

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

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

For the transaction period from _____ to _____

Commission File Number: 0-22140

FIRST MIDWEST FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

42-1406262
(IRS Employer Identification No.)

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

(712) 732-4117
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) 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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class: Outstanding at August 10, 2004:
Common Stock, \$.01 par value 2,491,025 Common Shares

Transitional Small Business Disclosure Format: Yes ☐; No ☒

FIRST MIDWEST FINANCIAL, INC.
FORM 10-Q

INDEX

	Page No. -----
Part I. Financial Information	
Item 1. Financial Statements (unaudited):	
Consolidated Balance Sheets at June 30, 2004 and September 30, 2003	3
Consolidated Statements of Income for the Three Months And Nine Months Ended June 30, 2004 and 2003	4
Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended June 30, 2004 and 2003	5
Consolidated Statement of Changes in Shareholders' Equity for the Nine Months Ended June 30, 2004	6
Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2004 and 2003	7
Notes to Consolidated Financial Statements	
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	
Item 3. Quantitative and Qualitative Disclosure About Market Risk	
Item 4. Controls and Procedures	
Part II. Other Information	
Item 1. Legal Proceedings	
Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities	
Item 3. Defaults on Senior Securities	
Item 4. Submission of Matters to a Vote of Security Holders	
Item 5. Other Information	
Item 6. Exhibits and Reports on Form 8-K	
Signatures	

Part I. Financial Information

Item 1. Financial Statements

FIRST MIDWEST FINANCIAL, INC. AND SUBSIDIARIES Consolidated Balance Sheets (Unaudited)

	June 30, 2004	September 30, 2003
	-----	-----
Assets		
Cash and due from banks	\$ 1,667,021	\$ 2,090,221
Interest-bearing deposits in other financial institutions - short-term (cost approximates market value)	7,855,294	7,666,594
	-----	-----
Total cash and cash equivalents	9,522,315	9,756,815
Securities available for sale, amortized cost of \$316,618,504 at June 30, 2004 and \$370,900,230 at September 30, 2003	310,454,302	366,075,033
Loans receivable - net of allowance for loan losses of \$5,274,116 at June 30, 2004 and \$4,961,777 at September 30, 2003	392,822,963	349,691,995
Loans held for sale	--	1,126,310
Federal Home Loan Bank stock, at cost	10,021,900	10,930,300
Accrued interest receivable	3,508,106	3,932,076
Premises and equipment, net	11,768,440	11,353,365
Foreclosed real estate, net	40,700	1,109,338
Bank owned life insurance	11,734,502	11,301,390
Other assets	7,659,702	7,008,505
	-----	-----
Total assets	\$ 757,532,930	\$ 772,285,127
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities		
Non-interest bearing demand deposits	20,178,456	\$ 17,457,662
Savings, NOW and money market demand deposits	161,359,797	119,497,887
Time certificates of deposit	279,711,507	298,597,193
	-----	-----
Total deposits	461,249,760	435,552,742
Advances from Federal Home Loan Bank	203,462,610	223,784,394
Securities sold under agreements to repurchase	35,105,159	57,702,034
Subordinated debentures held by deconsolidated subsidiary trust	10,000,000	10,000,000
Advances from borrowers for taxes and insurance	256,787	268,682
Accrued interest payable	474,109	506,861
Accrued expenses and other liabilities	2,159,360	1,439,615
	-----	-----
Total liabilities	712,707,785	729,254,328
	-----	-----
Shareholders' Equity		
Preferred stock, 800,000 shares authorized, no shares issued or outstanding	--	--
Common stock, \$.01 par value, 5,200,000 shares authorized, 2,957,999 shares issued, 2,497,197 and 2,493,949 shares outstanding at June 30, 2004 and September 30, 2003, respectively	29,580	29,580
Additional paid-in capital	20,683,578	20,538,879
Retained earnings - substantially restricted	36,570,793	34,057,741
Accumulated other comprehensive loss	(3,869,546)	(3,028,762)
Unearned Employee Stock Ownership Plan shares	(173,931)	(401,676)
Treasury stock, 460,802 and 464,050 common shares, at cost, at June 30, 2004 and September 30, 2003, respectively	(8,415,329)	(8,164,963)
	-----	-----
Total Shareholders' Equity	44,825,145	43,030,799
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 757,532,930	\$ 772,285,127
	=====	=====

