regulations require First Federal to maintain minimum capital amounts and ratios as set forth below. Management believes, as of September 30, 1998, that First Federal meets the capital adequacy requirements.

NOTE 15 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS
(Continued)

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

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(DOLLARS IN THOUSANDS)			
As of September 30, 1998						
Total Capital (to risk weighted assets)	$33,520	13.2%	$ 20,396	8.0%	$25,495	10.0%
Tier 1 (Core) Capital (to risk weighted assets)	$31,113	12.2%	$10,198	4.0%	$15,297	6.0%
Tier 1 (Core) Capital (to adjusted total assets)	$31,113	8.3%	$11,219	3.0%	N/A	N/A
Tangible Capital (to adjusted total assets)	$31,113	8.3%	$ 5,610	1.5%	N/A	N/A
Tier 1 (Core) Capital (to average assets)	$31,113	8.8%	$14,108	4.0%	$17,635	5.0%
As of September 30, 1997						
Total Capital (to risk weighted assets)	$31,239	14.1%	$17,780	8.0%	$22,225	10.0%
Tier 1 (Core) Capital (to risk weighted assets)	$29,465	13.3%	$ 8,890	4.0%	$13,335	6.0%
Tier 1 (Core) Capital (to adjusted total assets)	$29,465	8.2%	$10,791	3.0%	N/A	N/A
Tangible Capital (to adjusted total assets)	$29,465	8.2%	$ 5,396	1.5%	N/A	N/A
Tier 1 (Core) Capital (to average assets)	$29,465	8.8%	$13,383	4.0%	$16,728	5.0%

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, 1998, approximately $6,500,000 of First Federal's retained earnings was potentially available for distribution to the Company.

Quantitative measures established by regulation to ensure capital adequacy require Security to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and a leverage ratio consisting of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of September 30, 1998, that Security meets all capital adequacy requirements to which it is subject.

As of 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 1 risk-based, Tier 1 leverage and total risk-based capital ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category. At September 30, 1998, approximately $24,000 of Security's retained earnings was potentially available for distribution to the Company.

NOTE 15 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS
(Continued)

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

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(DOLLARS IN THOUSANDS)			
As of September 30, 1998						
Total Capital (to risk weighted assets) .	$3,751	16.7%	$1,794	8.0%	$2,242	10.0%
Tier 1 Capital (to risk weighted assets)	$3,469	15.5%	$ 897	4.0%	$1,345	6.0%
Tier 1 Capital (to average assets)	$3,469	8.8%	$1,585	4.0%	$1,981	5.0%
As of September 30, 1997						
Total Capital (to risk weighted assets) .	$3,744	13.9%	$2,148	8.0%	$2,685	10.0%
Tier 1 Capital (to risk weighted assets)	$3,406	12.7%	$1,074	4.0%	$1,611	6.0%
Tier 1 Capital (to average assets)	$3,406	9.9%	$1,379	4.0%	$1,724	5.0%

NOTE 16 - COMMITMENTS AND CONTINGENCIES

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

At September 30, 1998 and 1997, loan commitments approximated $27,353,000 and $15,782,000, respectively, excluding undisbursed portions of loans in process. Loan commitments at September 30, 1998 included commitments to originate fixed-rate loans with interest rates ranging from 6.5% to 12.50% totaling $6,142,000 and adjustable-rate loan commitments with interest rates ranging from 8.3% to 10.25% totaling $9,277,000. The Company also had commitments to purchase adjustable rate loans of $9,934,000 with interest rates ranging from 7.75% to 9.75%, and commitments to purchase $2,000,000 in fixed rate loans at 7.45% as of year end 1998. Loan commitments at September 30, 1997 included commitments to originate fixed-rate loans with interest rates ranging from 7.37% to 11.50% totaling $4,876,000 and adjustable-rate loan commitments with interest rates ranging from 7.9% to 12.0% totaling $5,523,000. The Company also had commitments to purchase adjustable-rate loans of $5,343,000 with interest rates ranging from 8.395% to 10.00%, and commitments to purchase $40,000 in fixed rate loans at 9.0% as of year end 1997. 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 $7,663,000 and $5,835,000 and fair values of approximately $7,859,000 and $5,710,000 at September 30, 1998 and 1997, respectively, were pledged as collateral for public funds on deposit.

Securities with amortized costs of approximately $6,557,000 and $2,077,000 and fair values of approximately $6,827,000 and $2,149,000 at September 30, 1998 and 1997, respectively, were pledged as collateral for individual, trust, and estate deposits.

Under employment agreements with certain executive officers, certain events leading to separation from the Company could result in cash payments totaling approximately $2,794,000 as of September 30, 1998.

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES (Continued)

consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position or results of operations of the Company.

NOTE 17 - PARENT COMPANY FINANCIAL STATEMENTS

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

CONDENSED BALANCE SHEETS
September 30, 1998 and 1997

	1998	1997
ASSETS		
Cash and cash equivalents	$ 104,518	$ 2,166,091
Securities available for sale	4,257,486	1,254,610
Investment in subsidiary banks	40,643,747	39,309,383
Loan receivable from ESOP	367,200	567,200
Other assets	131,945	306,656
Total assets	$ 45,504,896	$ 43,603,940
LIABILITIES		
Loan payable to subsidiary banks	$ 3,050,000	$ --
Accrued expenses and other liabilities	169,333	126,936
Total liabilities	3,219,333	126,936
SHAREHOLDERS' EQUITY		
Common stock	29,580	29,580
Additional paid-in capital	21,330,075	20,984,754
Retained earnings - substantially restricted	27,985,814	26,427,657
Net unrealized appreciation on securities available for sale, net of tax of $474,346 in 1998 and $568,013 in 1997	798,820	960,371
Unearned Employee Stock Ownership Plan shares	(367,200)	(567,200)
Treasury stock, at cost	(7,491,526)	(4,358,158)
Total shareholders' equity	42,285,563	43,477,004
Total liabilities and shareholders' equity	$ 45,504,896	$ 43,603,940

NOTE 17 - PARENT COMPANY FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME
Years ended September 30, 1998, 1997 and 1996

	1998	1997	1996
Dividend income from subsidiary banks	$2,000,000	$ 6,000,000	$ 9,500,000
Interest income	272,260	145,339	219,546
Gain on sales of securities available for sale, net	317,960	216,614	51,237
	2,590,220	6,361,953	9,770,783
Interest expense	72,581	132,014	--
Operating expenses	354,945	348,162	182,743
	427,526	480,176	182,743
Income before income taxes and equity in undistributed net income of subsidiaries	2,162,694	5,881,777	9,588,040
Income tax expense (benefit)	50,000	(55,000)	53,000
Income before equity in undistributed net income of subsidiaries	2,112,694	5,936,777	9,535,040
(Distributions in excess of) equity in undistributed net income of subsidiary banks	672,188	(2,294,821)	(7,121,475)
Net income	$2,784,882	$ 3,641,956	$ 2,413,565

NOTE 17 - PARENT COMPANY FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years ended September 30, 1998, 1997 and 1996

	1998	1997	1996
Cash flows from operating activities			
Net income	$ 2,784,882	$ 3,641,956	$ 2,413,565
Adjustments to reconcile net income to net cash from operating activities			
Distribution in excess of (equity in undistributed) net income of subsidiary banks	(672,188)	2,294,821	7,121,475
Amortization of recognition and retention plan	--	41,947	117,064
Gain on sales of securities available for sale, net	(317,960)	(216,614)	(51,237)
Change in other assets	174,711	(245,225)	110,759
Change in accrued expenses and other liabilities	142,705	(611,711)	721,109
Net cash from operating activities	2,112,150	4,905,174	10,432,735
Cash flows from investing activities			
Purchase of securities available for sale	(5,150,000)	(231,000)	(1,014,438)
Proceeds from sales of securities available for sale	2,195,509	804,067	338,750
Purchase of Iowa Bancorporation, Inc.	--	--	(6,529,615)
Purchase of Central West Bancorporation	--	--	(1,923,519)
Repayments on loan receivable from ESOP	200,000	200,000	200,000
Net cash from investment activities	(2,754,491)	773,067	(8,928,822)
Cash flows from financing activities			
Proceeds from loan payable to subsidiary banks	4,550,000	--	--
Repayments on loan payable to subsidiary banks	(1,500,000)	--	--
Cash dividends paid	(1,226,725)	(962,682)	(745,761)
Proceeds from exercise of stock options	28,696	335,991	94,500
Purchase of treasury stock	(3,271,203)	(4,268,777)	(630,710)
Net cash from financing activities	(1,419,232)	(4,895,468)	(1,281,971)
Net change in cash and cash equivalents	(2,061,573)	782,773	221,942
Cash and cash equivalents at beginning of year	2,166,091	1,383,318	1,161,376
Cash and cash equivalents at end of year	$ 104,518	$ 2,166,091	$ 1,383,318
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$ 72,581	$ 132,014	$ --
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 15).