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

**FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Interest and Dividend Income:				
Loans receivable, including fees	\$ 6,465,018	\$ 5,936,930	\$ 17,992,328	\$ 18,212,692
Securities available for sale	2,535,342	2,734,611	8,834,059	8,313,157
Dividends on Federal Home Loan Bank stock	42,852	101,656	161,173	201,780
	-----	-----	-----	-----
Total interest and dividend income	9,043,212	8,773,197	26,987,560	26,727,629
Interest Expense:				
Deposits	2,428,676	2,582,015	7,182,561	8,004,583
FHLB advances and other borrowings	2,094,690	2,259,714	6,402,540	6,719,069
	-----	-----	-----	-----
Total interest expense	4,523,366	4,841,729	13,585,101	14,723,652
	-----	-----	-----	-----
Net interest income	4,519,846	3,931,468	13,402,459	12,003,977
Provision for loan losses	167,500	67,000	324,500	350,000
	-----	-----	-----	-----
Net interest income after provision for loan losses	4,352,346	3,864,468	13,077,959	11,653,977
Noninterest income:				
Deposit service charges and other fees	304,257	351,065	933,726	962,928
Gain on sales of loans, net	107,648	235,483	227,748	745,667
Bank owned life insurance	151,532	139,141	469,373	475,685
Gain on sales of securities available for sale, net	--	46,180	--	242,570
Gain on sale of branch office	--	--	1,113,230	--
Loss on sales of foreclosed real estate, net	(2,560)	(2,601)	(3,052)	(3,181)
Brokerage commissions	20,643	48,150	96,850	92,423
Other income	58,167	56,054	167,191	263,204
	-----	-----	-----	-----
Total noninterest income	639,687	873,472	3,005,066	2,779,296
Noninterest expense:				
Employee compensation and benefits	2,422,886	2,171,666	6,848,008	6,291,439
Occupancy and equipment expense	597,056	517,705	1,720,735	1,604,641
Deposit insurance premium	17,378	15,385	48,824	45,688
Data processing expense	175,176	159,298	537,106	466,334
Prepayment penalty on FHLB advances	--	--	--	500,674
Other expense	518,359	534,639	1,600,393	1,570,254
	-----	-----	-----	-----
Total noninterest expense	3,730,855	3,398,693	10,755,066	10,479,030
	-----	-----	-----	-----
Income before income taxes	1,261,178	1,339,247	5,327,959	3,954,243
Income tax expense	424,569	446,840	1,839,011	1,302,395
	-----	-----	-----	-----
Net income	\$ 836,609	\$ 892,407	\$ 3,488,948	\$ 2,651,848
	=====	=====	=====	=====
Earnings per common share:				
Basic	\$ 0.34	\$ 0.36	\$ 1.41	\$ 1.07
	=====	=====	=====	=====
Diluted	\$ 0.33	\$ 0.36	\$ 1.38	\$ 1.06
	=====	=====	=====	=====

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

**FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net income	\$ 836,609	\$ 892,407	\$ 3,488,948	\$ 2,651,848
Other comprehensive income (loss):				
Net change in net unrealized gains and losses on securities available for sale	(6,439,564)	(1,835,840)	(1,339,005)	(2,545,603)
Deferred income tax benefit	(2,396,139)	(683,115)	(498,221)	(947,217)
Total other comprehensive loss	(4,043,425)	(1,152,725)	(840,784)	(1,598,386)
Total comprehensive income (loss)	\$ (3,206,816)	\$ (260,318)	\$ 2,648,164	\$ 1,053,462
	=====	=====	=====	=====

**FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES**

Consolidated Statement of Changes in Shareholders' Equity (Unaudited) For the Nine Months Ended June 30, 2004

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax
Balance at September 30, 2003	\$ 29,580	\$ 20,538,879	\$ 34,057,741	\$ (3,028,762)
Cash dividends declared on common stock (\$0.39 per share)	--	--	(975,896)	--
Purchase of 33,298 shares of treasury stock	--	--	--	--
Issuance of 36,546 common shares from treasury stock due to exercise of stock options	--	68,056	--	--
10,500 common shares committed to be released under the ESOP	--	76,643	--	--
Net change in net unrealized losses on securities available for sale, net of effect of income taxes of \$498,221	--	--	--	(840,784)
Net income for the nine months ended June 30, 2004	--	--	3,488,948	--
Balance at June 30, 2004	\$ 29,580	\$ 20,683,578	\$ 36,570,793	\$ (3,869,546)

	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 2003	\$ (401,676)	\$ (8,164,963)	\$ 43,030,799
Cash dividends declared on common stock (\$0.39 per share)	--	--	(975,896)
Purchase of 33,298 shares of treasury stock	--	(764,865)	(764,865)
Issuance of 36,546 common shares from treasury stock due to exercise of stock options	--	514,499	582,555
10,500 common shares committed to be released under the ESOP	227,745	--	304,388
Net change in net unrealized losses on securities available for sale, net of effect of income taxes of \$498,221	--	--	(840,784)
Net income for the nine months ended June 30, 2004	--	--	3,488,948
Balance at June 30, 2004	\$ (173,931)	\$ (8,415,329)	\$ 44,825,145

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

**FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES**
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30, 2004	2003
Cash flows from operating activities:		
Net income	\$ 3,488,948	\$ 2,651,848
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion, net	3,733,747	1,428,046
	324,500	350,000
Loss on sales of foreclosed real estate, net	3,052	3,181
Gain on sales of securities available for sale	--	(242,570)
Loss on early extinguishment of FHLB advances	--	500,674
Gain on the sale of branch office	(1,113,230)	--
Gain on the sale of office properties, net	--	(134,700)
Proceeds from sales of loans held for sale	13,695,203	59,244,469
Originations of loans held for sale	(12,568,893)	(59,018,368)
Net change in accrued interest receivable	418,452	597,520
Net change in other assets	(586,085)	(954,404)
Net change in accrued interest payable	(32,752)	(182,777)
Net change in accrued expenses and other liabilities	725,871	(106,534)
Net cash from operating activities	8,088,813	4,136,385
Cash flows from investing activities:		
Purchase of securities available for sale	(15,463,098)	(372,599,726)
Proceeds from sales of securities available for sale	--	90,455,195
Proceeds from maturities and principal repayments of securities available for sale	67,024,122	130,620,985
Net change in loans receivable	(9,955,846)	15,024,297
Loans purchased	(34,325,665)	(19,926,142)
Proceeds from sales of foreclosed real estate	1,123,934	388,139
Proceeds from sale of office building	--	197,169
Cash transferred to buyer on sale of branch	(14,154,359)	--
Purchase of shares by ESOP	--	(608,584)
Change in FHLB stock	908,400	(5,444,600)
Purchase of premises and equipment, net	(1,197,562)	(1,187,010)
Net cash used in investing activities	(6,040,074)	(163,080,277)
Cash flows from financing activities:		
Net change in noninterest-bearing demand, savings, NOW, and money market demand deposits	(9,132,202)	31,473,882
Net change in other time deposits	50,931,974	45,673,876
Proceeds from advances from Federal Home Loan Bank	1,655,190,000	778,925,000
Repayments of advances from Federal Home Loan Bank	(1,675,511,784)	(684,848,902)
Net change in securities sold under agreements to repurchase	(22,596,875)	(4,072,903)
Net change in advances from borrowers for taxes and insurance	(6,146)	(16,835)
Cash dividends paid	(975,896)	(969,371)
Proceeds from the exercise of stock options	582,555	322,829
Purchase of treasury stock	(764,865)	(165,092)
Net cash from (used in) financing activities	(2,283,239)	166,322,484
Net change in cash and cash equivalents	(234,500)	7,378,592
Cash and cash equivalents at beginning of period	9,756,815	7,376,434
Cash and cash equivalents at end of period	\$ 9,522,315	\$ 14,755,026
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 13,617,853	\$ 14,906,429
Income taxes	1,692,500	1,086,788
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to foreclosed real estate	\$ 58,349	\$ 395,768
Sale of branch		
Assets disposed:		
Loans	\$ (730,704)	
Accrued interest receivable	(5,518)	
Premises and equipment	(110,818)	
Liabilitied assumed by buyer:		
Non-interest bearing demand, savings, NOW and money market demand accounts	6,314,066	
Time deposits	9,788,688	
Advances from borrowers for taxes and insurance	5,749	
Other liabilities	6,126	