NOTE 18 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	December 31	March 31	June 30	September 30
Fiscal year 1998:				
Total interest income ..	$7,894,734	$7,839,781	$7,996,291	$8,327,988
Total interest expense ..	4,712,639	4,622,771	4,815,319	5,079,224
Net interest income	3,182,095	3,217,010	3,180,972	3,248,764
Provision for loan losses	35,000	1,345,000	55,000	227,472
Net income	989,055	46,316	893,056	856,455
Earnings per common and common equivalent share				
Basic	$ .38	$ .02	$ .35	$ .34
Diluted	$ .36	$ .02	$ .33	$ .32
Fiscal year 1997:				
Total interest income ..	$7,305,929	$6,882,095	$7,331,501	$7,485,150
Total interest expense ..	4,288,793	3,973,985	4,356,367	4,439,912
Net interest income	3,017,13	2,908,110	2,975,134	3,045,238
Provision for loan losses	30,000	30,000	30,000	30,000
Net income	953,216	849,539	912,504	926,697
Earnings per common and common equivalent share				
Basic	$ .34	$ .31	$ .34	$ .35
Diluted	$ .33	$ .29	$ .33	$ .33
Fiscal year 1996:				
Total interest income ..	$5,363,332	$5,962,258	$6,499,056	$6,512,819
Total interest expense ..	2,960,194	3,407,485	3,735,106	3,875,825
Net interest income	2,403,138	2,554,773	2,763,950	2,636,994
Provision for loan losses	30,000	30,000	30,000	10,000
Net income	776,845	726,806	892,181	17,733
Earnings per common and common equivalent share				
Basic	$ .31	$ .28	$ .35	$ .01
Diluted	$ .29	$ .27	$ .33	$ .01

NOTE 19 - FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires that the Company disclose estimated fair value amounts of its financial instruments. It is management's belief that the fair values presented below are reasonable based on the valuation techniques and data available to the Company as of September 30, 1998 and 1997, as more fully described below. It should be noted that the operations of the Company are managed from a going concern basis and not a liquidation basis. As a result, the ultimate value realized for the financial instruments presented could be substantially different when actually recognized over time through the normal course of operations. Additionally, a substantial portion of the Company's inherent value is the subsidiary banks' capitalization and franchise value. Neither of these components have been given consideration in the presentation of fair values below.

The following presents the carrying amount and estimated fair value of the financial instruments held by the Company at September 30, 1998 and 1997. This information is presented solely for compliance with SFAS No. 107 and is subject to change over time based on a variety of factors.

	1998		1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
SELECTED ASSETS				
Cash and cash equivalents	$ 6,727,444	$ 6,727,000	$ 12,852,426	$ 12,852,000
Interest-bearing deposits in other financial institutions ...	--	--	200,000	200,000
Securities available for sale	120,609,531	120,610,000	115,985,045	115,985,000
Loans receivable, net	270,286,189	273,096,000	254,640,971	254,455,000
FHLB Stock	5,505,800	5,506,000	5,629,300	5,629,000
Accrued interest receivable	4,968,607	4,969,000	5,366,109	5,366,000
SELECTED LIABILITIES				
Noninterest bearing demand deposits	(4,971,562)	(4,972,000)	(5,572,296)	(5,572,000)
Savings, NOW and money market demand deposits	(57,755,615)	(57,756,000)	(49,838,735)	(49,839,000)
Other time certificates of deposit	(221,130,975)	(222,807,000)	(190,704,667)	(190,190,000)
Total deposits	(283,858,152)	(285,535,000)	(246,115,698)	(245,601,000)
Advances from FHLB	(85,263,562)	(87,360,000)	(107,426,225)	(107,247,000)
Securities sold under agreements to repurchase	(4,074,567)	(4,095,000)	(1,800,000)	(1,806,000)
Other borrowings	(550,000)	(550,000)	(2,900,000)	(2,900,000)
Advances from borrowers for taxes and insurance	(405,218)	(405,000)	(449,487)	(449,000)
Accrued interest payable	(834,741)	(835,000)	(1,065,746)	(1,066,000)
OFF-BALANCE-SHEET INSTRUMENTS				
Loan commitments	(27,353,000)	--	(15,782,000)	--

NOTE 19 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The following sets forth the methods and assumptions used in determining the fair value estimates for the Company's financial instruments at September 30, 1998 and 1997.