Gain on sale of office property, net	(1,113,230)

Cash paid	\$ 14,154,359
	=====

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

**FIRST MIDWEST FINANCIAL, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by First Midwest Financial, Inc. ("First Midwest" or the "Company") and its consolidated subsidiaries, First Federal Savings Bank of the Midwest ("First Federal"), Security State Bank ("Security"), First Services Trust Company, First Services Financial Limited and Brookings Service Corporation, for interim reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. The accompanying financial statements do not purport to contain all the necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary in the circumstances and should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2003.

2. EARNINGS PER SHARE

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share shows the dilutive effect of additional common shares issuable under stock options.

A reconciliation of the numerators and denominators used in the basic earnings per common share and the diluted earnings per common share computations for the three months and nine months ended June 30, 2004 and 2003 is presented below.

	Three Months Ended June 30, -----		Nine Months Ended June 30, -----	
	2004 ----	2003 ----	2004 ----	2003 ----
Basic Earnings Per Common Share:				
Numerator:				
Net Income	\$ 836,609 =====	\$ 892,407 =====	\$ 3,488,948 =====	\$ 2,651,848 =====
Denominator:				
Weighted average common shares outstanding	2,497,197	2,493,949	2,500,437	2,482,101
Less: Weighted average unallocated ESOP shares	(13,263) -----	(16,061) -----	(17,779) -----	(10,421) -----
Weighted average common shares outstanding for basic earnings per share	2,483,934 =====	2,477,888 =====	2,482,658 =====	2,471,680 =====
Basic earnings per common share	\$ 0.34 =====	\$ 0.36 =====	\$ 1.41 =====	\$ 1.07 =====

	Three Months Ended June 30, -----		Nine Months Ended June 30, -----	
	2004 ----	2003 ----	2004 ----	2003 ----
Diluted Earnings Per Common Share:				
Numerator:				
Net Income	\$ 836,609 =====	\$ 892,407 =====	\$3,488,948 =====	\$2,651,848 =====
Denominator:				
Weighted average common shares outstanding for basic earnings per common share	2,483,934	2,477,888	2,482,658	2,471,680
Add: Dilutive effects of assumed exercise of stock options, net of tax benefits	54,599 -----	31,992 -----	54,205 -----	28,495 -----
Weighted average common and dilutive potential common shares outstanding	2,538,533 =====	2,509,880 =====	2,536,863 =====	2,500,175 =====
Diluted earnings per common share	\$ 0.33 =====	\$ 0.36 =====	\$ 1.38 =====	\$ 1.06 =====

3. COMMITMENTS

At June 30, 2004 and September 30, 2003, the Company had outstanding commitments to originate and purchase loans totaling \$51.9 million and \$63.4 million, respectively, excluding undisbursed portions of loans in process. It is expected that outstanding loan commitments will be funded with existing liquid assets and normal cash flows.

4. INTANGIBLE ASSETS

As of June 30, 2004 and September 30, 2003 the Company had intangible assets of \$3,403,019, all of which has been determined to be goodwill. There was no goodwill impairment loss or amortization related to goodwill during the three-month or nine-month periods ended June 30, 2004 and 2003.

5. CURRENT ACCOUNTING DEVELOPMENTS

FIN No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, establishes accounting guidance for consolidation of variable interest entities (VIE) that function to support the activities of the primary beneficiary. Prior to the implementation of FIN 46, VIEs were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The provisions of FIN 46 were effective immediately for all arrangements entered into after January 31, 2003. For existing VIEs, the implementation date of FIN 46 is the first period ending after December 15, 2003.

The Company adopted FIN 46 in connection with its consolidated financial statements beginning October 1, 2003. As revised, FIN 46 requires the Company to deconsolidate its investment in First Midwest Capital Trust I in future financial statements. The Company deconsolidated First Midwest Capital Trust I effective for the quarter ending March 31, 2004.

This deconsolidation affects only balance sheet presentation, and does not affect the results of operations or shareholders' equity.

In July 2003, the Board of Governors of the Federal Reserve System ("Federal Reserve") issued a supervisory letter instructing bank holding companies, such as the Company, to continue to include the trust preferred securities in their Tier I capital for regulatory purposes until notice is given to the contrary. The Federal Reserve has been reviewing the regulatory implications of the change in accounting treatment and, on May 6, 2004, issued a proposal on the regulatory capital treatment of trust preferred securities. Under the proposal, trust preferred securities would continue to be included in Tier I capital up to 25% of Tier I capital. After a three year transition period, beginning March 31, 2007, trust preferred securities would count up to 25% of Tier I capital, net of goodwill. Until these proposals are finalized, it can not be assumed that the Federal Reserve will continue to permit institutions to include trust preferred securities in Tier I capital for regulatory capital purposes. As of June 30, 2004, had the Company not been permitted to include the \$10 million in trust preferred securities issued by First Midwest Financial Capital Trust I in its Tier I capital, the Company would still have exceeded the regulatory required minimums for capital adequacy purposes. In the event that trust preferred securities would no longer be includable in Tier I capital, the Company would also be permitted to redeem the capital securities, which bear interest at 5.74%, without penalty.

The interpretations of FIN 46 and its application to various transaction types and structures are evolving. Management continuously monitors emerging issues related to FIN 46, some of which could potentially impact the Company's financial statements.

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

6. STOCK OPTION PLAN

FASB Statement No. 123, Accounting for Stock-Based Compensation, establishes a fair value based method for financial accounting and reporting for stock-based employee compensation plans and for transactions in which an entity issues its equity instruments to acquire goods and services from non-employees. However, the standard allows compensation to continue to be measured by using the intrinsic value based method of accounting prescribed by APB No. 25, Accounting for Stock Issued to Employees, but requires expanded disclosures. The Company has elected to apply the intrinsic value based method of accounting for stock options issued to employees. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company stock at the date of grant over the amount an employee must pay to acquire the stock.

Had compensation cost for the Plan been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123), the approximate reported income

and earnings per common share would have been decreased to the pro forma amounts shown below:

	Three Months Ended June 30, -----		Nine Months Ended June 30, -----	
	2004 ----	2003 ----	2004 ----	2003 ----
Net income, as reported	\$ 836,609	\$ 892,407	\$3,488,948	\$2,651,848
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(15,092)	(3,394)	(26,720)	(9,955)
Pro forma net income	\$ 821,517 =====	\$ 889,013 =====	\$3,462,228 =====	\$2,641,893 =====
Earnings per common share - basic:				
As reported	\$.34	\$.36	\$ 1.41	\$ 1.07
Pro forma	\$.33	\$.36	\$ 1.38	\$ 1.07
Earnings per common share - diluted:				
As reported	\$.33	\$.36	\$ 1.38	\$ 1.06
Pro forma	\$.32	\$.35	\$ 1.36	\$ 1.06

Part I. Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FIRST MIDWEST FINANCIAL, INC. AND SUBSIDIARIES

GENERAL

First Midwest Financial, Inc. ("First Midwest" or the "Company") 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.

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at June 30, 2004, compared to September 30, 2003, and the consolidated results of operations for the three months and nine months ended June 30, 2004, compared to the same periods in 2003. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended September 30, 2003.

RECENT CORPORATE DEVELOPMENTS

On May 6, 2004, the Company announced that First Federal had started the process of forming of a new operating division to position the Company to take advantage of opportunities in the growing area of prepaid debit cards and related systems and services. On May 4, 2004, the first five members of the management group leading this new division joined First Federal. These individuals have extensive experience and a proven track record for creating value and profitability in this emerging market. As of June 30, 2004, the division had a total of sixteen (16) employees, operating under the name Meta Payment Systems. The first cards for the operation are expected to be issued in August 2004. As the development process continues, it is anticipated that an additional three to five people will be hired over the next fifteen (15) months. The division is based in Sioux Falls, South Dakota, where First Federal recently opened a second banking office. While results are subject to change and cannot be predicted with certainty, it is expected the first year of operations will result in an operating loss of approximately \$1.1 million, net of income taxes, and the second year of operations will be break-even, or result in a small profit, net of income taxes. It is anticipated the third year will result in income, net of income taxes, sufficient for the three-year cumulative operations of the division to become positive. Actual results for the division through June 30, 2004 were a net operating loss of \$141,000, net of income taxes, which reduced diluted earnings per share for both the quarter and the fiscal year-to-date by \$.06 per share.

During the quarter ended June 30, 2004, the Company announced that it will change its name to Meta Financial Group during the first half of calendar 2005, subject to shareholder approval. The Company's subsidiary bank divisions will all change to a form of the name MetaBank and First Services Trust Corporation will become MetaTrust. The Meta name is symbolic of positive change and expands on the existing operating philosophy of the Company and its subsidiaries to make money management easy for individuals and businesses through every life change. The Company's stock will continue to trade on the NASDAQ National Market under the symbol "CASH".

FINANCIAL CONDITION

Total assets decreased by \$14.8 million, or 1.9%, to \$757.5 million at June 30, 2004, from \$772.3 million at September 30, 2003. The decrease in total assets was primarily attributable to the sale during the period of a branch office in Manson, Iowa, which resulted in a decrease of \$15.0 million in total assets and a decrease of \$55.6 million in the securities portfolio, which were substantially offset by the \$43.1 million growth in net loans receivable.

The portfolio of securities available for sale decreased \$55.6 million, or 15.2%, to \$310.5 million at June 30, 2004, from \$366.1 million at September 30, 2003. The decrease reflects \$67.0 million of maturities and principal repayments, which were partially offset by \$15.5 million of purchases and by the change in market value of securities available for sale.