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

Interest-bearing Deposits In Other Financial Institutions: The carrying amount of interest-bearing deposits in other financial institutions is assumed to approximate the fair value.

Securities Available For Sale: Quoted market prices or dealer quotes were used to determine the fair value of securities available for sale.

Loans Receivable, Net: The fair value of loans receivable, net was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities. When using the discounting method to determine fair value, loans were gathered by homogeneous groups with similar terms and conditions and discounted at a target rate at which similar loans would be made to borrowers as of September 30, 1998 and 1997. 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 Company is able to redeem this stock with the Federal Home Loan Bank at par value.

Accrued Interest Receivable: The carrying amount of accrued interest receivable is assumed to approximate the fair value.

Deposits: The fair value of deposits were determined as follows: (i) for noninterest bearing demand deposits, savings, NOW and money market demand deposits, since such deposits are immediately withdrawable, fair value is determined to approximate the carrying value (the amount payable on demand);
(ii) for other time certificates of deposit, the fair value has been estimated by discounting expected future cash flows by the current rates offered as of September 30, 1998 and 1997 on certificates of deposit with similar remaining maturities. In accordance with SFAS No. 107, no value has been assigned to the Company's long-term relationships with its deposit customers (core value of deposits intangible) since such intangible is not a financial instrument as defined under SFAS No. 107.

Advances from FHLB: The fair value of such advances was estimated by discounting the expected future cash flows using current interest rates as of September 30, 1998 and 1997, 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, 1998 and 1997 over the contractual maturity of such borrowings.

Advances From Borrowers for Taxes and Insurance: The carrying amount of advances from borrowers for taxes and insurance is assumed to approximate the fair value.

Accrued Interest Payable: The carrying amount of accrued interest payable is assumed to approximate the fair value.

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

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

NOTE 19 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

well as tax considerations could significantly affect the estimates. Accordingly, based on the limitations described above, the aggregate fair value estimates are not intended to represent the underlying value of the Company, on either a going concern or a liquidation basis.

NOTE 20 - 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 256,737 common shares at a market value of $15.33 per share, as restated for the three-for-two stock split effected in the form of a 50% stock dividend paid on January 2, 1997. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	$ 35,577,247
Cash paid	(1,312,474)
Common stock issued	(3,936,634)
Liabilities assumed	$ 30,328,139

NOTE 21 - FEDERAL DEPOSIT INSURANCE PREMIUM

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

Directors of First Midwest Financial, Inc.

[GRAPHIC-PHOTOS OF DIRECTORS]

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

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

E. Wayne Cooley -- Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Dr. Cooley has served as Executive Secretary of the Iowa Girls' High School Athletic Union in Des Moines, Iowa, since 1954. He is Executive Vice President of the Iowa High School Speech Association, a member of the Buena Vista University Board of Trustees, a member of the Drake Relays Executive Committee, and on the Board of Directors of the Women's College Basketball Association Hall of Fame. Dr. Cooley has served as Chairman of the Iowa Heart Association and as Vice Chairman of the Iowa Games. Board committees: Chairman of the Audit-Compensation/Personnel Committee and member of the Stock Option Committee.

E. Thurman Gaskill -- Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Mr. Gaskill has owned and operated a grain farming operation located near Corwith, Iowa, since 1958. He has served as a commissioner with the Iowa Department of Economic Development and also as a commissioner with the Iowa Department of Natural Resources. Mr. Gaskill is the past president of Iowa Corn Growers Association, past chairman of the United States Feed Grains Council, and has served in numerous other agriculture positions. He was elected to the Iowa State Senate in 1998 and represents District 8. Board committees: Chairman of the First Federal Trust Committee and member of the Audit-Compensation/Personnel Committee.

G. Mark Mickelson -- Member of the Board of Directors for First Midwest Financial, Inc., First Federal Savings Bank of the Midwest, and Security State Bank. Mr. Mickelson is Vice President of Acquisitions for Northwestern Growth Corporation in Sioux Falls, South Dakota. Northwestern Growth Corporation is the unregulated investment subsidiary of Northwestern Public Service. Mr. Mickelson graduated with high honors from Harvard Law School and is a Certified Public Accountant. Board committees: First Federal Audit-Compensation/Personnel Committee and Stock Option Committee.