The portfolio of net loans receivable increased by \$43.1 million, or 12.3%, to \$392.8 million at June 30, 2004, from \$349.7 million at September 30, 2003. The increase reflects increased origination or purchase of commercial and multi-family real estate loans on existing and newly constructed properties and by increased origination and purchase of commercial business loans. The increase was partially offset by a reduction in conventional one-to-four family residential mortgage loans, and by a reduction in agricultural business loans, as existing originated and purchased loans were repaid in amounts greater than new originations retained in portfolio during the period. The reduction included the sale of \$730,000 of one-to-four family residential mortgage loans and consumer loans as part of the branch sale.

Deposit balances increased by \$25.7 million, or 5.9%, to \$461.3 million at June 30, 2004, from \$435.6 million at September 30, 2003. The increase in deposit balances resulted from increases in checking accounts, money market demand accounts and savings accounts in the amounts of \$4.3 million, \$10.5 million, and \$29.8 million, respectively. These increases were partially offset by a decrease in certificates of deposit in the amount of \$18.9 million. The deposit changes include the decreases resulting from the branch office sale during the period. Deposits totaling \$16.1 million were included in the branch sale, consisting of checking accounts, money market demand accounts, savings accounts and certificates of deposit in the amounts of \$2.2 million, \$3.3 million, \$758,000 and \$9.8 million, respectively. Excluding the effect of the branch sale, deposit balances would have increased by \$41.8 million, or 9.6% during the nine months ended June 30, 2004.

The balance in advances from the Federal Home Loan Bank of Des Moines (FHLB) decreased by \$20.3 million, or 9.1%, to \$203.5 million at June 30, 2004 from \$223.8 million at September 30, 2003. The balance in securities sold under agreements to repurchase decreased by \$22.6 million, or 39.2%, to \$35.1 million at June 30, 2004 from \$57.7 million at September 30, 2003. The decrease in advances from the FHLB and in securities sold under agreements to repurchase reflects the replacement of borrowed funds through deposit growth during the quarter.

Total shareholders' equity increased \$1.8 million, or 4.2%, to \$44.8 million at June 30, 2004 from \$43.0 million at September 30, 2003. The increase in shareholders' equity reflects earnings of \$3.5 million during the period. This increase was partially offset by a \$841,000 change, in accordance with SFAS 115, from a \$3.0 million unrealized loss to a \$3.9 million unrealized loss, net of income tax, on securities available for sale, the payment of a cash dividend to shareholders and by the purchase of treasury stock.

NONPERFORMING ASSETS AND ALLOWANCE FOR LOAN LOSSES

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 non-accrual status and, as a result of this action, previously accrued interest income on the loan is taken out of current income. The loan will remain on non-accrual status until the loan has been brought current, or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

At June 30, 2004, the Company had loans delinquent 30 days and over totaling \$1.0 million, or 0.26% of total loans compared to \$2.0 million, or 0.56%, of total loans at September 30, 2003. The Company's decrease in delinquent (and nonperforming) loans relates to efforts to maintain low delinquency levels through continuous follow up and follow through on collections.

At June 30, 2004, commercial and multi-family real estate loans delinquent 30 days and over totaled \$406,000, or 0.10% of the total loan portfolio as compared to \$417,000, or 0.12% of total loans at September 30, 2003. 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. These loans are being closely monitored by management, however, there can be no assurance that all loans will be fully collectible.

At June 30, 2004, agricultural operating loans delinquent 30 days and over totaled \$285,000, or 0.07% of the total loan portfolio as compared to \$291,000, or 0.08% of total loans at September 30, 2003. Agricultural lending involves a greater degree of risk than one-to-four family residential mortgage loans because of the typically larger loan amounts. 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 factors outside the control of the agricultural borrower, such as the weather and grain and livestock prices. Although management believes the Company's portfolio of agricultural real estate and operating loans is well structured and adequately secured, there can be no assurance that all loans will be fully collectible.

The table below sets forth the amounts and categories of non-performing assets in the Company's loan portfolio. The Company's restructured loans (which involved forgiving a portion of the interest or principal on the loan or making loans at a rate materially less than market rates) are included in the table and were performing as agreed at the date shown. Foreclosed assets include assets acquired in settlement of loans.

	June 30, 2004	September 30, 2003
	-----	-----
	(Dollars in Thousands)	
Non-accruing loans:		
One-to four family	\$ --	\$ 156
Commercial and multi-family	406	417
Agricultural real estate	--	--
Consumer	32	17
Agricultural operating	285	291
Commercial business	122	126
	-----	-----
Total non-accruing loans	845	1,007
Accruing loans delinquent 90 days or more	--	--
	-----	-----
Total non-performing loans	845	1,007
	-----	-----
Restructured loans:		
Consumer	--	--
Agricultural operating	10	28
Commercial business	8	31
	-----	-----
Total restructured loans	18	59
	-----	-----
Foreclosed assets:		
One-to four family	--	--
Commercial real estate	35	912
Consumer	--	4
Agricultural operating	--	--
Commercial business	6	193
	-----	-----
Total foreclosed assets	41	1,109
Less: Allowance for losses	--	--
	-----	-----
Total foreclosed assets, net	41	1,109
	-----	-----
Total non-performing assets	\$ 904	\$2,175
	=====	=====
Total as a percentage of total assets	0.12%	0.28%
	=====	=====

Classified Assets. Federal regulations provide for the classification of loans and other assets as "substandard", "doubtful" or "loss", based on the level of weakness determined to be inherent in the collection of the principal and interest. When loans are classified as either substandard or doubtful, the Company 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 loans. When assets are classified as loss, the Company is required either to establish a specific allowance for loan losses equal to 100% of that portion of the loan so classified, or to charge-off such amount. The Company's determination as to the classification of its loans and the amount of its allowances for loan losses are subject to review by its regulatory authorities, which may require the establishment of additional general or specific allowances for loan losses.

On the basis of management's review of its loans and other assets, at June 30, 2004, the Company had classified a total of \$13.1 million of its assets as substandard, \$13,000 as doubtful and none as loss as compared to classifications at September 30, 2003 of \$9.5 million substandard, \$33,000 doubtful and none as loss. The increase in assets classified as substandard was the result of a \$5.0 million participation loan which had been non-performing during the first half of the fiscal year. While the loan is currently performing according to terms, it remained classified as substandard as of June 30, 2004.

Allowance for Loan Losses. The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets and non-performing loans, the composition of its loan portfolio and the general economic environment within which the Bank and its borrowers operate.

Current economic conditions in the agricultural sector of the Company's market area are stable due to generally favorable commodity prices and a history of government subsidies. Price levels for grain crops and livestock generally improved during 2003, and while grain prices have decreased somewhat from their levels earlier in 2004, they currently remain at levels that present minimal concern. The agricultural economy is accustomed to commodity price fluctuations and is generally able to handle such fluctuations without significant problem. Many areas served by the Company experienced abnormally dry growing conditions during 2003, which resulted in reduced yields. The impact of reduced yield was substantially offset by higher commodity prices. Nearly all agricultural customers

showed positive, earned net worth gains in the 2003 operating year. Current expectations for 2004 crops are favorable. Although the Company underwrites its agricultural loans based on normal expectations for commodity prices and yields, an extended period of low commodity prices or adverse growing conditions could result in weakness in the agricultural loan portfolio and could create a need for the Company to increase its allowance for loan losses through an increased provision for loan losses.

At June 30, 2004, the Company has established an allowance for loan losses totaling \$5.3 million. The allowance represented approximately 611.1% of the total non-performing loans at June 30, 2004, while the allowance at September 30, 2003 represented approximately 465.5% of the total non-performing loans at that date. The ratio of the allowance for loan losses to total loans was 1.33% at June 30, 2004 compared to 1.40% at September 30, 2004.

The following table sets forth an analysis of the activity in the Company's allowance for loan losses for the nine-month periods ended June 30, 2004 and June 30, 2003:

	2004	2003
	----	----
	(In Thousands)	
Balance, September 30,	\$ 4,962	\$ 4,693
Charge-offs	(25)	(106)
Recoveries	13	30
Additions charged to operations	324	350
	-----	-----
Balance, June 30,	\$ 5,274	\$ 4,967
	=====	=====

The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. Future additions to the allowance for loan losses may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio.

CRITICAL ACCOUNTING POLICY

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan losses. The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio, it will enhance its methodology accordingly. Management may report a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "Nonperforming Assets and Allowance for Loan Losses." Although

management believes the levels of the allowance as of both June 30, 2004 and September 30, 2003 were adequate to absorb losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time.

RESULTS OF OPERATIONS

General. For the three months ended June 30, 2004, the Company recorded net income of \$837,000 compared to net income of \$892,000 for the same period in 2003. For the nine months ended June 30, 2004, net income was \$3,489,000 compared to \$2,652,000 for the same period in 2003. Both periods reflect increases in net interest income. The three month period reflects a decrease in non-interest income, increases in the provision for loan losses and in non-interest expense, which were partially offset by a decrease in tax expense. The nine month period reflects an increase in non-interest income and a decrease in the provision for loan losses, which were partially offset by increases in non-interest expense and in income tax. The increase in non-interest income for the nine months ended June 30, 2004 reflects primarily a gain of \$1,113,000 on the sale of the Manson, Iowa branch office.

Net Interest Income. Net interest income increased by \$588,000, or 15.0%, to \$4,520,000 for the three months ended June 30, 2004 from \$3,931,000 for the same period in 2003. For the nine months ended June 30, 2004, net interest income increased \$1.4 million, or 11.7%, to \$13,402,000 from \$12,004,000 for the same period in 2003. The increase in net interest income for the three month period ended June 30, 2004 included an increase in total interest income of \$270,000 or 3.1% and a decrease in total interest expense of \$318,000, or 6.6%, compared to the same period in 2003. The decrease in total interest expense reflects a decrease in the cost of interest-bearing liabilities to 2.53% from 2.74%, which was partially offset by an increase of \$9.9 million in the average balance of interest bearing-liabilities during the period. The increase in total interest income reflects an increase in the yield on interest-earning assets to 4.90% from 4.85%, and by an increase of \$14.3 million in the average balance of interest earning-assets during the period. The increase in net interest income for the nine month period ended June 30, 2004 included a decrease in total interest expense of \$1.1 million, or 7.7%, and an increase in total interest income of \$260,000 or 1.0%, compared to the same period in 2003. The decrease in total interest expense reflects a decrease in the cost of interest-bearing liabilities to 2.50% from 3.01%, which was partially offset by an increase of \$71.6 million in the average balance of interest bearing-liabilities during the period. The increase in total interest income reflects an increase of \$71.9 million in the average balance of interest earning-assets, which was partially offset by a decrease in the yield on interest-earning assets to 4.84% from 5.31%, during the period.