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

Jeanne Partlow -- Member of the Board of Directors for First Midwest Financial, Inc. Mrs. Partlow retired in June 1998 as President of the Iowa Savings Bank Division of First Federal, located in Des Moines, Iowa. She was President, Chief Executive Officer and Chairperson of the Board of Iowa Savings Bank, F.S.B., from 1987 until the end of December 1995, when Iowa Savings Bank was acquired by and became a division of First Federal Savings Bank of the Midwest. Mrs. Partlow is a past member of the Board of Directors of the Federal Home Loan Bank of Des Moines.

Executive Officers

[GRAPHIC-PHOTOS OF OFFICERS]

JAMES S. HAAHR

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

J. TYLER HAAHR

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

DONALD J. WINCHELL, CPA

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

ELLEN E. H. MOORE

Vice President, Marketing and Sales for First Midwest Financial, Inc.; and Senior Vice President Marketing and Sales for First Federal Savings Bank of the Midwest

TIM D. HARVEY

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

TROY MOORE

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

RICHARD H. COLEMAN

President for Security State Bank

SUSAN C. JESSE

Senior Vice President for First Federal Savings Bank of the Midwest

FRED A. STEVENS

Senior Vice President for First Federal Savings Bank of the Midwest

Corporate Information

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

Annual Meeting of Shareholders
The Annual Meeting of Shareholders will convene at 1 p.m. on Monday, January 25, 1999. The meeting will be held in the Board Room of First Federal Savings Bank of the Midwest, Fifth at Erie, Storm Lake, Iowa. Further information with regard to this meeting can be found in the proxy statement.

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

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

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

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

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

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

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

Stock Market Information

First Midwest Financial, Inc.'s common stock trades on the Nasdaq National Market under the symbol "CASH." The Wall Street Journal publishes daily trading information for the stock under the abbreviation, "FstMidwFnl," in the National Market Listing. The price range of the common stock as reported on the Nasdaq System for each quarter of fiscal 1997 and 1998, after giving retroactive effect for the three-for-two stock split paid by the Company in the form of a fifty percent stock dividend on January 2, 1997, was as follows:

	1997 Dividend Paid	1998 Dividend Paid	Fiscal Year 1997		Fiscal Year 1998	
			Low	High	Low	High
First Quarter	$.09	$.12	$15.00	$16.67	$19.50	$22.63
Second Quarter	$.09	$.12	$15.25	$17.88	$21.88	$23.25
Third Quarter	$.09	$.12	$15.00	$18.00	$21.38	$25.25
Fourth Quarter	$.09	$.12	$16.25	$20.88	$17.13	$24.00

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

Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations, and regulatory restrictions. Restrictions on dividend payments are described in Note 14 of the Notes to Consolidated Financial Statements included in this Annual Report.

As of September 30, 1998, First Midwest had 2,553,245 shares of common stock outstanding, which were held by 321 shareholders of record. The shareholders of record number does not reflect approximately 608 persons or entities who hold their stock in nominee or "street" name.

The following securities firms indicated they were acting as market makers for First Midwest Financial, Inc. stock as of September 30, 1998: Everen Securities, Inc.; Herzog, Heine, Geduld, Inc.; Howe Barnes Investments, Inc.; Piper Jaffray

Companies, Inc.; Sandler O'Neill & Partners; and Tucker Anthony Incorporated.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARIES OF THE REGISTRANT

Parent	Subsidiary	Percentage of Ownership	State of Incorporation or Organization
First Midwest Financial, Inc.	First Federal Savings Bank of the Midwest	100%	Federal
First Midwest Financial, Inc.	Security State Bank	100%	Iowa
First 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 EXPERT

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 22, 1998, contained in Exhibit 13 to First Midwest Financial, Inc.'s Annual Report on Form 10-K for the fiscal year ended September 30, 1998.

/s/ Crowe, Chizek and Company LLP

Crowe, Chizek and Company LLP

South Bend, Indiana

December 28, 1998

ARTICLE 9

PERIOD TYPE	12 MOS
FISCAL YEAR END	SEP 30 1998
PERIOD END	SEP 30 1998
CASH	908,984
INT BEARING DEPOSITS	5,818,460
FED FUNDS SOLD	0
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	120,609,531
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	273,195,091
ALLOWANCE	2,908,902
TOTAL ASSETS	418,380,395
DEPOSITS	283,858,152
SHORT TERM	25,874,567
LIABILITIES OTHER	2,348,551
LONG TERM	64,013,562
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29,580
OTHER SE	42,255,983
TOTAL LIABILITIES AND EQUITY	418,380,395
INTEREST LOAN	23,054,813
INTEREST INVEST	9,003,981
INTEREST OTHER	0
INTEREST TOTAL	32,058,794
INTEREST DEPOSIT	13,432,454
INTEREST EXPENSE	19,229,953
INTEREST INCOME NET	12,828,841
LOAN LOSSES	1,662,472
SECURITIES GAINS	398,903
EXPENSE OTHER	8,252,840
INCOME PRETAX	4,788,402
INCOME PRE EXTRAORDINARY	2,784,882
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,784,882
EPS PRIMARY	1.08
EPS DILUTED	1.03
YIELD ACTUAL	3.26
LOANS NON	3,164,000
LOANS PAST	3,905,000
LOANS TROUBLED	0
LOANS PROBLEM	3,888,531
ALLOWANCE OPEN	2,379,091
CHARGE OFFS	1,166,296
RECOVERIES	33,635
ALLOWANCE CLOSE	2,908,902
ALLOWANCE DOMESTIC	2,780,902
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	128,000

ARTICLE 9

RESTATED:

PERIOD TYPE	12 MOS
FISCAL YEAR END	SEP 30 1997
PERIOD END	SEP 30 1997
CASH	875,169
INT BEARING DEPOSITS	10,909,907
FED FUNDS SOLD	1,267,350
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	115,985,045
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	257,020,062
ALLOWANCE	2,379,091
TOTAL ASSETS	404,588,578
DEPOSITS	246,115,698
SHORT TERM	47,250,000
LIABILITIES OTHER	2,869,651
LONG TERM	64,876,225
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	29,580
OTHER SE	43,447,424
TOTAL LIABILITIES AND EQUITY	404,588,578
INTEREST LOAN	22,432,828
INTEREST INVEST	6,571,847
INTEREST OTHER	0
INTEREST TOTAL	29,004,675
INTEREST DEPOSIT	11,982,913
INTEREST EXPENSE	17,059,057
INTEREST INCOME NET	11,945,618
LOAN LOSSES	120,000
SECURITIES GAINS	216,614
EXPENSE OTHER	7,382,265
INCOME PRETAX	6,144,025
INCOME PRE EXTRAORDINARY	3,641,956
EXTRAORDINARY	0
CHANGES	0
NET INCOME	3,641,956
EPS PRIMARY	1.34
EPS DILUTED	1.28
YIELD ACTUAL	3.38
LOANS NON	2,875,252
LOANS PAST	282,000
LOANS TROUBLED	0
LOANS PROBLEM	7,234,106
ALLOWANCE OPEN	2,356,113
CHARGE OFFS	122,660
RECOVERIES	25,638
ALLOWANCE CLOSE	2,379,091
ALLOWANCE DOMESTIC	2,303,091
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	76,000

ARTICLE 9

RESTATED:

PERIOD TYPE	3 MOS	6 MOS	9 MOS
FISCAL YEAR END	SEP 30 1997	SEP 30 1997	SEP 30 1997
PERIOD END	DEC 31 1996	MAR 31 1997	JUN 30 1997
CASH	693,116	829,601	751,853
INT BEARING DEPOSITS	7,136,406	8,639,194	10,659,359
FED FUNDS SOLD	4,929,800	4,331,563	300,588
TRADING ASSETS	0	0	0
INVESTMENTS HELD FOR SALE	92,218,350	90,528,990	85,925,932
INVESTMENTS CARRYING	0	0	0
INVESTMENTS MARKET	0	0	0
LOANS	246,447,865	248,538,499	259,401,012
ALLOWANCE	2,381,956	2,398,632	2,404,052
TOTAL ASSETS	369,885,071	370,177,010	374,824,236
DEPOSITS	232,612,127	235,521,226	240,050,507
SHORT TERM	44,739,918	43,990,000	43,360,000
LIABILITIES OTHER	4,779,499	3,673,101	3,821,459
LONG TERM	44,085,005	44,082,144	44,879,218
PREFERRED MANDATORY	0	0	0
PREFERRED	0	0	0
COMMON	29,591	29,580	29,580
OTHER SE	43,638,931	42,880,959	42,683,472
TOTAL LIABILITIES AND EQUITY	369,885,071	370,177,010	374,824,236
INTEREST LOAN	5,550,790	10,949,965	16,659,797
INTEREST INVEST	1,755,139	3,238,060	4,859,729
INTEREST OTHER	0	0	0
INTEREST TOTAL	7,305,929	14,188,025	21,519,526
INTEREST DEPOSIT	2,950,598	5,828,238	8,884,273
INTEREST EXPENSE	4,288,793	8,262,778	12,619,145
INTEREST INCOME NET	3,017,136	5,925,247	8,900,381
LOAN LOSSES	30,000	60,000	90,000
SECURITIES GAINS	0	0	91,340
EXPENSE OTHER	1,813,345	3,643,135	5,488,371
INCOME PRETAX	1,581,446	3,013,197	4,540,359
INCOME PRE EXTRAORDINARY	1,581,446	1,802,756	2,715,260
EXTRAORDINARY	0	0	0
CHANGES	0	0	0
NET INCOME	953,216	1,802,756	2,715,260
EPS PRIMARY	.34	.65	.99
EPS DILUTED	.33	.62	.94
YIELD ACTUAL	0	0	0
LOANS NON	2,704,258	2,878,335	3,076,268
LOANS PAST	206,057	0	0
LOANS TROUBLED	0	0	0
LOANS PROBLEM	1,376,867	2,242,430	1,506,590
ALLOWANCE OPEN	2,356,113	2,356,113	2,356,113
CHARGE OFFS	4,157	17,481	66,028
RECOVERIES	0	0	23,967
ALLOWANCE CLOSE	2,381,956	2,398,632	2,404,052
ALLOWANCE DOMESTIC	2,381,956	2,398,632	2,206,656
ALLOWANCE FOREIGN	0	0	0
ALLOWANCE UNALLOCATED	0	0	197,396

ARTICLE 9

RESTATED:

PERIOD TYPE	9 MOS	12 MOS
FISCAL YEAR END	SEP 30 1996	SEP 30 1996
PERIOD END	JUN 30 1996	SEP 30 1996
CASH	410,412	736,979
INT BEARING DEPOSITS	17,749,210	5,043,636
FED FUNDS SOLD	0	8,848,037
TRADING ASSETS	0	0
INVESTMENTS HELD FOR SALE	86,130,956	109,491,558
INVESTMENTS CARRYING	0	0
INVESTMENTS MARKET	0	0
LOANS	224,572,696	245,889,632
ALLOWANCE	1,811,535	2,356,113
TOTAL ASSETS	342,094,680	388,008,298
DEPOSITS	203,913,766	233,405,726
SHORT TERM	67,829,918	74,039,918
LIABILITIES OTHER	3,881,865	4,915,149
LONG TERM	27,440,539	32,437,803
PREFERRED MANDATORY	0	0
PREFERRED	0	0
COMMON	19,905	19,905
OTHER SE	39,008,687	43,189,797
TOTAL LIABILITIES AND EQUITY	342,094,680	388,008,298
INTEREST LOAN	13,639,540	18,567,097
INTEREST INVEST	4,185,105	5,770,368
INTEREST OTHER	0	0
INTEREST TOTAL	17,824,645	24,337,465
INTEREST DEPOSIT	7,179,841	9,766,586
INTEREST EXPENSE	10,102,785	13,978,610
INTEREST INCOME NET	7,721,860	10,358,855
LOAN LOSSES	90,000	100,000
SECURITIES GAINS	57,129	79,317
EXPENSE OTHER	4,667,498	7,568,262
INCOME PRETAX	4,013,339	4,109,888
INCOME PRE EXTRAORDINARY	4,013,339	4,109,888
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	2,395,832	2,413,565
EPS PRIMARY	.94	.95
EPS DILUTED	.89	.90
YIELD ACTUAL	0	3.47
LOANS NON	562,000	2,645,000
LOANS PAST	0	176,700
LOANS TROUBLED	0	0
LOANS PROBLEM	0	1,408,515
ALLOWANCE OPEN	1,649,520	1,649,520
CHARGE OFFS	45,000	89,217
RECOVERIES	0	0
ALLOWANCE CLOSE	1,811,535	2,356,113
ALLOWANCE DOMESTIC	1,811,535	2,143,113
ALLOWANCE FOREIGN	0	0
ALLOWANCE UNALLOCATED	0	213,000