Provision for Loan Losses. For the three months ended June 30, 2004, the provision for loan losses was \$168,000 compared to \$67,000 for the same period in 2003. For the nine months ended June 30, 2004, the provision for loan losses was \$325,000 compared to \$350,000 for the same period in 2003. 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 allowance against probable losses from the loan portfolio. See "Non-Performing Assets and Allowance for Loan Losses."

Non-interest Income. Non-interest income decreased \$234,000, or 26.8%, to \$640,000 for the three months ended June 30, 2004 from \$873,000 for the same period in 2003. For the nine months ended June 30, 2004, non-interest income increased \$226,000, or 8.1%, to \$3,005,000 from \$2,779,000 for the same period in 2003. During the three month period there were decreases in deposit income, gain on the sale of loans, and gain on the sale of securities available-for-sale and brokerage commissions of \$47,000, \$128,000, \$46,000 and \$28,000, respectively. These decreases were partially offset by small increases in return on Bank Owned Life Insurance ("BOLI") and other income. During the nine month period there were decreases in deposit income, gain on the sale of loans, return on BOLI, gain on the sale of securities available-for-sale and other income of \$29,000, \$518,000, \$6,000, \$243,000 and

\$96,000, respectively. These decreases were partially offset by a small increase in brokerage commissions. The decreases in both periods in gain on the sale of securities available-for-sale was due to no sales having occurred and in gain on the sale of loans was due to a reduced level of refinancing of 1-to-4 family loans during the periods. The decrease in other income during the nine month period was partially the result of a \$134,000 gain on the sale of a drive-up facility during the 2003 period which did not recur in 2004. The increase in non-interest income for the nine month period reflects primarily a gain of \$1,113,000 on the sale of the Manson, Iowa branch office in January 2004. Net of income taxes, the branch sale resulted in an increase in diluted earnings per share of \$.27 for the nine months ended June 30, 2004.

Non-interest Expense. Non-interest expense increased \$332,000, or 9.8%, to \$3,731,000 for the three months ended June 30, 2004, from \$3,399,000 for the same period in 2003. For the nine months ended June 30, 2004, non-interest expense increased \$276,000, or 2.6%, to \$10,755,000 from \$10,479,000 for the same period in 2003. The increase in non-interest expense is the result of increases in compensation and benefit expense, occupancy and equipment expense, and data processing expense during both the three and nine month periods ended June 30, 2004. The increases were attributable to costs associated with the construction and opening of a second branch office in Sioux Falls, South Dakota, the development and centralization of mortgage loan operations, expenses related to the planning and development of the name change and start-up costs associated with the Meta Payment Systems. The three month period reflected a small decrease in other expense, while the nine month period reflects a small increase. The nine month period ended June 30, 2003 also reflects prepayment penalties associated with the early extinguishment of FHLB advances, which did not recur during 2004.

Income Tax Expense. Income tax expense was \$425,000 for the three months ended June 30, 2004 compared to \$447,000 for the same period in 2003. For the nine months ended June 30, 2004, income tax expense was \$1,839,000 compared to \$1,302,000 for the same period in 2003. The change for both periods reflects the change in the level of taxable income between the comparable periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans, investments and mortgage-backed securities, and funds provided by operations. While scheduled payments on loans, mortgage-backed securities and short-term investments are relatively predictable sources of funds, deposit flows and early loan repayments are greatly influenced by general interest rates, economic conditions and competition.

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At June 30, 2004, the Company had commitments to originate and purchase loans totaling \$51.9 million. The Company believes that loan repayments and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Regulations require the Company, First Federal and Security to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth First Federal's and Security's actual capital and required capital amounts and ratios at June 30, 2004 which, at that date, exceeded the capital adequacy requirements:

At June 30, 2004 ----- (Dollars in Thousands)	Actual -----		Minimum Requirement For Capital Adequacy Purposes -----		Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions -----	
	Amount -----	Ratio -----	Amount -----	Ratio -----	Amount -----	Ratio -----
Total Capital (to risk weighted assets):						
First Federal	\$54,116	11.7%	\$37,115	8.0%	\$46,394	10.0%
Security	4,652	13.8	2,694	8.0	3,368	10.0
Tier 1 (Core) Capital (to risk weighted assets):						
First Federal	49,050	10.6	18,558	4.0	27,836	6.0
Security	4,365	13.0	1,347	4.0	2,021	6.0
Tier 1 (Core) Capital (to adjusted total assets):						
First Federal	49,050	7.0	27,948	4.0	34,935	5.0
Security	4,365	6.7	2,619	4.0	3,274	5.0
Tier 1 (Core) Capital (to average assets):						
First Federal	49,050	7.1	27,709	4.0	34,637	5.0

The Company includes its trust preferred securities in the calculation of Tier 1 capital. See Note 5 of the Notes to Consolidated Financial Statements (Unaudited) on page 9.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. At June 30, 2004, the Company, First Federal and Security exceeded minimum requirements for the well-capitalized category.

Forward-Looking Statements

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

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market Risk

The Company is exposed to the impact of interest rate changes and changes in the market value of its investments.

The Company currently focuses lending efforts toward originating and purchasing competitively priced adjustable-rate loan products and fixed-rate loan products with relatively short terms to maturity. 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. This portfolio is used in the ongoing management of changes to the Company's asset/liability mix, while contributing to profitability through earnings flow. The investment policy generally calls for funds to be invested among various categories of security types and maturities based upon the Company's need for liquidity, desire to achieve a proper balance between minimizing risk while maximizing yield, the need to provide collateral for borrowings, and to fulfill the Company's asset/liability management goals.

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 that the increased net income which may result from an acceptable mismatch in the actual maturity or repricing of its asset and liability portfolios can, during periods of declining or stable interest rates, provide sufficient returns to justify the increased exposure to sudden and unexpected increases in interest rates which may result from such a mismatch. The Company has established limits, which may change from time to time, on the level of acceptable interest rate risk. There can be no assurance, however, that in the event of an adverse change in interest rates the Company's efforts to limit interest rate risk will be successful.

Net Portfolio Value. The 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 June 30, 2004 and September 30, 2003, is an analysis of the Company's interest rate risk as measured by changes in NPV for an instantaneous and sustained parallel shift in the yield curve, in 100 basis point increments, up and down 200 basis points, except for the down 200

basis point scenario for June 30, 2004, which, do to the level of market interest rates at that date, does not yield meaningful results. As illustrated in the table, the Company's NPV at June 30, 2004 and September 30, 2003 was more sensitive to increasing interest rates than to decreasing interest rates. When market interest rates increase, the market value of fixed rate mortgage loans and fixed rate mortgage-backed securities decline due to both the rate increase and the related slowing of loan prepayment levels. During the first three months between reporting dates, market interest rates increased and prepayment speeds slowed, resulting in an increase in NPV sensitivity to rising rates. During the second three months market interest rates decreased and prepayment speeds increased, somewhat moderating the impact from the first three months. Finally, during the most recent three months, market rates increased sharply on inflation fears, and then moderated slightly, resulting in an increase in NPV sensitivity. During the nine months, management increased the Company's use of longer term borrowed funds, and decreased the use of shorter term borrowed funds. In addition, management limited purchases of mortgage-backed securities and continued to originate shorter term commercial and consumer loans. Management closely monitors the Company's interest rate sensitivity.

Change in Interest Rates (Basis Points)	Board Limit % Change	At June 30, 2004		At September 30, 2003	
		\$ Change	% Change	\$ Change	% Change
		(Dollars in Thousands)			
+200 bp	(40)%	\$ (9,452)	(21)%	\$ (6,062)	(19)%
+100 bp	(25)	(4,027)	(9)	(2,451)	(8)
0 bp	--	--	--	--	--
-100 bp	(10)	387	1	1,085	3
-200 bp	(15)	n/a	n/a	925	3

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features 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.

Part I. Financial Information

Item 4. Disclosure Controls and Procedures

Disclosure Controls and Procedures

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

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

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

FIRST MIDWEST FINANCIAL, INC.**PART II - OTHER INFORMATION****FORM 10-Q****Item 1. Legal Proceedings - On June 11, 2004, the Sioux Falls School**

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities -

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

Period	Total Number of Common Shares Purchased	Average Price Paid Per Share Purchased	Total Number of Shares Purchased as Part of Publicly Announced Program(s)	Maximum Number of Shares that May Yet Be Purchased Under the Program(s)
4/1/04 - 4/30/04	--	--	--	139,130
5/1/04 - 5/31/04	--	--	--	139,130
6/1/04 - 6/30/04	--	--	--	139,130
Total	--	--	--	139,130

There were no purchases made during the quarter in accordance with the July 7, 2003 authorization by the Company's board of directors for the repurchase of up to 150,000 shares of the Company's common stock. During July, the Company purchased 6,172 shares of stock under the plan at a total cost of \$142,000. The repurchase period under this authorization ran through July 31, 2004. This share repurchase plan was the only plan in effect since its authorization.

Item 3. Defaults Upon Senior Securities - None**Item 4. Submission of Matters to a Vote of Security Holders - None****Item 5. Other Information - None****Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits:

31.1 Section 302 certification of Chief Executive Officer.

31.2 Section 302 certification of Chief Financial Officer.

32 Section 906 certification of Chief Executive Officer and Chief Financial Officer.

(b) Reports on Form 8-K:

On April 21, 2004, the Company furnished a report on Form 8-K stating under Item 12 that the Company had, on April 21, 2004, issued a press release announcing its earnings for the quarter and six month period ended March 31, 2004.

On May 6, 2004, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on May 6, 2004, issued a press release announcing the Company's entrance, through its wholly-owned subsidiary, First Federal Savings Bank of the Midwest, its entrance into the prepaid debit card business.

On May 24, 2004, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on May 24, 2004, issued a press release announcing the declaration of a cash dividend for the third quarter of its fiscal year 2004.

On July 19, 2004, the Company furnished a report on Form 8-K stating under Item 12 that the Company had, on July 16, 2004, issued a press release announcing its earnings for the quarter and nine month period ended June 30, 2004.

On August 4, 2004, the Company filed a report on Form 8-K stating under Item 5 that the Company had, on August 3, 2004, issued a press release announcing the expiration of the stock repurchase program authorized in July 2003.

FIRST MIDWEST FINANCIAL, INC.

SIGNATURES

Pursuant to the requirements 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: August 13, 2004

By: /s/ James S. Haahr

*James S. Haahr, Chairman of the Board,
and Chief Executive Officer*

Date: August 13, 2004

By: /s/ Ronald J. Walters

*Ronald J. Walters, Senior Vice President,
Secretary, Treasurer and Chief Financial
Officer*

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James S. Haahr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Midwest Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ James S. Haahr

Chief Executive Officer

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald J. Walters, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Midwest Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2004

/s/ Ronald J. Walters

Chief Financial Officer

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of First Midwest Financial, Inc. (the "Company") for the quarterly period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Haahr, Chief Executive Officer of the Company, and I, Ronald J. Walters, Chief Financial Officer of the Company, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ James S. Haahr

*Name: James S. Haahr
Chief Executive Officer
August 13, 2004*

By: /s/ Ronald J. Walters

*Name: Ronald J. Walters
Chief Financial Officer
August 13, 2004*